NBAD MENA Income & Growth Fund

Financial statements

31 December 2018

Principal Business address:
P.O. Box: 6316
Abu Dhabi
United Arab Emirates

NBAD MENA Income & Growth Fund

Financial statements

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Independent Auditors' Report

To the Unit holders of NBAD MENA Income & Growth Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NBAD MENA Income & Growth Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the year then ended, and notes, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management 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, management 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' 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 auditors' 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 management.
- Conclude on the appropriateness of management'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, we are required to draw attention in our auditors' 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 auditors' 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 Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates
Date: 19 MAY 2019

NBAD MENA Income & Growth Fund

Statement of financial position
as at

	Notes	**31 December 2018 AED'000**	31 December 2017 AED'000
Assets			
Investments at fair value through profit or loss	*7*	**107,771**	122,642
Other receivables		**26**	63
Cash and cash equivalents	*9*	**14,697**	6,110
Total assets		**122,494**	128,815
Liabilities			
Other liabilities		**-**	8
Due to related parties	*9*	**262**	196
Total liabilities (excluding net assets attributable to holders of redeemable units)		**262**	204
Net assets attributable to holders of redeemable units		**122,232**	128,611
Number of units outstanding		**38,386,297**	41,456,747
Net asset value per unit (AED)		**3.18**	3.10
Represented by:			
Net assets attributable to unit holders	*11*	**122,232**	128,611
Adjustment from bid prices to closing prices		**641**	199
		122,873	128,810

Martin Costa
VP – Middle Office
Investment Management

Shiraz Habib
MD & Head of Products &
Investment Solutions

The accompanying notes set out on pages 7 to 33 form an integral part of these financial statements.
The independent auditor's report is set out on pages 1 to 2.

NBAD MENA Income & Growth Fund

Statement of comprehensive income
for the year ended 31 December

	Notes	**2018 AED'000**	2017 AED'000
Net gain / (loss) on investments at fair value through profit or loss	*10*	**6,545**	(9,515)
Dividend income		**6,390**	7,578
Interest income	*9*	**224**	92
Other income		**81**	64
Total revenue		**13,240**	(1,781)
Brokerage expenses		**(498)**	(617)
Management fees	*9*	**(1,962)**	(2,116)
Other operating expenses		**(813)**	(540)
Total operating expenses		**(3,273)**	(3,273)
Operating profit / (loss) for the year		**9,967**	(5,054)
Other comprehensive income		**-**	-
Total comprehensive income		**9,967**	(5,054)
Dividends paid to holders of redeemable units	*12*	**(6,379)**	(7,189)
Increase / (decrease) in net assets attributable to holders of redeemable units		**3,588**	(12,243)

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NBAD MENA Income & Growth Fund

Statement of changes in net assets attributable to holders of redeemable units
for the year ended 31 December

	Number of units	Net assets attributable to holders of redeemable units AED'000
At 1 January 2017	41,805,773	141,807
Issue of units during the year	2,021,172	6,864
Redemption of units during the year	(2,370,198)	(7,817)
Increase in net assets attributable to holders of redeemable units	-	(12,243)
At 31 December 2017	41,456,747	128,611
At 1 January 2018	**41,456,747**	**128,611**
Issue of units during the year	**758,014**	**2,421**
Redemption of units during the year	**(3,828,464)**	**(12,388)**
Increase in net assets attributable to holders of redeemable units	-	**3,588**
At 31 December 2018	**38,386,297**	**122,232**

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The independent auditor's report is set out on pages 1 to 2.

NBAD MENA Income & Growth Fund

Statement of cash flows

For the year ended 31 December

	2018 AED'000	2017 AED'000
Cash flows from operating activities		
Operating profit for the year	**9,967**	(5,054)
Changes in working capital:		
Investments at fair value through profit or loss	**14,871**	4,197
Other liabilities	**(8)**	8
Other receivables	**37**	48
Due to related parties	**66**	(3)
Net cash generated from operating activities	**24,933**	(804)
Cash flows from / (used in) financing activities		
Proceeds from redeemable units issued	**2,421**	6,864
Redemption of redeemable units	**(12,388)**	(7,817)
Cash dividend paid net of reinvestment amount	**(6,379)**	(7,189)
Net cash used in financing activities	**(16,346)**	(8,142)
Net increase / (decrease) in cash and cash equivalents	**8,587**	(8,946)
Cash and cash equivalents at 1 January	**6,110**	15,056
Cash and cash equivalents at 31 December	**14,697**	6,110

The accompanying notes set out on pages 7 to 33 form an integral part of these financial statements.
The independent auditor's report is set out on pages 1 to 2.

Notes to the financial statements

1 Legal status and principle activities

NBAD MENA Income & Growth Fund (the "Fund") is an open ended investment fund established in the United Arab Emirates (the "UAE") by First Abu Dhabi Bank (the "Fund Manager" or "FAB") and is licensed by the Central Bank of the UAE approval reference number 13/2415/2005 dated 07 December 2005. The Fund is not a separately incorporated entity and its activities are managed by the Fund Manager.

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC ("NBAD") and First Gulf Bank PJSC ("FGB") approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1.254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to 'First Abu Dhabi Bank' (the "Bank") and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O. Box 6316 Abu Dhabi, United Arab Emirates.

The Fund's primary objective is to invest in a portfolio of MENA equities and/or equity related securities (such as convertible bonds, ADRs and GDRs) listed or traded on recognised exchanges worldwide or 'over the counter' arrangements, MENA income producing assets such as fixed income securities and real estate and real estate related investment instruments and related securities including third party collective investment schemes, with a view to both achieving capital growth and distributing dividend income.

The applicable prospectus and term sheet were revised on 30 November 2014. The revisions are approved by the Central Bank of the UAE. The revised prospectus and term sheet and the financial statements of the Fund as at and for the year ended 31 December 2017 are available upon request from the Fund Manager's registered office at P.O. Box 6316, Abu Dhabi, United Arab Emirates.

2 Basis of preparation

(a) Statement of compliance

The financial statements of the Fund as at and for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRSs). These financial statements were approved on behalf of the Fund Manager on 19 MAY 2019.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss ("FVTPL") which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Fund's functional currency. All financial information presented in AED has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the Fund Manager to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2 Basis of preparation *(continued)*

(d) Use of estimates and judgments (continued)

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the new amendments to standards that became applicable and was adopted during the year. These amendments do not have material effect on these financial statements.

(a) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method.

(b) Dividend income

Dividend income is recognised in the statement of comprehensive income when the right to receive income is established. For quoted equity securities this is usually the ex-dividend date. For unquoted securities, this is usually the date on which the shareholders approve the payment of dividend. Dividend income from equity securities at FVTPL is recognized in profit or loss.

(c) Dividends to holders of redeemable shares

Dividend payable to holders of redeemable shares are recognised in profit or loss as finance costs.

(d) Subscription fees

Subscription fees are charged to holders of redeemable units at the time of subscription of units in the Fund and are recognised in the statement of comprehensive income in the period during which such subscriptions are made.

(e) Net gain/(loss) from financial instruments at fair value through profit or loss

Net gain/(loss) from financial instruments at fair value through profit or loss includes all realised gain/losses and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

The unrealised gain/(loss) represents the difference between carrying amount of financial instrument at last valuation date and its fair value at the end of the period.

Net realised gain from financial instruments at fair value through profit or loss is calculated as the difference between the carrying amount of a financial instrument at last valuation date and its settlement price.

3 Significant accounting policies *(continued)*

(f) Expenses

All expenses, including the management fees and performance fees are recognised in the statement of comprehensive income on an accrual basis. Refer to Note 9 for management and performance fees.

(g) Foreign currency transactions

Transactions in foreign currencies are translated into UAE Dirhams at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into UAE Dirhams at the spot exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are retranslated into UAE Dirhams at the spot exchange rate at the date the fair value was determined.

Foreign currency exchange differences arising on translation are recognised in the statement of comprehensive income. Foreign currency exchange differences relating to investments at fair value through profit or loss are included in net gain on investments at fair value through profit or loss.

(h) Financial assets and financial liabilities

(i) Recognition and initial measurement

The Fund initially recognises financial assets and financial liabilities at FVTPL 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 and financial liabilities are recognised on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Classification of financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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

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

3 Significant accounting policies *(continued)*

(h) ***Financial assets and financial liabilities*** *(continued)*

(ii) Classification and subsequent measurement *(continued)*

Classification of financial assets - Policy applicable from 1 January 2018 *(continued)*

Business model assessment:

In making an assessment of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- 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 the investment manager is 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 of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes cash and cash equivalents, balances due from brokers and other receivables. These financial assets are held to collect contractual cash flow.

- Other business model: this includes debt securities, equity investments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are SPPI:

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 a profit margin.

In assessing whether the contractual cash flows are SPPI, 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 this assessment, the Fund considers:

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

3 Significant accounting policies *(continued)*

(h) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement *(continued)*

Classification of financial assets - Policy applicable from 1 January 2018 *(continued)*

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Classification of financial assets - Policy applicable before 1 January 2018

The Fund classified financial assets into the following categories.
Financial assets at FVTPL:
— Held for trading: derivative financial instruments
— Designated as at FVTPL: debt securities and equity investments.

Financial assets at amortised cost:
— Loans and receivables: cash and cash equivalents, balances due from brokers and receivables from reverse sale and repurchase agreements.

A financial asset was classified as held-for-trading if:
— it was acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
— on initial recognition, it was part of a portfolio that was managed together and for which there was evidence of a recent pattern of short-term profit taking; or
— it was a derivative, other than a designated and effective hedging instrument.

The Fund designated all debt and equity investments as at FVTPL on initial recognition because it managed these securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities were on a fair value basis.

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Subsequent measurement of financial assets

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income and expense and foreign exchange gains and losses, are recognised in profit or loss in 'net income from financial instruments at FVTPL in the statement of comprehensive income.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. Interest income is recognised in 'interest income calculated using the effective interest method', foreign exchange gains and losses are recognised in 'net foreign exchange loss' and impairment is recognised in 'impairment losses on financial instruments' in the statement of comprehensive income_ Any gain or loss on derecognition is also recognized in profit or loss. Cash and cash equivalents, Due from related party and other receivables are included in this category.

3 Significant accounting policies *(continued)*

(h) Financial assets and financial liabilities (continued)

(ii) Classification and subsequent measurement *(continued)*

Classification of financial assets - Policy applicable before 1 January 2018 *(continued)*

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at FVTPL:
— Held for trading: securities sold short and derivative financial instruments.

Financial liabilities at amortised cost:
— This includes balances due to brokers, payables under sale and repurchase agreements and redeemable shares.

(iii) 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 ongoing 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.

3 Significant accounting policies *(continued)*

(h) Financial assets and financial liabilities (continued)

(iv) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

(v) Impairment

Impairment - Policy applicable from 1 January 2018

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

— financial assets that are determined to have low credit risk at the reporting date; and

— other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, 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 informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:

— the borrower 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); or

— the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

3 Significant accounting policies *(continued)*

(h) Financial assets and financial liabilities (continued)

***(v) Impairment** (continued)*

Impairment - Policy applicable from 1 January 2018 (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i .e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

— significant financial difficulty of the borrower or issuer;

— a breach of contract such as a default or being more than 90 days past due; or

— it is probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECLs in the statement of financial position Loss allowances for financial assets measured at amortised cost are deducted 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.

Impairment - Policy applicable before 1 January 2018

Financial assets not classified at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. A financial asset or a group of financial assets was 'impaired' if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Fund would not otherwise consider, indications that a borrower or issuer would enter bankruptcy, disappearance of an active market for a security or adverse changes in the payment status of the borrower.

3 Significant accounting policies *(continued)*

(h) ***Financial assets and financial liabilities*** *(continued)*

(v) Impairment *(continued)*

Impairment - Policy applicable before 1 January 2018 (continued)

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continued to be recognised. If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

The writes off of financial assets carried at amortised cost was made when they were determined to be uncollectible.

(vi) Derecognition

Financial assets
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.

The Fund enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities
The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Fund also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the recognised amounts and it intends either to settle 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 IFRSs, for example, for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

3 Significant accounting policies *(continued)*

(i) Redeemable units

Redeemable units are classified as financial liabilities and are measured at the present value of the redemption amounts. In accordance with the Fund's prospectus, the redemption amounts of the redeemable units are based on last published net asset value. The net assets value includes Fund's underlying investments, calculated using the closing prices.

On the other hand, in accordance with the Fund's accounting policies, financial assets at fair value are measured at a bid price and financial liabilities at fair value are measured at the asking price. The differences in the measurement bases of the Fund's underlying investments and the redemptions amounts of the redeemable units have been adjusted through net gain / loss from financial assets at fair value through profit and loss.

(j) Net asset value per unit

The net asset value per unit disclosed in the statement of financial position is calculated in accordance with the Fund's prospectus by dividing the net assets attributable to holders of redeemable units included in the financial position by the number of units outstanding at the reporting date.

(k) Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow comprise deposits with banks with original maturities of less than three months and bank overdraft balance that is repayable on demand and forms an integral part of the Fund's cash management. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(l) Standards issued but not yet effective

A number of new standards and amendments to standards have been issued but are not effective for the accounting period ended 31 December 2018, and have therefore not been early adopted by the Fund in the preparation of these financial statements.

IFRS 16 Leases

The Company is required to adopt IFRS 16 Leases from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of use asset representing its right to use the underlying asset and lease liability representing its obligation to make lease payments. There are recognition exceptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard – i.e lessor continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including *IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases – incentives and SIC-27 Evaluating the Substance of Transactions involving the legal Form of Lease.*

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Funds financial statements as at the reporting date.

3 Significant accounting policies *(continued)*

(m) Changes in significant accounting policies

The Fund has initially applied IFRS 9 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Fund's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect the requirements of the standard.

Except for the changes below, the Fund has consistently applied the accounting policies presented in these financial statements.

IFRS 9 Financial Instruments
IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Fund has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require:

— impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Under IAS 39, impairment was recognised when losses were incurred. The Fund did not previously report any incurred losses; and
— separate presentation in the statement of comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Fund has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures, which are applied to disclosures about 2018 but have not generally been applied to comparative information. The adoption of IFRS 9 had no material impact on the net assets attributable to holders of redeemable units of the Fund.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is general based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.
The adoption of IFRS 9 has not had a significant effect on the Fund's accounting policies related to financial liabilities.

3 Significant accounting policies *(continued)*

(m) Changes in significant accounting policies (continued)

Classification and measurement of financial assets and financial liabilities (continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial Assets				
Investments at fair value through profit or loss (equity investments, listed) *	Designated as at FVTPL	Mandatorily at fair value through profit or loss	122,642	122,642
Other receivables	Loans and Receivables	Amortized cost	63	63
Due from related party	Loans and receivables	Amortized cost	-	-
Cash and cash equivalents	Loans and receivables	Amortized cost	6,110	6,110
Total financial assets			**128,815**	**128,815**
Financial Liabilities				
Other Liabilities	Other financial liabilities	Other financial liabilities	8	8
Due to related parties	Other financial liabilities	Other financial liabilities	196	196
Net assets attributable to holders of redeemable units	Other financial liabilities	Other financial liabilities	128,611	128,611
Total financial liabilities			**128,815**	**128,815**

*Under IAS 39, these financial assets were designated at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Fund has determined that the application of IFRS 9's impairment requirements at 1 January 2018 resulted in a negligible effect on impairment allowance on cash and cash equivalents, balances due from related parties and other receivables as the balances are held mainly with FAB which has very strong external credit ratings.

3 Significant accounting policies *(continued)*

(m) Changes in significant accounting policies (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below

— Comparative periods have not generally been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in net assets attributable to holders of redeemable shares as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39. The Fund has used the exemption not to restate comparative period.

— The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The revocation of previous designations of certain financial assets as measured at FVTPL.

4 Financial risk management

Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

The Advisory Board and Investment review Committee have the overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Fund is managed by the Fund Manager on the basis of the Funds investment objectives and guidelines, subject to the supervision of the Investment Committee, on a day to day basis. The Advisory Board reviews the activities and performance of the Fund (including Fund's investment strategies as set out in the Investment process) and makes appropriate recommendations to the Fund Manager.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered. Details of the nature of the Fund's investment portfolio at the reporting date are disclosed in relevant risk notes.

4 Financial risk management *(continued)*

(a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from cash at bank and balances due from related parties. For risk management reporting purposes, the Fund considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

Credit risk is monitored on a regular basis by the Fund Manager in accordance with policies and procedures in place. Investment Committee's main objectives include: (i) to determine the investment strategies and tactics to be adopted to manage the Funds in accordance with the investment objectives and guidelines as set out in the prospectus and term sheet; and (ii) to review the Fund's performance and discuss the various strategies adopted at the sector and occasionally at the stock level.

The Funds Advisory Board's main objectives are to protect the interests of the investors. It also has a responsibility to consider the investment strategies adopted for the individual Funds and to review the performance of each Fund at a strategic level. Additionally the Advisory Board will consider events and action that may have given rise to a conflict of interest and advise the Fund Manager on possible remedies, if appropriate.

Where the credit risk is not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters.

Exposure to credit risk

The Fund's maximum credit risk exposure at the reporting date is represented by the respective carrying amounts of the financial assets in the statement of financial position (except for equity instruments as they do not carry credit risk). Impairment on these assets has been measured on a 12-month expected loss basis and reflects the short maturities of these exposures.

Balances due from brokers

Balances due from brokers result from margin accounts and sale transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the reputable brokers engaged by the Fund Manager. The Fund Manager monitors the internal controls, credit ratings and financial position of the brokers on a quarterly basis.

Majority of the Fund's transactions for sale and purchase of securities are made through FAB Securities ("FABS") which is a subsidiary of the Fund Manager. (*Refer note 10*)

Cash and cash equivalents

The Fund's bank balances are with the Fund Manager FAB.

Concentration of credit risk

There were no significant concentrations of credit risk to any individual issuer or group of issuers at 31 December 2018 or at 31 December 2017 except in connection with the bank balances which is held with the Fund Manager (refer note 4c)..

4 Financial risk management *(continued)*

(a) Credit risk (continued)

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

Past due and impaired assets

No financial assets carried at amortised cost were past due or impaired at 31 December 2018 *(31 December 2017: nil).*

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

It arises principally from due to related parties and net assets attributable to Fund's equity holder.

Management of liquidity risk

The Fund's approach to manage the risk is to have sufficient liquidity to meet its liabilities, including anticipated redemptions of units, as and when due, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's liquidity risk is managed on a daily basis by the Fund Manager in accordance with policies and procedures in place. The Fund's overall liquidity risks are monitored on a daily basis by the Investment Committee and the Advisory Board.

The Fund's term sheet provides for the daily redemption of shares and it is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund's redemption policy is to make settlement of redeemed Units, in respect of which it has received a Redemption Notice by no later than the "Cut-off Time", within three (3) Business Days of the "NAV Day".

The Fund's financial instrument includes bank balances and listed equity securities which are considered to be readily realisable as they are actively traded on major UAE stock exchanges.

4 Financial risk management *(continued)*

Maturity analysis for financial liabilities

Residual contractual maturities of the financial liabilities at reporting dates are as follows. Tables below show the cash flows of the Fund's financial instruments.

	Carrying amount AED'000	Gross Amount AED'000	Less than one month AED'000
31 December 2018			
Financial liabilities			
Other liabilities	-	-	-
Due to related parties	**262**	**262**	**262**
Net assets attributable to holders of redeemable units	**122,232**	**122,232**	**122,232**
	122,494	**122,494**	**122,494**
31 December 2017			
Financial liabilities			
Other liabilities	8	8	8
Due to related parties	196	196	196
Net assets attributable to holders of redeemable units	128,611	128,611	128,611
	128,815	128,815	128,815

The previous table shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The gross amounts include interest payable where appropriate. The carrying amounts are similar to the gross amounts.

The Fund's expected cash flows on these instruments do not vary significantly from this analysis except for net assets attributable to the holders of redeemable units, which the Fund has the contractual obligation to redeem with in the 2 days of the notice. Historical experience indicates that these units are held by unit holders based on medium or long term basis, however redemption levels are very difficult to predict as they vastly fluctuate with the changing market conditions and investor needs or objectives.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Management of market risks

The Fund's strategy on the management of the market risk is driven by its investment objectives and guidelines. The Fund's primary investment objective is to invest in a balanced portfolio of GCC equities and other transferable securities. The Fund's market risk is managed on a daily basis by the Fund Manager in accordance with the policies and procedures in place. The Fund's overall market positions are monitored by the Advisory Board and Investment Committee on a periodic basis.

When considered necessary or appropriate, the Fund Manager may hedge currency and/or other portfolio related risks in accordance with the investment objectives and guidelines.

Exposure to currency risk

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency ("AED"). Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value if that portion of the Fund's assets or liabilities denominated in currencies other than the AED.

Since the majority of the assets and liabilities are in AED (pegged with USD) or in foreign currencies (also pegged with the USD), the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Fund's financial statements.

Exposure to interest rate risk

Interest rate risk is the risk that arises from timing difference in the maturity and re-pricing of Fund's interest bearing assets and liabilities. The majority of Fund's financial assets and liabilities are non-interest bearing.

Bank balances placed with the Fund Manager are at floating rates, with re-pricing on quarterly basis. All other financial assets and liabilities are non-interest bearing.

Other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income. Price risk is managed by the Fund Manager by constructing a diversified portfolio of instruments, in different industry sectors and traded on different markets. Under normal circumstances, the Fund invests in the trading instruments in accordance with the investment guidelines.

4 Financial risk management *(continued)*

(c) *Market risk (continued)*

Other price risk (continued)

As per the term sheet of the Fund, the policy for concentration of its investment portfolio profile is as follows:

- Investment by the Fund in any particular company shall not exceed the lower of 10% of that company's then total market capitalisation or any restrictions on investment prescribed by applicable law and/or the relevant company's Articles of Association.
- Except as required to reflect "Benchmark" weighting of a stock, investment by the Fund in securities of any company shall not exceed 25% of the Funds Total Assets at the time of investment.
- Generally up to 50% of the Fund's Total Assets may, at any time be held in the form of cash or cash equivalents in order to meet redemptions and to take advantage of investment opportunities as they arise.
- The Fund may invest up to 15% of its Total Assets to underwrite or subscribe for public issues or pre initial public offering placements which are likely to come to market within eighteen (18) months.
- The Fund may borrow up to 10% of its NAV at any relevant time for a maximum of 1 year in order to meet redemptions.
- The Fund may invest up to 20% of its total NAV in non-MENA income producing assets that the Manager considers may add value to Investors in terms of risk and return.
- The Fund may invest in third party collective investment schemes (including ETFs) but such investments will be limited to 15% of the Fund's NAV and shall not exceed 10% of the net asset value of any one of the collective investment schemes the Fund is invested in.

Internal procedures require the Fund Manager to manage price risk on a daily basis. Internal procedures and systems help the Fund Manager to keep a check and control of any kind of price risk on an ongoing basis. Any deviation from the permitted guidelines needs to be corrected in the best possible manner within a reasonable time frame from the equity perspective. The Fund's procedures require price risk to be monitored on a monthly basis by the Advisory Board and the Investment Committee.

Where the market risk is not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters.

The Fund Manager monitors concentration of risk based on counterparties and industries. The Fund's equity investments are concentrated in the following industries:

Sector	**2018 AED'000**	2017 AED'000
Banking	**71,372**	38,577
Chemicals	**10,915**	10,365
Telecom	**10,155**	4,314
Finance	**5,474**	19,752
Real Estate	**3,515**	16,555
Others	**6,340**	33,079
	107,771	122,642

4 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Other price risk (continued)

The Fund had the following individual significant exposure in its portfolio of financial assets at fair value through profit or loss:

	2018	2017
	%	%
Al Rajhi Bank	**13**	5
National Bank of Kuwait	**6**	-
Saudi Basic Industries Corporation (SABIC-2010)	**6**	5
National Commercial Bank	**6**	5

The Fund estimates the future reasonably possible market price fluctuations for equity investments on an individual investment basis.

The table below sets out the sensitivity analysis and its effect on the Fund's profit or loss of a reasonably possible weakening in the individual equity market prices of 1% at 31 December.

The analysis assumes that all other variable, in particular interest and foreign currency rates remain constant.

	2018	2017
	AED'000	AED'000
Financial assets at fair value through profit or loss	**1,078**	1,226

A strengthening of market prices would have resulted in an equal but opposite effect to the amounts shown above.

(d) ***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 operations 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.

Operational risks arise from all of the Fund's activities. The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation whilst achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Head of Middle office and Compliance Manager.

4 Financial risk management *(continued)*

(d) ***Operational risk*** *(continued)*

This responsibility is supported by the development of overall standards 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:

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

Compliance with policies and procedures is supported by periodic reviews undertaken by the Fund Manager's Audit and Compliance Division. The results of these reviews are discussed with the management, with summaries submitted to senior management of the Fund Manager.

The directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risks is carried out via regular discussions with the service providers.

Substantially all of the units of the Fund are held with reputable brokers. Bankruptcy or insolvency of the units' custodians may cause the Fund's rights with respect to the securities held by the custodian to be delayed or limited. The Fund Manager monitors the credit ratings, internal control and financial position of its custodians on a periodic basis.

(e) ***Capital management***

The Fund's capital is represented by the number of units outstanding. The objective of the Fund is to invest the subscriptions amounts in a portfolio with a view to both achieving capital growth and provide attractive returns over medium term, while reducing directional downward risk in underlying market.

The Fund aims to deliver this objective mainly through investing in a balances portfolio as per the Fund investment guidelines while maintaining sufficient liquidity to meet unit holder's redemptions. The Fund has complied with the externally imposed requirements including Securities and Commodities Authority (SCA) and UAE Central Bank rules and regulations.

5 Use of estimates and judgments

Key sources of estimation uncertainty and critical accounting judgments in applying the Fund's accounting policies:

(i) Fair values of financial instruments

The Fund's financial instruments include investments which are measured at fair value in the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates i.e. quoted market prices are readily available.

For certain other financial instruments the carrying amounts approximate fair value due to the immediate or short term nature of the financial instruments.

Availability of observable market prices reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial market.

The Fund has an established control framework with respect to the measurement of fair values. Specific controls include: verification of observable pricing inputs; analysis and investigation of significant daily valuation movements; and reporting of significant valuation issues to the Advisory Board and Investment Committee.

The Fund's accounting policies on fair value measurements for financial instruments are discussed in note 3(h) and note 6.

(ii) Contingent liability arising from litigations

Due to the nature of its operations, the Fund may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(iii) Financial asset and liability classification

The Fund's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as fair value through profit or loss, the Fund has determined it meets the description as set out in note 3.

6 Financial assets and liabilities

Accounting classifications and fair values

The table below provides reconciliation of the line items in the Fund's statement of financial position to the categories of financial instruments as at:

	Mandatorily at FVTPL	Financial assets at amortised cost	Other financial liabilities	Total
31 December 2018	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and cash equivalents	-	**14,697**	-	**14,697**
Investments at fair value through profit or loss	**107,771**	-	-	**107,771**
Other receivables	-	**26**	-	**26**
	107,771	**14,723**	-	**122,494**
Other liabilities	-	-	-	-
Due to related parties	-	-	**262**	**262**
Net assets attributable to holders of redeemable unis	-	-	**122,232**	**122,232**
	-	-	**122,494**	**122,494**

	Mandatorily at FVTPL	Financial assets at amortised cost	Other financial liabilities	Total
31 December 2017	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cash and cash equivalents	-	6,110	-	6,110
Investments at fair value through profit or loss	122,642	-	-	122,642
Other receivables	-	63	-	63
	122,642	6,173	-	128,815
Other liabilities	-	-	8	8
Due to related parties	-	-	196	196
Net assets attributable to holders of redeemable unis	-	-	128,611	128,611
	-	-	128,815	128,815

The financial instruments not accounted for at fair value through profit or loss are short-term financial assets and liabilities whose carrying amounts approximates their fair value. All financial assets and liabilities are measured at amortised cost except for trading investments which are measured at fair value by reference to published price quotations in an active market.

6 Financial assets and liabilities *(continued)*

Accounting classifications and fair values (continued)

For investment in units that are inactive as at the reporting date the Fund determines fair values using valuation techniques. The valuation techniques include comparison to similar instruments, if any, for which market observable prices exist or marking to that index which is considered to offer the closest price. The objective of using a valuation technique is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, 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 for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where 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 where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in fair value hierarchy into which the fair value measurement is categorised.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2018				
Investments at fair value through profit and loss	**107,771**	**-**	**-**	**107,771**
31 December 2017				
Investments at fair value through profit and loss	122,642	-	-	122,642

The Fund's financial assets and financial liabilities that are classified as financing facilities at amortised cost, are categorised under Level 2 in the fair value hierarchy. The Fund considers these to have a fair value approximately equivalent to their net carrying value.

7 Investments at fair value through profit and loss

Investments at fair value through profit or loss comprise of quoted shares with a balance of AED 122,642 thousand *(31 December 2017: AED 126,839 thousand)*. There are no pledged financial assets at fair value through profit or loss.

The distribution of the investments on a country wise basis is as shown below:

	31 December 2018 AED'000	31 December 2017 AED'000
Quoted financial instruments		
Kingdom of Saudi Arabia	**58,031**	62,733
United Arab Emirates	**32,574**	36,125
Kuwait	**13,480**	22,054
Oman	**3,686**	1,730
	107,771	122,642

8 Units of the Fund

The initial offering of units was at a price of AED 10 per unit (par value). Subsequent to the initial offering, the subscription price for units is based on the Net Asset Value (NAV) per unit on the last business day of each week.

9 Related parties

Identity of 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. Related parties comprise members of the Advisory Board and Investment Committee and the Fund Manager and the entities controlled by them. In the ordinary course of business, the Fund renders and receives services from such related parties at agreed rates, terms and conditions set out by FAB as the Fund Manager.

Terms and conditions

Key terms and conditions are shown below:

Brokerage — FAB Securities LLC, a wholly owned subsidiary of the Fund Manager, provides brokerage services to the Fund at prevailing market rates.

Banking — The Fund Manager provides banking services at rates agreed with the Fund.

Others — The Fund Manager is entitled the following fees as set out in the offering term sheet:

- Management fees of 1.5% of the NAV, accrued on daily basis;
- The Performance fee will be 10% of relative outperformance of the Fund over the S&P Pan Arab Large-Mid Cap TR Index (the "Benchmark") and the latest NAV that prompted a performance fee payment during the relevant calendar year (the "High Watermark").

9 Related parties *(continued)*

Balances

Balances with related parties at the reporting dates are shown below:

	31 December 2018 AED'000	31 December 2017 AED'000
- First Abu Dhabi Bank		
Cash at bank	**14,697**	6,110
Investments in shares of FAB	**4,602**	-
Due to related parties		
- First Abu Dhabi Bank		
Management fees payable to the Fund Manager	**159**	166
Sundry Exp Payable	**63**	-
Administration fee payable to FAB as Custodian	**30**	30
- FAB Securities LLC		
VAT Payable Management fee	**8**	-
Index charge payable	**2**	-
	262	196

Volume of transactions with FAB Securities LLC

	2018 AED'000	2017 AED'000
Purchases of financial assets	**7,313**	**13,921**
Proceeds from sales of financial assets	**2,880**	**14,686**

Transactions

Transactions with related parties during the year included in the statement of comprehensive income are shown below:

	2018 AED'000	2017 AED'000
Brokerage charges paid to FAB Securities LLC	**(26)**	(10)
- First Abu Dhabi Bank		
Interest income	**224**	92
Dividend income	**232**	7,578
Management fees	**(1,962)**	(2,116)
Administration fees	**(320)**	(332)

9 Related parties *(continued)*

The fund is managed by the Fund Manager and there are no key management personnel of the Fund. In accordance with article 15.2 of the term sheet, a management fee of 1.5% per annum of the Fund's NAV is payable quarterly to the Fund Manager, calculated and accrued on a daily basis.

10 Net gain / (loss) on financial assets at fair value through profit or loss

	2018	2017
	AED'000	AED'000
Realised loss	**(1,154)**	(4,637)
Unrealised gain/ (loss)	**7,699**	(4,878)
	6,545	(9,515)

As at reporting date, all of the Fund's investments at fair value through profit or loss are in quoted equity securities.

11 Reconciliation of net assets and trading net assets

In accordance with the Fund's prospectus unaudited net asset value is daily reported to the holders of redeemable units. Unaudited net assets value includes investments at fair value through profit or loss calculated using quoted closing prices at a specific time without adjustment for financial assets disposal costs or unit encashment charges.

For financial statement reporting purposes, audited net assets value is calculated using quoted bid prices for financial assets. The following table shows the reconciliation of the Fund's net assets value as per statement of financial position to its trading net asset value:

	31 December 2018	31 December 2017
	AED'000	AED'000
Net assets as per statement of financial position	**122,232**	128,611
Adjustment from bid prices to closing prices	**641**	199
Trading net asset value calculated in accordance with the Fund's Prospectus	**122,873**	128,810

12 Dividend to holders of redeemable units

	31 December 2018	31 December 2017
Dividend to holders of redeemable units (AED 000)	**6,379**	7,189
No of units entitled to the dividend	**38,984,772**	39,283,420
Dividend per units	**0.16**	0.18

13 Redeemable Units

The Fund's redeemable units are subject to a minimum subscription amount. The Fund has a cut-off date which is the last day the investment manager can accept duly completed subscription agreements or redemption notices. Redemption notices are subject to a minimum value. Under extraordinary circumstances, the Fund also has the ability to suspend redemptions or initiate compulsory redemption if this is deemed to be in the best interest of all unit holders. The relevant movements are shown on the statement of changes in net assets attributable to holders of redeemable units. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 4, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

The Fund's net asset value per unit is AED 3.18 as at 31 December 2018 and AED 3.10 as at 31 December 2017.

14 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in these financial statements.