

AL RAJHI SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by
AL RAJHI CAPITAL COMPANY
Financial statements
For the year ended 31 December 2021
together with the
Independent Auditor's Report

AL RAJHI SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by
AL RAJHI CAPITAL COMPANY
As at 31 December 2021
(Amounts in SAR)

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Unitholders of Al Rajhi Saudi Equity Income Fund

Opinion

We have audited the financial statements of Al Rajhi Saudi Equity Income Fund (the "Fund") managed by Al Rajhi Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA) (collectively referred to as "IFRS as endorsed in the Kingdom of Saudi Arabia").

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 financial statements, and we have fulfilled our other 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.

Other Matter

The financial statements of the Fund for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those financial statements on 04 April 2021.

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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, 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.

Those charged with governance, the Fund Board, is responsible for overseeing the Fund's financial reporting process.

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia with the paid-up capital of SAR (25,000,000). Previously known as "KPMG Al Fozan & Partners Certified Public Accountants". A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأسمالها (٢٥,٠٠٠,٠٠٠) ريال سعودي منقوح بالكامل، المسماة سابقاً "شركة كي بي إم جي للفرزان وشركاه محاسبين ومراجعين قفوايون". وهي عضو غير شريك في الشبكة العالمية لشركت كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة.



Independent Auditor's Report

To the Unitholders of Al Rajhi Saudi Equity Income Fund

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 ISA 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 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 ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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'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 the 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, then 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.

KPMG Professional Services

Khalil Ibrahim Al Sedais
License No: 371



Riyadh: 27 Sha'ban 1443H
Corresponding to: 30 March 2022

AL RAJHI SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
 Managed by
AL RAJHI CAPITAL COMPANY
Statement of Financial Position
As at 31 December 2021
 (Amounts in SAR)

	<i>Notes</i>	31 December 2021	31 December 2020
<u>ASSETS</u>			
Cash and cash equivalents	5	8,544,938	2,955,185
Investments measured at fair value through profit or loss (FVTPL)	6	250,219,055	118,715,393
Advance for allotment of share	7	3,054,050	--
Receivable against sold securities		--	4,168,411
Total Assets		<u>261,818,043</u>	<u>125,838,989</u>
<u>LIABILITY</u>			
Management fee payable	8, 11	438,514	222,354
Other payable		463,500	487,515
Accrued expense	9	171,224	153,807
Total Liability		<u>1,073,238</u>	<u>863,676</u>
Net assets (equity) attributable to the unitholders		<u>260,744,805</u>	<u>124,975,313</u>
Units in issue (numbers)		<u>12,686,207</u>	<u>7,936,626</u>
Net assets value attributable to each unit (SAR)		<u>20.55</u>	<u>15.75</u>

The accompanying notes 1 to 18 form an integral part of these financial statements

AL RAJHI SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
 Managed by
AL RAJHI CAPITAL COMPANY
Statement of Comprehensive Income
For the year ended 31 December 2021
 (Amounts in SAR)

<u>INCOME</u>	<i>Notes</i>	<u>2021</u>	<u>2020</u>
Net realized gains from investments measured at FVTPL		38,248,492	14,050,518
Net unrealized gains from investments measured at FVTPL	6.1	15,866,701	3,968,171
Dividend income		8,383,428	4,633,199
Other income		3,749	--
		<u>62,502,370</u>	<u>22,651,888</u>
<u>EXPENSES</u>			
Management fees	8, 11	4,448,588	2,505,581
Fund Board fee		5,193	7,430
Purification charges	9.1	122,614	78,999
Other expenses	10	177,758	136,022
		<u>4,754,153</u>	<u>2,728,032</u>
Net Income for the year		57,748,217	19,923,856
Other comprehensive income		-	-
Total comprehensive income for the year		<u>57,748,217</u>	<u>19,923,856</u>

The accompanying notes 1 to 18 form an integral part of these financial statements.

AL RAJHI SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
 Managed by
AL RAJHI CAPITAL COMPANY
Statement of changes in net assets (equity) attributable to the unitholders
For the year ended 31 December 2021
 (Amounts in SAR)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Net assets (equity) attributable to the unitholders at beginning of the year		124,975,313	136,832,985
Net income for the year		57,748,217	19,923,856
Other comprehensive income		--	--
Total comprehensive income		57,748,217	19,923,856
Issuance of units during the year		148,755,155	56,984,211
Redemption of units during the year		(64,115,983)	(84,253,817)
Net change from unit transactions		84,639,172	(27,269,606)
Payment of dividends to the Unitholders	15	(6,617,897)	(4,511,922)
Net assets (equity) attributable to the unitholders at end of the year		260,744,805	124,975,313
Unit transactions (numbers)			
Transactions in units for the year are summarised as follows:			
		<u>2021</u>	<u>2020</u>
		(In units)	(In units)
Units in issue at beginning of the year		7,936,626	9,695,941
Units issued		8,066,551	4,025,106
Units redeemed		(3,316,970)	(5,784,421)
Net increase / (decrease) in units		4,749,581	(1,759,315)
Units in issue at end of the year		12,686,207	7,936,626

The accompanying notes 1 to 18 form an integral part of these financial statements.

AL RAJHI SAUDI EQUITY INCOME FUND
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AL RAJHI CAPITAL COMPANY
Statement of cashflows
For the year ended 31 December 2021
 (Amounts in SAR)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cash flows from operating activities			
Net income for the year		57,748,217	19,923,856
<i>Adjustments to reconcile net income to net cash used in operating activities:</i>			
Net unrealised gains from investments measured at FVTPL	6.1	(15,866,701)	(3,968,171)
Net realised gains from investments measured at FVTPL		(38,248,492)	(14,050,518)
Net changes in operating assets and liabilities			
Purchase of investments		(405,399,179)	(269,317,238)
Proceeds from sale of investments		328,010,710	305,671,959
Increase in advance for allotment of share		(3,054,050)	--
Decrease / (increase) in receivable against sold securities		4,168,411	(4,168,411)
Decrease in dividend receivable		--	59,710
Increase / (decrease) in management fee payable		216,160	(377,094)
(Decrease) / increase in other payable		(24,015)	487,515
Increase in accrued expenses		17,417	23,807
Net cash (used in) / generated from operating activities		(72,431,522)	34,285,415
Cash flows from financing activities			
Proceeds from issuance of units		148,755,155	56,984,211
Payments for redemption of units		(64,115,983)	(84,253,817)
Distribution to the Unitholders	15	(6,617,897)	(4,511,922)
Net cash generated from / (used in) financing activities		78,021,275	(31,781,528)
Net increase in cash and cash equivalents		5,589,753	2,503,887
Cash and cash equivalents at beginning of the year	5	2,955,185	451,298
Cash and cash equivalents at end of the year	5	8,544,938	2,955,185

The accompanying notes 1 to 18 form an integral part of these financial statements.

AL RAJHI SAUDI EQUITY INCOME FUND
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AL RAJHI CAPITAL COMPANY
Notes to the financial statements
For the year ended 31 December 2021
(Amounts in SAR)

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Rajhi Saudi Equity Income Fund, the (“Fund”) is an open-ended investment fund created by an agreement between Al Rajhi Capital Company (the “Fund Manager”), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the “Bank”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

Al Rajhi Capital, Head Office
8467 King Fahad Road, Al Muruj District
P.O. Box 2743
Riyadh 11263
Kingdom of Saudi Arabia

The Fund aims to achieve capital gains over the long-term by investing in Shariah compliant stocks listed on Tadawul in accordance with the guidelines set out by the Fund’s Shariah Board. The Fund also aims to distribute income to the Unitholders. The Fund was established on 4 May 2015.

The Fund Manager is responsible for the overall management of the Fund's activities. The Fund Manager can also enter into arrangements with other institutions for the provision of investment, custody or other administrative services on behalf of the Fund. The Fund pays the Fund Manager a management fee calculated at an annual rate of 1.75% per annum calculated on the total net assets value at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund.

The Fund has appointed Al Bilad Investment Company (the “Custodian”) to act as its custodian. The fees of the Custodian are paid by the Fund.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) published by Capital Market Authority (“CMA”) on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006) thereafter amended (the “Amended Regulations”) on 16 Sha’ban 1437 H (corresponding to 23 May 2016). The Regulation was further amended (the “Amended Regulations”) on 17 Rajab 1442 H (corresponding to 1 March 2021), detailing requirements for all funds within the Kingdom of Saudi Arabia. The Amended Regulations have effective dates starting from 19 Ramadan 1442 H (corresponding to 1 May 2021).

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”).

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3. BASIS OF PREPARATION (CONTINUED)

3.2 Basis of measurement

The financial statements have been prepared on a historical cost basis (except for investments measured at FVTPL which are stated at their fair value) using the accrual basis of accounting.

The Fund Manager 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 Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The line items in the statement of financial position have been presented in the order of liquidity.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyal ("SAR"), which is also the functional currency of the Fund. All financial information presented has been rounded to the nearest SAR.

3.4 Use of estimates and judgments

The preparation of these financial statements in accordance with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires the Fund Manager to exercise its judgement in the process of applying the Fund's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

3.5 Impact of change in accounting policies

New IFRS Standards, interpretations and amendments adopted by the Fund

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2021 and accordingly adopted by the Fund, as applicable:

<u>Standards / Amendments</u>	<u>Description</u>
Amendments to IFRS 16	Leases for COVID -19 rent related concessions
Amendments to IFRS 7, IFRS 4 and IFRS 16	IBOR Benchmark Reform – Phase 2

The adoption of the amended standards and interpretations applicable to the Fund did not have any impact on these financial statements.

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3. BASIS OF PREPARATION (CONTINUED)

3.5 Impact of change in accounting policies (continued)

Accounting standards issued but not yet effective

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Fund's accounting year beginning on or after 1 January 2022 are listed below. The Fund has opted not to early adopt these pronouncements.

- IFRS 17 - Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities;
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors, definition of accounting estimates;
- Amendments to IAS 1 Presentation of financial statements and IFRS practice statement 2 making materiality judgements, disclosure Initiative: Accounting policies;
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction; and

The Fund Manager anticipates that the application of these new standards and amendments in the future will not have significant impact on the amounts reported.

4. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

A. Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks, cash held with broker in trading account and with custodian in investment account and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

B. Financial assets and liabilities

Recognition and initial measurement

Financial assets and liabilities at Fair value through Profit and loss ("FVTPL") are initially recognised at trade date, which is the date on which the Fund becomes party to the contractual provisions of the instruments. Other financial assets and liabilities are recognised on the date on which they are originated.

Financial assets at FVTPL are initially recognised at fair value, with transaction costs recognised in profit or loss. Financial assets not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial assets and liabilities (continued)

Classification of financial assets

On initial recognition, the Fund classifies financial assets as measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in FVOCI. This election is made on an investment-by-investment basis.

All other financial assets of the Fund are measured at FVTPL.

As at 31 December 2021, the Fund’s financial assets are cash and cash equivalent and investments measured at FVTPL.

Business model assessment

The Fund makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and the information is provided to the Fund Manager.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing the financial assets.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial assets and liabilities (continued)

Classification of financial liabilities

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

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Transactions in which the Fund transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or portion of them, the transferred assets are not derecognized. Transfer of assets with retention of all or substantially all of the risk and rewards include sale and repurchase transactions.

Transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Fund derecognises a financial liability when its contractual obligations are either discharged or cancelled, or expired.

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 realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS as endorsed in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial assets and liabilities (continued)

Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a mid price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 12.

C. Subscription and redemption on units

Units subscribed and redeemed are recorded at net asset (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received.

Redeemable units

Redeemable units are as equity instruments as they meet certain criteria. Those criteria include:

- the redeemable units must entitle the holder to a pro-rata share of net assets;
- the redeemable units must be the most subordinated class and class features must be identical;
- there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- the total expected cash flows from the redeemable units over its life must be based substantially on the profit or loss of the issuer.

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.

D. Net assets value per unit

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

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For the year ended 31 December 2021
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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenue recognition

Net gain or loss on financial assets and liabilities at FVTPL

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities 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 year'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).

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. 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 the statement of comprehensive income in a separate line item.

F. Fee and other expenses

Fee and other expenses are measured and recognized as expenses on an accrual basis in the period in which they are incurred.

G. Foreign currency

Transactions in foreign currencies are translated into SAR at the exchange rate at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in profit or loss. Monetary assets and liabilities denominated in foreign currencies are retranslated into SAR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses, except for those arising on financial instruments at FVTPL, which are recognised as a component of net gain from financial instruments at FVTPL.

H. Zakat and Income tax

Under the current system of zakat and taxation in the Kingdom of Saudi Arabia the Fund does not pay any zakat and income tax. Zakat and income tax are considered to be the obligation of the unitholders and are not provided in these financial statements.

The value added tax (VAT) applicable for fees and expenses are recognized in the statement of comprehensive income.

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5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of bank balances with Al Rajhi Banking and Investment Corporation (the “Bank”), the parent entity of the Fund Manager. In addition, these balances also comprise of cash placed with Al Bilad Investment Company (the Custodian) for buying and selling of investment securities.

	<u>2021</u>	<u>2020</u>
Cash in local bank	151,370	64,973
Cash with custodian	8,393,568	2,890,212
	8,544,938	2,955,185

6. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the Fund’s equity securities investment portfolio by industry sector is as follows:

	31 December 2021			
	Cost (SAR)	Fair value (SAR)	% of Fair value	Unrealised gain / (loss) (SAR)
<u>Investments (by sectors)</u>				
Materials	73,409,010	81,126,420	32.42	7,717,410
Financials	40,181,662	54,562,226	21.81	14,380,564
Telecommunication services	31,214,168	34,468,696	13.78	3,254,528
Consumer discretionary	28,845,060	31,093,887	12.43	2,248,827
Real Estate	16,868,302	17,950,500	7.17	1,082,198
Energy	15,800,609	15,462,127	6.18	(338,482)
Industrial	6,993,624	9,110,862	3.64	2,117,238
Health care	6,149,104	6,444,337	2.58	295,233
Total	219,461,539	250,219,055	100.00	30,757,516
	31 December 2020			
	Cost (SAR)	Fair value (SAR)	% of Fair value	Unrealised gain (SAR)
<u>Investments (by sectors)</u>				
Materials	33,435,434	39,420,879	33.21	5,985,445
Financials	17,171,978	19,866,546	16.73	2,694,568
Telecommunication Services	15,048,955	16,492,858	13.89	1,443,903
Energy	14,041,898	14,245,851	12.00	203,953
Real Estate	6,772,234	7,276,209	6.13	503,975
Capital Goods	5,018,837	5,410,955	4.56	392,118
Retail	3,922,457	4,615,908	3.89	693,451
Utilitie	2,643,752	3,212,317	2.71	568,565
Software and Services	2,716,134	3,067,529	2.58	351,395
Health Care	1,245,050	2,714,209	2.29	1,469,159
Consumer Discretionary	1,807,849	2,392,132	2.01	584,283
Total	103,824,578	118,715,393	100.00	14,890,815

The above equity investments are listed on the Saudi Stock Exchange (“Tadawul”). The Fund Manager seeks to limit risk of the Fund by monitoring exposures in each investment sector and individual securities.

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6. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (CONTINUED)

6.1 Movement of unrealized gain / loss on re-measurement of investment classified as ‘financial assets at FVTPL:

	<u>2021</u>	<u>2020</u>
Fair value as at 31 December	250,219,055	118,715,393
Cost as at 31 December	<u>(219,461,539)</u>	<u>(103,824,578)</u>
Unrealized gain as at 31 December	30,757,516	14,890,815
Unrealized gain as at 1 January	<u>(14,890,815)</u>	<u>(10,922,644)</u>
Unrealized gain for the year	<u>15,866,701</u>	<u>3,968,171</u>

7. ADVANCE FOR ALLOTMENT OF SHARE

This represents advance paid against allotment of share in IPO namely “Jahez International Company for Information system Technology” on 22 December 2021 amounting to SAR 3,054,050, which was subsequently allotted in the name of the Fund on 3 January 2022.

8. MANAGEMENT FEE

The Fund pays management fee calculated at an annual rate of 1.75 percent per annum of the Fund’s total net asset value at each valuation date along with VAT charges at 15% of the transaction. The fee is intended to compensate the Fund Manager for administration of the Fund.

9. ACCRUED EXPENSES

	<u>2021</u>	<u>2020</u>
Accrued purification fees (<i>note 10.1</i>)	72,305	47,215
Accrued professional fees	40,931	56,898
Accrued benchmark fee	30,475	30,475
Other accrued expenses	27,513	26,649
	<u>171,224</u>	<u>153,807</u>

9.1 The purification charges represent charges incurred in respect of purification of the income generated from the investee companies in order to achieve a Sharia compliant return. These charges are calculated based on the Fund’s Sharia Board approved formula and paid to charities recommended by the Fund’s Sharia Board through the Fund Manager. The movement in purification fees are as following:

	<u>2021</u>	<u>2020</u>
At the beginning of the year	47,215	31,031
Charge for the year	122,614	78,999
Payments made during the year	<u>(97,524)</u>	<u>(62,815)</u>
At the end of the year	<u>72,305</u>	<u>47,215</u>

10. OTHER EXPENSES

	<u>2021</u>	<u>2020</u>
Custody fee	48,612	27,190
Professional fees	34,500	34,500
Transaction fees	26,795	17,356
Benchmark fees	30,475	30,475
Others	<u>37,376</u>	<u>26,501</u>
	<u>177,758</u>	<u>136,022</u>

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11. 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. The related parties of the Fund include the Fund Manager, the Fund Board, other funds managed by the Fund Manager and employees of the same. In the ordinary course of its activities, the Fund has transactions with the Fund Manager.

The Fund does not charge any subscription fee on subscription of units and redemption fees on redemption of units. Other expenses paid by the Fund Manager on the behalf of the Fund are recharged to the Fund as they are incurred as per constituting documents of the Fund.

In addition to transactions disclosed elsewhere in these financial statements, significant transactions with related parties for the years and related balances as at 31 December are as follows:

Related party	Nature of transaction	Transactions for the year ended 31 December		Balance as at 31 December	
		2021	2020	2021	2020
The Fund Manager	Management fee	4,448,588	2,505,581	438,514	222,354
Fund Board	Board fee	5,193	7,430	7,230	7,430

As at 31 December 2021 and 2020, an employee of the Fund Manager held 11,168 units and NIL units of the Fund respectively.

As at 31 December 2021 and 2020, the cash balance with Al Rajhi Bank, the parent entity of the Fund Manager, is SAR 151,370 and SAR 64,973 respectively.

As at 31 December 2021 and 2020, units subscribed by other funds managed by the Fund Manager in this Fund is SAR 33,877,254 and SAR 17,726,761 respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund measures certain financial instruments at fair value at each statement of financial position date.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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12. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Valuation models (continued)

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Fund values equity securities that are traded on a stock exchange at their last reported prices. To the extent that equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy, hence the Fund's assets recorded at fair value have been categorized based on fair value hierarchy Level 1.

Fair value hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position. All below fair value measurements are recurring.

31 December 2021					
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments measured at FVTPL	250,219,055	250,219,055	--	--	250,219,055
Total	250,219,055	250,219,055	--	--	250,219,055
31 December 2020					
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments measured at FVTPL	118,715,393	118,715,393	--	--	118,715,393
Total	118,715,393	118,715,393	--	--	118,715,393

During the year, there were no transfer between the fair value hierarchy.

Other financial instruments such as cash and cash equivalents, dividends receivable, management fee payable, other payable and accrued expenses are short-term financial assets and financial liabilities whose carrying amounts are approximate to their fair value, because of the short-term nature and high credit quality of counterparties. Cash and cash equivalents are classified under level 1, while the remaining financial assets and liabilities are classified under level 3.

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13. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below sets out the classification of the carrying amounts of the Fund's financial assets and financial liabilities into categories of financial instruments:

<u>31 December 2021</u>	<u>Amortized cost</u>	<u>FVTPL</u>
<u>Financial Assets</u>		
Cash and cash equivalents	8,544,938	--
Investments	--	250,219,055
Advance for allotment of share	3,054,050	--
Total Assets	11,598,988	250,219,055
<u>Financial Liabilities</u>		
Management fee payable	438,514	--
Other payable	463,500	--
Accrued expenses	171,224	--
Total Liabilities	1,073,238	--
<u>31 December 2020</u>	<u>Amortized cost</u>	<u>FVTPL</u>
<u>Financial Assets</u>		
Cash and cash equivalents	2,955,185	--
Investments	--	118,715,393
Receivable against sold securities	4,168,411	--
Total Assets	7,123,596	118,715,393
<u>Financial Liabilities</u>		
Management fee payable	222,354	--
Other payable	487,515	--
Accrued expenses	153,807	--
Total Liabilities	863,676	--

14. RISK MANAGEMENT POLICIES

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risk.

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of equity shares of listed companies.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Fund's Board.

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14. RISK MANAGEMENT POLICIES (CONTINUED)

Risk management framework (continued)

In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within the prescribed time limits.

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

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 for its cash and cash equivalents and receivable against sold securities. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the certain credit standards.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

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

	31 December <u>2021</u>	31 December <u>2020</u>
Cash and cash equivalents	8,544,938	2,955,185
Receivable against sold securities	--	4,168,411
Total exposure to credit risk	<u>8,544,938</u>	<u>7,123,596</u>

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risk are generally managed on the basis or external credit ratings of the counterparties. Cash and cash equivalents are maintained with banks having sound credit ratings.

Allowance for impairment

The Fund has investments in only equity securities classified as FVTPL. Hence, no impairment allowance is recorded in these financial statements as per IFRS 9. The Fund's cash and cash equivalents are held mainly with counterparties having sound credit rating. Credit risk relating to this is not considered to be significant.

Liquidity risk

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

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions at any time. As at 31 December 2021 and 31 December 2020, the Fund's cash and cash equivalents and investments measured at FVTPL are considered to be short-term in nature and realisable. The Fund Manager monitors liquidity requirements on a regular basis and seek to ensure that funds are available to meet commitments as they arise.

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14. RISK MANAGEMENT POLICIES (CONTINUED)

Market risk

Market risk is the risk that changes in market prices – such as foreign currency risk, special commission rate risk and equity price risk – will affect the Fund’s income or the fair value of its holdings in financial instruments.

The Fund’s strategy for the management of market risk is driven by the Fund’s investment objective as per Fund’s Terms and Conditions. The Fund’s market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund’s market positions are monitored on a timely basis by the Fund Manager.

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 susceptible to equity price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of geographical distribution and industry concentration.

Sensitivity analysis

The table below sets out the effect on net asset (equity) attributable to the unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimate are made on an individual investment basis. The analysis assumes that all other variables, in particular commission, remain constant.

	2021		2020	
<i>Net gain / (loss) from investments measured at</i>	+ 5%	12,510,953	+ 5%	5,935,770
<i>FVTPL</i>	- 5%	(12,510,953)	- 5%	(5,935,770)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund’s activities with financial instruments, either internally within the Fund or externally at the Fund’s service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior.

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 the Unitholders.

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14. RISK MANAGEMENT POLICIES (CONTINUED)

Operational risk

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management team of the Fund manager. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures;
- requirements for:
 - appropriate segregation of duties between various functions, roles and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risks faced
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective

15. DISTRIBUTION TO UNITHOLDERS

During the year ended 31 December 2021, the Fund distributed SAR 6,617,897 (31 December 2021: SAR 4,511,922) as dividend to the Unitholders.

16. SUBSEQUENT EVENT

No events have occurred since the reporting date that require adjustments to or disclosure in the Financial Statements.

17. LAST VALUATION DAY

The last valuation day of the year was 31 December 2021 (2020: 31 December 2020).

18. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board of Directors on 24 Sha'ban 1443H (corresponding to 27 March 2022).