

AI RAYAN QATAR ETF
FINANCIAL STATEMENTS
31 DECEMBER 2019

AL RAYAN QATAR ETF

FINANCIAL STATEMENTS
31 December 2019

CONTENTS	Page(s)
Independent auditor's report to the unit holders	1
Statement of financial position	2
Income statement	3
Statement of changes in net assets attributable to the unit holders	4
Statement of cash flows	5
Notes to the financial statements	6 – 18



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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL RAYAN QATAR ETF

Report on the Financial Statements

We have audited the accompanying financial statements of Al Rayan Qatar ETF (the 'Fund') which comprise the statement of financial position as at 31 December 2019, the statements of income, changes in net assets attributable to the unit holders and cash flows for the year 31 December 2019 then ended, and notes, comprising significant accounting policies and other explanatory information.

Respective Responsibilities of the Fund Manager and Auditors

These financial statements and the Fund's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the Fund manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions ("ASIFI") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the applicable provisions of QCB regulations ("QCB regulations"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentations. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and the results of its operations, changes in unitholders' equity and cash flows for the year year then ended in accordance with the Financial Accounting Standards issued by the AAOIFI and the applicable provisions of QCB Regulations.

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purpose of our audit. The Fund has maintained proper accounting records and the financial statements are in agreement therewith. We are not aware of any violations of the applicable provisions of the QCB regulations or the terms of the Article of Association and any amendments thereto having occurred during the year which might have had a material effect on the Fund's financial position or performance as at and for year ended 31 December 2019.

20 January 2020
Doha
State of Qatar

Gopal Balasubramaniam
KPMG
Auditor's Registration No. 251
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license No.120153


AL RAYAN QATAR ETF

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

In Qatari Riyals

	Notes	2019	2018
ASSETS			
Bank balances	6	2,080,193	715,371
Investment securities	7	521,645,857	538,071,939
Other receivables		-	31,335
Total assets		523,726,050	538,818,645
LIABILITIES			
Other payables and accrued expenses		1,225,735	196,778
Total liabilities		1,225,735	196,778
NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS		522,500,315	538,621,867
NUMBER OF UNITS IN ISSUE	8	Units 225,000,000	Units 225,000,000
NET ASSET VALUE PER UNIT		2.322	2.394

These financial statements were approved by Founder and the Fund Manager on 20 January 2020 and were signed on its behalf by:


 Adel Mustafawi
 Group Chief Executive Officer
 Masraf Al Rayan Q.P.S.C.
 The Founder


 Haithem Katerji
 Chief Investment Officer
 Al Rayan Investment LLC
 The Fund Manager

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

Handwritten signature in blue ink

AL RAYAN QATAR ETF**INCOME STATEMENT**

For the year ended 31 December 2019

In Qatari Riyals

	Notes	For the period from 1 January 2019 to 31 December 2019	For the period from 21 March 2018 to 31 December 2018
OPERATING INCOME			
Net (loss) / gain from investment securities	9	(14,280,915)	23,939,265
Net dividend income		25,464,209	8,572,504
Profit on bank balances		118,595	4,583
Total income		11,301,889	32,516,352
EXPENSES			
Expenses	10	(2,673,441)	(2,043,325)
Total expenses		(2,673,441)	(2,043,325)
CHANGE IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS		8,628,448	30,473,027

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

AL RAYAN QATAR ETF**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS**
For the year ended 31 December 2019

In Qatari Riyals

	For the period from 1 January 2019 to 31 December 2019	For the period from 21 March 2018 to 31 December 2018
Balance at 1 January 2019 (Audited) / 21 March 2018 (Unaudited)	538,621,867	460,412,072
Change in net assets attributable to the unit holders	8,628,448	30,473,027
<u>Creations and redemptions by authorised participants:</u>		
Issue of redeemable units during the year / period	-	82,421,798
Redemption of redeemable units during the year / period	-	(11,785,030)
Transactions with the authorised participants	-	70,636,768
Dividend paid to unit holders during the year / period	(24,750,000)	(22,900,000)
Balance as at 31 December	522,500,315	538,621,867

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

AL RAYAN QATAR ETF

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

In Qatari Riyals

	Notes	For the period from 1 January 2019 to 31 December 2019	For the period from 21 March 2018 to 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets attributable to unit holders		8,628,448	30,473,027
<i>Adjustments for:</i>			
Net unrealized loss / (gain) on revaluation of investment securities	10	8,273,072	(30,459,166)
Operating profit before changes in operating assets and liabilities		16,901,520	13,861
<i>Changes in :</i>			
Investment securities		8,153,010	9,381,560
Prepayments		31,335	(31,335)
Other payables and accrued expenses		1,028,957	196,778
Net cash from operating activities		26,114,822	9,560,863
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable units		-	2,921,610
Payments for redemption of redeemable units		-	(26,075)
Dividends paid to the unit holders		(24,750,000)	(22,900,000)
Net cash used in financing activities		(24,750,000)	(20,004,465)
Net increase / (decrease) in cash and cash equivalents during the year / period		1,364,822	(10,443,601)
Balance of cash and cash equivalents at beginning of the year / period		715,371	11,158,972
Balance of cash and cash equivalents at 31 December		2,080,193	715,371

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

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

1. LEGAL STATUS AND MAIN ACTIVITIES

Al Rayan Qatar ETF (the "Fund") is an open-ended Shari'a compliant fund incorporated under Law No. 25 of the year 2002 and the Ministry of Economy and Commerce Decision No. (69) of the year 2004 for issuing by-laws for investment funds of the State of Qatar. The Fund was licensed by Qatar Central Bank ("QCB") with license No. MF/27/2016 and registered with the Ministry of Commerce and Industry with a registration No. 91075.

The Fund was launched on 21 March 2018 ("Launch Date"), the date on which the Fund was listed on Qatar Stock Exchange (the "Exchange"). The term of the Fund shall be 25 years, starting from 26 December 2016 the date of registration of the Fund in the Investment Funds Register of the Ministry, renewable by the Founder on approval of the Qatar Central Bank.

The nominal value of the Unit is 1/100th of the QE Al Rayan Islamic Index – Price (the "Index") value as of the close of trading on the Exchange on the last business day before the Launch Date, with the Fund's capital ranging from QR 50,000,000 (Qatari Riyals Fifty Million) as minimum limit to QAR 2,000,000,000 (Qatari Riyals Two Billion) as a maximum limit.

The Fund was founded by Masraf Al Rayan (Q.P.S.C.) (the "Founder") which was incorporated as Qatari Public Shareholding Company under Qatar Commercial Companies' law No. 11 of 2015, under decision No. 11 of 2006 dated 4 January 2006 of the Ministry of Economy and Commerce.

The Founder has appointed Al Rayan Investment L.L.C. as the Fund Manager (the "Fund Manager"), HSBC Bank Middle East Limited, Qatar Branch as the Custodian (the "Fund Custodian"), and The Group Securities as the Liquidity Provider of the Fund.

Authorised participants, who are approved by the Founder, are the only parties authorised to create or redeem the units against the basket. Each unit is an aggregation of 100,000 units or such number of units that maybe changed by the Founder from time to time.

All persons, whether natural or corporate and whether Qatari or foreign, who are not authorised participants will purchase or sell units on the Exchange.

Objective of the Fund and nature of its activity

The objective of the Fund is to track the performance of the Index, as closely as possible, before fees and expenses. The Index is a price-return index that consists of Shari'a-compliant listed equities on the Exchange, which meet the Exchange criteria. Although the Fund Manager aims to replicate the performance of the Index as closely as possible, there is no guarantee that the Fund's investment objective will be achieved.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Fund have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the applicable provisions of QCB regulations ("QCB regulations"). In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Fund uses the guidance from the relevant International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, except for investment securities classified as fair value through income statement which are carried at fair value.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

2. BASIS OF PREPARATION (CONTINUED)

(c) Functional and presentational currency

These financial statements are presented in Qatari Riyals, which is the Fund's functional currency. All amounts have been rounded to the nearest Qatari riyal.

(d) Use of estimates and judgments

In preparing these financial statements the Fund Manager has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently throughout the period presented in financial statements.

(a) Financial instruments

Recognition

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Fund has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial instruments (continued)

Financial Investments

Initial measurement

Financial assets at fair value through income statement are recorded in the statement of financial position at fair value. All transaction costs related to such financial assets and liabilities are recognised directly in income statement.

Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through income statement at closing price.

(b) Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents consist of cash on hand, bank balances and short term deposits with original maturities of three months or less and are stated at amortized cost less provision for doubtful debts, if any.

(c) Other receivables

Other receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

(d) Other payables and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

(e) Revenue recognition

- Net gain/(loss) from financial instruments at fair value through income statement includes all realised gains/(loss) and unrealised gains/(loss) on fair value changes, but excludes dividend income;
- Dividend income is recognised when the Fund has the right to collect the dividends; and
- Income from bank deposits is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the expected profits.

(f) Dividend policy

The Fund will distribute dividends at the Fund Manager's sole discretion. The Fund will distribute dividends to the unit holders from the income it receives from Index Securities, net of expenses and dividend purification, at least annually.

(g) Fee and commission

Fee and commission expenses are recognised in income statement as the related services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2019

FAS 28 Murabaha and Other Deferred Payment Sales

AAOIFI has issued FAS 28 Murabaha and Other Deferred Payment Sales in 2017. FAS 28 supersedes the earlier FAS 2 "Murabaha and Murabaha to the Purchase Orderer" and FAS 20 "Deferred Payment Sale".

The objective of this standard is to prescribe the appropriate accounting and reporting principles for recognition, measurement and disclosures in relation to Murabaha and other deferred payment sales transactions for the sellers and buyers, for such transactions. The adoption of this standard did not impact the Fund's financial statements.

New standards, amendments and interpretations effective from 1 January 2019 (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 Uncertainty over Income Tax Treatments was issued by International Accounting and Standards Board in June 2017. The objective of the interpretation is to clarify the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The adoption of this interpretation did not impact the Fund's financial statements.

New standards, amendments and interpretations issued but not effective from 1 January 2019

FAS 33 Investment in sukuks, shares and similar instruments

FAS 33 supersedes the earlier FAS 25 "Investment in sukuks, shares and similar instruments". The objective of this standard is to set out improved principles for classification, recognition, measurement, presentation and disclosure of investments in sukuk, shares and other similar instruments of investment made by Islamic Financial Institutions in line with Shari'ah principles. The standard shall be effective from the financial periods beginning on or after 1 January 2020, with an option to early adopt.

Categorization and classification

FAS 33 contains classification and measurement approach for investments in sukuk, shares and similar instruments that reflects the business model in which such investments are managed and the underlying cash flow characteristics. Under the standard, each investment is to be categorized as investment in:

- (a) equity-type instruments;
- (b) debt-type instruments, including:
 - (i) monetary debt-type instruments; and
 - (ii) non-monetary debt-type instruments; and
- (c) other investment instruments

Unless irrevocable initial recognition choices provided in para 10 of the standard are exercised, an institution shall classify investments as subsequently measured at either of (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both:

- (a) the Fund's business model for managing the investments; and
- (b) the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic finance contracts

The Fund is in the process of assessing the estimated impact of the initial application of FAS 33 on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) New standards and interpretations (continued)

New standards, amendments and interpretations issued but not effective from 1 January 2019 (continued)

FAS 30 – Impairment, credit losses and onerous commitments

AAOIFI has issued FAS 30 Impairment, Credit losses and onerous commitments in 2017.

FAS 30 will replace FAS 11 Provisions and Reserves and parts of FAS 25 Investment in Sukuk, shares and similar instruments that deals with impairment.

The standard shall be effective from the financial periods beginning on or after 1 January 2020. Early adoption is permitted.

The Fund is in the process of assessing the estimated impact of the initial application of FAS 30 on its financial statements.

FAS 31 - "Investment Agency (Al-Wakala Bi Al-Istithmar)

AAOIFI has issued FAS 31 Investment Agency (Al-Wakala Bi Al-Istithmar) in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for the investment agency (Al-Wakala Bi Al- Istithmar) instruments and the related assets and obligations from both the principal (investor) and the agent perspectives. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted

The Fund is in the process of assessing the estimated impact of the initial application of FAS 31 on its financial statements.

FAS 34 - Financial reporting for Sukuk-holders

AAOIFI has issued FAS 34 Financial reporting for Sukuk-holders in 2019. The objective of this standard is to establish the principles of accounting and financial reporting for assets and business underlying the Sukuk to ensure transparent and fair reporting for all stakeholders particularly Sukuk-holders. This standard shall be effective for the financial periods beginning on or after 1 January 2020 with early adoption permitted.

The Fund is in the process of assessing the estimated impact of the initial application of FAS 34 on its financial statements.

FAS 35 – Risk Reserves

AAOIFI has issued FAS 35 "Risk Reserves" in 2019. This standard along with FAS 30 'Impairment, Credit losses and onerous commitments' supersede the earlier FAS 11 "Provisions and reserves".

The objective of this standard is to establish the principles of accounting and financial reporting for risk reserves established to mitigate various risks faced by stakeholders, mainly the profit and loss taking investors, of Islamic financial institutions (IFIs/ the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted only if the Fund early adopts FAS 30 "Impairment, Credit losses and onerous commitments".

The Fund is in the process of assessing the estimated impact of the initial application of FAS 35 on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT

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

- a) credit risk;
- b) liquidity risk; and
- c) market risk

Introduction and overview

The Fund's objective in managing risks is the creation and protection of unit holder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risks limits and other controls. The process of risk management is critical to the Fund's continuing profitability.

Risk management structure

The Fund Manager is responsible for identifying and controlling risks. The Fund Manager supervises and is ultimately responsible for the overall risk management of the Fund.

The Fund Manager monitors and measures the overall risk in relation to the aggregate risk exposure across all risks type and activities.

a) Credit risk

Credit risk is the risk that 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 bank balances and other receivables. Policies and procedures are established for the control and monitoring of all such exposures.

The Fund's policy over credit risk is to minimize the exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Fund's prospectus.

Exposure to credit risk

The Fund's maximum exposure at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

	2019 QAR	2018 QAR
Cash and cash equivalents		
Bank balances*	<u>2,080,193</u>	<u>715,371</u>

*The Fund has current and call account with Qatari banks and a profit bearing call account with the Founder, with acceptable credit ratings.

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 be settled in a manner disadvantageous for the Fund.

The Fund's policy and the Fund Manager's approach to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of shares, as and when due, without incurring undue losses or risking damage of the Fund's reputation. It is the Fund Manager duty to monitor the Fund's liquidity position on a daily basis.

The Fund seeks to replicate, before fees and expenses, the performance results of the Index by investing in the Index components according to weights that substantially corresponds with those found in Index replicates and complying with its guideline which, under normal market conditions, are readily convertible to cash.

As at the report date, the Fund has 0.40% (2018: 0.13%) of its net assets invested in cash and cash equivalents.

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

Maturity analysis

Analysis of equity at fair value through income statement into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

	QAR						
2019	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	More than 5 years	Total	
Financial assets							
Bank balances	2,080,193	-	-	-	-	2,080,193	
Investment securities	521,645,857	-	-	-	-	521,645,857	
Total financial assets	523,726,050	-	-	-	-	523,726,050	
Financial liabilities							
Other payables and accrued expenses	1,225,735	-	-	-	-	1,225,735	
Total financial liabilities	1,225,735	-	-	-	-	1,225,735	
Liquidity gap	522,500,315	-	-	-	-	522,500,315	
2018	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	More than 5 years	Total	
Financial assets							
Bank balances	715,371	-	-	-	-	715,371	
Investment securities	538,071,939	-	-	-	-	538,071,939	
Other receivables	31,335	-	-	-	-	31,335	
Total financial assets	538,818,645	-	-	-	-	538,818,645	
Financial liabilities							
Other payables and accrued expenses	196,778	-	-	-	-	196,778	
Total financial liabilities	196,778	-	-	-	-	196,778	
Liquidity gap	538,621,867	-	-	-	-	538,621,867	

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and equity prices. The maximum risk resulting from financial instrument equals to their fair value.

Currency risk

Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is not exposed to any currency risk as all the transactions are carried out in Qatari Riyals.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments.

The following table analyses the Fund's profit rate risk exposure. The Fund's assets and liabilities are included at fair value and categorised by the earlier of contractual re-pricing or maturity dates.

	0 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 years	More than 5 years	Non-profit bearing	Total
2019	-----QAR-----						
Assets							
Bank balances	2,080,193	-	-	-	-	-	2,080,193
Investment securities	-	-	-	-	-	521,645,857	521,645,857
Total assets	2,080,193	-	-	-	-	521,645,857	523,726,050
Liabilities							
Other payables and accrued expenses	-	-	-	-	-	1,225,735	1,225,735
Total liabilities	-	-	-	-	-	1,225,735	1,225,735
Total profit sensitivity gap	2,080,193	-	-	-	-	520,420,122	522,500,315
2018	-----QAR-----						
Assets							
Bank balances	715,371	-	-	-	-	-	715,371
Investment securities	-	-	-	-	-	538,071,939	538,071,939
Other receivables	-	-	-	-	-	31,335	31,335
Total assets	715,371	-	-	-	-	538,103,274	538,818,645
Liabilities							
Other payables and accrued expenses	-	-	-	-	-	196,778	196,778
Total liabilities	-	-	-	-	-	196,778	196,778
Total profit sensitivity gap	715,371	-	-	-	-	537,906,496	538,621,867

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (continued)

Equity price risk

Equity price risk is the risk of unfavorable changes in the fair values of equities as a result of changes in the levels of equity indices and the value of individual shares. The unit holders' net assets price risk exposure arises from the Fund's investments in equity securities. As of 31 December 2019, the Fund has equity securities amounting to QAR 521,645,857 (2018: QAR 538,071,939). A 1% variation in the equity indices would result in increase / (decrease) in the fair values of equity securities and the income statement by QAR 5,216,458 (2018: QAR 5,380,719).

Concentration of equity price risk

The Fund seeks to replicate the Index, therefore all securities are placed in the state of Qatar.

The following table analyses the Fund's concentration of unit holders equity price risk in the Fund's equity portfolio by geographical distribution (based on counterparties' place of primary listing or, if not listed, place of domicile).

	2019 % of equity securities	2018 % of equity securities
State of Qatar	100%	100%
	100%	100%

The following table analyses the Fund's concentration of equity price risk in the Fund's equity portfolio by industrial distribution:

	2019 % of equity securities	2018 % of equity securities
Industrials	35.86%	36.91%
Banks & Financial Services	24.21%	29.78%
Real Estate	20.51%	13.44%
Consumer Goods & Services	11.50%	10.91%
Transport	2.76%	4.58%
Telecom	4.69%	4.38%
Insurance	0.47%	-
	100.00%	100.00%

d) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value of financial assets and liabilities (continued)

Fair value hierarchy

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets at fair value through income statement are valued as per the Level 1 valuation method.

The fair value of investment securities as at 31 December 2019 is QAR 521,645,857 (2018: QAR 538,071,939) under level 1 of fair value hierarchy.

During the reporting period 31 December 2019, there were no transfers made between Level 1, level 2 and Level 3 fair value measurements.

5. CARRYING AMOUNTS VERSUS FAIR VALUES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	2019			
	Fair value through income statement	Amortised cost	Total Carrying amount	Fair value
Assets				
Bank balances	-	2,080,193	2,080,193	2,080,193
Investment securities	521,645,857	-	521,645,857	521,645,857
Total assets	521,645,857	2,080,193	523,726,050	523,726,050
Liabilities				
Other payables	-	1,225,735	1,225,735	1,225,735
Total Liabilities	-	1,225,735	1,225,735	1,225,735
	2018			
	Fair value through income statement	Amortised cost	Total Carrying amount	Fair value
Assets				
Bank balances	-	715,371	715,371	715,371
Investment securities	538,071,939	-	538,071,939	538,071,939
Other receivables	-	31,335	31,335	31,335
Total assets	538,071,939	746,706	538,818,645	538,818,645
Liabilities				
Other payables	-	196,778	196,778	196,778
Total Liabilities	-	196,778	196,778	196,778

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

6. Bank Balances

	2019 QAR	2018
Balance with banks	2,076,309	712,731
Accrued profit	3,884	2,640
	<u>2,080,193</u>	<u>715,371</u>

7. INVESTMENT SECURITIES

Investment securities carried as fair value through income statement:

	2019 QAR	2018
Listed equity securities – State of Qatar	<u>521,645,857</u>	<u>538,071,939</u>
	<u>521,645,857</u>	<u>538,071,939</u>

Cost and fair market value of the investment securities are as follows:

	2019	2018
Cost of Investments held at year end	499,528,193	507,612,773
Unrealized gain on revaluation of investments	22,117,664	30,459,166
Fair market value	<u>521,645,857</u>	<u>538,071,939</u>

Investment securities are denominated in the following currencies:

Currency	2019	2018
Qatari Riyals	<u>521,645,857</u>	<u>538,071,939</u>
	<u>521,645,857</u>	<u>538,071,939</u>

8. ISSUED AND FULLY PAID UNITS

	2019 Units	2018
Units at the beginning of the year / period	225,000,000	195,000,000
Subscriptions during the year / period	-	35,000,000
Redemptions during the year / period	-	(5,000,000)
	<u>225,000,000</u>	<u>225,000,000</u>

As per instructions from Qatar Financial Market Authority (QFMA), the Fund has obtained the required approval from QFMA dated 17 April 2019 for the split of 10 units for each 1 unit. This has led to an increase in the number of units from 22,500,000 to 225,000,000. The listing of the new stock on Qatar Exchange was implemented on 7 July 2019, as decided by Qatar Exchange. Consequently, the number of units outstanding has been retrospectively adjusted.

9. NET GAIN FROM INVESTMENT SECURITIES

	For the period from 1 January 2019 to 31 December 2019 QAR	For the period from 21 March 2018 to 31 December 2018
Net realized loss on sale of investment securities	(6,007,843)	(6,519,901)
Net unrealized (loss) / gain on revaluation of investment securities	<u>(8,273,072)</u>	30,459,166
	<u>(14,280,915)</u>	<u>23,939,265</u>

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS
As at and for the year ended 31 December 2019

10. EXPENSES

	For the period from 1 January 2019 to 31 December 2019 QAR	For the period from 21 March 2018 to 31 December 2018
Total Expenses	<u>2,673,441</u>	<u>2,043,325</u>
Total Expense Ratio (TER) for the year / period based on average daily NAV	<u>0.50%</u>	<u>0.50%</u>

Total expense of the Fund is defined in the articles of association under total expense ratio (TER). TER includes amongst others management fee, custody fee, index fee, auditor's fee, regulator's fee and other miscellaneous fees. TER is set at 0.50% of the total net asset value of the Fund and calculated on daily basis.

11. DIVIDENDS

During the year ended 31 December 2019, the Fund distributed dividends amounting to QR 24.75 million (31 December 2018: QR 22.90 million).

12. RELATED PARTIES DISCLOSURES

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.

Management fees

The Fund pays management fee to the Fund Manager. The management fee amounts to the difference between the TER and all other expenses.

At any time, or in the event, the total fees and expenses excluding management fee, exceeds 0.5% of Total Net Asset Value, the Founder has the right to change the Total Expense Ratio, subject to the approval of the QCB.

	2019 QAR	2018
Statement of financial position items		
Assets		
Bank balance	2,080,193	715,371

	For the period from 1 January 2019 to 31 December 2019 QAR	For the period from 21 March 2018 to 31 December 2018
Income statement items		
Profit on bank balance	<u>118,595</u>	<u>2,640</u>
	<u>1,232,831</u>	<u>906,730</u>

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

As at and for the year ended 31 December 2019

13. COMPARATIVE INFORMATION

The comparative figures presented for 2018 have been reclassified where necessary to preserve consistency with the 2019 figures. However, such reclassifications did not have any effect on the net income or the net assets attributable to the unit holders of the Fund for the comparative period.