

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
MANAGED BY  
ALBILAD INVESTMENT COMPANY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
TOGETHER WITH THE INDEPENDENT AUDITORS'  
REPORT TO THE UNIT HOLDERS**

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Unit Holders and the Fund Manager of  
Ithmar Sharia Compliant Saudi Equity Fund (Ithmar Fund):

March 29, 2016

### Scope of audit

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

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

### Unqualified opinion

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

PricewaterhouseCoopers

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

By: \_\_\_\_\_

Omar M. Al Sagga  
License Number 369

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
MANAGED BY ALBILAD INVESTMENT COMPANY  
BALANCE SHEET**

(All amounts in Saudi Riyals '000' unless otherwise stated)

		<b>As at 31 December</b>	
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>			
Cash and cash equivalents		1,077	68
Dividend receivable		37	-
Investments held for trading	6	43,063	88,360
<b>Total assets</b>		<b>44,177</b>	<b>88,428</b>
<b>LIABILITIES</b>			
Accrued management fees	7	196	425
Accrued expenses		13	23
<b>Total liabilities</b>		<b>209</b>	<b>448</b>
<b>Net assets attributable to unit holders</b>		<b>43,968</b>	<b>87,980</b>
<b>Units in issue (numbers '000)</b>		<b>36,685</b>	<b>60,936</b>
<b>Net assets value – per unit (Saudi Riyal)</b>		<b>1.1985</b>	<b>1.4438</b>

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

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

		<b>For the year ended 31 December</b>	
	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>INCOME</b>			
Dividend income, net	10	<b>2,308</b>	3,689
Trading (losses) / gains, net			
- Realised gain on investments		<b>5,709</b>	32,204
- Movement in unrealised loss on investments		<b>(10,893)</b>	(17,368)
		<b>(2,876)</b>	18,525
<b>EXPENSES</b>			
Management fees	5,7	<b>(1,129)</b>	(1,808)
Other expenses	5	<b>(63)</b>	(73)
		<b>(1,192)</b>	(1,881)
<b>Net (loss) / income for the year</b>		<b>(4,068)</b>	16,644

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

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)**  
**MANAGED BY ALBILAD INVESTMENT COMPANY**  
**STATEMENT OF CASH FLOW**  
(All amounts in Saudi Riyals '000' unless otherwise stated)

	<b>For the year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>		
<b>Net (loss) / income for the year</b>	<b>(4,068)</b>	16,644
<i>Adjustment to reconcile net (loss) / income to net cash from operating activities:</i>		
Movement in unrealised loss on investments held for trading, net	<b>10,893</b>	13,922
	<b>6,825</b>	30,566
<b>Changes in operating assets and liabilities</b>		
Investments held for trading, net	<b>34,404</b>	(9,314)
Dividend receivable	<b>(37)</b>	-
Accrued management fees	<b>(229)</b>	47
Accrued expenses	<b>(10)</b>	(2)
<b>Net cash generated from operating activities</b>	<b>40,953</b>	21,297
<b>FINANCING ACTIVITIES</b>		
Dividend distribution	<b>(2,428)</b>	(5,703)
Proceeds from issuance of units	<b>14,965</b>	46,850
Payment towards units redeemed	<b>(52,481)</b>	(75,069)
<b>Net cash used in financing activities</b>	<b>(39,944)</b>	(33,922)
Net increase / (decrease) in cash and cash equivalents	<b>1,009</b>	(12,625)
Cash and cash equivalents at beginning of the year	<b>68</b>	12,693
<b>Cash and cash equivalents at end of the year</b>	<b>1,077</b>	68

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

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

	For the year ended 31 December	
	2015	2014
<b>Net assets value at beginning of the year</b>	<b>87,980</b>	105,258
<b>Net (loss) / income for the year</b>	<b>(4,068)</b>	16,644
<b>Changes from unit transactions</b>		
Proceeds from issuance of units	<b>14,965</b>	46,850
Payment towards units redeemed	<b>(52,481)</b>	(75,069)
<b>Net change from unit transactions</b>	<b>(37,516)</b>	(28,219)
Dividend distribution	<b>(2,428)</b>	(5,703)
<b>Net assets value at end of the year</b>	<b>43,968</b>	87,980

**UNIT TRANSACTIONS**

(Units in '000)

	For the year ended 31 December	
	2015	2014
<b>Units at beginning of the year</b>	<b>60,936</b>	79,497
Units issued	<b>9,413</b>	29,261
Units redeemed	<b>(33,664)</b>	(47,822)
<b>Net change in units</b>	<b>(24,251)</b>	(18,561)
<b>Units at end of the year</b>	<b>36,685</b>	60,936

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

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
MANAGED BY ALBILAD INVESTMENT COMPANY  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015  
(All amounts in Saudi Riyals '000' unless otherwise stated)**

**1. THE FUND AND ITS ACTIVITIES**

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

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

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

**2. REGULATORY AUTHORITY**

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

**3. BASIS OF PREPARATION**

**3.1 Statement of compliance**

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

**3.2 Basis of measurement**

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

**3.3 Functional and presentation currency**

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

**3.4 Use of estimates and judgment**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and future years are affected.



**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
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NOTES TO THE FINANCIAL STATEMENTS  
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(All amounts in Saudi Riyals '000' unless otherwise stated)

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2014.

**4.1 Investments held for trading**

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

**4.2 Trade date accounting**

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

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

**4.3 Management fees and other expenses**

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

**4.4 Provisions**

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

**4.5 Zakat / taxation**

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

**4.6 Dividend Income**

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

**4.7 Cash and cash equivalents**

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

**4.7 Subscription and redemption of units**

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

**4.8 Net assets value**

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

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)**  
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(All amounts in Saudi Riyals '000' unless otherwise stated)

**4.9 Financial instruments**

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

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

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

The Fund Manager charges the Fund, a management fee at the rate of 1.5% (2014: 1.5%) per annum of the Fund's net asset value which is calculated on each valuation day and deducted on quarterly basis. Custody fees and Shari'ah committee fees are included within the charged management fees in line with the Fund terms and conditions.

The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in the terms and conditions of the Fund. The breakup of such expenses is as follows:

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
Benchmarking expenses		<b>26</b>	26
Professional fees	5.1	<b>23</b>	23
CMA and Tadawul fees		<b>12</b>	12
Other	5.2	<b>2</b>	12
		<b>63</b>	73

**5.1** During the year, the Fund Manager initially calculated a lower Net asset Value (NAV) for the period from 23 July 2015 to 9 December 2015 based on a revised audit fees of SR 30,000 which was not approved by the Capital Market Authority ("CMA") at that date. During December 2015, the Fund Manager recalculated and increased the NAV for the stated period based on audit fees of SR 22,500 as stated in the terms and conditions of the Fund previously approved by the CMA. The Fund Manager appropriately accounted for the minimal resultant difference in the Fund's books and compensated the unit holders and the Fund accordingly in the amounts of SR 449 and SR 78, respectively, with respect to the units redeemed and subscribed at a lower NAV during the stated period.

**5.2** Other expenses include printing charges amounting to SR 984. These charges are allocated to the Fund by the Fund Manager based on the actual cost of printing.

**6. INVESTMENTS HELD FOR TRADING**

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
Equities – Quoted		<b>43,063</b>	<b>84,321</b>
Mutual funds	6.1	-	<b>4,039</b>
	6.2	<b>43,063</b>	<b>88,360</b>
Cost		<b>53,247</b>	<b>87,651</b>
Unrealised (loss)/gain on held for trading		<b>(10,184)</b>	<b>709</b>
		<b>43,063</b>	<b>88,360</b>

**6.1** Investment in mutual funds as of December 31, 2014 represented investments in units of Al Murabeh fund (open ended fund) and GCC Ithmar (open ended fund) managed by AlBilad Investment Company. The primary activity of Al Murabeh fund is to invest in Shari'ah compliant Murabaha contracts whereas GCC Ithmar Fund's objective is to invest in Shari'ah compliant shares of GCC listed companies. Investments in the funds were subjected to management fees and in line with investee Fund terms and conditions. The investments in these funds were redeemed during 2015.

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(All amounts in Saudi Riyals '000' unless otherwise stated)

6.2 The Fund Manager has invested in the following sectors:

Description by industry segment	% of market value		Cost		Market value	
	2015	2014	2015	2014	2015	2014
Retail	27	12	13,547	5,981	11,555	10,783
Banks & financial services	14	16	8,198	17,336	5,935	14,293
Petrochemical industries	12	23	6,713	23,599	5,368	19,604
Telecommunication	9	8	3,122	5,900	3,814	7,226
Agriculture & food	9	8	4,700	6,380	3,876	7,078
Transport	6	-	2,667	-	2,415	-
Cement	5	8	3,212	5,670	2,266	7,044
Hotel & tourism	5	4	2,580	3,025	2,034	3,474
Ceramic	4	-	3,654	-	1,981	-
Industrial investment	4	6	1,694	5,956	1,561	5,702
Building and construction	3	4	2,251	4,551	1,349	3,859
IPO	2	-	909	-	909	-
Real estate development	-	6	-	5,186	-	5,258
Mutual funds	-	5	-	4,067	-	4,039
<b>Total</b>	<b>100</b>	<b>100</b>	<b>53,247</b>	<b>87,651</b>	<b>43,063</b>	<b>88,360</b>

**7. TRANSACTIONS WITH RELATED PARTIES**

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

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

Name of related party	Nature of transaction/balance	Value of transactions during the year		Closing balance	
		2015	2014	2015	2014
AlBilad Investment Company	Management fees	1,129	1,808	196	425
	Cash and cash equivalents (investment account balance)	-	-	1,077	68
Al-Murabih Murabaha Fund	Units purchased	6,200	10,000	-	-
	Units redeemed	9,717	7,000	-	-
	Closing balance	-	-	-	3,512
GCC Ithmar Fund	Units purchased	-	560	-	-
	Units redeemed	495	-	-	-
	Closing balance	-	-	-	527
GCC Ithmar Fund	Investment in Fund's units as unit holder	-	-	-	-
	Units purchased	-	6,120	-	-
	Units redeemed	3,736	887	-	-
	Closing Balance	-	-	-	4,456

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

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**8. SUBSCRIPTION AND REDEMPTION OF UNITS**

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

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unit holders and to ensure reasonable safety to unit holders.

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

Asset allocation is determined by the Fund Manager with a view for achieving the investment objectives. The Fund maintains positions in different financial instruments as dictated by its investment policy. All investments are "held for trading" investments. The Fund is exposed to credit risk, equity price risk, liquidity risk and currency risk.

**9.1 Credit risk**

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

The Fund is exposed to credit risk on its cash balance which is maintained with a related party that has a sound credit rating. The Fund's maximum exposure at the reporting date is represented by respective carrying amounts of the relevant financial assets in the balance sheet.

**9.2 Equity price risk**

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

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

**9.3 Liquidity risk**

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

The Fund's terms and conditions provide for the subscription and redemption of units on every valuation day and it is, therefore, exposed to the liquidity risk of meeting redemptions at any time. The Fund's securities are considered to be readily realisable and they can be liquidated at any time. However, the Fund Manager has established certain liquidity guidelines for the Fund and monitors liquidity requirements on a regular basis to ensure sufficient funds are available to meet any commitments as they arise.

**ITHMAR SHARIA COMPLIANT SAUDI EQUITY FUND (ITHMAR FUND)  
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**9.4 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. All the financial instruments of the Fund are denominated in Saudi Riyals and hence, not exposed to significant currency risk.

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

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

**11. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

**13. APPROVAL OF FINANCIAL STATEMENTS**

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