

# **NBAD Islamic MENA Growth Fund**

Financial statements

**31 December 2016**

# NBAD Islamic MENA Growth Fund

## Financial statements

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## *Independent auditor's report to the shareholders of NBAD Islamic MENA Growth Fund*

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects the financial position of the NBAD Islamic MENA Growth Fund ("the Fund") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **What we have audited**

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### *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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

#### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management 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, management 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 management 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.

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Douglas O'Mahony, Jacques Fakhoury and Mohamed ElBomo are registered as practising auditors with the UAE Ministry of Economy



## *Independent auditor's report to the shareholders of NBAD Islamic MENA Growth Fund (continued)*

### *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 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.
- 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.

### *Other matter*

The financial statements of the Fund as at and for the year 31 December 2015 were audited by another auditor, whose reports dated 30 June 2016, expressed an unqualified opinion on those financial statements.

PricewaterhouseCoopers  
30 June 2017

Douglas O'Mahony  
Registered Auditor Number 834  
Abu Dhabi, United Arab Emirates



# NBAD Islamic MENA Growth Fund

## Statement of financial position

	Note	As at 31 December 2016 AED'000	As at 31 December 2015 AED'000 Restated*	As at 1 January 2015 AED'000 Restated*
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	10	13,072	6,158	3,956
Financial assets at fair value through profit or loss	11	105,674	107,138	138,602
Other receivables and prepayments		-	-	168
<b>Total assets</b>		<b>118,746</b>	<b>113,296</b>	<b>142,726</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders of fund</b>				
Share capital	7	89,797	93,587	103,462
Redemption reserve	8	31,498	32,323	36,038
Accumulated losses		(2,757)	(12,831)	2,945
<b>Total equity</b>		<b>118,538</b>	<b>113,079</b>	<b>142,445</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Other liabilities		41	43	42
Due to related parties	10	167	174	239
<b>Total liabilities</b>		<b>208</b>	<b>217</b>	<b>281</b>
<b>Total equity and liabilities</b>		<b>118,746</b>	<b>113,296</b>	<b>142,726</b>

\* Refer to the Note 13



David Rothern  
Executive Director  
Head of Distribution  
Global Asset Management



Shiraz Habib  
Executive Director  
Head of Investment Products and Solutions  
Global Asset Management

The notes 1 to 15 are an integral part of these financial statements.

# NBAD Islamic MENA Growth Fund

## Statement of comprehensive income

For the year ended 31 December

	Note	2016 AED'000	2015 AED'000
Net gain/(loss) on financial assets at fair value through profit or loss	11	8,052	(17,177)
Dividend income		4,602	4,475
Other income		104	-
Brokerage expense		(312)	(409)
<b>Total net income/(loss)</b>		<b>12,446</b>	<b>(13,111)</b>
Investment management fees	10	(1,730)	(2,081)
Other operating expenses		(641)	(584)
<b>Total operating expenses</b>		<b>(2,371)</b>	<b>(2,665)</b>
<b>Profit/(loss) for the year</b>		<b>10,075</b>	<b>(15,776)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income/(loss)</b>		<b>10,075</b>	<b>(15,776)</b>
<b>Earnings/(loss) per share – basic and diluted (AED per share)</b>	9	<b>1.093</b>	<b>(1.607)</b>

\* Refer to the Note 13

The notes 1 to 15 are an integral part of these financial statements.

# NBAD Islamic MENA Growth Fund

## Statement of changes in equity

	Share capital AED'000	Redemption reserve AED'000	Accumulated losses AED'000	Total AED'000
<b>At 1 January 2015</b> <b>(restated – Note 12)</b>	103,462	36,038	2,945	<b>142,445</b>
Total comprehensive loss	-	-	(15,776)	<b>(15,776)</b>
Proceeds from redeemable units issued	2,783	1,039	-	<b>3,822</b>
Redemption of redeemable units	(12,658)	(4,754)	-	<b>(17,412)</b>
<b>At 31 December 2015</b> <b>(restated – Note 12)</b>	<u>93,587</u>	<u>32,323</u>	<u>(12,831)</u>	<u><b>113,079</b></u>
<b>At 1 January 2016</b> <b>(restated – Note 12)</b>	93,587	32,323	(12,831)	113,079
Total comprehensive income	-	-	(10,075)	10,075
Subscription of redeemable units	3,574	920	-	4,494
Redemption of redeemable units	(7,365)	(1,745)	-	(9,110)
<b>At 31 December 2016</b>	<u>89,797</u>	<u>31,498</u>	<u>(2,756)</u>	<u><b>118,539</b></u>

The notes 1 to 15 are an integral part of these financial statements.

# NBAD Islamic MENA Growth Fund

## Statement of cash flows

	Note	2016 AED'000	2015 AED'000 Restated*
<b>Cash flows from operating activities</b>			
Profit/(loss) for the year		<b>10,075</b>	(15,776)
<b>Changes in working capital:</b>			
Financial assets at fair value through profit or loss		<b>1,464</b>	31,464
Other receivables and prepayments		-	168
Other liabilities		(2)	1
Due to related parties		(7)	(65)
<b>Net cash generated from operating activities</b>		<b><u>11,530</u></b>	<u>15,792</u>
<b>Cash flows from financing activities</b>			
Proceeds from redeemable units issued		<b>4,494</b>	3,822
Redemption of redeemable units		<b>(9,110)</b>	(17,412)
<b>Net cash used in financing activities</b>		<b><u>(4,616)</u></b>	<u>(13,590)</u>
<b>Net increase in cash and cash equivalents</b>		<b>6,914</b>	2,202
Cash and cash equivalents at 1 January		<b>6,158</b>	3,956
<b>Cash and cash equivalents at 31 December</b>		<b><u>13,072</u></b>	<u>6,158</u>

\* Refer to the Note 13

The notes 1 to 15 are an integral part of these financial statements.



# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 1 Reporting entity

NBAD Islamic MENA Growth Fund (the "Fund") is an open ended investment fund established in the United Arab Emirates (the "UAE") by National Bank of Abu Dhabi (NBAD) (the "Fund Manager") and is licensed by the Central Bank of the UAE approval reference number 13/2197/2004 dated 26 December 2004. The Fund is not a separately incorporated entity and its activities are managed by the Fund Manager.

The Fund's primary objective is to invest in a portfolio of MENA equities and/or equity related securities (such as convertible bonds, ADRs and GDRs) based on Islamic Shariah principles listed or traded on recognised exchanges worldwide or 'over the counter' arrangement, and other related securities including third party collective investment schemes, with a view to achieving capital growth.

The applicable prospectus and term sheet were revised on 24 February 2015. The revisions are approved by the Central Bank of the UAE. The revised prospectus and term sheet and the financial statements of the Fund as at and for the year ended 31 December 2013 are available upon request from the Fund Manager's registered office at P.O. Box 4, Abu Dhabi, United Arab Emirates.

### 2 Basis of preparation

#### (a) Statement of compliance

The financial statements of the Fund as at and for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards (IFRSs).

These financial statements were approved on behalf of the Fund Manager on 30 June 2017.

#### (b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

#### (c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the Fund's functional currency. All financial information presented in AED has been rounded to the nearest thousand.

#### (d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires the Fund Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

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

#### **(d) Use of estimates and judgments** *(continued)*

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the new amendments to standards that became applicable and was adopted during the year. The amendments do not have any impact on these financial statements.

#### **(a) Murabaha income**

Murabaha income is recognised in statement of comprehensive income on a time apportionment basis, until such time when a reasonable doubt arises with regards to its collectability.

#### **(b) Subscription fees**

Subscription fees are charged to holders of redeemable units at the time of subscription of units in the Fund and are recognised in the statement of comprehensive income in the period during which such subscriptions are made.

#### **(c) Dividend income**

Dividend income is recognised in the statement of comprehensive income when the right to receive income is established. For quoted equity securities this is usually the ex-dividend date.

#### **(d) Net gain/(loss) from financial instruments at fair value through profit or loss**

Net gain/(loss) from financial instruments at fair value through profit or loss includes all realised gain/loss and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

Net realised gain/(loss) from financial instruments at fair value through profit or loss represents the difference between the closing price applicable on the last revaluation date and their sale/settlement price.

The unrealised gain/(loss) represents the difference between the carrying amount of a financial instrument at the beginning of the period, or transaction price when purchased in the current reporting period and its fair value at the end of the period or at the last revaluation date before its sale/settlement.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

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

#### *(e) Expenses*

All expenses, including the investment management fees and performance fees are recognised in the statement of comprehensive income on an accrual basis. Refer to Note 10 for management and performance fees.

#### *(f) Foreign currency transactions*

Transactions in foreign currencies are translated into UAE Dirhams at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into UAE Dirhams at the spot exchange rate at that date.

Foreign currency exchange differences arising on translation are recognised in the statement of comprehensive income. Foreign currency exchange differences relating to financial assets at fair value through profit or loss are included in net (loss) / gain on financial assets at fair value through profit or loss.

#### *(g) Financial assets and financial liabilities*

##### *i. Recognition and initial measurement*

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated.

Financial assets and financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at fair value through profit or loss are measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial instruments is discussed below in respective notes.

##### *ii. Classification*

The Fund has adopted the following classifications for financial assets and financial liabilities:

- Held for trading - equity investments

Financial assets at amortised cost:

- Loans and receivables – cash at bank and other receivables

Financial liabilities at amortised cost:

- Other liabilities – balances due to related parties and other liabilities

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

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

#### (g) *Financial assets and financial liabilities (continued)*

##### ii. *Classification (continued)*

A financial instrument is classified as held for trading, if:

- it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- on initial recognition it is part of a portfolio that is managed together and for which there is evidence of a recent pattern of short-term profit taking.

Note 6 provide a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IAS 39.

##### iii. *Derecognition*

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Fund is recognised as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of comprehensive income.

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

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

##### iv. *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, for example, for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

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

#### (g) *Financial assets and financial liabilities (continued)*

##### v. *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

##### vi. *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, 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.

When there is no quoted price in an active market, the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Fund determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in the statement of comprehensive income on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All changes in fair value, other than dividend income, are recognised in the statement of comprehensive income as net gain or loss from financial instruments at fair value through profit or loss.



# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

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

#### *(g) Financial assets and financial liabilities (continued)*

##### *vii. Identification and measurement of impairment*

At each reporting date the Fund assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the banker or issuer, default or delinquency by a banker, indications that a banker or issuer will enter bankruptcy or other observable data relating to a group of assets such as adverse changes in the payment status of bankers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

The Fund writes off financial assets carried at amortised cost when they are determined to be uncollectible.

#### *(h) Cash and cash equivalents*

Cash and cash equivalents for the purpose of cash flow comprise deposits with banks with original maturities of less than three months and bank overdraft balance that is repayable on demand and forms an integral part of the Fund's cash management.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### *(i) Redeemable units*

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable shares over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 3 Significant accounting policies (continued)

#### (i) Redeemable units (continued)

In addition to the redeemable units having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

#### (j) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### (k) New and revised IFRS in issue but not early adopted

##### New and revised IFRS

##### Effective for annual periods beginning on or after

- Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. 1 January 2017
- Finalised version of IFRS 9 [IFRS 9 Financial Instruments (2014)] was issued in July 2014 incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition. This amends classification and measurement requirement of financial assets and introduces new expected loss impairment model. 1 January 2018

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 3 Significant accounting policies (continued)

#### (k) New and revised IFRS in issue but not early adopted (continued)

##### New and revised IFRS

**Effective for  
annual periods  
beginning on or  
after**

- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation addresses foreign currency transactions or parts of transactions where: 1 January 2018

- There is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Fund anticipates that these new standards, interpretations and amendments will be adopted in the Fund's financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the financial statements of the Company in the period of initial application.

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Fund's financial statements in respect of Fund's financial assets and financial liabilities. Management is currently in the process of evaluating its effects.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management

#### *Introduction and overview*

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

#### *Risk management framework*

The Advisory Board and Investment Committee have the overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Fund is managed by the Fund Manager on the basis of the Fund's investment objectives and guidelines, subject to the supervision of the Investment Committee, on a day to day basis. The Advisory Board reviews the activities and performance of the Fund (including Fund's investment strategies as set out in the Investment prospectus) and makes appropriate recommendations to the Fund Manager.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

As part of its overall risk management, the Fund uses derivatives to manage exposures volatilities in foreign currencies.

Details of the nature of the Fund's investment portfolio at the reporting date are disclosed in the relevant risk notes.

#### **(a) Credit risk**

Credit risk is the risk that a 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 cash at bank, balances due from brokers and certain other receivables. For risk management reporting purposes, the Fund considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### *(a) Credit risk (continued)*

##### *Management of credit risk*

Credit risk is monitored on a regular basis by the Fund Manager in accordance with policies and procedures in place. Investment Committee's main objectives include: (i) to determine the investment strategies and tactics to be adopted to manage the Funds in accordance with the investment objectives and guidelines as set out in the prospectus and term sheet; and (ii) to review the Funds performance and discuss the various strategies adopted at the sectoral and occasionally at the stock level. The Funds Advisory Board's main objectives are to protect the interests of the investors. It also has a responsibility to consider the investment strategies adopted for the individual Funds and to review the performance of each Fund at a strategic level.

Additionally the Advisory Board will consider events and action that may have given rise to a conflict of interest and advise the Fund Manager on possible remedies, if appropriate. Where the credit risk is not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is **not** in compliance with the stated investment parameters.

##### *Exposure to credit risk*

The Fund's maximum credit risk exposure at the reporting date is represented by the respective carrying amounts of the financial assets in the statement of financial position (except for equity instruments as they do not carry credit risk).

##### *Balances due from brokers*

Balances due from brokers result from margin accounts and sale transactions awaiting settlement. Credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the reputable brokers engaged by the Fund Manager.

The Fund Manager monitors the internal controls, credit ratings and financial position of the brokers on a quarterly basis. Majority of the Fund's transactions for sale and purchase of securities are made through NBAD Securities LLC LLC which is a subsidiary of the Fund Manager.

##### *Cash at bank*

The Fund's bank balances are with the Fund Manager.

##### *Concentration of credit risk*

There were no significant concentrations of credit risk to any individual issuer or group of issuers at 31 December 2016 or at 31 December 2015 except in connection with the bank balances which is held with the Fund Manager.



# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### *(a) Credit risk (continued)*

##### *Settlement risk*

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

#### *(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 have to be settled in a manner disadvantageous to the Fund.

It arises principally from due to related parties and net assets attributable to holders of redeemable units.

##### *Management of liquidity risk*

The Fund's approach to manage the risk is to have sufficient liquidity to meet its liabilities, including anticipated redemptions of units, as and when due, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's liquidity risk is managed on a daily basis by the Fund Manager in accordance with policies and procedures in place. The Fund's overall liquidity risks are monitored on a weekly basis by the Investment Committee and the Advisory Board.

The Fund's term sheet provides for the daily redemption of units and it is therefore exposed to the liquidity risk of meeting unit holders' redemptions at any time. The Fund's redemption policy is to make settlement of redeemed Units, in respect of which it has received a Redemption Notice by no later than the "Cut-off Time", within three (3) Business Days of the "NAV Day".

The Fund's financial instrument includes bank balances and listed equity securities which are considered to be readily realisable as they are actively traded on major UAE stock exchanges. Also, the term sheet of the Fund allows up to 25% of the Fund's total assets to be held in the form of cash or cash equivalents in order to meet redemptions.

The Fund's fair value through profit or loss investments includes units which are not traded actively in the market and are considered to be illiquid. As a result the Fund may not be able to liquidate some of its investment in due time in order to meet liquidity.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (b) *Liquidity risk (continued)*

##### *Maturity analysis for financial liabilities*

Residual contractual maturities of the financial liabilities at reporting dates are as follows. The tables below show the contractual undiscounted cash flows of the Fund's financial liabilities:

	<b>Less than 1 month AED'000</b>	<b>Gross/ carrying amount AED'000</b>
<b>31 December 2016</b>		
Due to related parties	167	167
Other liabilities	41	41
	<u>208</u>	<u>208</u>
	<u><u>208</u></u>	<u><u>208</u></u>
<b>31 December 2015</b>		
Due to related parties	174	174
Other liabilities	43	43
	<u>217</u>	<u>217</u>
	<u><u>217</u></u>	<u><u>217</u></u>

The previous table shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The carrying amounts are similar to the gross amounts.

The Fund's expected cash flows on these instruments do not vary significantly from this analysis except for net assets attributable to the holders of redeemable units, which the Fund has the contractual obligation to redeem within the 2 days of notice. Historical experience indicates that these units are held by unit holders based on medium or long term basis, however redemption levels are very difficult to predict as they vastly fluctuate with the changing market conditions and investor needs or objectives.

#### (c) *Market risk*

Market risk is the risk that changes in market prices, such as interest rates, equity prices, and foreign exchange rates will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

##### *Management of market risks*

The Fund's strategy on the management of the market risk is driven by its investment objectives and guidelines. The Fund's primary investment objective is to invest in a balanced portfolio of equities based on Islamic Shariah law, listed in Dubai, Abu Dhabi and other Arab equities markets. The Fund's market risk is managed on a daily basis by the Fund Manager in accordance with the policies and procedures in place. The Fund's overall market positions are monitored by the Advisory Board and Investment Committee on periodic basis.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (c) Market risk *(continued)*

##### *Management of market risks (continued)*

When considered necessary or appropriate, the Fund Manager may hedge currency and/or other portfolio related risks in accordance with the investment objectives and guidelines.

##### *Exposure to currency risk*

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than its functional currency ("AED"). Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the AED.

The exchange rate of AED and all other Arab currencies, in which the Fund invests, are pegged against US Dollar and hence the Fund's exposure to currency risk is limited to that extent. Since the majority of the assets and liabilities are in AED or in foreign currencies pegged with the AED, the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Fund's financial statements.

Interest rate risk is the risk that arises from timing difference in the maturity and re-pricing of Fund's interest bearing assets and liabilities. The majority of Fund's financial assets and liabilities are non-interest bearing. Interest bearing financial assets and liabilities mature or re-price in the short term, i.e. no longer than twelve months. Levels of market interest rate; hence the management estimates that any reasonable

As a result the Fund is subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing possible changes in interest rates movements would not have a significant impact on the Fund's financial statements.

Bank balances placed with the Fund Manager are at floating rates, with re-pricing on quarterly basis. All other financial assets and liabilities are non-interest bearing.

##### *Other price risk*

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

Price risk is managed by the Fund Manager by constructing a diversified portfolio of instruments, in different industry sectors and traded on different markets. Under normal circumstances the Fund invests in the trading instruments in accordance with the investment guidelines.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### *(c) Market risk (continued)*

##### *Other price risk (continued)*

As per the term sheet of the Fund, the policy for concentration of its investment portfolio profile is as follows:

- Upto 50% of its total assets may be in MENA equities;
- Investment in any particular company shall not exceed the lower of 10% of that company's then total market capitalisation or any restrictions on investment prescribed by applicable law and/or the relevant company's Articles of Association;
- Except as required to reflect market weighing of a stock, investment in equities or liquid tradable securities of any company is not to exceed 25% of the Fund's total assets at the time of investment. No use of derivatives is allowed; and
- Investments in third party collective investment schemes must be limited to 15% of the Fund's NA V and must not exceed 5% of the net asset value of any of the collective investment schemes the Fund is invested in.

Internal procedures require the Fund Manager to manage price risk on a daily basis. Internal procedures and systems help the Fund Manager to keep a check and control of any kind of price risk on an ongoing basis. Any deviation from the permitted guidelines needs to be corrected in the best possible manner within a reasonable time frame from the equity perspective.

The Fund's procedures require price risk to be monitored on a monthly basis by the Advisory Board and Investment Committee.

Where the other price risk is not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is obliged to rebalance the portfolio as soon as is reasonably practicable after each determination that the portfolio is not in compliance with the stated investment parameters.

The Fund Manager monitors concentration of risk based on counterparties and industries. The Fund's equity investments are concentrated in the following industries:

	2016 AED'000	2015 AED'000
Banking and finance	33,766	29,719
Finance and investment	21,292	-
Telecom sector	20,215	14,478
Real Estate	5,475	12,782
Others	24,926	50,159
	<u>105,674</u>	<u>107,138</u>

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management (continued)

#### (c) Market risk (continued)

##### Other price risk (continued)

The Fund had the following individual significant exposure in its portfolio of financial assets at fair value through profit or loss:

	2016	2015
	%	%
Al Rajhi Bank	19	15
Saudi Basic Industries corporation	15	10
Dubai Islamic Bank P.J.S.C.	6	4
Saudi Telecom Company	5	6
Emaar Properties Company P.J.S.C.	-	5

The Fund estimates the future reasonably possible market price fluctuations for equity investments on an individual investment basis.

The table below sets out the effect on the Fund's statement of comprehensive income and net assets attributable to holders of redeemable units of a reasonably possible strengthening in the individual equity market prices of 1 % at 31 December. The analysis assumes that all other variables, in particular interest and foreign currency rates remain constant.

	2016	2015
	AED'000	AED'000
Financial assets at fair value through profit or loss	1,057	1,071

A weakening of market prices would have resulted in an equal but opposite effect to the amounts shown above.

#### (d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior.

Operational risks arise from all of the Fund's activities. The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation whilst achieving its investment objective of generating returns to investors.



# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### *(d) Operational risk (continued)*

The primary responsibility for the development and implementation of controls over operational risk rests with the Fund Manager. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- contingency plans;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Fund Manager's Internal Audit Department. The results of these reviews are discussed with the management, with summaries submitted to the Audit Committee and senior management of the Fund Manager.

As at the reporting date the Fund has not breached any investment guidelines by investing in the units of prohibited activities. However, any such investment by the Fund is subsequently dealt with as per the requirements of the term sheet and under guidance of Islamic Shariah consultant.

The directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risks is carried out via regular discussions with the service providers.

Substantially all of the units of the Fund are held with reputable brokers. Bankruptcy or insolvency of the units' custodians may cause the Fund's rights with respect to the securities held by the custodian to be delayed or limited. The Fund Manager monitors the credit ratings, internal control and financial position of its custodians on a periodic basis.

#### *(e) Capital management*

The Fund's capital is represented by the number of units outstanding. The objective of the Fund is to invest the subscriptions amounts in a portfolio with a view to both achieving capital growth and provide attractive returns over medium term, while reducing directional downward risk in underlying market.

The Fund aims to deliver this objective mainly through investing in a balances portfolio as per the Fund investment guidelines while maintaining sufficient liquidity to meet unit holder's redemptions. The Fund has complied with the externally imposed requirements including SCA and UAE Central Bank rules and regulations.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 5 Use of estimates and judgments

*Key sources of estimation uncertainty and critical accounting judgments in applying the Fund's accounting policies:*

#### (i) Fair values of financial instruments

The Fund's financial instruments include investments which are measured at fair value in the statement of financial position and it is usually possible to determine their fair values within a reasonable range of estimates i.e. quoted market prices are readily available.

For certain other financial instruments the carrying amounts approximate fair value due to the immediate or short term nature of the financial instruments.

Availability of observable market prices reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial market.

The Fund has an established control framework with respect to the measurement of fair values. Specific controls include: verification of observable pricing inputs; analysis and investigation of significant daily valuation movements; and reporting of significant valuation issues to the Advisory Board and Investment Committee.

The Fund's accounting policies on fair value measurements for financial instruments are discussed in note 3(g) and note 6.

#### (ii) Contingent liability arising from litigations

Due to the nature of its operations, the Fund may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

#### (iii) Financial asset and liability classification

The Fund's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as fair value through profit or loss, the Fund has determined it meets the description as set out in note 3(g) and 6.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 6 Financial assets and liabilities

#### Accounting classifications and fair values

The table below provides reconciliation of the line items in the Fund's statement of financial position to the categories of financial instruments as at.

	At fair value through profit or loss AED'000	Loans and other receivables AED'000	Other Amortised cost AED'000	Carrying amount AED'000
<b>31 December 2016</b>				
Cash at bank	-	13,072	-	13,072
Financial assets at fair value through profit or loss	105,674	-	-	105,674
	<u>105,674</u>	<u>13,072</u>	<u>-</u>	<u>118,746</u>
Due to related parties	-	-	167	167
Other liabilities	-	-	41	41
	<u>-</u>	<u>-</u>	<u>208</u>	<u>208</u>
<b>31 December 2015</b>				
Cash at bank	-	6,158	-	6,158
Financial assets at fair value through profit or loss	107,138	-	-	107,138
	<u>107,138</u>	<u>6,158</u>	<u>-</u>	<u>113,296</u>
Due to related parties	-	-	174	174
Other liabilities	-	-	43	43
	<u>-</u>	<u>-</u>	<u>217</u>	<u>217</u>

The financial instruments not accounted for at fair value through profit or loss are short-term financial assets and liabilities whose carrying amounts approximates their fair value.

All financial assets and liabilities are measured at amortised cost except for held for trading investments which are measured at fair value either by reference to published price quotations in an active market or by using some valuation technique.

For investment in units that are inactive as at the reporting date the Fund determines fair value using valuation techniques. The valuation techniques include comparison to similar instruments, if any, for which market observable prices exist or mark to that index which is considered to offer closest prices. The objective of using a valuation technique is to arrive at fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 6 Financial assets and liabilities *(continued)*

#### Accounting classifications and fair values *(continued)*

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in fair value hierarchy into which the fair value measurement is categorised.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<b>31 December 2016</b>				
Financial assets at fair value through profit and loss	<u>105,674</u>	<u>-</u>	<u>-</u>	<u>105,674</u>
<b>31 December 2015</b>				
Financial assets at fair value through profit and loss	<u>107,138</u>	<u>-</u>	<u>-</u>	<u>107,138</u>

### 7 Share capital

The Fund's capital is represented by the subscription and redemption of redeemable units valued at par value (being the initial offering price of AED 10).

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 7 Share capital (continued)

A reconciliation of the number of shares outstanding at the beginning and end of each reporting period is provided in the table below.

	Issued, fully paid and outstanding units	AED'000
<b>As at 1 January 2015</b>	10,346,158	103,462
Subscription of redeemable units	278,335	2,783
Redemption of redeemable units	(1,265,752)	12,658
<b>As at 31 December 2015</b>	9,358,741	93,587
Subscription of redeemable units	357,416	3,574
Redemption of redeemable units	(73,646)	(7,365)
<b>As at 31 December 2016</b>	8,979,697	89,797

### 8 Redemption reserve

Subsequent to the initial offering of redeemable units, the subscription and redemption price for redeemable units is based on the Net Asset Value (NAV) per unit. The difference between the NAV and the par value of each redeemable unit that is purchased and sold is recorded in the redemption reserve, in the statement of financial position.

A reconciliation of the redemption reserve at the beginning and end of each reporting period is provided in the table below.

	Issued, fully paid and outstanding units	Redemption reserve AED'000
<b>As at 1 January 2015</b>	10,346,158	36,038
Subscription of redeemable units	278,335	1,039
Redemption of redeemable units	(1,265,752)	(4,574)
<b>As at 31 December 2015</b>	9,358,741	32,323
Subscription of redeemable units	357,416	920
Redemption of redeemable units	(73,646)	(1,745)
<b>As at 31 December 2016</b>	8,979,697	31,498

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 9 Earnings per share

Basic earnings per share is calculated by dividing the total comprehensive income for the year by the weighted average number of units in issue during the year.

	2016 AED'000	2015 AED'000
Total Comprehensive income/(loss)	10,075	(15,776)
Weighted average number of ordinary shares in issue	9,214	9,811
Earnings/(loss) per share – basic and diluted	1.093	(1.607)

### 10 Related parties

#### *Identity of related parties*

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. Related parties comprise members of the Advisory Board and Investment Committee and the Fund Manager and the entities controlled by them. In the ordinary course of business, the Fund renders and receives services from such related parties at agreed rates, terms and conditions set out by NBAD as the Fund Manager.

#### *Terms and conditions*

Key terms and conditions are shown below:

Brokerage	NBAD Securities LLC LLC, a wholly owned subsidiary of NBAD, provides brokerage services to the Fund at prevailing market rates.
Banking services	NBAD provides banking services at rates agreed with the Fund.
Others	The Fund Manager is entitled to the following fees as set out in the offering term sheet: <ul style="list-style-type: none"><li>• Management fees of 1.5% of the NAV, accrued on daily basis;</li><li>• The Performance fee will be 10% of relative outperformance of the Fund over the S&amp;P Pan Arab Shariah Large Mid Cap TR Index (the "Benchmark") and the latest NAV that prompted a performance fee payment during the relevant calendar year (the "High Watermark").</li></ul>



# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 10 Related parties (continued)

#### Balances

Balances with related parties at the reporting dates are shown below:

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Cash at bank	<u>13,072</u>	<u>6,158</u>
<i>Due to related parties</i>		
Management fees payable to the Fund Manager	144	149
Administration fee payable to NBAD as Custodian	23	25
	<u>167</u>	<u>174</u>

#### Volume of transactions with NBAD Securities LLC

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Purchases of financial assets	<u>3,606</u>	<u>36,698</u>
Proceeds from sales of financial assets	<u>7,499</u>	<u>39,492</u>

#### Transactions

Transactions with related parties during the year included in the statement of comprehensive income are shown below:

	<b>2016</b> <b>AED'000</b>	2015 AED'000
Brokerage expense	<u>(24)</u>	<u>(34)</u>
Investment management fees	<u>(1,730)</u>	<u>(2,081)</u>
Administration fee payable to NBAD as Custodian	<u>(252)</u>	<u>(301)</u>

In accordance with article 16.2 of the term sheet, a management fee of 1.5% per annum of the Fund's NAV is payable quarterly to the Fund Manager, calculated and accrued on a daily basis.

The fund is managed by the Fund Manager.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 11 Net gain/(loss) on financial assets at fair value through profit or loss

	2016 AED'000	2015 AED'000
Realised loss	(1,271)	(1,160)
Unrealised gain/(loss)	9,323	(16,017)
	<u>8,052</u>	<u>(17,177)</u>

As at reporting date all of the Funds' investments at fair value through profit or loss are in equity securities.

### 12 Reconciliation of equity and trading net assets

The Fund's units are classified as equity in accordance with IAS 32 and therefore equate to the residual value of the Fund's total assets less its total liabilities. In accordance with the Fund's prospectus unaudited net asset value is daily reported to the holders of redeemable units. Unaudited net assets value includes investments at fair value through profit or loss calculated using quoted closing prices at a specific time without adjustment for financial assets disposal costs or unit encashment charges.

For financial statement reporting purposes, the units are presented as equity under IAS 32 and are calculated using quoted bid prices for financial assets. The following table shows the reconciliation of the Fund's equity value to its trading net asset value:

	2016 AED'000	2015 AED'000
Equity as per statement of financial position	118,538	113,079
Adjustment from closing prices to bid prices	605	283
<b>Trading net asset value calculated in accordance with the Fund's Prospectus</b>	<u>119,143</u>	<u>113,362</u>

### 13 Prior year error

#### *Classification of the puttable instruments*

During the review of the classification of the units issued by the Fund as per IAS 32, an error has been identified in the current year. A puttable instrument was originally classified as net assets attributable to holders of redeemable units, however it should have been classified as equity. The error has been corrected by restating puttable instrument as equity. As a result, share capital, redemption reserve and retained earnings/ accumulated losses is required to be recognized. Refer to note 3k and Note 3l for accounting policy on share capital and redemption reserve.

As at 31 December 2016, the Fund had AED 118,538 million (2015: AED 113,079 million) of puttable financial instruments classified as equity.

# NBAD Islamic MENA Growth Fund

## Notes to the financial statements

### 13 Prior year error (continued)

#### *Classification of the puttable instruments* (continued)

These effects of these prior period corrections on the Fund's statement of financial position are shown below:

	Net assets attributable to holder of redeemable units AED'000	Share Capital AED'000	Redemption Reserve AED'000	Accumulated losses AED'000
Balances as at 31/12/2014 as previously reported	142,445	-	-	-
Impact of error	(142,445)	103,462	36,038	2,945
<b>Restated balance as on 01/01/2015</b>	<b>-</b>	<b>103,462</b>	<b>36,038</b>	<b>2,945</b>
Balances as at 31/12/2015 as previously reported	113,079	-	-	-
Impact of error as at 01/01/2015	(142,445)	103,462	36,038	2,945
Impact of error during 2015	-	(9,875)	(3,715)	(15,776)
<b>Restated balance as at 31/12/2015</b>		<b>93,587</b>	<b>32,323</b>	<b>(12,831)</b>

### 14 Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform to the current year presentation. Management believes that the current period presentation provides more meaningful information to the readers of the financial statements.

### 15 Subsequent event

On 3 July 2016, the Boards of Directors of the Fund Manager and FGB have voted unanimously to recommend to shareholders a merger of the two Abu Dhabi-listed banks. Subsequently, on 7 December 2016, the proposed merger (the Merger) of the NBAD and First Gulf Bank PJSC (FGB) was approved by the Shareholders to be effected by way of a merger pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law).

The merger has now been successfully completed.