

NBAD Sukuk Income Fund

Condensed interim financial statements

30 June 2017

Principal Business address:
P.O. Box: 6316
Abu Dhabi
United Arab Emirates

NBAD Sukuk Income Fund

Condensed interim financial statements
for the period ended 30 June 2017

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Independent Auditors' Report on Review of Condensed Interim Financial Statements

To the Unit holders of NBAD Sukuk Income Fund

Introduction

We have reviewed the accompanying 30 June 2017 condensed interim financial statements of NBAD Sukuk Income Fund (the "Fund") which comprises:

- the condensed interim statement of financial position as at 30 June 2017;
- the condensed interim statement of comprehensive income for the six month period ended 30 June 2017;
- the condensed interim statement of changes in net assets attributable to holders of redeemable units for the six month period ended 30 June 2017;
- the condensed interim statement of cash flows for the six month period ended 30 June 2017; and
- notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2017 condensed interim financial statements is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other matter

The financial statements as at and for the year ended 31 December 2016 and the condensed interim financial statements as at and for the six month period ended 30 June 2016 were audited and reviewed, respectively, by another auditor, whose reports dated 25 April 2018 and 24 August 2016, expressed an unqualified opinion and review conclusion respectively.

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates

06 DEC 2018

NBAD Sukuk Income Fund

Condensed interim statement of financial position as at

	<i>Note</i>	30 June 2017 USD (Unaudited)	31 December 2016 USD (Audited)
Assets			
Investments at fair value through profit or loss	6	34,187,982	30,717,030
Other receivables and prepayments		263,783	2,899,489
Cash and cash equivalents		2,400,980	475,674
Total assets		36,852,745	34,092,193
Liabilities			
Due to related parties	7	332,995	165,747
Other liabilities		76,425	2,740,006
Total liabilities		409,420	2,905,753
Net assets attributable to holders of redeemable units		36,443,325	31,186,440
Number of units outstanding		7,585,162	6,619,908
Net asset value per unit (USD)		4.80	4.71



Martin Costa
VP – Middle Office
Investment Management



Shiraz Habib
MD & Head of Products &
Investment Solutions

The accompanying notes set out on pages 7 to 16 form an integral part of these financial statements.
The independent auditors' report on review condensed interim financial statements is set out on pages 1 to 2.

NBAD Sukuk Income Fund

Condensed interim statement of comprehensive income
for the period ended 30 June (Unaudited)

	<i>Note</i>	2017 USD	2016 USD
Net (loss)/ gain on investments at fair value	8	(141,319)	394,787
Profit income		945,445	628,097
Other income	12	9,223	-
Net foreign exchange loss		(12)	(129)
Total revenue		<u>813,337</u>	<u>1,022,755</u>
Management fees	7	(166,623)	(139,587)
Other operating expenses		(37,880)	(34,544)
Total operating expenses		<u>(204,503)</u>	<u>(174,131)</u>
Operating profit for the period		<u>608,834</u>	<u>848,624</u>
Dividend paid to holders of redeemable units		-	(716,082)
Increase in net assets attributable to holders of redeemable units		<u>608,834</u>	<u>132,542</u>

The accompanying notes set out on pages 7 to 16 form an integral part of these financial statements.
The independent auditors' report on review condensed interim financial statements is set out on pages 1 to 2.

NBAD Sukuk Income Fund

Condensed interim statement of changes in net assets attributable to holders of redeemable units

for the period ended 30 June (Unaudited)

	Number of units	Net assets attributable to unit holders USD
At 1 January 2016	6,841,366	31,130,381
Issue of units during the period	924,371	4,491,250
Dividend reinvested in units	24,701	118,396
Redemption of units during the period	(1,558,322)	(7,487,544)
Decrease in net assets attributable to holders of redeemable units	-	132,542
At 30 June 2016	5,872,116	28,385,025
At 1 January 2017	6,619,908	31,186,440
Issue of units during the period	1,459,171	7,022,998
Dividend reinvested in units	-	-
Redemption of units during the period	(493,917)	(2,374,947)
Decrease in net assets attributable to holders of redeemable units	-	608,834
At 30 June 2017	7,585,162	36,443,325

The accompanying notes set out on pages 7 to 16 form an integral part of these financial statements.

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NBAD Sukuk Income Fund

Condensed interim statement of cash flows for the period ended 30 June (Unaudited)

	<i>Note</i>	2017 USD	2016 USD
Cash flows from operating activities			
Operating profit for the period		608,834	848,624
Changes in working capital:			
Investments at fair value through profit or loss	6	(3,470,952)	5,856,219
Other receivables		2,154,204	(2,848,716)
Due to related parties	7	167,248	(248,200)
Other liabilities		(2,663,581)	702,131
Net cash (used in)/ generated from operating activities		<u>(3,207,247)</u>	<u>4,310,058</u>
Cash flows from financing activities			
Proceeds from issue of units		7,507,500	4,491,250
Payments on redemption of units		(2,374,947)	(7,487,544)
Cash dividend paid net of reinvestment amount		-	(597,686)
Net cash generated from/ (used in) financing activities		<u>5,132,553</u>	<u>(3,593,980)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		1,925,306	716,078
		475,674	540,312
Cash and cash equivalents at the end of the period		<u>2,400,980</u>	<u>1,256,390</u>

The accompanying notes set out on pages 7 to 16 form an integral part of these financial statements.
The independent auditors' report on review condensed interim financial statements is set out on pages 1 to 2.

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

1 Legal status and principal activities

NBAD Sukuk Income Fund (the "Fund") is an open ended investment fund established in the UAE by National Bank of Abu Dhabi PJSC (the "Fund Manager") based on resolution number 164/8/94 issued by the Board of Directors of the UAE Central Bank and with the approval of the Securities and Commodities Authority of the UAE. The Fund is not a separately incorporated entity and its activities are managed by the Fund Manager and administered by Deutsche Securities and Services, Dubai Branch, UAE (the "Fund Administrator"). On 1 September, 2018 the Fund Administrator was changed to Apex Fund Services Ltd – Abu Dhabi.

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC ("NBAD") and First Gulf Bank PJSC ("FGB") approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1,254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to 'First Abu Dhabi Bank' (the "Bank") and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O Box 6316 Abu Dhabi, United Arab Emirates.

The Fund aims to provide attractive levels of income with prospect of capital gains over the medium term through actively investing in a mix of fixed income and money market instruments, including but not limited to corporate and sovereign sukuk and other Islamic money market instruments, including but not limited to certificates of deposits, collateralised murabaha, convertible sukuk, murabaha deposits, ijarah and investments in other Islamic collective investment schemes (investment funds) with objectives that the Investment Manager believes are appropriate in light of the Fund's objectives.

The applicable prospectus was issued on 2 May 2012 ("date of inception"). It was approved by the Central Bank of the UAE and is available upon request from the Fund Manager's registered office at P.O. Box 4, Abu Dhabi, United Arab Emirates.

2 Basis of preparation

These condensed interim financial statements have been prepared in accordance with the International Accounting Standard ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Fund since the last annual financial statements for the year ended 31 December 2016. They do not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (IFRSs).

These condensed interim financial statements were approved on behalf of the Fund Manager on
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NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

3 Significant accounting policies

The accounting policies applied by the Fund in these condensed interim financial statements are the same as those applied by the Fund in its financial statements as at and for the year ended 31 December 2016.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however the Fund has not early adopted the following new or amended standards in preparing these financial statements.

IFRS 15 – Revenue recognition replaces the previous Revenue recognition standard, IAS 18 – Revenue recognition, and related interpretations. The Fund is evaluating the potential effect of this standard on its financial statements.

IFRS 9 - Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The condensed interim financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities at fair value through profit or loss. The condensed interim financial statements are presented in United States Dollar (USD), which is the Fund's functional and presentational currency.

4 Estimates

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

In preparing condensed interim financial statements, the significant judgments made by Fund Manager in applying the Fund's accounting policies and the key sources of estimation uncertainty were the same as those applied to financial statements as at and for the year ended 31 December 2016.

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

5 Financial risk management

5.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), liquidity risk and credit risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Fund's annual financial statements as at 31 December 2016.

There have been no changes in the risk management department or in any risk management policies since the year end.

a) *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, investments in equity securities and certain other assets as well as credit exposures to customers, including outstanding receivables and committed transactions. The Fund's bank balances are with the Fund Administrator.

The Fund's maximum credit risk exposure as at 30 June 2017 is represented by the respective carrying amounts of the relevant financial assets in the condensed interim statement of financial position.

As at the period end the percentage of the Fund's investments by credit quality was as follows:

	30 June 2017 USD (Unaudited)	31 December 2016 USD (Audited)
AA to A-	7.64%	12.97%
BBB to BB-	27.10%	19.05%
Non-rated	65.26%	67.98%
	<u>100%</u>	<u>100%</u>

b) *Liquidity risk*

The Fund manages its liquidity risk by investing predominantly in listed investments which allows the Fund to maintain sufficient liquidity to meet redemptions.

c) *Market risk*

Market risk is the risk that changes in market prices such as interest rates, foreign exchange rates, equity prices and credit spreads will affect the Fund's income or the fair value of its holdings of financial instruments.

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

5 Financial risk management *(continued)*

5.1 Financial risk factors *(continued)*

c) Market risk (continued)

The Fund's strategy on the management of the market risk is driven by its investment objectives and guidelines. The Fund's market risk is managed on a daily basis by the Fund Manager in accordance with the policies and procedures in place.

d) Currency risk

Currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Fund's functional currency.

Currency risk is limited as the Fund's transactions are principally in USD dollar. As the UAE dirham is pegged with USD dollar transactions in UAE dirham are not considered to present significant foreign currency risk.

e) Price risk

The Fund is exposed to financial instruments price risk because of investments held by the Fund and classified on the condensed interim statement of financial position as investments at fair value through profit or loss. 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 Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

6 Investments at fair value through profit or loss

Investments at fair value through profit or loss comprise quoted and unquoted financial instruments. The distribution of the investments on a country wise basis is as shown below:

	30 June 2017 USD (Unaudited)	31 December 2016 USD (Audited)
<i>Quoted financial instruments</i>		
GCC	24,020,896	23,095,688
Turkey	3,366,062	3,659,380
Indonesia	3,228,524	2,474,722
Supranational	1,509,645	-
Malaysia	1,402,884	1,397,235
South Africa	659,971	-
	<u>33,858,162</u>	<u>7,531,337</u>
<i>Unquoted financial instruments</i>		
Columbia	329,820	90,005
	<u>34,187,982</u>	<u>30,717,030</u>

7 Related parties

a) *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 the Fund Manager.

b) *Terms and conditions*

Key terms and conditions are shown below:

Fees

The Fund manager is entitled to the following fees as set out in the term sheet:

- i. Management fee, accrued daily and charged on a quarterly basis to the Fund Manager, of 1.5% of the NAV p.a.; and

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

7 Related parties *(continued)*

b) *Terms and conditions (continued)*

- ii. Annual Registrar and Transfer Agent fee of the higher of USD 10,000 or 0.05% of assets under management is charged by the Fund Manager. Additionally, a one-time fee of USD 25 per investor is charged as initial set-up cost and USD 5 is charged per transaction involving dividend processing and distribution.

c) *Balances*

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

	30 June 2017 USD (Unaudited)	31 December 2016 USD (Audited)
Due to related parties		
Management fee payable to the Fund Manager	323,590	156,967
Registrar and transfer agent fee payable	9,405	8,780
	<u>332,995</u>	<u>165,747</u>

The Fund does not have investments at fair value through profit or loss included in equity investments that are held by a related party on behalf of the Fund.

d) *Transactions*

Transactions with related parties during the six month period ended 30 June included in the condensed interim statement of comprehensive income are shown below:

	2017 USD (Unaudited)	2016 USD (Unaudited)
Management fees	(166,623)	(139,587)
Registrar and transfer agent fee	(8,331)	(6,979)

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

7 Related parties (continued)

d) Transactions (continued)

The Fund is managed by the Fund Manager and there are no key management personnel of the Fund.

8 Net (loss)/ gain on investments at fair value through profit or loss

	2017 USD (Unaudited)	2016 USD (Unaudited)
Realised (loss)/ gain	(112,016)	388,121
Unrealised (loss)/ gain	(29,303)	6,666
	<u>(141,319)</u>	<u>394,787</u>

9 Financial assets and liabilities

The table below shows the classification of financial assets and liabilities.

	Loans and receivables USD	At fair value through profit or loss USD	Other amortised costs USD	Total USD
As at 30 June 2017 (Unaudited)				
<i>Financial assets</i>				
Investments at fair value through profit or loss	-	34,187,982	-	34,187,982
Other receivables	263,783	-	-	263,783
Cash and cash equivalents	2,400,980	-	-	2,400,980
	<u>2,664,763</u>	<u>34,187,982</u>	<u>-</u>	<u>36,852,745</u>
<i>Financial liabilities</i>				
Due to related parties	-	-	332,995	332,995
Other liabilities	-	-	76,425	76,425
	<u>-</u>	<u>-</u>	<u>409,420</u>	<u>409,420</u>

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Notes to the condensed interim financial statements for the six month period ended 30 June 2017

9 Financial assets and liabilities (continued)

	Loans and receivables USD	At fair value through profit or loss USD	Other amortised costs USD	Total USD
As at 31 December 2016 (Audited)				
<i>Financial assets</i>				
Investments at fair value through profit or loss	-	30,717,030	-	30,717,030
Other receivables and prepayments	2,899,489	-	-	2,899,489
Cash and cash equivalents	475,674	-	-	475,674
	<u>3,375,163</u>	<u>30,717,030</u>	<u>-</u>	<u>34,092,193</u>
<i>Financial liabilities</i>				
Due to related parties	-	-	165,747	165,747
Other liabilities	-	-	2,740,006	2,740,006
	<u>-</u>	<u>-</u>	<u>2,905,753</u>	<u>2,905,753</u>

All financial assets and liabilities are measured at amortized 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.

Financial instruments measured at fair value - hierarchy

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

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
As at 30 June 2017 (Unaudited)				
Investments at fair value through profit or loss	<u>33,858,162</u>	<u>-</u>	<u>329,820</u>	<u>34,187,982</u>
As at 31 December 2016 (Audited)				
Investments at fair value through profit or loss	<u>30,627,025</u>	<u>-</u>	<u>90,005</u>	<u>30,717,030</u>

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. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

9 Financial assets and liabilities *(continued)*

Financial instruments measured at fair value – hierarchy *(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 instruments 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.

All of the Funds' investments in quoted equity securities are held at fair value at the end of the reporting period and as at 31 December 2016, and are categorised under level 1 of the fair value hierarchy.

10 Redeemable units

The Fund's redeemable units are subject to a minimum subscription amount. The Fund has a cut-off date which is the last day the investment manager can accept duly completed subscription agreements or redemption notices. Redemption notices are subject to a minimum value. Under extraordinary circumstances, the Fund also has the ability to suspend redemptions or initiate compulsory redemption if this is deemed to be in the best interest of all unit holders. The relevant movements are shown on the condensed interim statement of changes in net assets attributable to holders of redeemable units. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 5 the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

The Fund's net asset value per unit is USD 4.80 as at 30 June 2017 and USD 4.71 as at 31 December 2016.

NBAD Sukuk Income Fund

Notes to the condensed interim financial statements for the six month period ended 30 June 2017

11 Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform to the presentation and accounting policies adopted in these condensed interim financial statements. Management believes that the current year presentation provides more meaningful information to the readers of the condensed interim financial statements.

These reclassifications did not have any material impact on the current or prior years' condensed interim statements of income or changes in net assets attributable to holders of redeemable units.

12 Other income

Other income relates to an adjustment made by the Fund Manager to reflect the repricing of a trade finance asset that was purchased by the Fund in 2015. Based on the new pricing model, NAV impact was calculated for investors that subscribed and redeemed during this period. A cumulative excess amount of USD 9,223 was redeemed from the Fund. The Fund Manager paid the excess amount to the Fund to reflect the adjustment.