

AL RAYAN QATAR ETF

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022

AL RAYAN QATAR ETF

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
As at and for the year ended 31 December 2022

INDEX	Page(s)
Independent auditor's report	--
Statement of net assets	1
Statement of portfolio investments and receivables	2
Statement of operations	3
Statement of changes in net assets attributable to the unit holders	4
Statement of cash flows	5
Statement of sources and uses of charity funds	6
Notes to the financial statements	7 – 21

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INDEPENDENT AUDITOR'S REPORT

To the unit holders of Al Rayan Qatar ETF

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Rayan Qatar ETF (the 'Fund'), which comprise the statement of net assets, and statement of portfolio of investments and receivables as at 31 December 2022, the statement of operations, statement of changes in net assets attributable to the unit holders, statement of cash flows, statements of sources and uses of charity funds for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

Basis for Opinion

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Responsibilities of the Fund Manager and those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with FAS issued by AAOIFI, and for such internal control as Fund Manager determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Fund has maintained proper accounting records and its financial statements are in agreement therewith. We are not aware of any violations of the applicable provision of the Qatar Commercial Companies Law No.11 of 2015 and the Fund's Articles of Association during the year which might have had a material effect on the Fund's financial position or performance as at and for the year 31 December 2022.

Doha – Qatar
17 January 2023

For Deloitte & Touche
Qatar Branch



Walid Slim
Partner

License No. 319

QFMA Auditor License No. 120156

AL RAYAN QATAR ETF

STATEMENT OF NET ASSETS
As at 31 December 2022

	Notes	<u>31 December 2022</u> QAR	<u>31 December 2021</u> QAR
ASSETS			
Bank balances	6	2,031,771	1,511,232
Investment securities	7	<u>519,699,050</u>	<u>552,714,803</u>
TOTAL ASSETS		<u>521,730,821</u>	<u>554,226,035</u>
LIABILITIES			
Accrued expenses		<u>529,010</u>	<u>575,123</u>
TOTAL LIABILITIES		<u>529,010</u>	<u>575,123</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>521,201,811</u>	<u>553,650,912</u>
NUMBER OF UNITS IN ISSUE	9	<u>219,100,000</u>	<u>218,300,000</u>
NET ASSET VALUE PER UNIT		<u>2.3788</u>	<u>2.5362</u>

These financial statements for the year ended 31 December 2022 were authorised for issue by the Founder and the Fund Manager on 17 January 2023.



.....
Fahad Al Khalifa
Group Chief Executive Officer
Masraf Al Rayan Q.P.S.C.
The Founder



.....
Hailhem Katerji
Chief Executive Officer
Al Rayan Investment L.L.C.
The Fund Manager

This statement has been prepared by Management of the Fund and stamped by the Auditors for identification purposes only

DELOITTE & TOUCHE
Doha - Qatar

17 JAN 2023

Signed for Identification
Purposes Only

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




AL RAYAN QATAR ETF**STATEMENT OF PORTFOLIO INVESTMENTS AND RECEIVABLES**

As at 31 December 2022

	Notes	<u>2022</u> <u>QAR</u>	<u>%</u>	<u>2021</u> <u>QAR</u>	<u>%</u>
Investments					
Bank balances	6	2,031,771	0.39	1,511,232	0.27
Equity securities	7	519,699,050	99.61	552,714,803	99.73
Total investments and receivables		<u>521,730,821</u>	<u>100.00</u>	<u>554,226,035</u>	<u>100.00</u>

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AL RAYAN QATAR ETF

STATEMENT OF OPERATIONS

For the year ended 31 December 2022

	Notes	<u>2022</u> <u>QAR</u>	<u>2021</u> <u>QAR</u>
INCOME FROM INVESTMENTS			
Net dividend income		21,947,705	16,508,072
Profits on short term investment account		58,155	40,740
Total income from investments		<u>22,005,860</u>	<u>16,548,812</u>
EXPENSES			
Expenses	10	<u>(3,041,825)</u>	<u>(2,766,555)</u>
Total expenses		<u>(3,041,825)</u>	<u>(2,766,555)</u>
NET INCOME FROM INVESTMENTS		<u>18,964,035</u>	<u>13,782,257</u>
REALIZED AND UNREALIZED (LOSS) / GAINS FROM INVESTMENTS			
Net realized and unrealized (loss) / gains from investments	8	<u>(31,847,664)</u>	<u>36,786,934</u>
NET (LOSS) / GAINS FROM INVESTMENTS		<u>(31,847,664)</u>	<u>36,786,934</u>
(DECREASE) / INCREASE IN NET ASSETS FROM OPERATIONS		<u>(12,883,629)</u>	<u>50,569,191</u>

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AL RAYAN QATAR ETF

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS For the year ended 31 December 2022

	Note	2022 QAR	2021 QAR
Balance at 1 January		553,650,912	543,236,200
(Decrease) / Increase in net assets from operations		(12,883,629)	50,569,191
<u>Creations and redemptions by authorised participants:</u>			
Issue of redeemable units during the year		2,344,528	3,694,689
Redemption of redeemable units during the year		--	(26,329,168)
Transactions with the authorised participants		2,344,528	(22,634,479)
Dividend paid to unit holders during the year	11	(21,910,000)	(17,520,000)
Transactions with the unit holders		(19,565,472)	(40,154,479)
Balance at 31 December		521,201,811	553,650,912

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AL RAYAN QATAR ETF

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 <i>QAR</i>	2021 <i>QAR</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Decrease) / Increase in net assets from operations		(12,883,629)	50,569,191
<i>Adjustments for:</i>			
Net unrealized loss / (gains) on revaluation of investment securities	8	48,063,764	(20,667,668)
Allowance for expected credit loss on bank balances		96	2,240
Operating profit before changes in operating assets and liabilities		35,180,231	29,903,763
<i>Changes in :</i>			
Investment securities		(12,792,583)	(12,067,168)
Accrued expenses		(46,113)	21,399
Net cash from operating activities		22,341,535	17,857,994
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to the unit holders	11	(21,910,000)	(17,520,000)
Proceeds from issue of redeemable units		89,100	37,276
Payments for redemption of redeemable units		--	(478,854)
Net cash used in financing activities		(21,820,900)	(17,961,578)
Net increase / (decrease) in cash and cash equivalents during the year		520,635	(103,584)
Balance of cash and cash equivalents at 1 January		1,513,701	1,617,285
Balance of cash and cash equivalents at 31 December		2,034,336	1,513,701

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AL RAYAN QATAR ETF

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2022

	<u>2022</u> <u>QAR</u>	<u>2021</u> <u>QAR</u>
Sources of charity fund		
Earnings prohibited by sharia during the year	<u>226,352</u>	<u>257,065</u>
Uses of charity fund		
Purification during the year	<u>226,352</u>	<u>257,065</u>
Net earnings prohibited by sharia during the year	<u>--</u>	<u>--</u>

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AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

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 (“QSE” or 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 upon approval by 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 Organisation for Islamic Financial Institutions (“AAOIFI”). 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”).

2. BASIS OF PREPARATION (CONTINUED)

(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.

(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.

(e) Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) New standards and interpretations

(i) New standards, amendments and interpretations effective from 1 January 2022

FAS 37 -Financial Reporting by Waqf Institutions

AAOIFI has issued FAS 37 in 2020. The objective of this standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shari'ah principles and rules. The implementation of this comprehensive standard is expected, in turn, to contribute towards improving effectiveness and efficiency of operations of Waqfs, maximizing benefits to the beneficiaries and encouraging proper accountability and management.

There was no material impact on the Fund upon adoption of this standard.

FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosure in relation to Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) New standards and interpretations (continued)

(i) New standards, amendments and interpretations effective from 1 January 2022 (continued)

FAS 38 Wa'ad, Khiyar and Tahawwut (continued)

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

- a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

There was no material impact on the Fund upon adoption of this standard.

(ii) New standards, amendment and interpretation issued but not yet effective

The Fund has not yet applied the following new and revised FAS that has been issued but is not yet effective:

FAS 39 – Financial Reporting for Zakah

AAOIFI has issued FAS 39 in 2021. This standard improves upon and supersedes FAS 9 "Zakah" issued previously. This standard aims at setting out the accounting treatment of Zakah in the books of an Islamic financial institution, including the presentation and disclosure in the financial statements.

This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

The Fund is currently evaluating the impact of this standard.

FAS 40 - Financial Reporting for Islamic Finance Windows

AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted.

The Fund is currently evaluating the impact of this standard.

FAS 1 – General Presentation and Disclosures in the Financial Statements (Revised 2021)

AAOIFI has issued FAS 1 (Revised) in 2021. The revised FAS 1 "General Presentation and Disclosures in the Financial Statements" describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. The objective of this standard is to align the accounting treatments and the reporting requirements for the Islamic financial institutions to the maximum possible extent with the generally accepted accounting principles without compromising the Shari'a requirements and nature of Islamic financial transactions and institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2023 with early adoption permitted.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) New standards and interpretations (continued)

(ii) New standards, amendment and interpretation issued but not yet effective (continued)

FAS 1 – General Presentation and Disclosures in the Financial Statements (Revised 2021) (continued)

Some of the significant revisions to the standard are as follows:

The Fund is currently evaluating the impact of the above standards.

- a) Revised conceptual framework is now integral part of the AAOIFI FASs;
- b) Definition of quasi-equity is introduced as a broader concept;
- c) Definitions have been modified and improved;
- d) Concept of comprehensive income has been introduced;
- e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
- f) Disclosure of Zakah and Charity have been relocated to the notes to the financial statements;
- g) True and fair override has been introduced;
- h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
- i) Disclosures of related parties, subsequent events and going concern have been improved;
- j) Improvement in reporting for foreign currency, segment reporting;
- k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to Islamic banks and similar IFI's and third part prescribes the authoritative status, effective date and amendments to other AAOIFI FASs; and
- l) The illustrative financial statements are not part of this standard and will be issued separately.

The Fund is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its financial statements.

(b) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of net assets 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.

Financial investments

Initial measurement

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

Subsequent measurement

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

Expected Credit Loss (ECL)

The Fund applies the ECL model for the measurement and recognition of impairment losses on the financial assets and credit risk exposures, comprising bank balances. All investments of the Fund are classified as held to for trade.

Financial assets where no significant increase in credit risk has been observed are considered to be in 'stage 1' and for which a 12-month ECL is recognised. Financial assets that are considered to have significant increase in credit risk are considered to be in 'stage 2' and those which are in default or for which there is an objective evidence of impairment are considered to be in 'stage 3'. Lifetime ECL is recognised for stage 2 and stage 3 financial assets.

At initial recognition, allowance is required for ECL towards default events that are possible in the next 12 months, or less, where the remaining life is less than 12 months.

In the event of a significant increase in credit risk, allowance (or provision) is required for ECL towards all possible default events over the expected life of the financial instrument ('lifetime ECL').

Financial assets (and the related impairment loss allowances) are written off in full, when there is no realistic prospect of recovery.

(c) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances and short term investments with original maturities of three months or less and are stated at amortized cost less allowance for expected credit loss, if any.

(d) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) 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.

(f) 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 short term investment is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the expected profits.

(g) 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.

(h) Fee and commission

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

(i) Zakat

Zakat is directly borne by the unitholders. The Fund does not deduct or pay Zakat on behalf of its unitholders.

4. FINANCIAL RISK MANAGEMENT

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

- a) credit risk;
- b) liquidity risk;
- c) market risk; and
- d) tracking error risk.

Introduction and overview

The Fund's objective in managing risks is the creation and protection of unit holder value while meeting the investment objective of the Fund. Risk is inherent in the Fund's activities, and 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.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)**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. Control functions are established for 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 required credit standards set by the Fund Manager.

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 net assets.

	<u>2022</u>	<u>2021</u>
	<i>QAR</i>	<i>QAR</i>
Cash and cash equivalents		
Bank balances*	<u>2,034,336</u>	<u>1,513,701</u>

*The Fund has current and short-term investment accounts with Qatari banks and a profit bearing short-term investment account with the Founder, with acceptable credit ratings.

Refer to Note 6 for the ECL amount on bank balances.

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, and/or the risk of a severe downward/ upward price revision as a result of attempting to sell/ buy a particular security in the event of rebalancing, creation or redemption. Liquidity risk arises when the fund rebalances twice a year in line with the changes in Index composition, if any. Liquidity risk may also arise when any of the securities of the Index is suspended or delisted by the Exchange or by the regulators. .

The Fund seeks to replicate, before fees and expenses, the performance results of the Index by investing in Index components in line with the weights of such securities in the Index, which under normal market conditions, are readily convertible to cash.

As at the report date, the Fund has 0.39% (2021: 0.27%) of its net assets invested in cash and cash equivalents.

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

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.

2022	0 to 3 Months	3 to 6	6 to 12	1 to 5 Years	More than 5	Total
	QAR	Months QAR	Months QAR	Years QAR	Years QAR	
Financial assets						
Bank balances	2,031,771	--	--	--	--	2,031,771
Investment securities	519,699,050	--	--	--	--	519,699,050
Total financial assets	521,730,821	--	--	--	--	521,730,821
Financial liabilities						
Accrued expenses	529,010	--	--	--	--	529,010
Total financial liabilities	529,010	--	--	--	--	529,010
Liquidity gap	521,201,811	--	--	--	--	521,201,811

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2022

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

Maturity analysis (continued)

2021	0 to 3 Months QAR	3 to 6 Months QAR	6 to 12 Months QAR	1 to 5 Years QAR	More than 5 Years QAR	Total QAR
Financial assets						
Bank balances	1,511,232	--	--	--	--	1,511,232
Investment securities	552,714,803	--	--	--	--	552,714,803
Total financial assets	554,226,035	--	--	--	--	554,226,035
Financial liabilities						
Accrued expenses	575,123	--	--	--	--	575,123
Total financial liabilities	575,123	--	--	--	--	575,123
Liquidity gap	553,650,912	--	--	--	--	553,650,912

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. However, since the objective of the Fund is to track the Index, such risk is minimal

Currency risk

Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rates. Fund is not exposed to any currency risk as the Fund currency is Qatari Riyals and 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.

2022	0 to 3 Months QAR	3 to 6 Months QAR	6 to 12 Months QAR	1 to 5 years QAR	More than 5 years QAR	Non-profit bearing QAR	Total QAR
Assets							
Bank balances	2,031,771	--	--	--	--	--	2,031,771
Investment securities	--	--	--	--	--	519,699,050	519,699,050
Total assets	2,031,771	--	--	--	--	519,699,050	521,730,821
Liabilities							
Accrued expenses	--	--	--	--	--	529,010	529,010
Total liabilities	--	--	--	--	--	529,010	529,010
Total profit sensitivity gap	2,031,771	--	--	--	--	519,170,040	521,201,811
2021	0 to 3 Months QAR	3 to 6 Months QAR	6 to 12 Months QAR	1 to 5 years QAR	More than 5 years QAR	Non-profit bearing QAR	Total QAR
Assets							
Bank balances	1,511,232	--	--	--	--	--	1,511,232
Investment securities	--	--	--	--	--	552,714,803	552,714,803
Total assets	1,511,232	--	--	--	--	552,714,803	554,226,035
Liabilities							
Accrued expenses	--	--	--	--	--	575,123	575,123
Total liabilities	--	--	--	--	--	575,123	575,123
Total profit sensitivity gap	1,511,232	--	--	--	--	552,139,680	553,650,912

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 2022, the Fund has equity securities amounting to QAR 519,699,050 (2021: QAR 552,714,803). A 1% variation in the equity indices would result in increase / (decrease) in the fair values of equity securities and the statement of operations by QAR 5,196,990 (2021: QAR 5,527,148).

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).

	2022 % of equity securities	2021 % of equity securities
State of Qatar	<u>100%</u>	<u>100%</u>
	<u>100%</u>	<u>100%</u>

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

	2022 % of equity securities	2021 % of equity securities
Industrial	30.97%	26.48%
Banks & Financial Services	27.07%	32.86%
Real Estate	12.23%	14.36%
Telecom	11.74%	12.47%
Transport	9.04%	0.30%
Consumer Goods & Services	8.95%	12.92%
Insurance	--	0.61%
	<u>100.00%</u>	<u>100.00%</u>

d) Tracking error risk

Changes in the investments of the Fund, including based on changes in the weightings of Index Securities and the rebalancing of the Fund may result in a tracking error. Also, the Fund TER will reduce its returns and will result in a tracking error against the performance of the Index.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Tracking error risk (continued)

In addition, in the event of the temporary suspension or interruption of trading in Index Securities, or delisting of any of the Index securities or of market disruptions, trading on behalf of the Fund may not be possible and may result in tracking error. Tracking error may also occur because the Fund maintains cash to pay expenses and dividends while the Index does not include any cash.

e) 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.

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 2022 is QAR 519,699,050 (2021: QAR 552,714,803) under level 1 of fair value hierarchy.

During the reporting period 31 December 2022, there were no transfers made between Level 1, level 2 and Level 3 fair value measurements.

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. CARRYING AMOUNTS VERSUS FAIR VALUES

	2022			
	Fair value through income statement QAR	Amortised cost QAR	Total Carrying amount QAR	Fair value QAR
Assets				
Bank balances	--	2,031,771	2,031,771	2,031,771
Investment securities	519,699,050	--	519,699,050	519,699,050
Total assets	519,699,050	2,031,771	521,730,821	521,730,821
Liabilities				
Accrued expenses	--	529,010	529,010	529,010
Total Liabilities	--	529,010	529,010	529,010

	2021			
	Fair value through income statement QAR	Amortised cost QAR	Total Carrying amount QAR	Fair value QAR
Assets				
Bank balances	--	1,511,232	1,511,232	1,511,232
Investment securities	552,714,803	--	552,714,803	552,714,803
Total assets	552,714,803	1,511,232	554,226,035	554,226,035
Liabilities				
Accrued expenses	--	575,123	575,123	575,123
Total Liabilities	--	575,123	575,123	575,123

6. BANK BALANCES

	2022	2021
	QAR	QAR
Balance with banks*	2,028,490	1,512,611
Accrued profits on short term investment account	5,846	1,090
Gross balance with banks	2,034,336	1,513,701
Allowance for expected credit loss ("ECL")	(2,565)	(2,469)
Net balance with banks	2,031,771	1,511,232

Balances with banks are assessed to have low credit risk of default since these banks are highly regulated by the Qatar Central Bank. Accordingly, the management of the Fund estimates the loss allowance on balances with banks at an amount equal to 12 month ECL.

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. INVESTMENT SECURITIES

Investment securities classified as fair value through income statement are as follows:

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Listed equity securities – State of Qatar	<u>519,699,050</u>	<u>552,714,803</u>

Investment securities are denominated in the following currency:

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Qatari Riyals	<u>519,699,050</u>	<u>552,714,803</u>

8. NET REALIZED AND UNREALIZED (LOSS) / GAINS FROM INVESTMENTS

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Net realized gains from investments ¹	16,216,100	16,119,266
Net unrealized (loss) / gains from investments ²	<u>(48,063,764)</u>	<u>20,667,668</u>
	<u>(31,847,664)</u>	<u>36,786,934</u>

¹ The difference between net sales proceeds and the carrying amount of investments sold, including related unrealized gains / (losses) recognized in previous periods, which is in line with gains / (losses) required for the determination of taxable income.

² Net of unrealized gains / (losses) recognized in previous periods realized during the current period resulting from the sale of investments.

9. NUMBER OF UNITS IN ISSUE

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Units at the beginning of the year	218,300,000	227,700,000
Creations during the year	800,000	1,500,000
Redemptions during the year	--	(10,900,000)
	<u>219,100,000</u>	<u>218,300,000</u>

10. EXPENSES

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Total expenses	3,041,825	2,766,555
Total Expense Ratio (TER) for the year based on average daily Net Asset Value	<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.

AL RAYAN QATAR ETF

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

11. DIVIDEND

During the year ended 31 December 2022, the Fund distributed dividends amounting to QR 21.91 million (31 December 2021: QR 17.52 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 fee

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 0.50% of Total Net Asset Value, the Founder has the right to change the Total Expense Ratio, subject to the approval of the QCB.

	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Statement of net assets items		
Bank balance	<u>2,034,336</u>	<u>1,513,701</u>
	<u>2022</u>	<u>2021</u>
	<u>QAR</u>	<u>QAR</u>
Statement of operations items		
Profit on short term investment account	<u>58,155</u>	<u>40,740</u>

Dividend

During the year ended 31 December 2022, the Fund had paid QAR 1,000,000 as dividends to the Founder in relation to their holdings in the Fund (31 December 2021: QAR 800,000).

13. IMPACT OF COVID-19

The coronavirus ("COVID-19") pandemic across the globe has caused disruptions to businesses and economic activities. The financial statements of the Fund, which are prepared by the management, has reflected the impact of COVID-19 on the financial assets of the Fund, particularly on the assets carried at fair value through income statement, which comprise a significant portion of the Fund's total asset portfolio. However, the economic conditions remain volatile and the recorded amounts remain sensitive to market fluctuations.