

A) Investment Fund Information

1) Name of investment fund

ALBILAD Saudi Sovereign Sukuk ETF

2) Investment objectives, policies and polices

Albilad Saudi Sovereign Sukuk ETF seeks to track the performance of the Al-Bilad Ideal Ratings Saudi Domestic Sukuk Index, which consists of Saudi sovereign sukuk denominated in the Saudi riyal and listed on the main Saudi Stock Exchange (Tadawul) and linked to a market maker, with the remaining maturity of 3 months or more

3) Distribution of income and gain policy

The fund shall distribute the cash surplus represented by the returns received from the sukuk in the form of monthly distributions to the unit holders registered in the register of unit holders on the last working day of the month (maturity date). Profits will be distributed within ten working days after the end of the last working day of the month (the date of distribution). The fund manager has the right not to distribute cash if no dividends are received from the sukuk

4) the fund's Reports are available upon request free of charge

5) Description of the fund's benchmark and the service provider's website (if any)

a component of the Saudi sovereign sukuk denominated in the Saudi riyal and listed on the main Saudi stock exchange (Tadawul) and linked to a market maker, with a remaining maturity of 3 months or more.

B) Fund Performance

1) Comparative table covering the last 3 financial years (or since inception)

* Trading date for the fund was February 2020

| | 2020 | 2021 |
|--|-------------|-------------|
| the fund net assets value at the end of each financial year | 166,705,306 | 173,507,206 |
| the fund net assets value per unit at the end of each financial year | 10.0425 | 9.5334 |
| highest net asset value per unit for each financial year. | 10.4446 | 10.1593 |
| lowest net asset value per unit for each financial year. | 9.6592 | 9.5225 |
| the number of units in issue at the end of each financial year. | 19,800 | 18,200 |
| income distribution per unit | 2,064,934 | 5,802,939 |
| expense ratio. | 0.27% | 0.31% |
| Percentage of borrowed assets from the total asset value, the | - | - |
| period of their exposure period and due date (if any) | - | - |
| Results of comparing the performance of the benchmark with the performance of the fund | -1.4% | -2.8% |

Albilad Capital Headquarters:

Telephone: +966 920003636
Fax: +966 11 2906299
PO Box: 140 Riyadh 11411, Saudi Arabia

For more information contact us at:

Asset Management
Telephone: +966 11 2039888
Fax: +966 11 2039899
Website: <http://www.albilad-capital.com/En/AssetManagement>



Disclaimer: Past performance of the fund is no guide to future performance and the value of investments and income from them can fall as well as rise. Where included, benchmark and index data included in this document are provided for illustrative purposes only To ensure proper understanding of the product and its suitability to the investor's risk profile, it is strongly recommend that the investor read the agreement and the terms and conditions of the fund. All rights reserved to Albilad Investment Company 2021© . (Commercial Registration No. 1010240489) dated 10/07/2017 G, 10/16/1438 H, and is regulated by Saudi Arabia's Capital Market Authority (license No. 08100-37) dated 01/08/1428H 14/08/2007

ALBILAD SAUDI SOVEREIGN SUKUK ETF

2. Performance Record

The total return for one year, three years and five years (and since inception (where applicable)

* Trading date for the fund was February 2020

| | 1Year | 3 Years | 5 Years | Since Inception |
|--------------|-------|---------|---------|-----------------|
| total return | -5.1% | - | - | -4.67% |

the Annual total return for each of the last 10 financial years (or since inception)

| | Since Inception | 2020 | 2021 |
|---------------------|-----------------|------|-------|
| Annual total return | -4.67% | 0.4% | -5.1% |

a table showing actual fees and fund expenses paid by the investment fund during the year. The Total Expense Ratio should also be clearly disclosed. If there are any circumstances in which a fund manager may elect to waive or rebate any fees, this must also be disclosed.

| | Net Value | Expenses Ratio to Average NAV |
|---------------------------|-----------|-------------------------------|
| Subscription Fees | - | - |
| Management Fees | 242,381 | 0.13 % |
| Purification Fees | - | - |
| Audit Fees | 25,000 | 0.01% |
| Custody Fees | 96,955 | 0.05% |
| Other Expenses | 4,000 | 0.002% |
| Board Member Remuneration | 5,000 | 0.003% |
| Publishing Fees | 7,500 | 0.04% |
| Benchmark Fees | 30,000 | 0.02% |
| VAT | 93,759 | 0.05% |
| Dealing Expenses | - | - |
| Fund Administration Fees | - | - |
| Other Expenses | - | - |
| Edaa Expenses | 127,338 | 0.07% |
| Listing Fees | 43,562 | 0.02% |
| Total Expenses | 675,495 | 3.11% |

Fund Manager did not waive any fees during 2021

3.If there were material changes that occurred during the period and that affected the performance of the fund, these changes must be clearly disclosed

Not applicable

4.Disclosure of the exercise of annual voting rights and it must include the issuer's name and the date of the General Assembly and the subject of the vote and the decision to vote (agree / disagree / abstain from voting)

No general assembly has been attended.

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ALBILAD SAUDI SOVEREIGN SUKUK ETF

5) The fund's board annual report including but not limited to:

A) Names of the fund board members, and indicating membership type

| | |
|---------------------------------------|--|
| 1- Zaid bin Muhammad Saad Al-Mufraih | non-independent Chairman of the Board of Directors |
| 2- Haytham bin Sulaiman Al-Suhaimi | non-independent member of the Board of Directors |
| 3- Khalid Muhammad Abdullah Al-Sharif | independent member of the Board of Directors |
| 4- Omar Ali Bassal | independent member of the Board of Directors |

B) A brief about the fund board member's qualifications.

1. Mr. Zaid bin Muhammad Saad Al-Mufraih (Chairman of the Board of Directors)

Country Chief Financial Officer, more than 15 years of experience in the financial markets. He previously held several leadership positions in the banking and financial services sector in the Kingdom, through which he gained experience to lead investment organizations through the tasks and responsibilities assigned to him professionally and professionally.

2. Mr. Haytham bin Sulaiman Al-Suhaimi (non-independent member of the Board of Directors)

He holds a master's degree in investment science and financing risks from the University of Westminster in London, United Kingdom, held several positions in management work at SAPIN UAE, and subsequent experiences since 2015 in Jadwa Investment and then Albilad Capital as a financial analyst in investment banking, private equity and business development. (Member of the Board of Directors and Vice President of Business Development at Albilad Capital)

3. MR. Khalid Muhammad Abdullah Al-Sharif (independent member of the Board of Directors)

Master of Business Administration from Al-Yamamah University in Riyadh. He has held the position of Executive Vice President of the Saudi Credit Information Company - SIMAH since August 2015 until then, and a member of the Board of Directors of Karar Consulting Company. And tasks during his career, which extends for more than 25 years, at the Saudi Arabian Monetary Agency, the Capital Market Authority, and the SIMAH Credit Rating Agency as the first Chairman of the Board of Directors for which he contributed mainly to its establishment. He participated in many supervisory and supervisory committees and workshops.

4. Mr. Omar Ali Bassal (independent member of the Board of Directors)

Master of Business Administration, Financial Management and Statistics, with honours, Mr. Omar has more than ten years of experience in the financial field and is currently the Director of Asset Management at the Mohammed Ibrahim Al-Subaie & Sons Company.

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C) Description of the roles and responsibilities.

The responsibilities of the fund's board members include, but are not limited to the following:

- Approval of all substantial contracts, decisions and reports to which the fund is a party, including, but not limited to, approval of contracts for the provision of management services to the fund and custody services contracts. This does not include contracts concluded in accordance with investment decisions regarding any investments made or to be made by the fund. In the future.
- Adopting a written policy regarding voting rights related to the fund's assets
- Approval of the appointment of the fund's external auditor to be nominated by the fund manager
- Supervising and, when appropriate, approving and approving any conflicts of interest disclosed by the fund manager
- Meeting at least twice annually with the Fund Manager's Compliance and Compliance Committee or its Compliance Officer to review the fund's compliance with all relevant laws, regulations and regulations.
- Ensuring the probability and accuracy of the terms and conditions of the fund, the information memorandum, and any other document (whether it is a contract or otherwise) that includes disclosures related to the fund, the fund manager and its management of the fund, in addition to ensuring that the foregoing is consistent with the provisions of the investment funds regulations.
- Ensure that the fund manager carries out his responsibilities in the interest of unit holders in accordance with the provisions of the investment funds regulations, the fund's terms and conditions and the information memorandum.
- Ensure that the fund manager is committed to disclosing material information for unit holders and other stakeholders
- Acting with honesty, good faith, concern, skill, diligence and diligence for the benefit of the fund and the unit holders. The duties of fund include the duty of sincerity, attention and reasonable diligence.
- Record meeting minutes showing the proceedings of the meetings and the decisions taken by the council.

D) Details on the remuneration of the fund board members

All independent board members of the fund board shall be granted a remuneration of SAR 40,000 annually maximum . (SAR 20,000 per independent member) for all meetings attended during the year for funds' managed by Albilad Capital, distributed equally on all mutual funds except Real estate funds. Remuneration shall be calculated on every valuation date cumulatively and will be deducted and paid once a year.

E) A statement of any conflict or potential conflict of interest between the interests of a fund board member and the interests of the fund.

There are no practical activities or interests of the fund manager or members of its board of directors that are likely to conflict with their responsibilities or performance towards the fund, and if any, they will be disclosed.

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ALBILAD SAUDI SOVEREIGN SUKUK ETF

F) A statement showing all the funds boards that the relevant board member is participating in.

| Fund Name | Zaid Al-mufarih | Haytham Al-Suhaimi | Khalid Al-Sharif | Omar Bassal |
|----------------------------------|--------------------------------|------------------------|--------------------|--------------------|
| Albilad Pure | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Saudi Equity Fund | | | | |
| Albilad SAR Murabaha Fund | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Kuwait Equity Fund | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Saudi Income Fund | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad GCC Income Fund | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Fund of REIT Funds | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Investment Fund 2 | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Nusaned Fund | | Non-independent member | | |
| Albilad Saudi Sovereign Sukuk | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| ETF | | | | |
| Albilad Gold ETF | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Diversified SAR Fund | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Albilad Hospitality Fund in Mak- | Chairman of Board of Directors | | independent member | |
| kah Al-Mukarramah | | | | |
| Dahia Investment Fund | Chairman of Board of Directors | | independent member | |
| Al Wasat Commercial Complex II | Chairman of Board of Directors | | independent member | |
| Fund | | | | |
| Canary Al-Khuzami Compound | Chairman of Board of Directors | | independent member | |
| Real Estate Fund | | | | |
| Ensan Endowment Investment | Chairman of Board of Directors | | independent member | |
| Fund | | | | |
| Medical Village Fund 1 | Chairman of Board of Directors | | independent member | |
| Al Muzdalafa Real Estate Com- | Chairman of Board of Directors | | independent member | |
| pound Fund | | | | |
| Safa Najd Fund | Chairman of Board of Directors | | independent member | |
| Albilad MSCI US Equity ETF | Chairman of Board of Directors | Non-independent member | independent member | independent member |
| Bilad Alawali Real Estate Fund I | Chairman of Board of Directors | | independent member | |

G) the topics discussed and issued resolutions, as well as the fund performance and fund achievement of its objective

Two board meeting were held during 2021. the first meeting take place at 28 July 2021 and the second meeting was at December 21, these are most points were discussed:

- The latest developments in the local and the global markets.
- Fund performance
- Fund board evaluation

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C) Fund Manager

1) Name and address of the fund manager

Al-Bilad Investment Company "Al-Bilad Capital

King Fahd Branch Road - OLAYA 8162

Unit No. 22

Riyadh 12313-3701

Saudi Arabia.

Phone: 920003636 Fax: (966+) 112906299

Al-Bilad Investment Company website: www.albilad-capital.com

2) Names and addresses of sub-manager and/or investment advisor (if any)

Not applicable

3) Review of the investment activities during the period

During the year the fund mainly invested in Saudi sovereign sukuk denominated in Saudi riyals and listed on the Saudi market (Tadawul), and approved by the Shariah Board of the fund manager.

4) A report of investment fund performance during the period

The benchmark's performance during the period was better than the fund's performance by 1.4%. Where the fund achieved -5.1% in comparison with the benchmark's performance which achieved -3.7%

5) Details of any material changes to the Fund's Terms and Conditions

- Updating the fund's board of directors
- Updating the fund manager's board of directors

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ALBILAD SAUDI SOVEREIGN SUKUK ETF

6) Any other information that would enable unitholders to make an informed judgement about the fund's activities during the period

Not applicable

7) Any other information that would enable unitholders to make an informed judgment about the fund's activities during the period

Not applicable

8) A statement on any special commission received by the fund manager during the period, clearly identifying what they are and the manner in which they were utilized

Not applicable

9) Any other data and other information required by these Regulations to be included in this report.

Initiation of Registration process of the fund for zakat purposes with the General Authority for Zakat and Tax (GAZT)

10) Period for the management of the person registered as fund manager

Since February 2020—one Year and 11 months .

11) A disclosure of the expense ratio of each underlying fund at the end of year and the weighted average ratio of all underlying funds that invested in

Not applicable

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D) Custodian

1) Name and address of custodian

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Granada Oasis

2414 Al-SHUHADA District, Unit No. 69

Riyadh 13241-7279,

Saudi Arabia

Phone: +4865898/966114865866

Fax: +966114864859

Email: rcss@riyadcapital.com

2) Brief description of its duties and responsibilities

- The custodian is responsible for his obligations in accordance with the provisions of the Investment Funds Regulations, whether he performs his responsibilities directly or entrusts them to a third party under the provisions of the Investment Funds Regulations and the Saudi Stock Exchange Institutions Regulations. The custodian is responsible towards the fund manager and unit holders for the losses of the fund resulting from its fraud, negligence, misconduct or intentional default.
- The custodian is responsible for preserving and protecting the fund's assets for the benefit of the unit holders, and he is also responsible for taking all necessary administrative procedures in relation to preserving the fund's assets.
- The fund's assets are owned by the fund's unit holders collectively, and it is not permissible for the fund manager, sub-fund manager, custodian, sub-custodian, counselor or distributor to have any interest in the fund's assets or any claim therein, unless the fund manager or manager is The sub-fund, the custodian, the sub-custodian, the advising provider, or the distributor is the owner of the fund's units, within the limits of its ownership, or these claims were permitted under the provisions of the investment funds regulations and to be disclosed in the terms and conditions
- With the exception of the fund units owned by the fund manager, sub-fund manager, custodian, sub-custodian, counselor or distributor, and within the limits of what the debtor owns, the creditors of the fund manager, sub-fund manager, custodian or custodian, counselor or distributor may have no right to any claims or dues in the fund's money or assets

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E) Fund Operator

1) Name and address of Fund Operator

Albilad Investment Company "Albilad Capital"

8162 King Fahd Branch Road - Olaya

Unit No. 22

Riyadh 12313-3701

Kingdom of Saudi Arabia.

Telephone: 920003636 FAX: +966112906299

2) Brief description of its duties and responsibilities

1. The fund operator must establish a register of unitholders and must maintain it in the Kingdom.
2. The fund operator must maintain at least the following information in the register:
 - The name, address and contact numbers of each unitholder
 - The national identification number, residence number (Iqama), passport number or commercial registration number of the unitholder when applicable, or any other identification as determined by the Authority
 - The nationality of the unitholder
 - The date on which the unitholder was registered in the register
 - Details of all transactions in relation to units conducted by each unitholder
 - The current balance of the number of units (including fractions of a unit) held by each unitholder
 - Any restriction or right attached to units owned by the unitholder

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ALBILAD SAUDI SOVEREIGN SUKUK ETF

3. The fund operator must update the register of unitholders immediately to reflect changes to information referred to in Paragraph 2 above
4. The fund operator shall be responsible for the process of dividends distribution to unitholders.
5. The fund operator must process requests for subscriptions or redemption at the price calculated at the next valuation point following the deadline for submission of requests for subscription or redemption.
6. A fund operator must be obliged to meet subscription or redemption requests, subject to any provisions to the contrary in the public Fund's Terms and Conditions or in these Regulations.
7. The fund operator must pay the unitholder proceeds of redemption no later than the close of business on the fifth day at the latest of the following the valuation point at which the price for the redemption was determined.
8. The fund operator shall be responsible for valuing the assets of the public fund. In so doing, the fund operator shall conduct a full and fair valuation.
9. The assets of a public fund must be valued by the fund operator each dealing day at such time as specified in the Terms and Conditions of such public fund, and for the duration not exceeding one day from the deadline for submission of requests for subscription or redemption.
10. The fund operator must comply with the provisions of Annex (5) of these Regulations in relation to valuation of the public funds.
11. The fund operator shall be responsible for calculating the price of the units in a public fund that it operates. The price of units for subscriptions and redemptions on any dealing day shall be calculated by reference to the net asset value per unit of the public fund at the valuation point on the relevant dealing day.
12. The fund operator must state the Unit prices to at least four decimal places.
13. The fund operator must record each instance where an asset of the public fund is valued incorrectly or the price of a unit is calculated incorrectly
14. The fund operator must compensate all harmed unitholders (including former unitholders) as soon as reasonably practicable for all valuation or pricing errors

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E) Auditor

1) Name and address of auditor

PricewaterhouseCoopers

Kingdom of Saudi Arabia P.O. B. 8282 Riyadh 11482

Phone: +966112110400

Fax: +966112110401

Website: www.pwc.com

F) Financial Statements

Financial statements for the annual accounting period of the investment fund has been prepared in accordance with SOCPA standards. (Financial Statements attached)

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**ALBILAD SAUDI SOVEREIGN SUKUK ETF
(AN OPEN ENDED EXCHANGE TRADED INVESTMENT FUND MANAGED BY ALBILAD
INVESTMENT COMPANY)**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS AND THE FUND MANAGER**

FOR THE YEAR ENDED 31 DECEMBER 2021

**ALBILAD SAUDI SOVEREIGN SUKUK ETF
(AN OPEN ENDED EXCHANGE TRADED INVESTMENT FUND MANAGED BY ALBILAD INVESTMENT COMPANY)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

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Independent auditor's report to the unitholders and the Fund Manager of Albilad Saudi Sovereign Sukuk ETF

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Albilad Saudi Sovereign Sukuk ETF (the "Fund") as at 31 December 2021, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of income and other comprehensive income for the year then ended;
- the statement of changes in equity attributable to the unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. 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 code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

| | |
|------------------|---|
| Key Audit Matter | Valuation of investments at fair value through statement of income (FVSI) |
|------------------|---|

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

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



Independent auditor's report to the unitholders and the Fund Manager of Albilad Saudi Sovereign Sukuk ETF (continued)

Key audit matters

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

| Key audit matter | How our audit addressed the Key audit matter |
|--|--|
| <p>Valuation of investments at fair value through statement of income ("FVSI")</p> <p>As at 31 December 2021, the Fund held investments in listed sukuk amounting to Saudi Riyals 172.5 million which have been classified as held at fair value through statement of income ("FVSI"). These investments are carried at fair value with the corresponding fair value change recognized in the statement of income. The fair value of these investments is determined through obtaining market observable prices, as these are actively traded.</p> <p>The valuation of the Fund's investments at FVSI is considered a key audit matter due to the significance of such investments to the Fund's financial statements.</p> <p><i>Refer to Note 2.6.2 to the accompanying financial statements for the accounting policy of investments and Note 4 for related disclosure of investments held at FVSI.</i></p> | <p>We performed the following audit procedures:</p> <ul style="list-style-type: none">• Agreed the carrying value of investments held at FVSI to the underlying list of investments;• Obtained market prices as at 31 December 2021 from external sources for a sample of investments held by the Fund, recalculated the fair value of these investments as at 31 December 2021 and compared these to the values included in the list of investments; and• Assessed the adequacy of the disclosures in the financial statements. |

Other information

The Fund Manager is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Fund Board.

Responsibilities of the Fund Manager and the Fund Board for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority and the Fund's terms and conditions, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Fund Board is responsible for overseeing the Fund's financial reporting process.

Independent auditor's report to the unitholders and the Fund Manager of Albilad Saudi Sovereign Sukuk ETF (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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of Fund Manager'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 the Fund Board 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.

We also provide the Fund Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Fund Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers



Mudaffal A. Ali
License Number 447

30 March 2022



ALBILAD SAUDI SOVEREIGN SUKUK ETF
STATEMENT OF FINANCIAL POSITION
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | As at 31 December 2021 | As at 31 December 2020 |
|---|------|------------------------------|------------------------------|
| Assets | | | |
| Cash and cash equivalents | 3, 5 | 1,084,606 | 262,913 |
| Investments held at fair value through statement of income (FVSI) | 4 | 172,513,097 | 166,499,533 |
| Prepayments | | 7,766 | 10,705 |
| Total assets | | 173,605,469 | 166,773,151 |
| Liabilities | | | |
| Accrued management fee | 5 | 16,745 | 50,222 |
| Accruals and other liabilities | | 81,518 | 17,624 |
| Total liabilities | | 98,263 | 67,846 |
| Equity attributable to the unitholders | | 173,507,206 | 166,705,305 |
| Units in issue | | 18,200,000 | 16,600,000 |
| Equity per unit | | 9.5334 | 10.0425 |

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

ALBILAD SAUDI SOVEREIGN SUKUK ETF
STATEMENT OF INCOME AND OTHER COMPREHENSIVE INCOME
 (All amounts in Saudi Riyals unless otherwise stated)

| | | For the year ended | For the period from 17 February 2020 (date of commencement of operations) to 31 |
|--|------|---------------------------|---|
| | Note | 31 December 2021 | December 2020 |
| (Loss) / income | | | |
| Special commission income on investments held at FVSI | 4 | 5,959,624 | 3,662,417 |
| Unrealised loss on revaluation of investments held at FVSI | 4 | (2,708,182) | (1,204,693) |
| Realised loss on sale of investments held at FVSI | | <u>(5,350,967)</u> | <u>(915,664)</u> |
| Total loss | | <u>(2,099,525)</u> | <u>1,542,060</u> |
| Expenses | | | |
| Management fee | 5 | 242,381 | 50,222 |
| Custody fee | 5 | 96,955 | 37,334 |
| Other expenses | 6 | <u>336,159</u> | <u>148,044</u> |
| Total expenses | | <u>675,495</u> | <u>235,600</u> |
| Net (loss) / income for the year / period | | (2,775,020) | 1,306,460 |
| Other comprehensive income for the year / period | | <u>-</u> | <u>-</u> |
| Total comprehensive (loss) / income for the year / period | | <u>(2,775,020)</u> | <u>1,306,460</u> |

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

ALBILAD SAUDI SOVEREIGN SUKUK ETF
STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS
(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For the year ended 31 December 2021 | For the period from 17 February 2020 (date of commencement of operations) to 31 December 2020 |
|---|------|--|--|
| Equity attributable to the unitholders at the beginning of the year / period | | 166,705,305 | - |
| Changes from operations | | | |
| Total comprehensive (loss) / income for the year / period | | (2,775,020) | 1,306,460 |
| Changes from unit transactions | | | |
| Proceeds from issuance of units | | 54,762,323 | 167,463,779 |
| year / period Payment against units redeemed | | (39,382,463) | - |
| Net change from unit transactions | | 15,379,860 | 167,463,779 |
| Dividend paid | 7 | (5,802,939) | (2,064,934) |
| Equity attributable to the unitholders at the end of the year / period | | 173,507,206 | 166,705,305 |

Transactions in units are summarized as follows:

| | Note | For the year ended 31 December 2021 | For the period from 17 February 2020 (date of commencement of operations) to 31 December 2020 |
|--|------|--|--|
| Units at the beginning of the year / period | | 16,600,000 | - |
| Units issued | | 5,400,000 | 16,600,000 |
| Units redeemed | | (3,800,000) | - |
| Net change in units | | 1,600,000 | 16,600,000 |
| Units at the end of the year / period | | 18,200,000 | 16,600,000 |

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

ALBILAD SAUDI SOVEREIGN SUKUK ETF
STATEMENT OF CASH FLOWS
 (All amounts in Saudi Riyals unless otherwise stated)

| | | For the year ended | For the period |
|--|----------|-------------------------|--|
| | Note | 31 December 2021 | from 17 February 2020 (date of commencement of operations) to 31 December 2020 |
| Cash flows from operating activities | | | |
| Net (loss) / income for the year / period | | (2,775,020) | 1,306,460 |
| Adjustments for: | | | |
| - Unrealised loss on investments held at FVSI | 4 | 2,708,182 | 1,204,693 |
| - Special commission income on investments held at FVSI | 4 | (5,959,624) | (3,662,417) |
| | | <u>(6,026,462)</u> | <u>(1,151,264)</u> |
| Net changes in operating assets and liabilities | | | |
| Investments held at FVSI | | (8,663,887) | (165,805,566) |
| Prepayments | | 2,939 | (10,705) |
| Accrued management fee | | (33,477) | 50,222 |
| Accruals and other liabilities | | 63,894 | 17,624 |
| Cash used in operations | | <u>(14,656,993)</u> | <u>(166,899,689)</u> |
| Profit received on investment in sukuk | 4 | <u>5,901,765</u> | <u>1,763,757</u> |
| Net cash used in operating activities | | <u>(8,755,228)</u> | <u>(165,135,932)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issuance of units | | 54,762,323 | 167,463,779 |
| Payment against units redeemed | | (39,382,463) | - |
| Dividend paid | 7 | (5,802,939) | (2,064,934) |
| Net cash generated from financing activities | | <u>9,576,921</u> | <u>165,398,845</u> |
| Net change in cash and cash equivalents | | 821,693 | 262,913 |
| Cash and cash equivalents at the beginning of the year / period | | <u>262,913</u> | <u>-</u> |
| Cash and cash equivalents at the end of the year / period | 3 | <u>1,084,606</u> | <u>262,913</u> |

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

**ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**
(All amounts in Saudi Riyals unless otherwise stated)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Albilad Saudi Sovereign Sukuk ETF (the “Fund”) is an open-ended exchange traded investment fund, managed by Albilad Investment Company (the “Fund Manager”), a subsidiary of Bank Albilad (the “Bank”) for the benefit of the Fund’s unitholders (the “unitholders”). The objective of the Fund is to seek to simulate the performance of Albilad Ideal Ratings sovereign Sukuk index, which includes Saudi Riyals denominated Sukuk, listed in the Saudi Exchange, with a maturity of 3 months or more.

In dealing with the unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, the unitholders are considered to be the beneficial owners of the assets of the Fund.

Riyad Capital is the custodian (“the Custodian”) of the Fund.

In August 2019, the Capital Market Authority (“CMA”) approved Albilad Investment Co.’s request to offer and register “Albilad Saudi Sovereign Sukuk ETF” units on Saudi Exchange as Exchange Traded Fund (ETF). The Fund started trading on Saudi Exchange as an ETF on Jumada Al-Thani 22, 1441H (corresponding to February 17, 2020, with the symbol 9403).

According to the Terms and Conditions of the Fund, its first annual financial period starts from the commencement date of its operations i.e. Jumada Al-Thani 22, 1441H (corresponding to February 17, 2020) to 31 December 2020. According to the Terms and Conditions of the Fund, the financial statements for the subsequent period will be prepared from 1 January to 31 December.

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) as amended by the resolution of the CMA Board on 12 Rajab 1442H (corresponding to 24 February 2021).

1.1 PRIMARY MARKET OPERATION (ISSUANCE AND REDEMPTION OF UNITS)

The primary market operations are only carried out by the Fund Manager and the authorized Market Maker. The Issuance and Redemption activities are done on the basis of blocks of exchange traded fund (ETF) units (for the Fund, one block equals 100,000 ETF Units), referred to Issuance and Redemption of Units respectively. The process of issuance and redemption of ETF units is on an in-kind basis whereby the Fund Manager and the Market Maker interexchange ETF Units of the Fund and the basket of assets (sukuk), through the custodian, for the purpose of issuance and redemption of ETF units. The issued units are then freely floated on Saudi Exchange for public trading.

2 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 unless otherwise stated.

2.1 Basis of preparation

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRS), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

The financial statements have been prepared on a historical cost convention, except for the investments which are held at fair value through statement of income (FVSI).

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

The Fund can recover or settle all its assets and liabilities within 12 months from the reporting date.

2.2 Significant accounting estimates and judgments

The preparation of these financial statements requires management 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. There are no areas of significant judgment or significant assumption used in the preparation of these financial statements.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts in Saudi Riyals unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policy and disclosures

(i) New standards effective in current year

The International Accounting Standards Board (IASB) has issued the following amendments to accounting standards, which are effective from 1 January 2021 but do not have any significant impact on the financial statements of the Fund.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient.
- Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2.

(ii) Accounting standards issued but not yet effective

The International Accounting Standard Board (IASB) has issued following standards and amendments which are effective from periods beginning on or after 1 January 2022. The Fund has opted not to early adopt these pronouncements and they are not expected to have a significant impact on the financial statements of the Fund.

- (a) A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16.
- (b) Amendments to IFRS 16, 'Leases' – COVID-19 related rent concession Extension of the practical Extension of the practical expedient.
- (c) Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities.
- (d) Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8.
- (e) Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction.
- (f) IFRS 17, 'Insurance contracts', as amended in June 2020.
- (g) A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts.

2.4 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). These financial statements are presented in Saudi Riyals ("SAR") which is the Fund's functional and presentation currency. All financial information presented in SAR has been rounded to the nearest Saudi Riyal.

Foreign currency transactions are translated into SAR using the exchange rates prevailing at the date of transactions. Foreign currency monetary assets and liabilities are translated into SAR using the exchange rates prevailing at the reporting date. Foreign exchange gains and losses arising from the translation of monetary assets and liabilities at exchange rate prevailing at the reporting date and from the settlement of transactions are included in the statement of income. However, the Fund did not have any foreign currency transactions during the year.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise balance with a Bank and balance held in a Custodian account. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts in Saudi Riyals unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments

2.6.1 Measurement methods

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument i.e. Trade date.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through statement of income (FVSI), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVSI are expensed in the statement of income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an impairment loss being recognised in the statement of income / (loss) when an asset is newly originated.

2.6.2 Classification and measurement of financial instruments

The Fund classifies its equity instruments at FVSI and other financial assets at amortised cost. The classification requirements for equity and debt instruments are described below:

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's equity.

The Fund classifies its investments as held at FVSI. The Fund subsequently measures all equity investments at FVSI, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income (FVOCI). The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of income when the Fund's right to receive dividend is established.

The subsequent unrealised revaluation gains / loss on investment held at FVSI is recognised in statement of income.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective.

Classification and subsequent measurement of debt instruments depend on:

- The Fund's business model for managing the asset; and
- The cash flow characteristics of the asset.

Business model: The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVSI.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts in Saudi Riyals unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

Factors considered by the Fund in determining the business model for a group of assets include:

- past experience on how the cash flows for these assets were collected;
- how the asset's performance is internally evaluated and reported to key management personnel;
- how risks are assessed and managed; and
- how managers are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Debt securities held for trading, if any, are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVSI.

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. profit (or special commission income) includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVSI.

Based on the business model and cash flow characteristics, the debt financial assets can be classified as held at amortised cost, FVSI and FVOCI:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVSI, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 2.6.3. Profit earned if any from these financial assets is recognised in the statement of income using the effective commission rate method.

Fair value through statement of income (FVSI): If debt instrument's cash flows do not represent solely SPPP or if it is not held within the held to collect or the held to collect and sell business model, or if it is designated at FVSI, then it is measured at FVSI. A gain or loss on a debt investment measured at FVSI is recognised in the statement of income, within "Net gain / (loss) in investments mandatorily measured at FVSI", in the year in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments at FVSI"

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVSI, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost, which are recognised in statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting year following the change. Such changes are expected to be very infrequent and none occurred during the year.

Based on the above evaluation, Fund has classified its investment in Saudi sovereign sukuk as at fair value through statement of income (FVSI).

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
(All amounts in Saudi Riyals unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial instruments (continued)

2.6.3 Impairment of financial assets measured at amortised cost

The Fund assesses, on a forward-looking basis, the expected credit losses (“ECL”) associated with its debt financial assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Under IFRS 9, loss allowances is measured on either of the following bases:

- (a) *12-month ECLs: these ECLs that result from possible default events within the 12 months after the reporting date; and*
- (b) *lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.*

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

2.6.4 De-recognition of financial instruments

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred and the transfer qualifies for de-recognition. In instances where the Fund is assessed to have transferred a financial asset, the asset is derecognized if the Fund has transferred substantially all the risks and rewards of ownership. Where the Fund has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Fund has not retained control of the financial asset. The Fund recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability is derecognized only when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expired.

2.7 Offsetting

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

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2021
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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Accruals and other liabilities

Liabilities are recognised for amounts to be paid for goods or services received whether or not billed to the Fund. Accruals and other liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

2.9 Equity attributable to the unitholders

Equity attributable to the unitholders is made up of units in issue and retained earnings.

Redeemable Units

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

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

In addition - in order to classify instruments as equity - 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 equity or the change in the fair value of the recognised and unrecognised equity of the Fund
- The effect of substantially restricting or fixing the residual return to the instrument holders.

The Fund's redeemable participating units meet the definition of puttable instruments classified as equity instruments under IAS 32.16A-B and accordingly, are classified as equity instruments.

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have any of the features or meet all the conditions set out in paragraphs 16A and 16B of IAS 32, 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 attributable to unitholders. If the redeemable units subsequently have all the features and meet the conditions set out in paragraphs 16A and 16B of IAS 32, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification. The subscription and redemption of redeemable units are accounted for as equity transactions as long as units are classified as equity.

Subscription and redemption of units: Units subscribed and redeemed are recorded at net asset value (equity) per unit on the Valuation Day for which the subscription request and redemption applications are received.

The Fund's distributions are classified as dividends paid in the statement of changes in equity attributable to the unitholders.

2.10 Taxation

Taxation is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

2.11 Zakat

Zakat is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Value added tax (VAT)

Output VAT related to revenue is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of services to customers. The other entities that transact business with the Fund withhold taxes or recover VAT on services rendered to the Fund. As the Fund cannot recover these amounts, these are expensed in the Statement of Income.

2.13 Income recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, taxes and rebates.

Realised gain / (loss) on disposal of investments held at FVSI is measured as the difference between the sales proceed and the carrying value before disposal.

Investment purchases are accounted for using the weighted average cost method.

In accordance with the Shari'a Board's resolutions, income prohibited by Sharia received by the Fund is excluded from the determination of income and is recorded as other liabilities in the statement of financial position. Such amount is determined based on the information available to the Fund Manager on the nature of earnings of investees upon the preparation of these financial statements. Income prohibited by Sharia is paid to charities on a quarterly basis.

2.14 Dividend distribution

The Fund shall distribute the cash surplus represented by the returns received from the sukuk in the form of monthly distributions to the unit holders registered in the register of unit holders on the last working day of the month (maturity date). Profits will be distributed within ten working days after the end of the last working day of the month (the date of distribution). The Fund Manager has the right not to distribute cash if no dividends are received from the sukuk.

3 CASH AND CASH EQUIVALENTS

| | Note | As at 31 December 2021 | As at 31 December 2020 |
|----------------------------|------|------------------------------|------------------------------|
| Bank balance | 5 | - | 31,344 |
| Balance with the Custodian | 5 | 1,084,606 | 231,569 |
| | | 1,084,606 | 262,913 |

4 INVESTMENT HELD AT FAIR VALUE THROUGH STATEMENT OF INCOME (FVSI)

The following table represents the movement of investments in sukuk held at FVSI:

| | 2021 | 2020 |
|--|---------------------|--------------------|
| Balance as at 1 January / 17 February | 166,499,533 | - |
| Purchased during the year / period | 98,818,741 | 197,517,774 |
| Sold during the year / period | (90,154,854) | (31,712,208) |
| Profit from sukuk | | |
| - recognised in the statement of income | 5,959,624 | 3,662,417 |
| - received during the year / period | (5,901,765) | (1,763,757) |
| Unrealised loss on revaluation of investments held at FVSI | (2,708,182) | (1,204,693) |
| Balance as at 31 December | 172,513,097 | 166,499,533 |

ALBILAD SAUDI SOVEREIGN SUKUK ETF
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5 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise the Fund Manager, Custodian, other funds managed by the Fund Manager, Directors, key management personnel and any businesses which are controlled, either directly or indirectly, by the unitholders or over which they exercise significant influence ("affiliate"). The Fund enters into transactions in the normal course of business with these parties at prices and terms agreed between the parties.

Management fee and other expenses

The Fund pays 1.5% of the equity value at each Valuation Day as total expense out of which management fee is paid as remaining item after deducting all expenses of the Fund.

The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in the Terms and Conditions of the Fund.

Transactions with related parties

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are in accordance with the terms and conditions of the Fund. All the related party transactions are approved by the Fund Board.

Following table summarises the details of transactions with related parties:

| Related party | Nature of relationship | Nature of transaction | Note | For the year ended 31 December 2021 | For the period from 17 February 2020 (date of commencement of operations) to 31 December 2020 |
|----------------------------|-------------------------------|------------------------------|-------------|--|--|
| AlBilad Investment Company | Fund Manager | Management fee | | 242,381 | 50,222 |
| Riyad Capital | Custodian of the Fund | Custody fee | | 96,955 | 37,334 |
| Fund Board | Members of the Fund Board | Fund Board fee | 6 | 4,000 | 4,000 |

Following table summarises the details of balances with related parties:

| Nature of balance | Related Party | Note | As at 31 December 2021 | As at 31 December 2020 |
|---------------------------|---|-------------|-------------------------------|-------------------------------|
| Cash and cash equivalents | Albilad Investment Company | 3 | - | 31,344 |
| Cash and cash equivalents | Riyad Capital - Custodian of the Fund | 3 | 1,084,606 | 231,569 |
| Custody fee payable | Riyad Capital - Custodian of the Fund | | 7,516 | 37,334 |
| Fund Board fee payable | Members of the Fund Board | | 4,000 | 4,000 |
| Accrued management fee | Albilad Investment Company – Fund Manager | | 16,745 | 50,222 |

ALBILAD SAUDI SOVEREIGN SUKUK ETF
NOTES TO THE FINANCIAL STATEMENTS (continued)
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6 OTHER EXPENSES

| | Note | For the year ended 31 December 2021 | For the period from 17 February 2020 (date of commencement of operations) to 31 December 2020 |
|-------------------------|------|---|--|
| Edaa fees | | 170,900 | 44,752 |
| Benchmarking expense | | 30,000 | 26,219 |
| Value added tax expense | | 93,759 | 25,573 |
| Fund Board fee | 5 | 4,000 | 4,000 |
| Other expenses | | 37,500 | 47,500 |
| | | 336,159 | 148,044 |

7 DIVIDEND DISTRIBUTION

During the year, the Fund has distributed the following dividends to the unitholders:

| Date of distribution | Outstanding units | Dividend per unit | Dividend amount |
|----------------------|----------------------|-------------------|--------------------|
| 14 February 2021 | 17,500,000 | 0.0499 | 873,266 |
| 14 March 2021 | 19,200,000 | 0.0194 | 372,687 |
| 14 April 2021 | 19,800,000 | 0.0314 | 621,156 |
| 19 May 2021 | 19,800,000 | 0.0506 | 1,002,048 |
| 11 August 2021 | 21,100,000 | 0.0518 | 1,094,098 |
| 13 September 2021 | 21,900,000 | 0.0165 | 361,584 |
| 14 October 2021 | 20,200,000 | 0.0355 | 716,921 |
| 14 November 2021 | 19,000,000 | 0.0400 | 761,178 |
| | | | 5,802,939 |

| Date of distribution | Outstanding units | Dividend per unit | Dividend amount |
|----------------------|----------------------|-------------------|--------------------|
| 1 April 2020 | 3,200,000 | 0.0519 | 166,080 |
| 4 May 2020 | 3,600,000 | 0.0674 | 242,604 |
| 5 August 2020 | 7,800,000 | 0.0366 | 284,700 |
| 31 August 2020 | 8,800,000 | 0.0233 | 205,040 |
| 30 September 2020 | 12,400,000 | 0.0342 | 423,956 |
| 1 November 2020 | 13,700,000 | 0.0542 | 742,554 |
| | | | 2,064,934 |

ALBILAD SAUDI SOVEREIGN SUKUK ETF
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8 FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

Determination of fair value and fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

The fair values of financial instruments which are not measured at fair value in these financial statements are not significantly different from the carrying values included in the financial statements.

| At 31 December 2021 | Carrying amount | Fair value | | | Total |
|---|-----------------|------------|-------------|-----------|-------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value | | | | | |
| <i>Investments held at FVSI</i> | 172,513,097 | - | 172,513,097 | - | 172,513,097 |
| | 172,513,097 | - | 172,513,097 | - | 172,513,097 |
| Financial assets not measured at fair value | | | | | |
| Cash and cash equivalents | 1,084,606 | - | - | 1,084,606 | 1,084,606 |
| | 1,084,606 | - | - | 1,084,606 | 1,084,606 |
| Financial liabilities not measured at fair value | | | | | |
| Accrued management fee | 16,745 | - | - | 16,745 | 16,745 |
| Accrual and other liabilities | 65,455 | - | - | 65,455 | 65,455 |
| | 82,200 | - | - | 82,200 | 82,200 |

| At 31 December 2020 | Carrying amount | Fair value | | | Total |
|---|-----------------|------------|-------------|---------|-------------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value | | | | | |
| <i>Investments held at FVSI</i> | 166,499,533 | - | 166,499,533 | - | 166,499,533 |
| | 166,499,533 | - | 166,499,533 | - | 166,499,533 |
| Financial assets not measured at fair value | | | | | |
| Cash and cash equivalents | 262,913 | - | - | 262,913 | 262,913 |
| | 262,913 | - | - | 262,913 | 262,913 |
| Financial liabilities not measured at fair value | | | | | |
| Accrued management fee | 50,222 | - | - | 50,222 | 50,222 |
| Accrual and other liabilities | 17,624 | - | - | 17,624 | 17,624 |
| | 67,846 | - | - | 67,846 | 67,846 |

Level 2 financial instruments comprise of investments in Saudi Government Sukuks which are fair valued using quoted rate on Saudi Exchange.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
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9 FINANCIAL RISK MANAGEMENT

9.1 Financial risk factors

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its unitholders and to ensure reasonable safety to the unitholders.

The Fund's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

(a) *Market risk*

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk, commission rate risk and price risk.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

All the Fund's transactions and balances are in Saudi Riyals and therefore the Fund is not exposed to foreign exchange risk.

(ii) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates. Fund has all its investment in fixed rate Saudi Government Sukuks, therefore, Fund is not exposed to commission rate risk.

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of the financial instruments that the Fund holds. The Fund Manager closely monitors the price movement of its financial instruments listed at Saudi Exchange.

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9 FINANCIAL RISK MANAGEMENT (continued)

9.1 Financial risk factors (continued)

The effect on the equity attributable to the unitholders (as a result of the change in the fair value of sukuk investments held at FVSI as at 31 December 2021) due to a reasonably possible change in prices of sukuk investments based on the market concentration, with all other variables held constants is as follows:

| | 31 December 2021 | |
|---|--|-------------------------|
| Financial instrument subject to price risk | Potential reasonable change % | Effect on equity |
| Revaluation gain / loss on Sukuk investments held at FVSI | +/- 5 | +/-8,625,655 |
| | 31 December 2020 | |
| Financial instrument subject to price risk | Potential reasonable change % | Effect on equity |
| Revaluation gain / loss on Sukuk investments held at FVSI | +/- 5 | +/- 8,324,977 |

(b) *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 maximum exposure to credit risk amounts to Saudi Riyals 173,597,703. It majorly includes investment in Saudi Government Sukuk which have the sovereign rating and is held at fair value. The bank balance held with a Bank and with the Custodian has a sound credit rating and has low credit risk.

All financial assets at amortised cost were considered for ECL as on 31 December 2021. However, the impact of ECL on these assets was immaterial as the cash and cash equivalents are held with a Bank and the Custodian with sound credit ratings. There is no history of default for recovery of these balances. Further the sukuk are carried at FVSI.

(c) *Liquidity risk*

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund's terms and conditions provide for subscription and redemption of units on every Valuation Day and it is, therefore, exposed to the liquidity risk of meeting redemptions at any time. The Fund's securities are considered to be readily realizable and they can be liquidated at any time. However, the Fund Manager has established certain liquidity guidelines for the Fund and monitors liquidity requirements on a regular basis to ensure sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by obtaining financing from the related parties of the Fund.

Fund settles its financial liabilities relating to accrued management fee and other expenses on quarterly basis.

The Fund manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through obtaining loan from related party, or liquidation of its investments.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
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9 FINANCIAL RISK MANAGEMENT (continued)

9.1 Financial risk factors (continued)

Following table shows the Fund manager's expectation of timing for settlement of financial liabilities:

As at 31 December 2021

| Financial assets | Less than 7 days | 7 days to 1 month | 1-12 months | More than 12 months | Total |
|--------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|--------------------|
| Cash and cash equivalents | 1,084,606 | - | - | - | 1,084,606 |
| Investments held at FVSI | - | 1,667,489 | 170,845,608 | - | 172,513,097 |
| | 1,084,606 | 1,667,489 | 170,845,608 | - | 173,597,703 |
| Financial liabilities | | | | | |
| Accrued management fee | - | - | 16,745 | - | 16,745 |
| Accruals and other liabilities | - | - | 65,455 | - | 65,455 |
| | - | - | 82,200 | - | 82,200 |
| Liquidity gap | 1,084,606 | 1,667,489 | 170,763,408 | - | 173,515,503 |

As at 31 December 2020

| Financial assets | Less than 7 days | 7 days to 1 month | 1-12 months | More than 12 months | Total |
|--------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|--------------------|
| Cash and cash equivalents | 262,913 | - | - | - | 262,913 |
| Investments held at FVSI | - | 1,609,631 | 164,889,902 | - | 166,499,533 |
| | 262,913 | 1,609,631 | 164,889,902 | - | 166,762,446 |
| Financial liabilities | | | | | |
| Accrued management fee | - | - | 50,222 | - | 50,222 |
| Accruals and other liabilities | - | - | 17,624 | - | 17,624 |
| | - | - | 67,846 | - | 67,846 |
| Liquidity gap | 262,913 | 1,609,631 | 164,822,056 | - | 166,694,600 |

9.2 Capital risk management

The capital of the Fund is represented by the equity attributable to the unitholders. The amount of equity attributable to the unitholders can change significantly on each valuation day, as the Fund is subject to subscriptions and redemptions at the discretion of unitholders on every Valuation Day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain the capital structure, the Fund's policy is to monitor the level of subscriptions and redemptions relative to the assets it expects to be able to liquidate and adjust the amount of dividend distributions the Fund pays to redeemable unitholders.

The Fund Board and Fund Manager monitor capital on the basis of the value of equity attributable to the unitholders.

ALBILAD SAUDI SOVEREIGN SUKUK ETF
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10 FINANCIAL INSTRUMENTS BY CATEGORY

| Financial assets | Amortised cost | FVSI |
|---------------------------|-----------------------|--------------------|
| 31 December 2021 | | |
| Cash and cash equivalents | 1,084,606 | - |
| Investments held at FVSI | - | 172,513,097 |
| Total | 1,084,606 | 172,513,097 |

| Financial liabilities | Amortised cost | |
|--------------------------------|-----------------------|---------------|
| 31 December 2021 | | |
| Accrued management fee | | 16,745 |
| Accruals and other liabilities | | 65,455 |
| Total | | 82,200 |

| Financial assets | Amortised cost | FVSI |
|---------------------------|-----------------------|--------------------|
| 31 December 2020 | | |
| Cash and cash equivalents | 262,913 | - |
| Investments held at FVSI | - | 166,499,533 |
| Total | 262,913 | 166,499,533 |

| Financial liabilities | Amortised cost | |
|--------------------------------|-----------------------|---------------|
| 31 December 2020 | | |
| Accrued management fee | | 50,222 |
| Accruals and other liabilities | | 17,624 |
| Total | | 67,846 |

11 LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements was 31 December 2021 (2020: 31 December 2020).

12 IMPACT OF COVID-19 ON THE FUND

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing issues due to identification of multiple new variants of this infection. Despite having previously controlled the outbreak through aggressive precautionary measures. The Government of the Kingdom of Saudi Arabia, however, managed to successfully control the outbreak to date.

As the Fund operates in the business of fixed rate sukuk investments, therefore, the Fund’s performance is not materially affected from the decline in index rates due to the COVID-19. The Fund Manager will continue to follow the Government’s policies and advice and, in parallel, the Fund will do the utmost to continue operations in the best and safest way possible without jeopardising the health and safety of the Fund Manager’s employees.

13 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issues by the Fund Board on 29 March 2022.