

**ALINMA SAUDI GOVERNMENT SUKUK ETF
FUND – SHORT MATURITY**
(An exchange-traded fund)
Managed by Alinma Investment Company
FINANCIAL STATEMENTS
For the period from 1 January 2020
(date of inception) to 31 December 2020
together with the
INDEPENDENT AUDITOR’S REPORT

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

FINANCIAL STATEMENTS

For the year ended 31 December 2020

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent Auditor's Report

To the Unitholders of Alinma Saudi Government Sukuk ETF Fund – Short Maturity

Opinion

We have audited the financial statements of **Alinma Saudi Government Sukuk ETF Fund – Short Maturity** (the "Fund") managed by Alinma Investment Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in net assets (equity) attributable to the Unitholders and cash flows for the period from 1 January 2020 (date of inception) to 31 December 2020, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the period from 1 January 2020 (date of inception) to 31 December 2020 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 Certified Public Accountants ("SOCPA").

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 are independent of the Fund in accordance with the professional code of conduct and ethics that are 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

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 the matter was address in our audit
<p>Expected credit loss allowance for investments at amortised cost</p> <p>At 31 December 2020, gross investment carried at amortised cost amounts to Saudi Riyals ("SAR") 1,247.8 million against which an expected credit loss ("ECL") allowance of SR 0.2 million was maintained.</p> <p>We considered ECL allowance of investments at amortised cost as a key audit matter as the determination of ECL involve significant management judgement.</p>	<ul style="list-style-type: none"> We obtained understanding of management's assessment of ECL allowance against the investments at amortised cost including internal rating model, accounting policy and model methodology. We checked compliance of the Fund's accounting policy for ECL allowance and the ECL methodology with the requirements of IFRS 9 <i>Financial Instruments</i>.



Independent Auditor's Report

To the Unitholders of Alinma Saudi Government Sukuk ETF Fund – Short Maturity (continued)

Key Audit Matter (continued)

Key audit matter	How the matter was address in our audit
<p><i>Expected credit loss allowance against investments at amortised cost (continued)</i></p> <p>The key areas of judgment included:</p> <ol style="list-style-type: none"> 1. Categorisation of sukuk investments into stages 1, 2 and 3 based on the identification of Exposure with a significant increase in credit Risk ("SICR") since their origination. 2. Assumptions used in the ECL model for determining the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including but not limited to assessment of financial condition of counterparty, expected future cashflows and incorporating macroeconomic factors. <p>Application of these judgements, particularly in light of the global pandemic, have given rise to greater estimation uncertainty and the associated audit risk around ECL calculation as at 31 December 2020.</p> <p><i>Refer to the summary of significant accounting policies note 5 (b) for the expected credit losses allowance of financial assets; note 4(d) which contains the disclosure of critical accounting judgements, estimates and assumptions relating to ECL on financial assets and the expected credit losses allowance assessment methodology used by the Fund, note 4(d); and note 12 for details of credit quality analysis of ECL.</i></p>	<ul style="list-style-type: none"> ● We assessed the ratings determined by Fund and considered these assigned rating in light of the external market conditions and available industry information and also assessed that these were consistent with the ratings used as input in the ECL model; ● We assessed the staging as identified by the Fund and Fund Manager's computations for ECL. ● We assessed the reasonableness of the underlying assumptions used by the Fund in the ECL model. ● We tested completeness and accuracy of data used in the ECL calculations as at 31 December 2020. ● We involved our specialist to assist us in reviewing the model calculation, evaluation of interrelated inputs and assessing the reasonableness of the assumptions underpinning the ECL model. ● We assessed the adequacy of 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. The annual report 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 when it becomes available 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, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Independent Auditor's Report

To the Unitholders of Alinma Saudi Government Sukuk ETF Fund – Short Maturity (continued)

Responsibilities of Fund Manager and those charged with governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum 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.

Those charged with governance, the Fund Board, are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 judgement 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, then 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.



Independent Auditor's Report

To the Unitholders of Alinma Saudi Government Sukuk ETF Fund – Short Maturity (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Alinma Saudi Government Sukuk ETF Fund – Short Maturity** (the "Fund").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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.

KPMG Professional Services

Khalil Ibrahim Al Sedais
License No: 371



Riyadh, 1 April 2021
Corresponding to 19 Sha'ban 1442H

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<u>Note</u>	<u>31 December</u> <u>2020</u>
ASSETS		
Investments at amortised cost	6	1,247,571,295
Cash and cash equivalents	7	8,494,622
Total assets		<u>1,256,065,917</u>
LIABILITIES		
Accrued management fee	10	<u>313,993</u>
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		<u>1,255,751,924</u>
Units in issue (Numbers)	10.2	<u>12,500,000</u>
Net assets (equity) value per unit - IFRS	14	<u>100.46</u>
Net assets (equity) value per unit – Dealing	14	<u>103.30</u>

The accompanying notes from 1 to 18 form an integral part of these financial statements.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY
(An exchange-traded fund)
Managed by Alinma Investment Company
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the period from 1 January 2020 (date of inception) to 31 December 2020
(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	For the period from 1 January 2020 to 31 December <u>2020</u>
INCOME		
Income from investments at amortised cost	6.4	27,846,521
EXPENSES		
Management fee	10	(3,177,603)
Other expenses	8	(719,773)
Expected credit losses allowance	12(a)	<u>(197,221)</u>
Total expenses		<u>(4,094,597)</u>
Net profit for the year		23,751,924
Other comprehensive income for the year		<u>–</u>
Total comprehensive income for the year		<u>23,751,924</u>

The accompanying notes from 1 to 18 form an integral part of these financial statements.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company**STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE
TO THE UNITHOLDERS**

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	For the period from 1 January 2020 to 31 December <u>2020</u>
Total comprehensive income for the year		23,751,924
<i>Contributions and redemptions by the Unitholders:</i>		
Issuance of units – in kind	<i>10.1 & 10.2</i>	1,225,000,000
Issuance of units – in cash	<i>10.2</i>	25,000,000
Redemption of units		--
Net change from unit transactions		1,250,000,000
Cash distributions	<i>9</i>	(18,000,000)
Net assets (equity) attributable to Unitholders at end of the year		<u>1,255,751,924</u>
UNIT TRANSACTIONS:		
Transactions in units for the period are summarized as follows:		
		For the period from 1 January 2020 to 31 December <u>2020</u> (in Units)
Units issued during the year	<i>10.2</i>	12,500,000
Units redeemed during the year		--
Net change in units		12,500,000
Units at end of the year		<u>12,500,000</u>

The accompanying notes from 1 to 18 form an integral part of these financial statements.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

STATEMENT OF CASH FLOWS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	For the period from 1 January 2020 to 31 December 2020
Cash flows from operating activities		
Net profit for the period		23,751,924
<i>Adjustments for:</i>		
Income from investments at amortised cost	6.4	(27,846,521)
Expected credit losses allowance on investments at amortised cost	6	185,312
Expected credit losses allowance on cash and cash equivalents	7	11,909
		<u>(3,897,376)</u>
Changes in operating assets and liabilities		
Increase in accrued management fee		<u>313,993</u>
		(3,583,383)
Acquisition of investments held at amortised cost		(15,670,969)
Payment for transfer of accrued special commission	6.5	(9,436,482)
Special commission income received	6.5	20,760,883
Transferred accrued special commission received	6.5	9,436,482
Net cash from operating activities		<u>1,506,531</u>
Cash flows from investing activities		--
Cash flows from financing activities		
Proceeds from issuance of units	10.2	25,000,000
Cash distribution	9	(18,000,000)
Net cash from financing activities		<u>7,000,000</u>
Net increase in cash and cash equivalents		8,506,531
Cash and cash equivalents at the beginning of the period		--
Cash and cash equivalents at the end of the period	7	<u>8,506,531</u>
Non-cash supplemental information:		
Units issued against in-kind consideration	10.1	<u>1,225,000,000</u>
Redemption of investments at amortised cost due to rebalancing (settled net)	6.3	<u>159,531,584</u>
Subscription of investments at amortised cost due to rebalancing (settled net)	6.3	<u>(159,531,584)</u>

The accompanying notes from 1 to 18 form an integral part of these financial statements.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Alinma Saudi Government Sukuk ETF Fund – Short Maturity (the "Fund") is an exchange-traded fund, managed by Alinma Investment Company (the "Fund Manager"), that provides long term capital appreciation by investing in a series of short term sovereign Sukuk issued by the government authorities in the Kingdom of Saudi Arabia.

The Fund was established by virtue of the approval of the Capital Market Authority on 6 Jumada'1 1441H corresponding to 1 January 2020 and commenced its operations on 24 February 2020. According to the terms and conditions of the Fund, these are the first annual financial statements from 1 January 2020 (date of inception) to 31 December 2020.

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. The Fund Manager is also the administrator of the Fund. Credit Suisse Saudi Arabia is the custodian of the Fund as per the terms and conditions of the Fund.

2 REGULATORY FRAMEWORK

The Fund is governed by the Investment Funds Regulations (the "Regulations") published by the Capital Market Authority ("CMA") on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further amended on 16 Sha'ban 1437H (corresponding to 23 May 2016G) by the resolution of the CMA board.

3 PRIMARY MARKET OPERATION (CREATION AND REDEMPTION OF UNITS)

The primary market operations are only carried out by the Fund Manager who is the authorized Market Maker. The creation and redemption activities are done on the basis of blocks of exchange traded fund (ETF) units (*for the Fund, one block equals 10,000 ETF units*), referred to as "creation unit and redemption unit" respectively. The process of creation and redemption of ETF units is on an in-kind basis whereby the Fund Manager and the Market Maker interexchange ETF units with the Fund and the basket of assets, through the custodian, for the purpose of creation and redemption of ETF units. The created units are then freely floated on Tadawul for public trading.

4 BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standard Board ("IASB") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountant ("SOCPA") and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum.

The preparation of financial statements in conformity with the IFRS that are endorsed in KSA requires the use of certain critical accounting estimates. It also requires Fund Manager to exercise its judgement in the process of applying Fund's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4(d) of the financial statements.

b) Basis of measurement

These financial statements have been prepared on a going concern basis, applying the historical cost convention.

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue its business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainty that may cast doubt upon the Fund's ability to continue as going concern. Therefore, these financial statements have been prepared on going concern basis.

The Fund has presented its statement of financial position in order of increasing liquidity.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

4 BASIS OF PREPARATION (CONTINUED)

c) **Functional and presentation currency**

These financial statements are presented in Saudi Arabian Riyals (SR), which is also the functional and presentational currency of the Fund.

d) **Use of estimates and judgments**

In the ordinary course of business, the preparation of financial statements requires Fund Manager to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in future periods affected. Major areas where estimates or judgments made are significant to the Fund's financial statements or where judgment was exercised in the application of accounting policies are as follows:

Expected credit losses allowance of financial assets

The Fund applies and determines expected credit loss (ECL) model for the measurement and recognition of expected credit losses allowance on the financial assets that are debt instruments and are measured at amortised cost e.g., Sukuk and bank balances. An expected credit loss is the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. For the determination of the expected credit loss, the Fund evaluates among other factors, the credit risk, default and timing of collection since initial recognition. This requires recognising expected credit losses allowance in the statement of profit or loss and other comprehensive income even for financial assets that are newly originated or acquired.

Judgement is required by Fund Manager in the estimation of the amount and timing of future cash flows when determining expected credit losses allowance loss on financial asset and the assessment of significant increase in credit risk. These estimates are based on assumptions about a number of factors and actual results, may differ, resulting in future changes in expected credit losses allowance.

In arriving at credit ratings and associated probability of default (PD), for investments at amortised cost, the Fund uses credit ratings from external rating agencies. However, where external ratings are not available, the Fund uses benchmarking techniques to reach an equivalent rating.

The Fund's expected credit loss (ECL) calculations is output of model with variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include Fund's assessment if there has been a significant increase in credit risk such that allowance for expected credit losses for financial assets is measured on a Lifetime ECL basis.

5 SIGNIFICANT ACCOUNTING POLICIES

5.1 The following significant accounting policies have been applied consistently throughout the financial statements:

a) **Cash and cash equivalents**

Cash and cash equivalents include deposits with financial institution and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair values.

b) **Financial instruments**

Initial recognition and measurement

Purchases and sales of financial assets are recognised on the trade date (i.e. the date that the Fund executes purchase or sale of the assets). Regular way purchase or sale of financial assets are those that require settlement of assets within the time frame generally established by regulation or convention in the market place.

As at reporting date, all financial assets are held at amortised cost.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Financial asset at amortised cost

The Fund classifies its financial assets as at amortised cost only if both of the criteria mentioned below are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal outstanding.

Assessment of whether contractual cash flows are solely payments of principal and interest ('SPPI'):

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers, contingent events that would change the amount and timing of cash flows, prepayment and extension terms and terms that limit the Fund's claim to cash flows from specified assets.

Financial instruments at amortised cost are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any expected credit loss allowance.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest / special commission income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability. For credit impaired financial assets, the Fund applies the effective interest to the amortised cost (gross carrying amount less allowance for expected credit losses). When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Financial liabilities

The Fund measures its financial liabilities at amortised cost. Financial liabilities carried at amortised cost include accrued management fees.

Expected credit losses allowance of financial assets

The Fund assesses on a forward-looking basis the expected credit losses ("ECL") associated with its 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, expected credit losses allowance is measured on either of the following bases:

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES CONTINUED)

b) Financial instruments (continued)

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. The Fund may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

De-recognition

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or the Fund transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of profit or loss and other comprehensive income. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

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

The Fund derecognises a financial liability when its contractual obligation are discharged or cancelled, or expired.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the statement of profit or loss and other comprehensive income.

Re-balancing

The Fund adopts passive management style to manage its investments. The review of the weights of the underlying assets will be taken periodically on quarterly basis to ensure proper tracking of any changes to the benchmark index, as specified in the Terms and Conditions of the Fund and may redeem existing investments or subscribe to new investments to maintain the weights of the underlying assets as per the benchmark. Due to rebalancing, the fund may be required to recognize and / or de-recognize investments.

If the re-balancing day falls on an official holiday, the re-balancing will be conducted on the next business day.

c) Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. No amounts have been offset in these financial statements.

d) Net assets (equity) attributable to the Unitholders

Net assets (equity) attributable to the Unitholders is made up of units issued, redeemed and retained earnings.

i) Subscription and redemption of units

Units subscribed and redeemed are recorded at the net assets (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received. As per the terms and conditions of the Fund, the Unitholder can only redeem the units before any fundamental or significant changes.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 January 2020 (date of inception) to 31 December 2020

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Net assets (equity) attributable to the Unitholders (continued)

ii) *Trading in the units*

Units of the Fund are available for purchasing only in the Kingdom of Saudi Arabia at Tadawul and at Alinma Bank branches by natural and corporate persons. The net assets (equity) value of the Fund is determined on every Valuation Day by dividing the net value of assets (fair value of total assets minus liabilities) by the total number of outstanding units on the relevant Valuation Day.

iii) *Net asset (equity) value per unit*

There are two net asset (equity) value per unit disclosed in the statement of financial position, IFRS and dealing. Net asset (equity) value as per IFRS is calculated by dividing the net assets of the Funds by the number of units in issue at the period end. The net asset (equity) value for dealing is calculated assuming that all the financial assets are carried at fair value. To convert the net asset (equity) per unit as per IFRS to dealing price per unit, an adjustment is made for assets not carried at fair value.

e) **Special commission income**

Special commission income on financial assets at amortised cost, i.e. Sukuk, is calculated using the effective yield basis and is recognised in the statement of profit or loss and other comprehensive income. Special commission income is calculated by applying the effective commission rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset i.e. after deduction of the expected credit loss allowance.

f) **Zakat**

In line with the current market practice of zakat in Kingdom of Saudi Arabia, the Fund does not pay any zakat. Zakat are the obligations of the Unitholders and are not provided for in the accompanying financial statements.

Value Added Tax (VAT) is applicable for management fees, other expenses & fees recognized in the statement of profit or loss and other comprehensive income.

g) **Distributions**

The Fund Manager can make cash distributions to Unitholders as return from the investment in the Fund once per annum no later than the end of the Fund's financial year. The Fund Manager may make such distributions more than once a year upon the Fund Board resolution. These distributions are deducted from net assets (equity) attributable to Unitholders when announced by the Fund Manager.

h) **Management fee, other expenses & fees**

The Fund's expenses include management fee, custody fee and other expenses. These expenses are recognised on accrual basis and are based on predetermined rates as specified in the Terms and Conditions of the Fund. Detailed policies are as follows:

Management fee

The Fund Manager charges the Fund, on every valuation day, a management fee at an annual rate of 0.25% of the Fund's net assets. The fee is calculated and accrued on each Valuation Day and paid on quarterly basis.

Other expenses & fees

Dealing expenses, borrowing expenses and value added taxes (VAT) are incurred by the Fund on accrual basis as per the terms and conditions of the Fund.

The Fund's central cost are borne by the Fund Manager and any other expenses incurred on behalf of Fund are recovered from the Fund as per the terms and conditions of the Fund.

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5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.2 New standards, amendments and interpretations adopted in preparation of these financial statements:

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2020. The Fund Manager has assessed that the amendments have no significant impact on the Fund's financial statements.

- Amendments to IFRS 3: Definition of a Business;
- Amendments to IAS 1 and IAS 8: Definition of Material;
- Amendments to References to the Conceptual Framework in IFRS Standards; and
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – Phase 1

5.3 New standards and amendments issued but not yet effective and not early adopted:

The accounting standards, amendments and revisions which have been published and are mandatory for compliance for the Fund's accounting year beginning on or after 1 January 2021 are listed below. The Fund has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements.

Effective date	New standards or amendments
For period beginning on or after 1 June 2020	COVID-19 – Related Rent Concessions (Amendments to IFRS 16)
1 January 2021	Interest Rate Benchmark Reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
1 January 2022	Onerous contracts – Cost of Fulfilling a contract (Amendments to IAS 37)
	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
	Reference to Conceptual Framework (Amendments to IFRS 3)
1 January 2023	IFRS 17 – Insurance contracts
	Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The Fund Manager anticipates that the application of these new standards and amendments in the future will not have significant impact on the Fund.

6 INVESTMENTS AT AMORTISED COST

	31 December 2020
Nominal value of Sukuk	1,205,218,000
Premium paid	38,013,927
Less: Amortisation of premium paid	<u>(7,815,380)</u>
	1,235,416,547
Accrued special commission income (Note 6.5)	<u>12,340,060</u>
	1,247,756,607
Less: Expected credit losses allowance	<u>(185,312)</u>
	<u><u>1,247,571,295</u></u>

6.1 Below is the movement during the period:

	31 December 2020
Nominal value of sukuk transferred	1,205,431,000
Premium paid on transfer of sukuk	35,132,518
Initial transfer from Alinma Bank (Note 10.1)	<u>1,240,563,518</u>
Re-balancing of portfolio	
- Subscriptions during the period (Note 6.3)	159,639,035
- Redemption during the period (Note 6.3)	(159,531,584)
- Gain on redemption due to re-balancing (Note 6.3)	3,500,961
Less: Amortisation during the period	<u>(8,755,383)</u>
	<u><u>1,235,416,547</u></u>

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6 INVESTMENTS AT AMORTISED COST (CONTINUED)

6.2 The Fund has invested in Saudi Government Sukuks for a cost of SR 1,243.2 million with a nominal value of SR 1,205.2 million, which have a fixed annual rate for special commission income of 2.7% to 3.7% and maturity in 2 years to 5 years. The premium paid on transfer of the sukuku is being amortised over their remaining term. These sukuku are held with the custodian Credit Suisse Saudi Arabia.

6.3 During the period, the Fund performed two re-balancing transactions. The first rebalancing transaction took place on 1st July 2020 which included subscription and redemption of sukuku amounting to SR 16.6 million and SR 16.5 million respectively. The net amount of SR 0.1 million was paid for the re-balancing and there was a gain on redemptions amounting to SR 0.5 million. The second re-balancing transaction took place on 6th October 2020 which included subscription and redemption of sukuku amounting to SR 143.0 million and SR 143.0 million. The net amount of SR 2,483 was paid for the balancing and there was a gain of SR 3.0 million.

6.4 Below is the breakup of income from investments at amortised cost:

	For the period from 1 January 2020 to 31 December 2020
Special commission income	33,100,943
Less: Amortisation of premium paid	(8,755,383)
Add: Realized gain on re-balancing transaction	<u>3,500,961</u>
	<u>27,846,521</u>

6.5 Below is the movement for accrued special commission income:

	31 December 2020
Special commission income earned during the period	33,100,943
Special commission transferred to the Fund from Alinma Bank (<i>Note 10.1</i>)	9,436,482
Less: Special commission income received during the period	<u>(30,197,365)</u>
Accrued special commission income as at period end	<u>12,340,060</u>

7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balance held with Alinma Bank by the Fund Manager on behalf of the Fund. Below is the breakup for cash and cash equivalents:

	31 December 2020
Balance held with bank	8,506,531
Less: Expected credit loss allowance	<u>(11,909)</u>
	<u>8,494,622</u>

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8 OTHER EXPENSES

	For the period from 1 January 2020 to 31 December 2020
Brokerage and commission charges	718,131
Other expenses	<u>642</u>
	<u>719,773</u>

9 CASH DISTRIBUTION

During the period, the Fund Manager announced a cash distribution of SR 1.44 per unit amounting to SR 18 million for the existing units of 12,500,000 units

10 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with its related parties at mutually agreed terms in accordance with the terms and conditions of the Fund which are approved by the Fund Manager. Related parties comprise the Fund Board, Fund Manager and Alinma Bank (the Parent Company of the Fund Manager and a Unitholder of the Fund).

Significant transactions with related parties in the ordinary course of Fund's business included in the financial statements are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Transaction</u>	For the period from 1 January 2020 to 31 December 2020
Alinma Investment Company	Fund Manager	Management fee expense	<u>3,177,603</u>
		Management fees paid	<u>2,863,610</u>
		Brokerage expense charged	<u>325,280</u>
		Brokerage expense paid	<u>325,280</u>
Alinma Bank	Unitholder	Transfer of investments at amortised cost	<u>1,225,000,000</u>
		Units issued against in-kind consideration	<u>1,225,000,000</u>
		Bank charges	<u>624</u>
		Bank charges paid	<u>624</u>

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10 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

The following table summarises the details of balances with related parties

<u>Related Party</u>	<u>Relationship</u>	<u>Balance</u>	<u>31 December 2020</u>
Alinma Investment Company	Fund Manager	Accrued management fee	<u>313,993</u>
		Balance held with bank	<u>8,506,531</u>
Alinma Bank	Unitholder	Net assets (equity) attributable to Unitholders (11,520,012 units)	<u>1,157,302,179</u>

10.1 During the period, Alinma Bank transferred Sukuks issued by the Saudi Government to the Fund amounting to SR 1,250 million (including accrued special commission income till date of transfer amounting to SR 9.4 million) with in exchange for cash amounting to SR 25 million and unit in the Fund at a value of SR 1,225 million.

10.2 During the period, the Fund issued 12.5 million units at par amounting to SR 1,250 million. Out of the total SR 1,250 million, SR 1,225 million was subscribed by Alinma Bank as in-kind transaction and the remaining SR 25 million was subscribed by others for cash.

11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial instruments comprise financial assets and financial liabilities. The Fund's financial instruments consist of investments at amortised cost, cash and cash equivalents and accrued management fee.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation techniques.

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchies. This grouping is determined based on the lowest level of significant inputs used in the fair value measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value hierarchy – Financial instruments measured at amortised cost

The table below analyses financial instruments measured at amortised cost at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The fair values are based on respected fair value in quotations at the reporting date.

	<u>Carrying Value</u>	<u>31 December 2020</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments at amortised cost	<u>1,247,571,295</u>	<u>1,270,528,430</u>	--	--	<u>1,270,528,430</u>
Total	<u>1,247,571,295</u>	<u>1,270,528,430</u>	--	--	<u>1,270,528,430</u>

Other financial instruments include cash and cash equivalent and accrued management fees. The gross carrying amounts of these financial instruments approximate fair value, because of their short tenure.

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12 FINANCIAL RISK MANAGEMENT

The principal investment objectives of the Fund are to provide investors with income and capital growth over the medium and long term by acquiring investments in debt, equity and other instruments.

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

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Fund is exposed to credit risk on its balance of cash equivalents held with the Fund Manager and investments at amortised cost. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counterparties. Credit risk is generally managed on the basis of external credit grading of the counterparty.

The table below shows the maximum exposure to credit risk as at the reporting date:

	31 December 2020
Investments at amortised cost	1,217,558,061
Cash and cash equivalents	<u>8,506,531</u>
	<u>1,226,064,592</u>

The Fund's cash and cash equivalents balance is held with Alinma Bank and is managed by the Fund Manager, which has sound credit rating.

Cash and cash equivalents comprise balance held with Alinma Bank and is managed by the Fund Manager. The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss.

Expected credit losses allowance on financial assets recognised in the statement of profit or loss and other comprehensive income are as follows:

	For the period from 1 January 2020 to 31 December 2020
Investments at amortised cost	185,312
Cash and cash equivalents	<u>11,909</u>
	<u>197,221</u>

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents an analysis of the credit quality of cash and cash equivalent and investments at amortised cost. It indicates whether assets measured at amortised cost were subject to a 12-month ECL or lifetime ECL allowance and in the latter case, whether they were credit impaired.

	As at 31 December 2020		
	12-month ECL	Life-time ECL – not credit impaired	Life-time ECL – credit impaired
<u>Cash and cash equivalents</u>			
BBB+	8,506,531	--	--
Gross carrying amount	8,506,531	--	--
Loss: Expected credit losses allowance	(11,909)	--	--
Carrying amount	8,494,622	--	--
<u>Investment at amortised cost</u>			
AAA	1,247,756,607	--	--
Gross carrying amount	1,247,756,607	--	--
Loss: Expected credit losses allowance	(185,312)	--	--
Carrying amount	1,247,571,295	--	--

b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet its commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Fund's terms and conditions provide for the subscription and redemptions of units on dealing days during the week and it is, therefore, exposed to the liquidity risk of meeting Unitholder's redemptions. The Fund's investments are readily realisable, and the units can easily be redeemed at any time. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Fund's financial assets and liabilities at 31 December 2020. The amounts are gross and undiscounted, and include contractual special commission receipts:

	Carrying amount	On demand	Less than 12 months	1 to 5 years	Total
<u>Financial assets</u>					
Investments at amortised cost	1,247,571,295	--	37,807,996	1,282,147,228	1,319,955,224
Cash and cash equivalents	8,494,622	8,494,622	--	--	8,494,622
Total	1,256,065,917	8,494,622	37,807,996	1,282,147,228	1,328,449,846
<u>Financial liabilities</u>					
Accrued management fees	313,993	--	313,993	--	313,993
Total	313,993	--	313,993	--	313,993
GAP	8,494,622	8,494,622	37,494,003	1,282,147,228	1,328,135,853
GAP – cumulative	8,494,622	8,494,622	45,988,625	1,328,135,853	1,328,135,853

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) 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: currency risk, interest rate risk and other price risk.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The functional currency of the Fund is Saudi Arabian Riyals. As the Fund's financial assets and financial liabilities are denominated in its Saudi Arabian Riyals, the Fund is not subject to currency risk.

(ii) Interest rate risk

Interest rate risk arises from the possibility that changes in market special commission rates will affect future profitability or the fair value of the financial instruments. The Fund's investment in Sukuk are at fixed rate and are carried at amortised cost, therefore as of the date of the statement of financial position, a change in special commission rates would not affect statement of profit or loss and other comprehensive income.

(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. As of reporting date, the Fund has no exposure to equity instruments' price risk as the Fund does not hold such investments.

13 CAPITAL MANAGEMENT

The capital of the Fund is represented by net assets (equity) attributable to holders of redeemable units. The amount of equity attributable to holders of redeemable units 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. The Fund Board and the Fund Manager monitor capital on the basis of the value of net assets (equity) attributable to Unitholders.

14 UNIT VALUE RECONCILIATION

Sukuks are measured at market price to give an indicative unit price for trading. However, in the statement of financial position, the Sukuk are carried at amortised cost less expected credit losses allowance. The unit price after adding the effect of the Fair value (Market Price) is provided below.

In accordance with CMA circular no. 1/6/1872/17 dated 13 Rabi Al-Thani 1439H (corresponding to 31 December 2017), the CMA Board decided on 10 Rabi Al-Thani 1439H (corresponding to 28 December 2017) to restrict the recording of expected credit losses calculated in accordance with IFRS 9 only for the purpose of financial statements.

	31 December 2020
Unit price calculated in accordance with the financial statements	<u><u>100.46</u></u>
Unit price calculated for trading	<u><u>103.30</u></u>

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15 LAST VALUATION DAY

In accordance with the terms and conditions of the Fund, the last valuation day for the period was 31 December 2020.

16 CONTINGENCIES AND COMMITMENTS

The Fund has no contingencies and commitments requiring disclosures as at 31 December 2020.

17 SUBSEQUENT EVENTS

On 24 February 2021, the Fund Manager announced a cash distribution of SR 1.44 per unit which amount to SR 18 million for the existing units of 12,500,000 units.

18 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Manager on 18 Sha'ban 1442H corresponding to 31 March 2021.