

AL RAYAN QATAR ETF

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2023**

AL RAYAN QATAR ETF
Financial statements and Independent auditor's report
for the year ended 31 December 2023

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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

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Rayan Qatar ETF (the “Fund”) as at 31 December 2023 and its financial performance and its cash flows for the year then ended in accordance with the Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”).

What we have audited

The Fund's financial statements comprise:

- The statement of net assets as at 31 December 2023;
- The statement of portfolio investments and receivables as at 31 December 2023;
- The statement of operations for the year ended 31 December 2023;
- The statement of changes in net assets attributable to the unit holders for the year then ended;
- The statement of cash flows for the year then ended;
- The statement of sources and uses of charity funds; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements in the State of Qatar.

Our audit approach

Overview

Key audit matter | Valuation of investment securities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Fund Manager made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Valuation of investment Securities</p> <p>Fair valuation of investment securities represents the Fund Manager’s best estimate of the fair value. As described in the significant accounting policies to the financial statements, the fair value as at 31 December 2023 has been determined in accordance with FAS 33.</p> <p>Further, the fair value of investment securities as of 31 December 2023 comprises listed equity securities amounting to QAR 487,846,176 (2022: 519,699,050), which represents 99.71% (2022: 99.61%) of the total asset value of the fund assets as 31 December 2023. Hence, they are material within the overall context of the financial statements. Refer to note 4 for investment securities disclosure.</p> <p>Net loss from investment securities amounted to QAR 5,265,486 for the year ended 31 December 2023 (2022: QAR 31,847,664) which is disclosed in note 8 to the financial statements.</p>	<p>Our audit procedures in relation to this key audit matter included the following:</p> <ul style="list-style-type: none"> • Obtained an understanding of the business process related to the investments management activities followed by the Fund Manager. • Tested the valuation of the listed investment portfolio as at 31 December 2023, by agreeing the prices used by the Fund Manager in the valuation to independent third party sources as at 31 December 2023. • Tested the existence of the listed investment portfolio by agreeing the holdings of investments to the custodian confirmation as at 31 December 2023. • Re-computed the net loss from investment securities, comprising of net realized loss on sale of investment securities and net unrealized loss on revaluation of investment securities. • Evaluated the reasonableness of the financial statements disclosures in accordance with the FAS 1.

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 the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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.

Al Rayan Qatar ETF

Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF NET ASSETS

AS AT 31 DECEMBER

	Notes	2023	2022
Assets			
Bank balances	6	1,414,902	2,031,771
Investment securities	7	487,846,176	519,699,050
Total assets		489,261,078	521,730,821
Liabilities			
Accrued expenses		241,085	529,010
Total liabilities		241,085	529,010
Net assets attributable to unit holders		489,019,993	521,201,811
Number of units in issue	9	208,200,000	219,100,000
Net asset value per unit		2.3488	2.3788

These financial statements for the year ended 31 December 2023 were authorised for issue by the Founder and the Fund Manager on 16 January 2024.



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



Nasser Jaralla S. Jaralla Al Marri
Chairman
Al Rayan Investment L.L.C.
The Fund Manager



Independent auditor's report is set out on pages 1 – 3.

The accompanying notes 1 to 12 form an integral part of these financial statements.

Al Rayan Qatar ETF

Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF PORTFOLIO INVESTMENTS AND RECEIVABLES AS AT 31 DECEMBER

	Notes	2023	%	2022	%
Investments					
Bank balances	6	1,414,902	0.29	2,031,771	0.39
Equity securities	7	487,846,176	99.71	519,699,050	99.61
Total investments and receivables		489,261,078	100.00	521,730,821	100.00



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Al Rayan Qatar ETF

Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER

	Notes	2023	2022
Income from investments			
Net dividend income		23,499,646	21,947,705
Profits on short term investment account		225,337	58,155
Total income from investments		23,724,983	22,005,860
Expenses			
Expenses	10	(2,442,089)	(3,041,825)
Total expenses		(2,442,089)	(3,041,825)
Net income from investment		21,282,894	18,964,035
Realized and unrealized losses from investment securities			
Net realized and unrealized losses from investment securities	8	(5,265,486)	(31,847,664)
Net losses from investment securities		(5,265,486)	(31,847,664)
Increase / (decrease) in net assets from operations		16,017,408	(12,883,629)



Independent auditor's report is set out on pages 1 - 3.

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Al Rayan Qatar ETF

Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS FOR THE YEAR ENDED 31 DECEMBER

	Note	2023	2022
Balance at 1 January		521,201,811	553,650,912
Increase / (Decrease) in net assets from operations		16,017,408	(12,883,629)
Creations and redemptions by authorised participants:			
Redemption of redeemable units during the year		(24,538,226)	-
Issue of redeemable units during the year		-	2,344,528
Transactions with the authorised participants		(24,538,226)	2,344,528
Dividends paid to unit holders during the year	11	(23,661,000)	(21,910,000)
Transactions with the unit holders		(48,199,226)	(19,565,472)
Balance at 31 December		489,019,993	521,201,811



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Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER

	Notes	2023	2022
Cash flows from operating activities			
Increase / (decrease) in net assets from operations		16,017,408	(12,883,629)
<i>Adjustments for:</i>			
Net unrealized losses on investment securities	8	3,215,059	48,063,764
(Reversal) / allowance for expected credit loss on bank balances		(2,356)	96
Operating profit before changes in operating assets and liabilities		19,230,111	35,180,231
<i>Changes in:</i>			
Investment securities		4,179,717	(12,792,583)
Accrued expenses		(287,925)	(46,113)
Net cash generated from operating activities		23,121,903	22,341,535
Cash flows from financing activities			
Dividends paid to the unit holders	11	(23,661,000)	(21,910,000)
Payments for redemption of redeemable units*		(80,128)	-
Proceeds from issue of redeemable units*		-	89,100
Net cash used in financing activities		(23,741,128)	(21,820,900)
Net (decrease) / increase in cash and cash equivalents during the year		(619,225)	520,635
Balance of cash and cash equivalents at 1 January		2,034,336	1,513,701
Balance of cash and cash equivalents at 31 December		1,415,111	2,034,336

* Significant non-cash transactions:

- Redemption totaling to QAR 24,538,226 includes the cash component of QAR 80,128 and the balance amount pertains to the basket of shares transferred (2022: nil).
- During 2022, creations totaling to QAR 2,344,528 includes the cash component of QAR 89,100 and the balance amount pertains to the basket of shares received.



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Financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

STATEMENT OF SOURCES AND USES OF CHARITY FUNDS FOR THE YEAR ENDED 31 DECEMBER

	2023	2022
Sources of charity fund		
Earnings prohibited by Shari'a during the year	408,643	226,352
Uses of charity fund		
Purification during the year	408,643	226,352
Net earnings prohibited by Shari'a during the year	-	-



Independent auditor's report is set out on pages 1 - 3.

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Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

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 (the “Ministry”) 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”). Until November 2023, The Group Securities was the Liquidity Provider for the Fund. Starting November 2023, QNB Financial Services has been appointed by the Founder as the new Liquidity Provider for 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.

These financial statements for the year ended 31 December 2023 were authorised for issuance by the Founder and the Fund Manager on 16 January 2024.

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

2.1 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”).

2.2 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.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

2. BASIS OF PREPARATION (CONTINUED)

2.3 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.

2.4 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.

2.5 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, unless otherwise stated.

3.1 NEW STANDARDS AND INTERPRETATIONS

a) New standards, amendments and interpretations effective from 1 January 2023

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 is effective for financial statements for the period beginning on or after 1 January 2023.

The adoption of this standard did not have any significant impact on the Fund's financial statements.

FAS 41 - Interim Financial Reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institution in line with various financial accounting standards issued by AAOIFI. This standard also provides an option for the institution to prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard is effective for financial statements for the period beginning on or after 1 January 2023.

The Fund adopted this standard for the basis of preparation of its interim condensed financial statements for 2023. The adoption of this standard did not have any significant impact on the Fund's interim condensed financial statements.

FAS 44 – Determining Control of Assets and Business

AAOIFI has issued FAS 44 in 2023. This standard prescribes the criteria of obtaining control of assets, i.e., having risks and rewards incidental to ownership of assets, including those related to underlying assets of instruments such as Sukuk, participatory arrangements such as Mudaraba, Musharaka and Wakala. Furthermore, the standard addresses circumstances when control is lost. This standard also sets out the principles for assessing the need to consolidate financial statements in case an institution controls a business, taking the form of an independent legal entity. The standard is effective at the time of issuance. The adoption of this standard did not have any significant impact on the Fund's financial statements.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

a) *New standards, amendments and interpretation issued but not yet effective*

The Fund has not yet applied the following new and revised FASs that has been issued but is not yet effective. These standards are currently in process of being assessed by the management of the Fund to consider any implication in the current or future reporting periods and on foreseeable future transactions.

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. The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting. This standard’s effective date has been deferred from 1 January 2023 to 1 January 2024 with early adoption permitted.

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.

FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions

AAOIFI has issued FAS 42 in 2022. This standard supersedes the earlier FAS 12 – General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies”. The objective of this standard is to set out the overall requirements for the presentation of financial statements, the minimum requirement for the contents of and disclosures in the financial statements and recommended structure of financial statements that facilitates fair presentation in line with Shari’a principles and rules for Takaful institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 43 – Accounting for Takaful: Recognition and Measurement.

FAS 43 – Accounting for Takaful: Recognition and Measurement

AAOIFI has issued FAS 43 in 2022. The objective of this standard is to set out the principles for the recognition and measurement of Takaful arrangements and ancillary transactions with the objective of faithfully representing the information related to these arrangements to the relevant stakeholders. The standard should be read in conjunction with FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions. This standard shall be effective for the financial periods beginning on or after 1 January 2025 with early adoption permitted if adopted alongside FAS 42 – Presentation and disclosures in the Financial Statements of Takaful Institutions.

FAS 45 – Quasi-Equity (Including Investment Accounts)

AAOIFI has issued FAS 45 in 2023. This standard prescribes the principles of financial reporting related to the participatory investment instruments (including investment accounts) in which an Islamic financial institution controls the underlying assets (mostly, as a working partner), on behalf of the stakeholders other than the owners’ equity. Such instruments (including, in particular, the unrestricted investment accounts) normally qualify for on-balance-sheet accounting and are reported as quasi-equity. This standard also provides the overall criteria for on-balance-sheet accounting for participatory investment instruments and quasi-equity, as well as, pooling, recognition, derecognition, measurement, presentation and disclosure for quasi-equity. It further addresses financial reporting related to other quasi-equity instruments and certain specific issues. This standard shall be effective for the financial reporting periods beginning on or after 1 January 2026.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 NEW STANDARDS AND INTERPRETATIONS

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

FAS 46 – Off-Balance-Sheet Assets Under Management

AAOIFI has issued FAS 46 in 2023. This standard prescribes the criteria for characterisation of off-balance-sheet assets under management, and the related principles of financial reporting in line with the “AAOIFI Conceptual Framework for Financial Reporting”. The standard encompasses the aspects of recognition, derecognition, measurement, selection and adoption of accounting policies, related to off-balance-sheet assets under management, as well as certain specific aspects of financial reporting such as impairment and onerous commitments by the institution. The standard also includes the presentation and disclosure requirements, particularly aligning the same with the requirements of FAS 1 “General Presentation and Disclosures in the Financial Statements” in respect of the statement of changes in off-balance-sheet assets under management. This standard, along with, FAS 45 “Quasi-Equity (Including Investment Accounts)”, supersedes the earlier FAS 27 “Investment Accounts”. This standard shall be effective for the financial periods beginning on or after 1 January 2026 and shall be adopted at the same time of adoption of FAS 45 – Quasi-Equity (Including Investment Accounts).

FAS 47 – Transfer of Assets Between Investment Pools

AAOIFI has issued FAS 47 in 2023. This standard prescribes the financial reporting principles and disclosure requirements applicable to all transfers between investment pools related to (and where material, between significant categories of) owners’ equity, quasi-equity and off-balance-sheet assets under management of an institution. It requires adoption and consistent application of accounting policies for such transfers in line with Shari’a principles and rules and describes general disclosure requirements in this respect. This standard shall be effective for the financial periods beginning or after 1 January 2026 and supersedes the earlier FAS 21 – “Disclosure on Transfer of Assets”.

3.2 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 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.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 FINANCIAL INSTRUMENTS (CONTINUED)

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..

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.

3.3 FINANCIAL INVESTMENTS

Investment securities comprise investments in equity-type instruments.

Classification

Equity-type instruments are the instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument.

On initial recognition, the Fund makes an irrevocable election to designate certain equity instruments that are not designated at fair value through statement of income to be classified as investments at fair value through equity.

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. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value is recognised in the statement of operations.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 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.

3.5 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.

3.6 ACCRUED EXPENSES

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

3.7 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.

3.8 DIVIDEND POLICY

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.

3.9 ZAKAT

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

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

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.

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.

	2023	2022
Cash and cash equivalents		
Bank balances*	1,415,111	2,034,336

* 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.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 0.29% (2022: 0.39%) of its net assets invested in cash and cash equivalents.

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.

2023	0 to 3 Months	3 to 6 Months	6 to 12	1 to 5 Years	More than 5	Total
	QAR	QAR	Months	QAR	Years	
Assets						
Bank balances	1,414,902	-	-	-	-	1,414,902
Investment securities	487,846,176	-	-	-	-	487,846,176
Total assets	489,261,078	-	-	-	-	489,261,078
Liabilities						
Accrued expenses	241,085	-	-	-	-	241,085
Total liabilities	241,085	-	-	-	-	241,085
Liquidity gap	489,019,993	-	-	-	-	489,019,993

2022	0 to 3 Months	3 to 6 Months	6 to 12	1 to 5 Years	More than 5	Total
	QAR	QAR	Months	QAR	Years	
Assets						
Bank balances	2,031,771	-	-	-	-	2,031,771
Investment securities	519,699,050	-	-	-	-	519,699,050
Total assets	521,730,821	-	-	-	-	521,730,821
Liabilities						
Accrued expenses	529,010	-	-	-	-	529,010
Total 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 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

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

(i) 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 .

(ii) 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.

2023	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	1,414,902	-	-	-	-	-	1,414,902
Investment securities	-	-	-	-	-	487,846,176	487,846,176
Total assets	1,414,902	-	-	-	-	487,846,176	489,261,078
Liabilities							
Accrued expenses	-	-	-	-	-	241,085	241,085
Total liabilities	-	-	-	-	-	241,085	241,085
Total profit sensitivity gap	1,414,902	-	-	-	-	487,605,091	489,019,993
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

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(iii) 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 2023, the Fund has equity securities amounting to QAR 487,846,176 (2022: QAR 519,699,050). 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 4,878,462 (2022: QAR 5,196,990).

(iv) 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).

	2023	2022
	% of equity securities	% 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:

	2023	2022
	% of equity securities	% of equity securities
Banks and financial services	35.08	27.07
Industrial	29.42	30.97
Telecom	12.68	11.74
Consumer goods and services	10.26	8.95
Real Estate	8.05	12.23
Transport	4.51	9.04
	100.00	100.00

(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.

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.

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Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 2023 is QAR 487,846,176 (2022: QAR 519,699,050) under level 1 of fair value hierarchy.

During the reporting period 31 December 2023, there were no transfers made between Level 1, level 2 and Level 3 fair value measurements.

The fair values of financial assets and financial liabilities carried at amortised cost approximate the carrying value.

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

5. CARRYING AMOUNTS VERSUS FAIR VALUES

	2023			
	Fair value through income statement	Amortised cost	Total Carrying amount	Fair value
	QAR	QAR	QAR	QAR
Assets				
Bank balances	-	1,414,902	1,414,902	1,414,902
Investment securities	487,846,176	-	487,846,176	487,846,176
Total assets	487,846,176	1,414,902	489,261,078	489,261,078
Liabilities				
Accrued expenses	-	241,085	241,085	241,085
Total Liabilities	-	241,085	241,085	241,085
	2022			
	Fair value through income statement	Amortised cost	Total Carrying amount	Fair value
	QAR	QAR	QAR	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

6. BANK BALANCES

	2023	2022
Balance with banks	1,410,641	2,028,490
Accrued profits on short term investment account	4,470	5,846
Gross balance with banks	1,415,111	2,034,336
Allowance for expected credit loss ("ECL")	(209)	(2,565)
Net balance with banks	1,414,902	2,031,771

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 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

7. INVESTMENT SECURITIES

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

	2023	2022
Listed equity securities – State of Qatar	487,846,176	519,699,050

Investment securities are denominated in the following currency:

	2023	2022
Qatari Riyals	487,846,176	519,699,050

8. NET REALIZED AND UNREALIZED LOSSES FROM INVESTMENT SECURITIES

	2023	2022
Net realized (losses) / gains from investment securities ¹	(2,050,427)	16,216,100
Net unrealized losses on investment securities ²	(3,215,059)	(48,063,764)
	(5,265,486)	(31,847,664)

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

	2023	2022
Units at the beginning of the year	219,100,000	218,300,000
Redemptions during the year	(10,900,000)	-
Creations during the year	-	800,000
	208,200,000	219,100,000

10. EXPENSES

	2023	2022
Total expenses	2,442,089	3,041,825
Total Expense Ratio (TER) for the year based on average daily Net Asset Value	0.50%	0.50%

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 2023, the Fund distributed dividends amounting to QAR 23.66 million (31 December 2022: QAR 21.91 million).

Al Rayan Qatar ETF

Notes to the financial statements for the year ended 31 December 2023

(All amounts are expressed in Qatari Riyals unless otherwise stated)

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.

Transactions and balances

	2023	2022
Statement of net assets items		
Bank balance	1,414,902	2,031,771
Statement of operations items		
Profit on short term investment account	225,337	58,155

Dividends

During the year ended 31 December 2023, the Fund had paid QAR 1,100,000 as dividends to the Founder in relation to their holdings in the Fund (31 December 2022: QAR 1,000,000).