

**BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
AND INDEPENDENT AUDITORS' REPORT

**BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

March 26, 2017

To the Unit Holders of BMK IPO Fund:
(Managed by Bait Al Mal Al Khaleeji Company)

Scope of audit


We have audited the accompanying balance sheet of BMK IPO Fund (the "Fund") as of December 31, 2016 and the statements of operations, cash flows and changes in net assets for the year then ended, and the notes from 1 to 7 which form an integral part of these financial statements. These financial statements, which were prepared by the Fund and presented to us with all information and explanations which we required, are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, such financial statements taken as a whole present fairly, in all material respects, the financial position of the Fund as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in Saudi Arabia appropriate to the circumstances of the Fund.

PricewaterhouseCoopers

By: 

Ali H. Al Basri
License Number 409

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Balance sheet
 (All amounts in Saudi Riyals unless otherwise stated)

		<u>As at December 31,</u>	
	Note	2016	2015
Assets			
Current assets			
Cash at bank		2,473,222	111,946,391
Subscription in an Initial Public Offering		-	6,607,620
Total assets		<u>2,473,222</u>	<u>118,554,011</u>
Liabilities			
Current liabilities			
Management, custodian and subscription fees payable	6	126,479	585,011
Accrued and other liabilities		46,175	19,661
Total liabilities		<u>172,654</u>	<u>604,672</u>
Net assets value		<u>2,300,568</u>	<u>117,949,339</u>
Units in issue (Unit)		<u>159,143</u>	<u>8,390,353</u>
Per unit value (Saudi Riyals)		<u>14.46</u>	<u>14.06</u>

The accompanying notes from 1 to 7 form an integral part of these financial statements.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Statement of operations
(All amounts in Saudi Riyals unless otherwise stated)

		<u>Year ended December 31,</u>	
	Note	2016	2015
Investment income:			
Net realized gains on held-for-trading investments	5	4,489,832	41,809,335
Early redemption income		-	43,983
Dividend income		163,975	12,360
Total investment income		4,653,807	41,865,678
Expenses:			
Management fees	6	(1,506,390)	(1,891,064)
Custodian fees	6	(215,199)	(270,152)
Professional fees		(63,000)	(30,000)
Brokerage commission		(72,649)	(35,329)
Board of Directors' remuneration	6	(24,000)	-
Other		(39,117)	(142,480)
Total expenses		(1,920,355)	(2,369,025)
Net income for the year		2,733,452	39,496,653

The accompanying notes from 1 to 7 form an integral part of these financial statements.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	<u>Year ended December 31,</u>	
	2016	2015
Cash flows from operating activities		
Net income for the year	2,733,452	39,496,653
<u>Changes in operating assets and liabilities</u>		
Held-for-trading investments	6,607,620	563,524
Subscription in Initial Public Offering	-	(6,607,620)
Management, custodian and subscription fees payable	(458,532)	383,595
Redemption payable	-	(2,061,072)
Accrued and other liabilities	26,514	(46,520)
Net cash generated from operating activities	8,909,054	31,728,560
 Cash flows from financing activities		
Proceeds from units issued	62,781,804	189,037,753
Payments on units redeemed	(181,164,027)	(116,014,023)
Net cash (used in) generated from financing activities	(118,382,223)	73,023,730
 Net change in cash at bank	(109,473,169)	104,752,290
Cash at bank at beginning of the year	111,946,391	7,194,101
 Cash at bank at end of the year	2,473,222	111,946,391
 <u>Supplemental cash flow information</u>		
Non-cash operating activity-		
Transfer from subscription in Initial Public Offering to Held-for-trading investments	6,607,620	-

The accompanying notes from 1 to 7 form an integral part of these financial statements.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Statement of changes in net assets
 (All amounts in Saudi Riyals unless otherwise stated)

	<u>Year ended December 31,</u>	
	2016	2015
Net assets at beginning of the year	117,949,339	5,428,956
Proceeds from units issued during the year	62,781,804	189,037,753
Payments on units redeemed during the year	(181,164,027)	(116,014,023)
Net income for the year	<u>2,733,452</u>	<u>39,496,653</u>
Net assets at end of the year	<u>2,300,568</u>	<u>117,949,339</u>
Net assets per unit at end of the year	<u>14.46</u>	<u>14.06</u>

Unit transactions

The transactions in units are summarized as follows:

Units at beginning of the year	8,390,353	519,338
Add: Units issued	4,274,049	16,165,477
Less: Units redeemed	<u>(12,505,259)</u>	<u>(8,294,462)</u>
Net (decrease) increase in units	<u>(8,231,210)</u>	<u>7,871,015</u>
Units at end of the year	<u>159,143</u>	<u>8,390,353</u>

The accompanying notes from 1 to 7 form an integral part of these financial statements.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

1 General information

BMK IPO Fund (the "Fund") is an open-ended investment fund established under an agreement between Bait Al Mal Al Khaleeji Company (the "Manager") and investors in the Fund (the "Unit Holders"). The Fund is governed by the terms and conditions of its prospectus and aims at capital growth mainly through investments in the equity securities of the Saudi companies during the period of initial public offering, and priority rights of newly listed companies which are below five years of listing in the Saudi Stock Exchange "Tadawul". The Fund does not distribute dividends to the Unit Holders. The Fund's net income is to be reinvested in the Fund, which affects the value and price per unit. The registered address of the Manager is Bait Al Mal Al Khaleeji Company, P.O. Box 9177, Dammam 31413, Kingdom of Saudi Arabia.

In dealing with the Unit Holders, the Manager considers the Fund as an independent unit. Accordingly, the Manager prepares separate financial statements for the Fund. The Fund's books and records are also administered by the Manager. Furthermore, the Unit Holders are considered owners of the assets of the Fund and any income distribution is made in relation to their respective ownership share to the total number of units.

The Saudi Capital Market Authority ("CMA") approved the Fund on 17 Dhul Qa'dah 1435 H (September 11, 2014). The Fund commenced its operations on November 10, 2014.

The accompanying financial statements were approved by the Fund's Manager on March 26, 2017.

2 Regulating authority

The Fund is governed by the Investment Fund Regulations published by CMA detailing requirements for all funds within the Kingdom of Saudi Arabia.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

3.1 Basis of preparation

The accompanying financial statements have been prepared under the historical cost convention, except for the measurement of held-for-trading investments at fair value, on the accrual basis of accounting and in compliance with standards promulgated by Saudi Organization for Certified Public Accountants.

3.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with generally accepted accounting standards requires the use of certain critical estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

3.3 Foreign currency translations

(a) Reporting and functional currency

These financial statements are presented in Saudi Riyals which is the reporting and functional currency of the Fund.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of operations. The amounts of foreign exchange gains and losses were not significant for the years ended December 31, 2016 and December 31, 2015.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

3.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank, and other short-term highly liquid investments, if any, with maturities of three months or less from the purchase date.

3.5 Held-for-trading investments

Held-for-trading investments are initially recognized at cost. After initial recognition, investments in marketable securities are valued at fair value at the balance sheet date. Changes in fair values, comprising of realized and unrealized gains and losses, are included in the statement of operations. Fair value is determined by reference to market value. Investments in mutual funds, if any are valued at the net assets value of the units in issue at the balance sheet date.

3.6 Subscription in an Initial Public Offering

Shares subscribed in an Initial Public Offering for which allotment has not been finalized as of the date of issuance of financial statements are disclosed separately as subscription in an Initial Public Offering and accounted for at cost..

3.7 Liabilities

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Fund.

3.8 Revenues

Dividend income is recognized when the Fund's right to receive payment is established. Realized gains and losses on held-for-trading investments sold are determined based on the weighted average cost basis. Results arising from trading activities include all gains and losses from changes in fair value of held-for-trading investments.

3.9 Expenses

Expenses are calculated and recognized as a period costs in the period in which incurred.

3.10 Zakat and income tax

Under certain provisions of the Saudi Income Tax Law, the income and gains of investment funds are subject to income tax at the applicable rates. The provisions of the Saudi Income Tax Law relating to investment funds have not been enforced pending clarifications from the General Authority of Zakat and Income Tax ("GAZT") and the CMA. As the regulations have not been enforced yet, no provision has been made in these financial statements.

3.11 Trade date accounting

All purchases and sales of investments are recognized on the trade date, which is the date the Fund commits to purchase or sell the asset.

3.12 Reclassifications

Certain amounts in the accompanying 2015 financial statements have been reclassified to conform with 2016 presentation.

4 Financial instruments and risk management

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

Financial asset and liability is offset and net amounts are reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

BMK IPO FUND
(MANAGED BY BAIT AL MAL AL KHALEEJI COMPANY)
Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

4.1 Market risk

Market risk is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in market variables such as capitalization size in market commission rates, foreign exchange rates, and equity prices. The Fund's market risk is managed through diversification of the investment portfolio.

4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund holds assets denominated in Saudi Riyals, which is the functional and presentation currency. Management monitors the fluctuations in currency exchange rates and believes that the currency risk is not material.

4.3 Fair value and cash flow interest rate risks

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flows. The Fund's results of operations and operating cash flows are substantially independent of changes in market interest rates as the Fund has no interest-bearing assets and liabilities.

4.4 Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Fund diversifies its portfolio, to manage its price risk arising from held-for-trading investments in equity securities.

4.5 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund has no significant concentration of credit risk. Cash is placed with a bank with sound credit rating.

4.6 Liquidity risk

Liquidity risk is the risk that the Fund will be unable to meet its net funding requirements for redemptions. The Fund is exposed to bi-weekly cash redemptions of the units. The Fund invests all of its assets in investments that are quoted in an active market which can be easily liquidated. The Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

4.7 Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Fund's financial instruments are compiled under the historical cost convention differences can arise between the book values and fair value estimates. Fund's management believes that the fair values of the Fund's financial assets and liabilities are not materially different from their carrying values.

5 Held-for-trading investments

All of the Fund's investments are in Saudi publicly listed companies that are listed on the Saudi Stock Exchange. Movement in held-for-trading investments is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	-	563,524
Purchases	93,524,280	75,022,145
Disposals	(98,014,112)	(117,395,004)
Net realized gains on held-for-trading investments	4,489,832	41,809,335
Balance, end of year	-	-

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Notes to the financial statements for the year ended December 31, 2016
(All amounts in Saudi Riyals unless otherwise stated)

6 Related party matters

The Fund pays management fees at the rate of 1.75% per annum and custodian fees at the rate of 0.25% per annum, calculated on the Fund's net asset value at each valuation day (see note 7). Also, the Manager recovers from the Fund any other expenses incurred on behalf of the Fund including Board of Directors' remuneration.

In the normal course of business, the Manager and its employees hold units in the Fund. As at December 31, 2015 the Manager held 689,167 units (2016: Nil) in the Fund.

7 Last valuation day

The Fund's units are valued on a bi-weekly basis on every Monday and Wednesday (the "valuation day"). The value of the Fund's units is announced on the day following the valuation day (the "announcement day").

The last valuation day of the year ended December 31, 2016 was December 31, 2016 (2015: December 31, 2015).