

**KHALEEJ EQUITY FUND**  
**31 DECEMBER 2015**  
**FINANCIAL STATEMENTS**

<b>Fund Manager, Operator and Placement agent</b>	Securities & Investment Company B.S.C. (c) P.O. Box 1331, Manama, Kingdom of Bahrain
<b>Administrator</b>	HSBC Bank Middle East Limited , Bahrain P.O. Box 57, Manama, Kingdom of Bahrain
<b>Registrar</b>	APEX Funds Services Bahrain WLL P.O. Box 10405, Manama, Kingdom of Bahrain
<b>Directors</b>	Najla Mohammed Qassim Alshirawi Hanan Yusuf Hasan Sater Amal Ahmed Yusuf Alnaser Anantha Narayanan
<b>Fund Company</b>	SICO Funds Company B.S.C. (c) P.O. Box 1331, Manama, Kingdom of Bahrain
<b>Registered office</b>	SICO Funds Company B.S.C.(c) P.O. Box 1331, Manama, Kingdom of Bahrain
<b>Custodian</b>	HSBC Bank Middle East Limited , Bahrain P.O. Box 57, Manama, Kingdom of Bahrain
<b>Auditor</b>	KPMG Fakhro Jalil Al A'alli, <i>Partner</i> P.O. Box 710, Manama, Kingdom of Bahrain

**Khaleej Equity Fund**

**FINANCIAL STATEMENT  
For the year ended 31 December 2015**

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**Khaleej Equity Fund**

**DIRECTOR'S REPORT**

**For the year ended 31 December 2015**

Bahraini dinars

Dear Unit holders,

Following is the performance of Khaleej Equity Fund (the "Fund"), launched by SICO Funds Company B.S.C. (c) (the "Company"), for the year ended 31 December 2015.

	2015	2014
Net (decrease) / increase in net assets	(493,820)	1,387,534
Net assets attributable to holders of redeemable units	17,183,904	25,553,974
Net asset value (NAV) per unit as at 31 December		
Class A units	103.04	109.80
Class B units	102.10	108.48
Class C units	-	113.43

**Representations and audit**

We have maintained proper and complete accounting records and these, together with all other information and explanation, have been freely available to the auditors KPMG.

There have been no events subsequent to 31 December 2015, which would in any way invalidate the financial statements on pages 3 to 22.

On behalf of the board,



Anantha Narayanan  
Director



Amal Al Nasser  
Director

26 April 2016



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Audit  
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CR No. 6220

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**  
**Khaleej Equity Fund**  
Kingdom of Bahrain

**Report on the financial statements**

We have audited the accompanying financial statements of Khaleej Equity Fund (the "Fund"), a fund established by SICO Funds Company B.S.C. (c) (the "Company") which comprise the statement of financial position as at 31 December 2015, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Responsibility of the board of directors of the Company for the financial statements*

The board of directors of the Company responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other regulatory requirements**

As required by Volume 7 of the Rulebook issued by the Central Bank of Bahrain, we report that:

- a) the Fund has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) we are not aware of any violations during the year of the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 7, applicable provisions of Volume 6 and CBB directives) that would have had a material adverse effect on the business of the Fund or on its financial position.

KPMG Fakhro  
Partner Registration No. 100  
26 April 2016

**Khaleej Equity Fund**

**STATEMENT FINANCIAL POSITION  
As at 31 December 2015**

Bahraini dinars

	Note	31 December 2015	31 December 2014
<b>Assets</b>			
Cash and cash equivalents		1,501,281	527,287
Investments at fair value through profit or loss	4	15,967,077	24,514,796
Due from brokers		-	563,565
Other receivables		61,304	61,304
<b>Total assets</b>		<b>17,529,662</b>	<b>25,666,952</b>
<b>Liabilities</b>			
Due to brokers		249,426	-
Other payables	5	96,332	112,978
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>345,758</b>	<b>112,978</b>
<b>Net assets attributable to holders of:</b>			
- Class A units		7,349,251	11,599,556
- Class B units		9,834,653	10,451,596
- Class C units		-	3,502,822
<b>Net assets attributable to unit holders</b>		<b>17,183,904</b>	<b>25,553,974</b>

Net Asset Value ("NAV") per unit based on 71,325 units  
(2014: 105,647) units outstanding with respect to Class A  
units

103.04                      109.80

Net Asset Value ("NAV") per unit based on 96,350 units  
(2014: 96,350) units outstanding with respect to Class B  
units

102.10                      108.48

Net Asset Value ("NAV") per unit based on Nil units (2014:  
30,880) units outstanding with respect to Class C  
units

-                                      113.43



Ananatha Narayanan  
Director



Amal Al Nasser  
Director

The financial statement consisting of pages 3 to 22 were approved by the Board of Directors on 26 April 2016.

**Khaleej Equity Fund**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2015**

Bahraini dinars

		<b>31 December 2015</b>	<b>31 December 2014</b>
Net change in fair value of investments at fair value through profit or loss		(779,621)	689,690
Dividend income		705,172	1,180,067
Interest income		86	716
Other income		71,861	82,700
<b>Total income</b>		<b>(2,502)</b>	<b>1,953,173</b>
Management fees	7	326,688	349,853
Custody and administration fees	8	57,085	84,164
Registrar fees		3,205	3,205
Audit fees		4,500	4,500
Performance fees	9	79,846	114,471
Other operating expenses		14,196	2,519
Transaction costs		5,798	6,927
<b>Total operating expenses</b>		<b>491,318</b>	<b>565,639</b>
<b>(Decrease) / increase in net assets attributable to unit holders</b>		<b>(493,820)</b>	<b>1,387,534</b>

\_\_\_\_\_  
 Anantha Narayanan  
 Director

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 Amal Al Nasser  
 Director

The financial statement consisting of pages 3 to 22 were approved by the Board of Directors on 26 April 2016.

Khaleej Equity Fund

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS**  
For the year ended 31 December 2015

Bahraini dinars

	Number of units	Unit capital	Unit deficit	Retained earnings	Total
<b>2015</b>					
Balance at 1 January 2015	232,877	8,779,454	4,740,339	12,034,181	25,553,974
Decrease in net assets attributable to unit holders	-	-	-	(493,820)	(493,820)
<b>Subscriptions and redemptions by unit holders</b>					
Issue of units during the year	35,513	1,338,843	2,915,821	-	4,254,664
Redemption of units during the year	(100,715)	(3,796,941)	(8,333,973)	-	(12,130,914)
<b>Balance at 31 December 2015</b>	<b>167,675</b>	<b>6,321,356</b>	<b>(677,813)</b>	<b>11,540,361</b>	<b>17,183,904</b>
<b>2014</b>					
Balance at 1 January 2014	268,142	10,108,924	7,514,457	10,646,647	28,270,028
Increase in net assets attributable to unit holders	-	-	-	1,387,534	1,387,534
<b>Subscriptions and redemptions by unit holders</b>					
Issue of units during the year	148,619	5,602,963	12,182,905	-	17,785,868
Redemption of units during the year	(183,884)	(6,932,433)	(14,957,023)	-	(21,889,456)
<b>Balance at 31 December 2014</b>	<b>232,877</b>	<b>8,779,454</b>	<b>4,740,339</b>	<b>12,034,181</b>	<b>25,553,974</b>

The financial statements consist of pages 3 to 22.

**Khaleej Equity Fund**

**STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2015

Bahraini dinars

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Cash flows from operating activities</b>		
(Decrease) / Increase in net assets attributable to unit holders	(493,820)	1,387,534
<i>Adjustments for:</i>		
Decrease in investments at fair value through profit or loss	8,547,719	3,432,612
Decrease / (increase) in due from brokers	563,565	(563,565)
Decrease in other receivables	-	226
Decrease in redemption payable	-	(456,883)
Increase in due to brokers	249,426	-
Decrease in other payables	(16,646)	(30,551)
<b>Net cash generated from operating activities</b>	<b>8,850,244</b>	<b>3,769,373</b>
<b>Cash flows from financing activities</b>		
Subscription of units during the year	4,254,664	17,785,868
Redemption of units during the year	(12,130,914)	(21,889,456)
<b>Net cash used in financing activities</b>	<b>(7,876,250)</b>	<b>(4,103,588)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>973,994</b>	<b>(334,215)</b>
Cash and cash equivalents at 1 January	527,287	861,502
<b>Cash and cash equivalents at 31 December</b>	<b>1,501,281</b>	<b>527,287</b>

The financial statements consist of pages 3 to 22.



**1. Reporting entity**

Khaleej Equity Fund ( the "Fund") is an open ended launched by SICO Funds Company B.S.C. (c) (the "Company"), a closed joint stock company incorporated in the Kingdom of Bahrain with commercial registration number 40378. The Fund commenced trading in March 2008. The Fund has been classified as an expert fund under the CIU Module Volume 7 of the CBB Rule Book. Although the Fund's units are listed on the Bahrain Bourse all unit transactions are carried out directly with the Fund.

The share capital of the Company is BD 1,000 and the shareholders of the Company are Securities & Investment Company B.S.C. (c) 99% and SICO Ventures Company S.P.C. 1%.

The duration of the Fund is subject to the duration of the Fund Company, which is twenty five calendar years commencing from the date of registration of the Fund Company in the Commercial Registry. This duration may be extended by a resolution to be adopted by an extraordinary meeting of the general assembly, in the manner provided for in the Commercial Companies Law, of the Fund Company with the approval of the Ministry of Commerce of the Kingdom of Bahrain and the CBB.

The principal investment objective of the Fund is to achieve long-term capital appreciation for holders of units by investing principally in equity securities listed on the stock markets of GCC Countries. From time to time, the Fund may also invest in equity related hybrid and debt securities listed in the GCC Countries in addition to unlisted debt securities issued by the governments or quasi government institutions of GCC Countries in the GCC countries excluding the Kingdom of Saudi Arabia.

The investment management activities of the Fund are undertaken by Securities & Investment Company B.S.C. (c) (the "Fund Manager"). The Fund's custody and administration activities are undertaken by HSBC Bank Middle East Limited Bahrain Branch.

**2. Basis of preparation**

**a) Statement of compliance**

The financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS").

**b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for investments that are measured at fair value through profit or loss.

**c) Functional and presentation currency**

The financial statements are prepared in Bahrain Dinars (BHD), which is the functional and presentation currency of the Fund.

**d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

2. *Basis of preparation (continued)*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future period if the revision affects both the current and future periods and in any future periods affected. Actual results may differ from these estimates.

Information about significant areas of uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below:

***Critical accounting judgements, estimates and assumptions in applying accounting policies***

Management makes judgements, estimates and assumptions in the application of accounting policies concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below:

(i) **Functional and presentation currency**

Functional currency is the currency of the primary economic environment in which the Fund operates. When indicators of the primary economic environment are mixed, management uses its judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Fund's units are denominated in Bahrain Dinars (BHD).

(ii) **Classification of investments**

Management designates all its investments as at fair through profit or loss.

e) **New International Financial Reporting Standards and Interpretations**

(i) **New standards, amendments and interpretations effective from 1 January 2015**

The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Fund.

**Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle**

The annual improvements to IFRSs to 2010-2012 and 2011 -2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of this amendment had no significant impact on the financial statements

(ii) **New standards, amendments and interpretations issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Fund are set out below. The Fund does not plan to early adopt these standards.

**IFRS 9 - Financial Instruments**

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

**2. Basis of preparation (continued)**

The Fund is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

**Annual Improvements to IFRSs 2012–2014 Cycle – various standards**

The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The Fund is assessing the potential impact on its financial statements resulting from the application.

Given the nature of the Fund's operations, this standard is not expected to have a significant impact on the Fund's financial statements.

**(iii) Early adoption of standards**

The Fund did not early adopt new or amended standards in 2015.

**3. Significant accounting policies**

The accounting policies adopted in preparation of these financial statements are set out below. These accounting policies have been consistently applied by the Fund and are consistent with those used in the previous year.

**a) Foreign currency transactions**

Foreign currency transactions are recorded in Bahraini Dinars ("BHD") at the rate of exchange ruling at the date of the transactions.

All monetary assets and liabilities denominated in foreign currencies are translated into BHD at the exchange rates ruling at the reporting date. Resulting gains / losses are recognized in statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to BHD at the foreign exchange rates ruling at the dates that the values were determined. Resulting gains and losses are recognized in the statement of comprehensive income for investments at fair value through profit or loss. Non monetary assets and liabilities carried at cost are recorded in BHD at the rate of exchange ruling at the date of the transactions.

**b) Financial assets and financial liabilities**

**(i) Recognition and initial measurement**

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument. This includes "regular way trades" purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

**(ii) Classification**

At inception a financial asset is classified in one of the following categories:

- loans and receivables, which comprise cash and cash equivalents and other assets; and
- at fair value through profit or loss which comprises the Fund's investments in quoted equities

The Fund classifies all its financial liabilities as measured at amortised cost.

**3. Significant accounting policies (continued)**

**(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.

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

**(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 at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**(v) Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the 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 does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

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

**(vi) Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the 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 for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

**c) Cash and cash equivalents**

Cash and cash equivalents comprise balances held in current accounts and deposits with banks with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value and are used by the fund in the management of its short term commitments. Cash and cash equivalents are stated at amortised cost in the statement of financial position.

3. *Significant accounting policies (continued)*

**d) Investments at fair value through profit or loss**

Investments at fair value through profit or loss are those that the Fund principally holds for the purpose of short-term profit taking. These include listed equity securities.

Investments at fair value through profit or loss are measured initially at fair value (transaction price). Transaction costs on investments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all investments classified at fair value through profit or loss is measured at fair value with changes in their fair value recognized in the statement of comprehensive income.

**e) Other assets**

Other assets include financial assets stated at their cost less impairment losses, if any.

**f) Payables and other liabilities**

Payables and other liabilities are recorded at their amortised cost.

**g) Provisions**

A provision is recognized in the statement of financial position when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**h) Redeemable units**

The Fund issues three classes of redeemable units, which are redeemable at the holder's option and do not have identical rights. Such shares are classified as financial liabilities. Redeemable shares can be put back to the Fund at any dealing date for cash equal to a proportionate share of the Fund's net asset value attributable to the share class.

The redeemable shares are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the share back to the Fund.

Redeemable shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption. The Fund's net asset value per share is calculated by dividing the net assets attributable to the holders of each class of redeemable shares with the total number of outstanding redeemable shares for each respective class.

**i) Unit surplus/ (deficit)**

On the issue of units, the difference between the issue price and the nominal value is credited to unit surplus / deficit account. On redemption, the premium repayable is debited to the unit surplus account. For units redeemed at a discount, the difference between redemption value and par value is credited to unit surplus account. Unit surplus/ deficit will be adjusted against retained earnings at closure of the fund.

**j) Income and expenses**

Interest income is recognized in the statement of comprehensive income on a time apportionment basis using the effective interest method.

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

All expenses are recognized on an accrual basis.

## 3. Significant accounting policies (continued)

## k) Distributions payable to holders of redeemable shares

Proposed distributions to holders of redeemable shares are recognised in the statement of comprehensive income when they are appropriately authorised and no longer at the discretion of the Fund. The distribution on the redeemable shares is recognised as a finance cost in the statement of comprehensive income.

Income not distributed is included in net assets attributable to holders of redeemable shares.

## 4. Investments at fair value through profit or loss

This represents investments in quoted equity securities. The fair value of these securities is based on their quoted market bid price as at the reporting date.

## Movements during the year:

	31 December 2015	31 December 2014
Opening balance	24,514,796	27,947,408
Additions during the year	58,745,511	97,386,360
Disposals during the year	(66,513,609)	(101,508,662)
Change in fair value of investments	(779,621)	689,690
<b>Closing balance</b>	<b>15,967,077</b>	<b>24,514,796</b>

The geographical distinction of investments is as follows:

	31 December 2015		31 December 2014	
	Amount	%	Amount	%
Saudi Arabia	11,355,035	71.12	15,885,241	64.80
United Arab Emirates	1,287,680	8.06	3,147,669	12.84
Qatar	451,783	2.83	2,844,998	11.60
Kuwait	2,872,579	17.99	2,636,888	10.76
	<b>15,967,077</b>	<b>100.00</b>	<b>24,514,796</b>	<b>100.00</b>

**4. Investments at fair value through profit or loss (continued)**

Details of top ten (10) investments in terms of market values are as follows:

**31 December 2015**

Description	Fair value	Value of investment as a percentage of the NAV
Viva Kuwait Telecom Company	1,347,325	7.84 %
Samba Financial Group	1,262,133	7.34 %
Emaar Properties	1,028,471	5.99 %
National Commercial Bank	847,692	4.93 %
Herfy Food Services	789,783	4.60 %
Jazeera Airways	770,707	4.49 %
Al Rajhi Bank	735,003	4.28 %
National Agricultural Development Company	707,087	4.11 %
National Shipping Company of Saudi	645,150	3.75 %
National Bank of Kuwait	587,372	3.42%

**31 December 2014**

Description	Fair value	Value of investment as a percentage of the NAV
Abdullah Al Othaim Markets	1,073,488	4.20%
Bupa Arabia for Cooperative	988,604	3.87%
Air Arabia	954,560	3.74%
Samba Financial Group	866,989	3.39%
Viva Kuwait Telecom Company	836,634	3.27%
Emaar Properties	815,090	3.19%
Saudi British Bank	805,391	3.15%
Dallah Healthcare Holding Company	788,387	3.09%
Mobile Telecommunications Company	753,807	2.95%
Al Meera Consumer Goods	742,580	2.91%

**Khaleej Equity Fund**

**NOTES TO THE FINANCIAL STATEMENT  
For the year ended 31 December 2015**

Bahraini dinars

**5. Other payables**

	<b>31 December 2015</b>	<b>31 December 2014</b>
Management fees	76,304	96,453
Custodian and administrator's fees	3,157	5,414
Other accruals	16,871	11,111
	<b>96,332</b>	<b>112,978</b>

**6. Net Asset Value per unit**

	<b>NAV</b>	<b>No. of units</b>	<b>NAV per unit</b>
<b>2015</b>	17,183,904	167,675	102.483
<b>2014</b>	25,553,974	232,877	109.731
<b>2013</b>	28,270,028	268,142	105.429
<b>2012</b>	24,528,046	300,226	81.699

	<b>Highest redemption price</b>	<b>Lowest redemption price</b>
<b>2015</b>	<b>127.713</b>	<b>110.781</b>
<b>2014</b>	125.209	107.871
<b>2013</b>	103.837	85.183
<b>2012</b>	85.915	77.130
<b>2011</b>	82.295	69.651
<b>2010</b>	81.277	71.083
<b>2009</b>	79.769	56.388
<b>2008</b>	104.512	63.656
<b>2007</b>	92.972	64.727
<b>2006</b>	76.968	60.377
<b>2005</b>	77.195	50.661
<b>2004</b>	47.887	37.700

**7. Management fees**

Securities and Investment Company B.S.C. (c) manages the Fund's operations for an annual fee of 1.5% and 2% per annum with respect to Class A units and Class B units respectively. No management fee is charged to Class C units. Management fees are accrued on the dealing day and payable monthly in arrears.



**8. Custodian fees and administrator fees**

HSBC Bank Middle East Limited (Bahrain Branch) is the custodian and administrator of the Fund. A custodian fee not exceeding 0.30% of the NAV of Fund as of each dealing day subject to an annual minimum. The custodian fee accrues on each dealing day and is payable on a monthly basis on the second business day of each calendar month.

An administration fee not exceeding 0.25% of the NAV of Fund as of each dealing day subject to an annual minimum over and above a one-time inception fee of US\$ 3,000. The administration fee accrues on each dealing day and is payable on a monthly basis on the second business day of each calendar month.

**9. Performance fees**

The Fund Manager is entitled, out of the assets of the Fund, to a performance fee that equals 10% and 20% with respect to Class A and Class B units respectively over and above the hurdle total rate of return of 10% for each financial year. No performance fees are charged in respect of Class C units.

**10. Related party balances and transactions**

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 operating decisions. Related parties include entities over which the Fund exercises significant influence, unit holders, directors and the Fund Manager of the Fund.

The Fund is a sub-fund of SICO Funds B.S.C. (c), which is a wholly owned subsidiary of Securities & Investment Company B.S.C. (c) (SICO), which provides management services to the Fund.

Balances and transactions with related parties were as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
<b>Due to related parties</b>		
Accrued management fees	<b>76,304</b>	<b>96,453</b>

**Transactions with related parties**

- a) Securities and Investment Company B.S.C (c) manages the Fund's operations for an annual fee of 1.5% and 2% per annum with respect to Class A units and Class B units respectively. No management fee is charged to Class C units. Management fees are accrued on the dealing day and payable monthly in arrears. The management fees of Class A units and Class B units for the year ended 31 December 2015 amounted to BD 159,707 (2014: BD 240,535) and BD 166,981 (2014: BD 109,318) respectively.
- b) The Fund manager is entitled, out of the assets of the Fund, to a performance fee that equals 10% and 20% with respect to Class A and Class B units respectively over and above the hurdle total rate of 10% for each financial year. No performance fees are charged in respect to Class C units. Performance fee for the year ended 31 December 2015 amounted to BD 79,846 (2014: BD 114,471).
- c) At the reporting date, the Fund Manager holds 9,506 units 5.69% (2014: 9,506 units – 4.08%), in the Fund with corresponding NAV of BD 979,498 (2014: 1,043,752).
- d) Commission incurred on transactions through the Fund Manager during the year amounted to BD 19,702 (2014: BD 76,267).

10. *Related party balances and transactions (continued)*

**Transactions with related parties (continued)**

- e) The Fund manager did not earn or participate in any soft commission arrangements related to dealings in the Fund's assets.

11. **Financial instruments and management of risk**

**Financial instruments**

Financial instruments include financial assets and financial liabilities. A financial instrument is any contract that gives rise to both a financial asset in one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets of the Fund consist of cash and cash equivalents, investments held for trading and other receivables. Financial liabilities of the Fund consist of payables and other liabilities. The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity 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. The note also presents certain quantitative disclosures in addition to the disclosures throughout the financial statements.

**Risk management framework**

The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance. The Fund's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

The Fund's risk management policies are based on a simplified framework with non-complex transactions to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems.

Risk management activities are carried out by the senior management under policies that are approved by the Company's Board of Directors. Management regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

**Risk management framework**

The significant risks that the Fund is exposed to are explained below:

**Credit risk**

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. The Fund's exposure to credit risk is primarily in respect of cash and cash equivalents and other assets.

11. *Financial instruments and management of risk (continued)*

The carrying amount of financial assets best represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 December 2015	31 December 2014
Cash and cash equivalents	1,501,281	527,287
Due from brokers	-	563,565
Other receivables	61,304	61,304
	<b>1,562,585</b>	<b>1,152,156</b>

Credit risk on cash and cash equivalents is limited since these are maintained with banks and financial institutions having high credit ratings.

In accordance with the Fund's policy, the Fund Manager monitors the Fund's credit position on a periodic basis. None of the credit exposures are past due or impaired as at 31 December 2015.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities is made by the custodian only on receipt of payment from the broker.

Payment is made by the custodian for the purchase of securities only on receipt of security from the broker. The trade will fail if either party fails to meet its obligations.

**Market risk**

Market risk is the risk that changes in market prices, such as equity prices, interest rates, and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The Fund's investments at fair value through profit or loss and available-for-sale investments are susceptible to market price risk arising from uncertainties about future prices of the instruments. According to the Fund's Prospectus, the Fund is required to adopt a balanced investment policy through a careful selection of securities and other financial instruments within specified limits that aim to reduce market risk. The Fund's overall market positions are monitored on a daily basis by the Fund Manager.

**i. Equity price risk**

Equity price risk is the risk that the value of an instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market.

The Fund's investments in quoted equity are susceptible to market price risk arising from uncertainties about future prices of the instruments. According to the Fund's Prospectus, the Fund is required to adopt a balanced investment policy through a careful selection of securities and other financial instruments within specified limits that aims to reduce market risk.

Equity price risk is managed by the Fund Manager through the diversification of its investment position among selected sectors of the market. The Fund adheres to the limits set by the Fund Manager in respect of diversification of the investment portfolio. The Fund also manages its risk by ensuring that investments are made only after an appropriate evaluation and due diligence of the issuer of the investment securities.

## 11. Financial instruments and management of risk (continued)

The concentration of the Fund by geographical location is given below:

Market indices	31 December 2015	31 December 2014
Saudi Arabia	11,355,035	15,885,241
UAE	1,287,680	3,147,669
Qatar	451,783	2,844,998
Kuwait	2,872,579	2,636,888

The sensitivity of financial assets exposed to equity price risk was as follows:

Market indices	31 December 2015			31 December 2014		
	Change in market index %	Effect on equity	Effect on profit or loss	Change in market index %	Effect on equity	Effect on profit or loss
Saudi Arabia	5	354,088	354,088	5	1,045,387	1,045,387
UAE	5	54,024	54,024	5	256,536	256,536
Qatar	5	13,738	13,738	5	350,428	350,428
Oman	5	-	-	5	287,177	287,177
Kuwait	5	35,148	35,148	5	214,356	214,356
Bahrain	5	-	-	5	-	-

The sensitivity analysis presented is based upon the portfolio composition as at the reporting date and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the Fund's investment portfolio and the correlation thereof to the respective indices is expected to change over time. The sensitivity analysis prepared as of 31 December is not necessarily indicative of the effect on the Company's profit or loss or its equity of future movements in the level of the respective indices.

## ii. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments, which potentially subject the Fund to interest rate risk, consist principally of cash and cash equivalents. The Fund's call deposits, which are short-term in nature, yield interest at commercial rates. Therefore, the Fund believes there is minimal risk of significant losses due to interest rate fluctuations.

As at the reporting date, the Fund does not hold interest bearing financial instrument.

## iii. Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at 31 December 2015, the Fund holds 91.05% (2014: 97.65%) of its assets in foreign currency denominated assets, which are in currencies other than the functional currency of the Fund. Since the value of the equities denominated in other currencies will fluctuate due to changes in exchange rates, the Fund is therefore exposed to currency risk. The Fund's currency risk is managed on a daily basis by the Fund Manager in accordance with the policies and procedures in place.

11. Financial instruments and management of risk (continued)

Market risk (continued)

III Currency risk (continued)

Currencies of Gulf Cooperation Council (GCC) (other than Kuwaiti Dinar) are effectively pegged to the US Dollar and hence the Fund's exposure to foreign exchange risk on these currencies is limited. The Fund had the following significant exposures denominated in other foreign currencies at the reporting date:

	31 December 2015	31 December 2014
Kuwaiti Dinars	2,872,579	2,636,888

Sensitivity Analysis

Currency	31 December 2015		31 December 2014	
	Change in currency rate %	Effect on profit	Change in currency rate %	Effect on profit
Kuwaiti Dinars	±5%	143,629	±5%	131,844

An equivalent weakening would have resulted in an equal but opposite effect on the above financial statement accounts, to the amounts shown above, on the basis that other variables remain constant.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to the weekly cash redemptions of redeemable units. Its policy is therefore to invest its assets in investments that are traded in an active market and can be readily disposed. As per the prospectus of the Fund, the investment manager has the right to scale down redemptions to 10% of the net asset value of the Fund if the redemption request on any valuation day exceeds more than 10% of the net asset value of the Fund.

The Fund's securities are considered readily realisable as they are listed on stock exchanges.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

2015	Less than 1 month	1-12 months	Total
<b>Liabilities</b>			
Payables and other liabilities	4,453	91,879	96,332
Balances due to brokers	-	249,426	249,426
<b>Liabilities (excluding net assets attributable to holders of redeemable units)</b>	4,453	341,305	345,758
Net assets attributable to holders of redeemable units	17,183,904	-	17,183,904
	17,188,357	341,305	17,529,662

## 11. Financial instruments and management of risk (continued)

## Liquidity risk (continued)

2014	Less than 1 month	1-12 months	Total
Liabilities			
Payables and other liabilities	8,412	104,566	112,978
Liabilities (excluding net assets attributable to holders of redeemable units)	8,412	104,566	112,978
Net assets attributable to holders of redeemable units	25,553,974	-	25,553,974
	25,562,386	104,566	25,666,952

Redeemable units are redeemed on demand at the holders' option. However, the Company's Board of Directors does not envisage that the contractual maturity disclosed in the table above will be representative of actual cash outflows, as the holders of these instruments typically retain them for the medium to long term.

The Fund manages its liquidity risk by investing in securities that it expects to be able to liquidate within 1 month. Accordingly, all the Fund's financial assets are realizable within a maximum period of one month.

## 12. Classification and fair values of financial instruments

## a) Classification of financial assets and liabilities

The details of classification of financial assets and liabilities held by the Fund at the reporting date are as follows:

31 December 2015

	At fair value through profit and loss	Loans and receivables	Others at amortized cost	Total carrying value
Cash and cash equivalents	-	1,501,281	-	1,501,281
Investments at fair value through profit or loss	15,967,077	-	-	15,967,077
Other receivables	-	61,304	-	61,304
	15,967,077	1,562,585	-	17,529,662
Due to brokers	-	-	249,426	249,426
Other payables	-	-	96,332	96,332
	-	-	345,758	345,758

## 12. Classification and fair values of financial instruments (continued)

## a) Classification of financial assets and liabilities (continued)

31 December 2014

	At fair value through profit and loss	Loans and receivables	Others at amortized cost	Total carrying value
Cash and cash equivalents	-	527,287	-	527,287
Investments at fair value through profit or loss	24,514,796	-	-	24,514,796
Due from brokers	-	563,565	-	563,565
Other receivables	-	61,304	-	61,304
	24,514,796	1,152,156	-	25,666,952
Due to brokers	-	-	249,426	249,426
Other payables	-	-	96,332	96,332
	-	-	345,758	345,758

Loans and receivables presented above represent cash and cash equivalents and other receivables.

Others at amortized cost represent redemption payable, balances due to brokers and other payables.

## b) Fair Value

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.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

## i. Fair value hierarchy

The fair values of financial assets that are traded in active markets are based on quoted market prices.

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

12. Classification and fair values of financial instruments (continued)

b. Fair Value (continued)

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

ii. Financial instruments measured at fair value

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

	Level 1	Level 2	Level 3	Total
<b>31 December 2015</b>				
Quoted equities at fair value through profit or loss	15,967,077	-	-	15,967,077
	<b>15,967,077</b>	<b>-</b>	<b>-</b>	<b>15,967,077</b>
<b>31 December 2014</b>				
Quoted equities at fair value through profit or loss	24,514,796	-	-	24,514,796
	<b>24,514,796</b>	<b>-</b>	<b>-</b>	<b>24,514,796</b>

There were no transfers between levels of the fair value hierarchy during the year.

iii. Financial instruments not measured at fair value

The fair value of financial instruments not measured at fair value approximate their carrying values due to their short term nature.