

## SICO FIXED INCOME FUND

Period from 2 April 2013 to 31 December 2013

### FINANCIAL STATEMENTS

Fund Manager, Operator and Placement agent	Securities & Investment Company B.S.C. (c) PO Box 1331, Manama, Kingdom of Bahrain
Administrator	HSBC Bank Middle East Limited. PO Box 57, Manama, Kingdom of Bahrain
Registrar	HSBC Bank Middle East Limited. PO Box 57, Manama, Kingdom of Bahrain
Directors	Najla Al Shirawi Hanan Y. Sater (w.e.f 26 August 2013) Samir Sami Anthony Mallis (resigned 13 March 2014) Shakeel Sarwar (resigned January 2013)
Fund Company	SICO Funds Company VI B.S.C. (c) PO Box 1331, Manama, Kingdom of Bahrain
Registered office	SICO Funds Company VI B.S.C. (c) PO Box 1331, Manama, Kingdom of Bahrain
Custodian	HSBC Bank Middle East Limited, Bahrain PO Box 57, Manama, Kingdom of Bahrain
Auditor	Jalil Aali, <i>Partner</i> KPMG Fakhro P O Box 710, Manama, Kingdom of Bahrain

**SICO Fixed Income Fund**

**FINANCIAL STATEMENT**

**For the period from 2 April 2013 to 31 December 2013**

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<b>CONTENTS</b>	<b>Page</b>
Directors' report	1
Independent auditors' report to the unit holders	2
<b>Financial statements</b>	
Statement of financial position	3
Statement of profit or loss and other comprehensive income	4
Statement of changes in net assets attributable to unit holders	5
Statement of cash flows	6
Notes to the financial statements	7-19

**SICO Fixed Income Fund**

**DIRECTOR'S REPORT**

**For the period from 2 April 2013 to 31 December 2013**

**Bahraini dinars**

Dear Unit holders,

Following is the performance of SICO Fixed Income Fund (the "Fund") for the period ended 31 December 2013.


	<b>2013</b>
Net decrease in net assets	(34,957)
Net assets attributable to holders of redeemable units as at 31 December	3,796,428
Net asset value (NAV) per unit as at 31 December	
- Class A	37.343
- Class B	37.408


**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 2013, which would in any way invalidate the financial statements on pages 3 to 19.

On behalf of the board,

  
\_\_\_\_\_  
Samir Sami  
Director

  
\_\_\_\_\_  
Najla Al Shirawi  
Director

30 April 2014



**KPMG Fakhro**  
**Audit**  
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Kingdom of Bahrain

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**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS**  
**SICO Fixed Income Fund**  
Kingdom of Bahrain

30 April 2014

**Report on the financial statements**

We have audited the accompanying financial statements of SICO Fixed Income Fund (the "Fund"), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

The board of directors of the Fund is 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 2013, and its financial performance and its cash flows for the period from 2 April 2013 to 31 December 2013 in accordance with International Financial Reporting Standards.

**Report on other regulatory requirements**


As required by Volume 7 of the Central bank of Bahrain Rulebook relating to Collective Investment Undertakings (the "Rulebook"), we report that the Fund has maintained proper accounting records, the financial statements are in agreement therewith and we are not aware of any violations of the Rulebook having occurred during the year that might have had a material adverse effect on the business of the Fund or on its financial position.

**SICO Fixed Income Fund**

**STATEMENT OF FINANCIAL POSITION  
As at 31 December 2013**

Bahraini dinars

	Note	31 December 2013
<b>Assets</b>		
Cash and cash equivalents		217,368
Investments at fair value through profit or loss	7	3,531,295
Prepayment and other receivables		57,635
<b>Total assets</b>		<b>3,806,298</b>
<b>Liabilities</b>		
Payables and other liabilities	4	9,870
		9,870
<b>Equity</b>		
Unit capital	5	3,826,521
Unit surplus		4,864
Accumulated losses		(34,957)
<b>Total equity</b>		<b>3,796,428</b>
<b>Total liabilities and equity</b>		<b>3,806,298</b>
<b>Net assets attributable to holders of:</b>		
- Class A units		241,359
- Class B units		3,555,069
<b>Net assets attributable to unit holders</b>		<b>3,796,428</b>
Net Asset Value ("NAV") per unit at book value based on 6,463 units outstanding with respect to class A units	6	37.343
Net Asset Value ("NAV") per unit at book value based on 95,036 units outstanding with respect to class B units	6	37.408

  
 \_\_\_\_\_  
 Samir Sami  
 Director

  
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 Najla Al Shirawi  
 Director

The financial statement consisting of pages 3 to 19 were approved by the Board of Directors on 30 April 2014.

SICO Fixed Income Fund

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

		Period from 2 April 2013 to 31 December 2013
Net change in fair value of investments at fair value through profit or loss interest income		(158,046) 162,264
<b>Total income</b>		<b>4,218</b>
Management fees	8	20,807
Custody and administration fees	9	5,008
Registrar fees		932
Audit fees		2,600
Preliminary expenses		1,131
Transaction costs		8,697
<b>Total expenses</b>		<b>39,175</b>
<b>Loss for the period</b>		<b>(34,957)</b>
Other comprehensive income		-
<b>Total comprehensive income for the period</b>		<b>(34,957)</b>

  
 \_\_\_\_\_  
 Samy Sami  
 Director

  
 \_\_\_\_\_  
 Najla Al Shirawi  
 Director

The financial statement consisting of pages 3 to 19 were approved by the Board of Directors on 30 April 2014.

SICO Fixed Income Fund

STATEMENT OF CHANGES NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

	Number of units	Unit capital	Unit surplus	Accumulated losses	Total
2013					
Comprehensive income	-	-	-	(34,957)	(34,957)
Loss for the period	-	-	-	(34,957)	(34,957)
Total comprehensive loss for the period	-	-	-	(34,957)	(34,957)
Issue of units during the period	101,499	3,826,521	4,864	-	3,831,385
At 31 December 2013	101,499	3,826,521	4,864	(34,957)	3,796,428

The financial statements consist of pages 3 to 19.

**SICO Fixed Income Fund**

**STATEMENT OF CASH FLOWS**

**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

	<b>Period from 2 April 2013 to 31 December 2013</b>
<b>Cash flows from operating activities</b>	
Decrease in net assets attributable to unit holders	(34,957)
<i>Adjustments for:</i>	
Increase in investments at fair value through profit or loss	(3,531,295)
Increase in prepayments and other receivables	(57,635)
Increase in payables and other liabilities	9,870
<b>Net cash used in operating activities</b>	<b>(3,614,017)</b>
<b>Cash flows from financing activities</b>	
Subscription of units during the period	3,831,385
<b>Net cash generated from financing activities</b>	<b>3,831,385</b>
<b>Net increase in cash and cash equivalents</b>	<b>217,368</b>
Cash and cash equivalents at beginning of the period	-
<b>Cash and cash equivalents at end of the period</b>	<b>217,368</b>

The financial statements consist of pages 3 to 19.



**NOTES TO THE FINANCIAL STATEMENT**

**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

**1. Reporting entity**

SICO Fixed income Fund ("SFIF" or the "Fund") is an open ended expert sub-fund of SICO Funds Company VI B.S.C. (c) (the "Company"), a closed joint stock company incorporated in the Kingdom of Bahrain with commercial registration number 73587. The Fund has been classified as an expert fund under the CIU Module, CBB Rule Book Volume 7. Although the Fund's units are listed on the Bahrain Bourse all unit transactions are carried out directly by 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 SPC 1%.

The duration of the Fund is subject to the duration of the Company, which is twenty five calendar years from 15 December 2009, the date of registration of the Company. This period may be extended by resolution of the Company's shareholders with the prior approval of the Ministry of Industry and Commerce of Bahrain and the Central Bank of Bahrain. The Fund commenced operations on 2 April 2013.

The primary objective of the Fund is to generate income and seek capital appreciation over the medium to long term. The Fund will aim to achieve this investment objective by actively investing in diversified portfolio of Government and Corporate fixed income, sukuk, Repo, Reverse Repo, money market instruments, and other fixed income related instruments for hedging purposes.

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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

**NOTES TO THE FINANCIAL STATEMENT**

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

**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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described below:

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

Management makes judgments, 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 judgments, 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 judgment 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 standards, amendments and interpretations issued but not yet effective**

The following standards and interpretations have been issued and are expected to be relevant to the Fund but not yet effective for the year ended 31 December 2013.

**IFRS 9 - Financial Instruments**

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

**NOTES TO THE FINANCIAL STATEMENT**

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

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

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. However, application of IFRS 9 is permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Fund has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed.

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

**Early adoption of standards**

The Fund did not early adopt new or amended standards in 2013.

**3. Significant accounting policies**

The accounting policies adopted in preparation of these financial statements are set out below.

**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 recognized 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.

**NOTES TO THE FINANCIAL STATEMENT**

**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

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

**(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 amortized cost.

For a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IAS 39, see note 17.

**(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 closing price.

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.

**(iv) Amortised cost measurement**

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

**(v) Derecognition**

The Fund derecognizes 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 recognized in profit or loss. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

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

**NOTES TO THE FINANCIAL STATEMENT**

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

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

The Fund derecognizes 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 realize 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 amortized cost in the statement of financial position.

**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 comprise debt investments.

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.

Financial investments are recognized/derecognized by the Fund on the date it commits to purchase/sell the investments.

**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 stated at their amortized 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.

## SICO Fixed Income Fund

### NOTES TO THE FINANCIAL STATEMENT

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

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

##### 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.

##### k) Distributions payable to holders of redeemable shares

Proposed distributions to holders of redeemable shares are recognized in the statement of comprehensive income when they are appropriately authorized and no longer at the discretion of the Fund. The distribution on the redeemable shares is recognized 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. Other payables

Management fees  
Custodian and administrator's fees  
Others

31 December 2013	
7,629	
540	
1,701	
<b>9,870</b>	

#### 5. Unit capital

As at 31 December 2013, the issued and paid up unit capital of the fund was BHD 3,826,521 divided into 6,463.24 units of class A and 95,035.98 units of class B of BHD 37.7 each.

The Fund's redemption policy allows for units to be redeemed weekly on the valuation day. After the lock-up period, unit holders are allowed to redeem for cash as on the redemption date at the redemption price equal to the NAV per share on the same day.

#### 6. Net Asset Value per unit

Class A  
2013

NAV	No. of units	NAV per unit
241,359	6,463.24	37.343

Class B  
2013

NAV	No. of	NAV per
3,555,068	95,035.98	37.408

**SICO Fixed Income Fund**

**NOTES TO THE FINANCIAL STATEMENT**

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

**7. Investments at fair value through profit or loss**

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

**Movements during the period:**

	<b>31 December 2013</b>
Additions during the period	8,251,463
Disposals during the period	(4,562,550)
Change in fair value of investments	(157,618)
<b>Closing balance</b>	<b>3,531,295</b>

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

**31 December 2013**

	<b>Fair value</b>	<b>Value of investment as a percentage of the NAV</b>
Investcorp SA 8.25%01/11/2017	586,331	15.44 %
Kuwait Projects 9.375% 15/07/2020	456,600	12.03 %
Atlantic Finance 10.75% 27/05/2014	389,780	10.27 %
Albaraka Turk Suku 7.75% CV 07/05/2023	352,446	9.28 %
Turkiye IS Bankasi 3.75% 10/10/2018	282,144	7.43 %
Dubai Electric and Water 7.375% 21/10/2020	264,111	6.96 %
Emmar Sukuk Ltd 6.4% 18/07/2019	247,537	6.52 %
Batelco Int Fin No 1 Ltd 4.25% 01/05/2020	245,496	6.47 %
Kingdom Of Bahrain 6.125% 05/07/2022	176,964	4.66 %
AK Finansal Kiralama 4.125% 17/04/2018	143,111	3.77 %
<b>Total</b>	<b>3,144,520</b>	<b>82.83 %</b>

**8. Management fees**

Securities and Investment Company B.S.C. (c) manages the Fund's operations for an annual fee of 1% and 0.75% on the NAV as of each dealing day with respect to Class A units and Class B units respectively. Management fees are accrued on the dealing day and payable quarterly in arrears.

**9. Custodian fees and administrator fees**

HSBC Bank Middle East Limited (Bahrain Branch) is the custodian and administrator of the Fund. An annual custodian fee not exceeding 0.1% of the NAV accrued as of each dealing day subject to a monthly minimum of US\$500. The custodian fee accrues on each dealing day and is payable on a monthly basis on the second business day of each calendar month.

## SICO Fixed Income Fund

### NOTES TO THE FINANCIAL STATEMENT

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

#### 9. Custodian fees and administrator fees (continued)

An annual administration fee not exceeding 0.08% of the NAV accrued each dealing day subject to a monthly minimum of US\$750 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.

#### 10. Related party 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.

Balances and transactions with related parties were as follows:

**Due to related parties**  
Accrued management fees

31 December 2013
7,629

#### Transactions with related parties

- a) Management fees, calculated at 1.5% per annum of the monthly net asset value of the Fund, is payable to the Fund Manager. The management fees for the period ended 31 December 2013 amounted to BD 20,807.
- b) At the reporting date, the Fund Manager holds 60,099.48, (59.21%) units in the Fund with a net asset value amounting to BD 2,247,932.

#### 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
- Liquidity risk
- Market 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.



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

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.

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

	<b>31 December 2013</b>
Cash and cash equivalents	217,368
	<b>217,368</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 2013.

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.

**NOTES TO THE FINANCIAL STATEMENT**

**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

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

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.

**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.

**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 2013, the Fund holds 100% 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.

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.

## NOTES TO THE FINANCIAL STATEMENT

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

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

**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.

Investors in the Fund are subject to liquidity risk as the Fund's investment in bonds has a limited secondary market and the primary market in the region is still developing. In the event of unusual Market condition, the Fund may not be able to honor all redemption requests. During period of limited liquidity and higher price volatility, the Fund's ability to acquire or dispose of its investments at a price and time that the Fund deems advantageous may be impaired.

The Manager may directly or indirectly invest a portion of the Fund's assets in securities and instruments that are relatively illiquid and the Fund may not be able to readily dispose of such securities and instruments. This could prevent the Fund from liquidating unfavorable position promptly and could subject the Fund to substantial losses. These circumstances could also impair the manager's ability to honor redemption in a timely manner.

## 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 2013 Carrying amount
Investments at fair value through profit or loss	3,531,295
Loans and receivables	275,003
Others at amortized cost	(9,870)
	<b>3,796,428</b>

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

Others at amortized cost represent 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.

## NOTES TO THE FINANCIAL STATEMENT

For the period from 2 April 2013 to 31 December 2013

Bahraini dinars

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

## i. Valuation models

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or broker price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

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

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

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

## ii. Valuation framework

The Fund has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function, which is independent of front office management and reports to the board of directors, who have overall responsibility for fair value measurements.

## iii. Financial assets and liabilities measured at fair value

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

	Level 1	Level 2	Level 3	Total
<b>31 December 2013</b>				
Quoted equities at fair value through profit or loss	3,531,295	-	-	3,531,295
	3,531,295	-	-	3,531,295

**NOTES TO THE FINANCIAL STATEMENT**

**For the period from 2 April 2013 to 31 December 2013**

Bahraini dinars

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

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

**iv. Financial instruments not measured at fair value**

The financial instruments not measured at fair value though profit and loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.