ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
ASHMORE INVESTMENT SAUDI ARABIA
Financial statements
For the year ended 31 December 2022
together with the
Independent auditor's report

ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
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Financial statements
For the year ended 31 December 2022

KPMG Professional Services
Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Commercial Registration No. 10104245494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية
واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٤٥٤٩٤

المركز الرئيسي في الرياض

Independent auditor's report

To the unitholders of Ashmore GCC Diversified Trade Fund

Opinion

We have audited the financial statements of Ashmore GCC Diversified Trade Fund ("the Fund"), managed by Ashmore Investment Saudi Arabia ("the Fund Manager"), which comprise of the statement of financial position as at 31 December 2022, the statements of comprehensive income, changes in net assets (equity) attributable to the unitholders 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 2022, and its financial performance and its cash flows for the year then ended in accordance with the 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").

Basis for opinion

We conducted our audit in accordance with the 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, and compliance with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions 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.

Independent auditor's report

To the unitholders of Ashmore GCC Diversified Trade Fund (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 of the Fund.

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License no: 348

Riyadh: 6 Ramadan 1444H
Corresponding to: 28 March 2023

كي بي إم جي للاستشارات المهنية
Lic No. 46
C.R. 1010425494
R : 1
ترخيص رقم ٤٦
KPMG
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ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
ASHMORE INVESTMENT SAUDI ARABIA
Statement of financial position
As at 31 December 2022
(Amounts in SAR)

	Notes	**31 December 2022**	31 December 2021
ASSETS			
Cash and cash equivalents	*7*	**840,830**	17,590,900
Investments measured at fair value through profit or loss (FVTPL)	*8*	**17,536,904**	92,876,671
Investments measured at amortised cost	*9*	**96,890,839**	136,761,420
Total assets		**115,268,573**	247,228,991
LIABILITY			
Accrued expenses	*10*	**105,020**	172,061
Total liability		**105,020**	172,061
Net assets (equity) attributable to the unitholders		**115,163,553**	247,056,930
Units in issue (numbers)		**10,322,999**	22,595,169
Net assets (equity) value attributable to each unit – IFRS	*18*	**11.1560**	10.9341
Net assets (equity) value attributable to each unit – Dealing	*18*	**11.1560**	10.9341

The accompanying notes (1) to (20) form an integral part of these financial statements.

ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
ASHMORE INVESTMENT SAUDI ARABIA
Statement of comprehensive income
For the year ended 31 December 2022
(Amounts in SAR)

	Notes	2022	2021
INCOME			
Special commission income		**3,626,195**	8,335,414
Net gains from investments measured at FVTPL	*11*	**1,052,324**	757,442
Other income		**--**	360,026
		4,678,519	9,452,882
EXPENSES			
Management fee	*12,13*	**1,046,353**	1,828,326
Administration fee	*12*	**92,531**	146,267
Custody fee	*12*	**91,306**	120,295
(Reversal) / Provision for expected credit losses	*9.1*	**--**	(28,355)
Foreign exchange losses		**58,797**	46,417
Other expenses	*14*	**91,509**	92,307
		1,380,496	2,205,257
Net income for the year		**3,298,008**	7,247,625
Other comprehensive income		**--**	--
Total comprehensive income for the year		**3,298,023**	7,247,625

The accompanying notes (1) to (20) form an integral part of these financial statements.

ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
ASHMORE INVESTMENT SAUDI ARABIA
Statement of changes in net assets (equity) attributable to the unitholders
For the year ended 31 December 2022
(Amounts in SAR)

	2022	2021
Net assets (equity) attributable to the unitholders at beginning of the year	**247,056,930**	386,275,036
Net income for the year	**3,298,023**	7,247,625
Proceeds from issuance of units	**9,286,468**	5,636,955
Payments for redemption of units	**(144,477,868)**	(152,102,686)
Net assets (equity) attributable to the unitholders at end of the year	**115,163,553**	247,056,930

UNIT TRANSACTIONS

Transactions in units for the year are summarised as follows:

	2022	2021
	(In units)	*(In units)*
Units in issue at beginning of the year	**22,595,169**	36,131,348
Units issued	**844,628**	517,850
Units redeemed	**(13,116,798)**	(14,054,029)
Units in issue at end of the year	**10,322,999**	22,595,169

The accompanying notes (1) to (20) form an integral part of these financial statements.

ASHMORE GCC DIVERSIFIED TRADE FUND
(An open-ended mutual fund)
Managed by
ASHMORE INVESTMENT SAUDI ARABIA
Statement of cash flows
For the year ended 31 December 2022
(Amounts in SAR)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		**3,298,023**	7,247,625
Adjustments to reconcile net income to net cash generated from operating activities:			
Unrealised losses / (gains) from investments measured at FVTPL	*11*	**1,045,431**	(440,340)
(Reversal) / Provision for expected credit losses	*9.1*	**--**	(28,355)
		4,343,454	6,778,930
Net changes in operating assets and liabilities			
Decrease / (increase) in investments measured at FVTPL		**74,294,336**	(34,339,821)
Decrease in investments measured at amortised cost		**39,870,581**	185,129,830
Decrease in accrued expenses		**(67,041)**	(75,323)
Net cash generated from operating activities		**118,441,330**	157,493,616
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of units		**9,286,468**	5,636,955
Payments for redemption of units		**(144,477,868)**	(152,102,686)
Net cash used in financing activities		**(135,191,400)**	(146,465,731)
Net increase / (decrease) in cash and cash equivalents		**(16,750,070)**	11,027,885
Cash and cash equivalents at beginning of the year		**17,590,900**	6,563,015
Cash and cash equivalents at end of the year	*7*	**840,830**	17,590,900

The accompanying notes (1) to (20) form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

Ashmore GCC Diversified Trade Fund ("the Fund") is an open-ended investment fund established and managed through an agreement between Ashmore Investment Saudi Arabia ("the Fund Manager") and its investors ("the Unitholders"). The Capital Market Authority ("CMA") approval for the establishment of the Fund was granted in its letter dated 26 Jumada Al Awwal 1437H (corresponding to 6 March 2016). The Fund commenced its operations on 12 Jumada Al Akhirah (corresponding to 21 March 2016).

The Fund aims to provide liquidity upon the investor's request and to develop the capital by investing in short-term financial instruments, medium-term classified and non-classified GCC fixed income instruments that are compatible with Shariah standards and are approved by the Fund's Shariah Committee. The Fund does not distribute dividends to the unitholders as investment returns are re-invested in the Fund in favour of the Unitholders.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

During 2022, the Fund Manager has made a revision to the Terms and Conditions of the Fund. The change in the Terms and Conditions of the Fund relates to a change in maximum concentration limit for the region. The Fund updated its Terms and Conditions which was approved by the CMA on 29 Muharram 1443H (corresponding to 6 September 2022).

The custodian, administrator and registrar of the Fund is HSBC Saudi Arabia.

2. REGULATORY AUTHORITY

The Fund is governed by the Investment Funds Regulations ("the Regulations") published by CMA.

3. SUBSCRIPTION / REDEMPTION OF UNITS (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions every business day (each a "Dealing Day") and performs valuations every business day (each a "valuation day"), except for the public holidays. In case the valuation and dealing day is an official holiday in the Kingdom of Saudi Arabia, the Fund's assets are valued and the subscription / redemption requests are executed on the following valuation and dealing day. The "cut off" time for the subscriptions / redemptions is 1:00 pm of every valuation day. The unit price on subscription or the unit price on redemption is represented in the Net Assets (Equity) Value ("NAV") per unit calculated by the administrator on the next valuation day on which the units were subscribed or redeemed for.

The NAV of the Fund for the purpose of purchase or redemption of units is calculated by subtracting from the value of the total Fund's assets value the amount of the Fund's total liabilities. The unit price is determined by dividing such resulting figure by the total number of outstanding units on the relevant valuation day. The unit price upon commencement of subscriptions was SAR 10.

4. BASIS OF PRESENTATION

4.1 Statement of compliance

These financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and comply with the applicable requirements of the Investment Funds Regulations issued by the CMA, the Fund's Terms and Conditions.

4.2 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.

4.3 Functional and presentation currency

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

Functional currency is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then the Fund Manager uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of the Fund's investments and transactions are denominated in Saudi Riyals. Investor subscriptions and redemptions are determined based on NAV and received and paid in Saudi Riyals. The expenses (including management fees, custodian fees and administration fees) are denominated and paid in Saudi Riyals. Accordingly, the Fund Manager has determined that the functional currency of the Fund is Saudi Riyals.

4.4 Use of estimates and judgements

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 estimates are recognised prospectively.

Significant areas where the Fund Manager has used estimates, assumptions or exercised judgement are as follows:

4. BASIS OF PRESENTATION (CONTINUED)

Expected credit loss on investments measured at amortised cost
The Fund recognises allowance for expected credit losses ("ECL") on investments measured at amortised cost.

The Fund obtains probability of default ("PD") for each security from Bloomberg based on the tenure of the placement. The Fund has also assumed a loss given default ("LGD") of 50% based on experience and best estimate.

The Fund measures allowance at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Fund considers a debt investment to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or certain un-rated investment with no default in the past. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

5. SIGNIFICANT ACCOUNTING POLICIES

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

Foreign currency translation
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 the statement of comprehensive income.

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 profit or loss as net foreign exchange gains/(losses), except for those arising on financial instruments measured at FVTPL, which are recognised as a component of net gains/(losses) from financial instruments measured at FVTPL.

Financial assets and financial liabilities
Recognition and initial measurement
Financial assets and financial liabilities measured at FVTPL are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets are recognised on the date on which they are originated.

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

Classification of financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as measured 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 measured 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. The Fund has not made any such elections during the year.

All other financial assets are classified as measured at FVTPL.

As at 31 December 2022 and 2021, the Fund's financial assets consists of cash and cash equivalent, investments measured at amortized cost 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. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether the Fund Manager's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund Manager;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of commission rates.

Reclassifications

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.

Classification of financial liabilities

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

Derecognition

The Fund derecognises 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 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.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Special commission income
Special commission income from non-derivative financial assets measured at amortised cost, are recognised in profit or loss, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Net gains from investments at FVTPL
Net gains from investments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any), but excludes interest and dividend income.

Net realised gains from investments at FVTPL is calculated using the weighted average cost method.

Other income
Other income relates to gain on disposal of investments at amortised cost (i.e. Wakala agreement), which is recognised upon completion of the disposal transaction.

Fees and other expenses
Fees and other expenses are recognised in the statement of comprehensive income as the related services are received.

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 the accompanying financial statements.

The Value Added Tax applicable for fees and expenses are recognised in the statement of comprehensive income.

Provisions
Provisions are recognised whenever there is present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from similar investment transactions such as in the Fund’s trading activity.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement of ECL

Expected Credit Loss ("ECL) is a probability-weighted estimate of credit risk and is recognized on debt securities measured at amortised cost and FVOCI based on estimating the probability of default ("PD") and loss given default ("LGD") for a given counterparty exposure for the Fund. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive); and
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Significant increase in credit risk

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and expert credit assessment and including an assessment of the change in PD as at the reporting date with the PD at the time of initial recognition of the exposure.

Definition of default

The Fund considers a financial asset to be in default when the investee is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held) on any material credit obligation to the Fund.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of allowance for ECL in the statement of financial position

Allowance for ECL is presented in the statement of financial position for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redeemable units

The redeemable units are as equity instruments as they meet certain strict 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.

Net assets (equity) value

Net assets (equity) value per unit, as disclosed in the statement of financial position is calculated by dividing the net assets (equity) of the Fund by the numbers of units in issue as at the period end.

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.

Fair value measurement

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.

6. IMPACT OF CHANGES IN ACCOUNTING POLICIES

New IFRS Standards, interpretations and amendments adopted by the Fund

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2022. The Fund Manager has assessed that these amendments have no significant impact on the Fund's financial statements.

- COVID-19 - Related Rent Concessions (Amendments to IFRS 16);
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements to IFRS Standards 2018–2021 (Amendment to IFRS 1, IFRS 9, IAS 41 and IFRS 16);

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 2023 are listed below. The Fund has opted not to early adopt these pronouncements.

- IFRS 17 - Insurance contracts, as amended in December 2021;
- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities;
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;
- Amendments to IFRS 10 and IAS 28;
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction.

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.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	31 December 2022	31 December 2021
Balance with banks	**840,830**	17,590,900
	840,830	17,590,900

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

A summary of the investment portfolio as of the year end is set out below:

	Cost	***Market value***
31 December 2022		
Sukuk:		
Morabaha Marina Financing Company	**348,104**	**353,733**
Dar Al Arkan	**17,621,245**	**17,183,171**
	17,969,349	**17,536,904**

	Cost	*Market value*
31 December 2021		
Mutual funds:		
Al Rajhi Commodity SAR Fund	9,693,325	9,790,948
Falcom SAR Murabaha Fund	10,650,000	10,673,216
Riyad SAR Trade Fund	52,311,633	52,838,279
Sukuk:		
Morabaha Marina Financing Company	1,741,492	1,769,444
Dar Al Arkan	17,621,245	17,804,784
	92,017,695	92,876,671

9. INVESTMENTS MEASURED AT AMORTISED COST

	31 December 2022	31 December 2021
Money market placements:		
Riyad Capital	**96,890,839**	--
GFH Financial Group BSC	**--**	58,328,278
National Bank of Fujairah PJSC	**--**	52,707,227
Sukuk placements:		
Dar Al Arkan Sukuk Co	**--**	25,725,948
	96,890,839	136,761,453
Less: Provision for expected credit losses (Note 9.1)	**--**	(33)
	96,890,839	136,761,420

The average effective special commission rate on money market placements at the year end is 4.71% p.a. (31 December 2021: 3.98 % p.a.) and the Sukuk - Dar Al Arkan Sukuk Co effective special commission rate is 6.88% p.a as at 31 December 2021.

9. INVESTMENTS MEASURED AT AMORTISED COST (CONTINUED)

9.1 The movement in the allowance for expected credit losses for debt securities (sukuk) is summarized as follows:

	2022	2021
Balance at the beginning of the year	**33**	49,728,319
Disposal of investments at amortised cost	**(33)**	(49,699,931)
(Reversal) / Charge for the year	**--**	(28,355)
Balance at the end of the year	**--**	33

9.2 To estimate expected credit losses ("ECL") on debt investments, the Fund typically obtains probability of default ("PD") for each security from Bloomberg, the PDs of which is primarily based on the tenure and credit quality of the counterparty. The Fund also estimates a loss given default ("LGD") of 50% on average based on their expert credit judgement.

10. ACCRUED EXPENSES

	31 December 2022	31 December 2021
Management fee	**56,132**	120,341
Administration fee	**7,188**	9,628
Audit fee	**14,111**	14,111
Custody fee	**7,188**	9,331
Other accrued expenses	**20,401**	18,650
	105,020	172,061

As at 31 December 2022, other accrued expenses include charges to Fund Board meetings, Sharia review and Registration fees.

11. NET GAINS FROM INVESTMENTS MEASURED AT FVTPL

	2022	2021
Realised gains	**2,097,755**	317,102
Unrealised (losses) / gains	**(1,045,431)**	440,340
	1,052,324	757,442

12. MANAGEMENT FEE AND OTHER FEES

The Fund pays management fee calculated at an annual rate of 0.5 percent per annum of the Fund's net assets (equity) attributable to the unitholders. Management fee is accrued daily and paid on a monthly basis per the Terms and Conditions of the Fund.

The Fund pays custody fee, administration fee and registration fee to HSBC Saudi Arabia. These fees are calculated based on slab percentages linked to net assets (equity) value of the Fund subject to stated minimum fee.

13. 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 and other funds being managed by the Fund Manager. 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.

The significant transactions with related parties for the year are as follows:

		Transactions		**Balance**	
Related party	**Nature of transaction**	**For the year ended 31 December 2022**	For the year ended 31 December 2021	**31 December 2022**	31 December 2021
The Fund Manager	Management fee	**1,046,353**	1,828,326	**56,132**	120,341
The Fund Board	Board remuneration	**12,813**	12,813	**11,881**	11,087

As at 31 December 2022 and 2021, a member of the Fund Board held 4,869 units of the Fund.

14. OTHER EXPENSES

	2022	2021
Professional fee	**28,750**	28,750
Registration fee	**17,365**	17,825
Shariah review fee	**18,750**	18,750
Board remuneration	**12,813**	12,813
CMA fee	**7,500**	7,500
Other expenses	**6,331**	6,669
	91,509	92,307

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

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

The principal or the most advantageous market are accessible by the Fund.

Financial instruments comprise of financial assets and financial liabilities. The Fund's financial assets consist of financial assets measured at FVTPL and financial assets measured at amortised cost.

Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; or
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The table below presents the investments measured at their fair values as of reporting date based on the fair value hierarchy:

	31 December 2022				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments measured at FVTPL	**17,536,904**	**--**	**17,536,904**	**--**	**17,536,904**
Investments measured at amortised cost	**96,890,824**	**--**	**--**	**96,890,824**	**96,890,824**
Total	**114,427,728**	**--**	**17,536,904**	**96,890,824**	**114,427,728**

	31 December 2021				
	Carrying Value	Level 1	Level 2	Level 3	Total
Investments measured at FVTPL	92,876,671	73,302,443	19,574,228	--	92,876,671
Investments measured at amortised cost	136,761,420	--	25,343,799	111,035,505	136,379,304
Total	229,638,091	73,302,443	44,918,027	111,035,505	229,255,975

For level 2 Sukuk investments (measured at FVTPL and amortized cost), fair value is determined based on the similar security external price.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Other financial instruments such as cash and cash equivalents, investment at amortized cost and accrued expenses are short term financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties. These financial instruments are categorised as level 3.

16. FINANCIAL RISK MANAGEMENT

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

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

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 debt securities (Sukuk and Murabaha placements).

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 Board on a semi-annual basis.

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 investments held at amortised cost and bank balance. 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.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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 2022	31 December 2021
Cash and cash equivalents	**840,830**	17,590,900
Investments measured at FVTPL – Sukuk	**17,536,904**	19,574,228
Investments measured at amortised cost	**96,890,824**	136,761,420
Total exposure to credit risk	**115,268,558**	173,926,548

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. Based on the Fund Manager's assessment, the Fund has limited exposure to credit risk due to the following:

a. *Cash and cash equivalents* are maintained with banks having sound credit ratings.
b. *Investments measured at FVTPL (sukuk), investments measured at amortised cost (Murabaha placements and Sukuk)* represents investments in debt securities with counterparties with sound credit ratings.

Amounts arising from ECL

Provision for expected credit losses from investments measured at amortised cost has been measured on a 12-month expected loss basis and reflects the maturities of exposures. The Fund monitors credit risk closely associated with its sukuk investments and mitigates this risk by making investments with counterparties with sound credit ratings

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 Manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemption of units, without incurring unacceptable losses or risking damage to the Fund's reputation.

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. However, the Fund is allowed to borrow in order to satisfy redemptions.

Substantially all of the Fund's cash and cash equivalents, investments at FVTPL and investments measured at amortised cost (Murabaha placements) are short-term and considered to be readily realisable.

The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

The Fund manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within short period of time.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is the risk that changes in market prices – such as commission rates, foreign exchange rates, and credit spreads – 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's investments in mutual fund units are 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.

The following table depicts the sensitivity to a reasonable possible change in the prices, with other variables held constant, on the Fund's statement of comprehensive income:

	2022		2021	
Net gain / (loss) from investments measured at FVTPL	**+ 5%**	**--**	+ 5%	4,513,810
	- 5%	**--**	- 5%	(4,513,810)

As at 31 December 2022, the Fund has no exposure in equity securities therefore, equity price risk is not applicable.

Special commission rate risk

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

The Fund is subject to special commission rate risk on its commission bearing assets, including Murabaha placements. The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Fund's income for the year, based on the floating rate financial assets held at 31 December 2022. The following table sets out the approximate annual aggregate impact on net income by hypothetical changes in the weighted average special commission rates of the floating rate financial assets at 31 December:

	2022		2021	
Special commission income	**+ 10bps**	**436**	+ 10bps	834
	- 10bps	**(436)**	- 10bps	(834)
	+ 50bps	**2,179**	+ 50bps	4,168
	- 50bps	**(2,179)**	- 50bps	(4,168)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund Manager believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Fund's foreign currency transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant.

17 LAST VALUATION DAY

The last valuation day of the year was 31 December 2022 (2021: 31 December 2021).

18 NET ASSETS (EQUITY) VALUE

The Capital Market Authority (CMA), through its circular dated 10 Rabi Al Thani 1439H (corresponding to 28 December 2017), have approved the Dual NAV approach for investment funds. In accordance with the circular, IFRS 9 will be applied for accounting and reporting purposes and the dealing NAV will remain unaffected until further notice.

19. SUBSEQUENT EVENTS

There were no other subsequent events after the statement of financial position date which require adjustments to/or disclosure in the financial statements.

20. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Fund Board on 1 Ramadan 1444H (corresponding to 23 March 2023).