

ALJAZIRA SUKUK FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)
Financial Statements
For the year ended 31 December 2021
Together with the
Independent Auditor's Report to the Unitholders

ALJAZIRA SUKUK FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

Financial statements for the year ended 31 December 2021

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Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(member firm of PKF International)

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS
ALJAZIRA SUKUK FUND
MANAGED BY ALJAZIRA CAPITAL

Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **ALJAZIRA SUKUK FUND** ("the Fund"), being managed by Al Jazira Capital (the "Fund Manager"), which comprise of the financial position as at 31 December 2021 and the statements of comprehensive income, statement of changes in net assets (Equity) attributable to the unitholders and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements statement present fairly, in all material respects, the Financial Position of the Fund as at 31 December 2021, and it's financial performance and it's cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Unqualified Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' 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 Fund's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA a and the Fund's Terms and Condition and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE UNITHOLDERS
ALJAZIRA SUKUK FUND
MANAGED BY ALJAZIRA CAPITAL

Riyadh, Kingdom of Saudi Arabia

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 audit 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 ISA 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit 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 audit 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 manner that achieves fair presentation.



Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(member firm of PKF International)

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE UNITHOLDERS
ALJAZIRA SUKUK FUND
MANAGED BY ALJAZIRA CAPITAL
Riyadh, Kingdom of Saudi Arabia

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.

For and on behalf of
Al Bassam & Co.



Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337

Riyadh, Kingdom of Saudi Arabia

30 March 2022
27 Sha`aban 1443

ALJAZIRA SUKUK FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

(Amounts in United States Dollars)

| | <u>Notes</u> | <u>31 December 2021</u> | <u>31 December 2020</u> |
|--|--------------|-------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | 5 | 1,229,549 | 810,741 |
| Investments carried at fair value through profit or loss (FVTPL) | 6 | 24,119,485 | 12,487,370 |
| Accrued special commission income | 6.1 | - | 90,890 |
| Prepayments and other receivables | | 16 | - |
| TOTAL ASSETS | | 25,349,050 | 13,389,001 |
| <u>LIABILITIES</u> | | | |
| Management fee payable | 7 | 52,293 | 24,495 |
| Other payables | | 38,741 | 27,562 |
| TOTAL LIABILITIES | | 91,034 | 52,057 |
| NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS | | 25,258,016 | 13,336,944 |
| Units in issue (in numbers) | 8 | 249,615 | 131,404 |
| Net Asset (Equity) Value per unit | | 101.19 | 101.50 |

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

ALJAZIRA SUKUK FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2021

(Amounts in United States Dollars)

| | 31 December 2021 | For the period from 23 August 2020 (Date of Commencement) to 31 December 2020 |
|---|-----------------------------|--|
| Income | | |
| (Loss) / gain from investments, net | 9 (165,618) | 164,084 |
| Special commission income | 6.1 1,249,429 | 113,788 |
| Total income | 1,083,811 | 277,872 |
| Expenses | | |
| Management and custody fees | 7 (232,786) | (33,571) |
| Other expenses | (348,268) | (37,131) |
| | (581,054) | (70,702) |
| Net income for the year / period | 502,757 | 207,170 |
| Other comprehensive income for the year / period | - | - |
| Total comprehensive income for the year / period | 502,757 | 207,170 |

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

ALJAZIRA SUKUK FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS

As at 31 December 2021

(Amounts in United States Dollars)

| | 31 December 2021 | For the period from 23 August 2020 (Date of Commencement) to 31 December 2020 |
|---|---------------------|--|
| Net assets (Equity) attributable to the Unitholders at beginning of the year / period | 13,336,944 | - |
| Total comprehensive income for the year / period | 502,757 | 207,170 |
| Changes from unit transactions | | |
| Issuance of units | 30,543,317 | 13,141,957 |
| Redemption of units | (18,665,695) | (12,183) |
| Net changes from unit transactions | 11,877,622 | 13,129,774 |
| Dividend distribution | (459,307) | - |
| Net assets (Equity) attributable to the Unitholders at end of the year / period | 25,258,016 | 13,336,944 |

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

ALJAZIRA SUKUK FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

STATEMENT OF CASH FLOWS

As at 31 December 2021

(Amounts in United States Dollars)

| <u>Notes</u> | 31 December 2021 | For the period from 23 August 2020 (Date of Commencement) to 31 December 2020 |
|--|-----------------------------|--|
| <u>Cash flows from operating activities:</u> | | |
| Net income for the year / period | 502,757 | 207,170 |
| Adjustments for: | | |
| - Unrealized loss / (gain) from investments carried at FVTPL | 9 113,215 | (165,462) |
| | 615,972 | 41,708 |
| <u>Net changes in operating assets and liabilities:</u> | | |
| Investments carried at FVTPL | (11,745,330) | (12,321,908) |
| Accrued special commission income | 90,890 | (90,890) |
| Prepayments and other receivables | (16) | - |
| Management fee payable | 27,798 | 24,495 |
| Other payables | 11,179 | 27,562 |
| Net cash used in operating activities | (10,999,507) | (12,319,033) |
| <u>Cash flows from financing activities:</u> | | |
| Proceeds from issuance of units | 30,543,317 | 13,141,957 |
| Redemption of units | (18,665,695) | (12,183) |
| Dividend paid | (459,307) | - |
| Net cash generated from financing activities | 11,418,315 | 13,129,774 |
| Net increase in cash and cash equivalents | 418,808 | 810,741 |
| Cash and cash equivalents at beginning of the period | 810,741 | - |
| Cash and cash equivalents at end of the year / period | 5 1,229,549 | 810,741 |

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

ALJAZIRA SUKUK FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Aljazira Sukuk Fund (the “Fund”) is an open-ended, Saudi investment Fund established and managed through an agreement between Aljazira Capital Company – a Saudi Closed Joint Stock Company (the “Fund Manager”) and the investors (the “Unitholders”). The Fund Manager is a wholly owned subsidiary of Bank Aljazira (the “Bank”). The Capital Market Authority (“CMA”) approval to issue units to public was granted through its letter No. 495/5 dated 19 Sha’ban 1441H (corresponding to 12 April 2020). The Fund commenced its operations dated 4 Muharram 1442H (corresponding to 23 August 2020).

The Fund operates under the terms and conditions contained in its prospectus with the prime objective of generating income in the medium to long term and to disburse cash dividends to investors. The Fund’s net income is reinvested in the Fund, which is reflected in the net assets (equity) attributable to each unit.

The Fund is administered by Maples Fund Services (the “Administrator”). The Fund’s assets are held in the custody of Northern Trust Securities (the “Custodian”). Franklin Templeton Investment Limited acts as a Fund Sub Manager. Fee paid to the Fund Sub Manager is borne by the Fund Manager.

The Fund is governed by the Investment Fund Regulations (the “Regulations”) published by CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) thereafter amended on 16 Sha’ban 1437H (corresponding to 23 May 2016). The regulation was further amended (the “Amended Regulations”) on 17 Rajab 1442H (corresponding to 1 March 2021) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Amended Regulations have effective dates starting from 19 Ramadan 1442H (corresponding to 1 May 2021).

SUBSCRIPTION / REDEMPTION

Subscription / redemption requests are accepted on all days on which Tadawul is open. The value of the Fund’s portfolio is determined on Monday and Thursday. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets (fair value of the Fund’s assets minus Fund’s liabilities) of the Fund by the total number of outstanding Fund units on the following day.

2 BASIS OF PREPARATION

2.1. Statement of compliance

These financial statements 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”).

2.2. Basis of measurement

These financial statements have been prepared on a historical cost basis, except for investments that are measured at fair value.

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 the order of liquidity.

2.3. Functional and presentation currency

Items included in these 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 United States Dollar (USD) which is the Fund’s functional and presentation currency.

ALJAZIRA SUKUK FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

2 BASIS OF PREPARATION (CONTINUED)

2.3. Functional and presentation currency (Continued)

Transactions and balances

Foreign currency transactions are translated into USD using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into USD using the exchange rates prevailing at date of the statement of financial position. Foreign exchange gains and losses, if any, arising from translation are included in the statement of comprehensive income.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Fund's accounting policies, management has made the following estimate and judgment which is significant to these financial statements:

3.1 Going concern

The Fund's management 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 in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Accordingly, these financial statements have been prepared on a going concern basis.

ALJAZIRA SUKUK FUND

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(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 New standards, interpretations and amendments

Amendment

A number of new amendments to standards, enlisted below, are effective this reporting period but they do not have a material effect on the Fund's financial statements, except for where referenced below.

4.1.1 New amendments to standards issued and applied effective 1 January 2021

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|--|---|--|---|
| IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 | These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9. |
| IFRS 16 | Amendments to IFRS 16 Leasing - Covid-19 Related Rent Concessions | 1 April 2021 | This amendment extends the exemption from assessing whether a COVID-19-related rent concession is a lease modification for payments originally due on or before 30 June 2022 (rather than payment due on or before 30 June 2021). |

ALJAZIRA SUKUK FUND

Open-Ended Mutual Fund

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|----------------------------|---|--|---|
| IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract | 1 January 2022 | The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. |
| IFRS 16, IFRS 9 and IAS 41 | Annual Improvements IFRS Standar 2018–2020 | 1 January 2022 | IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. |
| IAS 16 | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022 | The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of ‘testing whether an asset is functioning properly’. |
| IFRS 3 | Reference to the Conceptual Framework | 1 January 2022 | The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. |
| IFRS 17 | Insurance Contracts | 1 January 2023 | This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. |

ALJAZIRA SUKUK FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective (continued)

| Amendments to standard | Description | Effective for annual years beginning on or after | Summary of the amendment |
|-------------------------------------|---|--|--|
| IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 | The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification. |
| IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies | 1 January 2023 | This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements |
| IAS 8 | Amendment to definition of accounting estimate | 1 January 2023 | This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates. |
| IAS 12 | Income taxes | 1 January 2023 | This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations |
| Amendment to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | N/A | The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary. |

Management anticipates that these new standards interpretations and amendments will be adopted in the Funds's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of their initial application.

ALJAZIRA SUKUK FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Cash and cash equivalents

Cash and cash equivalents of the Fund comprise balances held with the Bank. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.3 Financial instruments

4.3.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument.

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 FVTPL, 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 FVTPL are expensed in the statement of comprehensive income.

4.3.2. Classification and measurement of financial assets

Classification of financial assets

On initial recognition, a financial asset is classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI") or FVTPL.

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVOCI

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund Manager may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

FVTPL

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL.

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at FVTPL.

The classification requirements for debt instruments are described below.

ALJAZIRA SUKUK FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.2 Classification and measurement of financial assets (continued)

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.

Based on these factors, the Fund classifies its debt instruments into one of the following three measurement categories:

Amortized 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 FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

FVTPL: If a financial asset's cash flows do not represent solely SPPP or if it not held within the held to collect or the held to collect and sell business model, then it is measured at FVTPL. A gain or loss on a debt investment measured at FVTPL is recognized in the statement of comprehensive income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period 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 FVTPL, within "Net gain / (loss) in investments designated at FVTPL". Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

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 FVTPL. 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. Securities held for trading 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 assets are classified in 'other' business model and measured at FVTPL.

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 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 FVTPL.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

- (a) Transferred substantially all of the risks and rewards of the asset or
- (b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial instrument assets carried at amortized cost. The Fund recognizes 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.

4.3.4. Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial assets carried at amortized cost. The Fund recognizes 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.

4.3.5. Financial liabilities

The Fund classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

4.3.6. Trade date accounting

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e., the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the marketplace.

ALJAZIRA SUKUK FUND

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.7. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

4.4 Redeemable Units

Redeemable units are classified as equity instruments when:

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

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

- Total cash flows based substantially on the profit or loss, the change in the recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable Unitholders.

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

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognized in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

4.5 Accrued expenses and other liabilities

Accrued expenses and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective profit rate method.

4.6 Net gain or loss on financial assets and liabilities at FVTPL

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Net gain or loss on financial assets and liabilities at FVTPL (continued)

Unrealized gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of the prior period's unrealized gains and losses for financial instruments which were realized in the reporting period. Realized gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments)

4.8 Income recognition

Special commission income presented in the statement of comprehensive income comprise commission on financial assets measured at amortized cost calculated on an effective yield basis.

The 'effective yield rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument:

- to the carrying amount of the financial assets; or
- the amortized cost of the financial liability.

In calculating special commission income, the effective yield rate is applied to the gross carrying amount of the asset.

4.9 Distributions to the Unitholders

Distribution to the Unitholders is accounted for as a deduction from net assets (equity) attributable to the Unitholders. An interim dividend is recognized as a liability in the period in which it is irrevocably declared by the Fund Board. A final dividend is recognized as a liability in the period in which it is approved by the Fund Board.

4.10 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at FVTPL. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in statement of comprehensive income as an expense.

4.11 Management fees

Management fee is calculated at rate mentioned in terms and conditions of the Fund and is payable quarterly in arrears.

4.12 Other expenses

Other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the Fund.

4.13 Zakat / taxation

Zakat / taxation is the obligation of the Unitholders and is not provided for in the financial statements.

4.14 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Fund by the number of units in issue at the year-end.

4.15 Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognized for future operating loss.

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5 CASH AND CASH EQUIVALENTS

| | 31 December 2021 | 31 December 2020 |
|---------------------|---------------------|---------------------|
| Cash with Custodian | 1,229,549 | 810,741 |
| | <u>1,229,549</u> | <u>810,741</u> |

6 INVESTMENTS CARRIED AT FVTPL

FVTPL comprise debt securities –Sukuku and are summarized as follows:

| Counterparty | Cost | Market value | % |
|---|-------------------|-------------------|---------------|
| <u>QUOTED</u> | | | |
| Perusahaan Penerbit SBSN | 2,079,618 | 2,048,841 | 8.49 |
| SA Global Sukuk Limited | 1,540,592 | 1,528,937 | 6.34 |
| KSA Sukuk Limited | 1,364,455 | 1,343,943 | 5.57 |
| Saudi Electricity Global Sukuk Company | 1,138,104 | 1,142,747 | 4.74 |
| DIFC Sukuk Limited | 866,173 | 874,491 | 3.63 |
| Maldives Sukuk Issuance | 823,611 | 836,872 | 3.47 |
| Arab National Bank | 771,638 | 775,540 | 3.22 |
| Pure Harvest Sukuk | 743,714 | 788,173 | 3.27 |
| CBB International Sukuk Programme Company | 650,400 | 646,458 | 2.68 |
| Equate Sukuk SPC Limited | 642,051 | 634,470 | 2.63 |
| DP World Crescent Limited | 641,980 | 641,250 | 2.66 |
| ICDPS Sukuk Limited | 626,026 | 627,394 | 2.60 |
| KIB Sukuk Limited | 615,381 | 605,145 | 2.51 |
| Riyad Bank | 612,560 | 614,748 | 2.55 |
| Dubai Islamic Bank Sukuk Limited | 573,588 | 568,750 | 2.36 |
| Saudi Telecom Company | 533,750 | 523,844 | 2.17 |
| Others | 9,343,597 | 9,417,892 | 39.05 |
| | <u>23,567,238</u> | <u>23,619,495</u> | <u>97.93</u> |
| <u>UNQUOTED</u> | | | |
| International Islamic Liquidity Management 2 SA | 500,000 | 499,990 | 2.07 |
| Total | <u>24,067,238</u> | <u>24,119,485</u> | <u>100.00</u> |

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6 INVESTMENTS CARRIED AT FVTPL (CONTINUED)

| Counterparty | Cost | Market value | % |
|---|-------------------|-------------------|-------------|
| QUOTED | | | |
| Perusahaan Penerbit SBSN | 1,864,477 | 1,875,466 | 15.02 |
| Saudi Electricity Global Sukuk Company | 1,038,354 | 1,053,590 | 8.44 |
| KSA Sukuk Limited | 855,558 | 862,036 | 6.90 |
| Majid Al Futtaim Sukuk Limited | 752,320 | 764,418 | 6.12 |
| CBB International Sukuk Programme Company | 435,710 | 441,804 | 3.54 |
| DIFC Sukuk Limited | 428,593 | 436,726 | 3.50 |
| ICDPS Sukuk Ltd | 425,450 | 426,084 | 3.41 |
| Sharjah Sukuk Program | 417,586 | 415,572 | 3.33 |
| Riyad Sukuk Limited | 408,260 | 409,404 | 3.28 |
| Masraf Al Rayan Sukuk Limited | 405,250 | 407,208 | 3.26 |
| Arab National Bank | 387,000 | 398,881 | 3.19 |
| Dar Al-Arkan Sukuk Company Ltd | 294,125 | 328,933 | 2.63 |
| Qatar Islamic Bank Sukuk Ltd | 322,500 | 322,305 | 2.58 |
| Unity 1 Sukuk Limited | 305,955 | 308,769 | 2.47 |
| Dubai Islamic Bank Sukuk Limited | 260,625 | 261,363 | 2.09 |
| Equate Sukuk SPC Limited | 250,863 | 252,094 | 2.02 |
| Other | 2,969,282 | 3,022,652 | 25.21 |
| | 11,821,908 | 11,987,305 | 96.00 |
| UNQUOTED | | | |
| International Islamic Liquidity Management 2 SA | 500,000 | 500,065 | 4.00 |
| Total | 12,321,908 | 12,487,370 | 100% |

6.1 The Fund is accruing special commission income on the Sukuk coupon rates.

7 RELATED PARTIES TRANSACTIONS AND BALANCES

Management fee and other expenses

For management services, the Fund pays on a quarterly, the management fees at an annual rate of 0.65% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions.

The Fund Manager recovers from the Fund any other expenses incurred on behalf of the Fund such as board compensation, Shariah supervisory board compensation and other similar charges. These expenses are not expected to exceed an annual rate of 0.5% of the value of Fund's net assets (equity) calculated on a daily basis.

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7 RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

Transactions with related parties

During the year/period, the Fund entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund.

| Related parties | Nature of relationship | Nature of transaction | 31 December | For the period from 23 |
|--------------------------|------------------------|-----------------------|-------------|--|
| | | | 2021 | August 2020 (Date of Commencement) to 31 December 2020 |
| Aljazira Capital Company | Fund Manager | Management fees | 213,125 | 30,265 |
| | Key executive | Board remuneration* | 4,091 | 2,133 |

*Included in the Other expenses of the statement of comprehensive income.

7.1 Certain units of the Fund are subscribed by the Fund Manager, the details of which are as follows:

| Name of related party | As at | As at |
|--|------------------|------------------|
| | 31 December 2021 | 31 December 2020 |
| Fund Manager Al Jazira Capital Company | 100,000 | 100,000 |

(Unit in numbers)

Balances with related parties

| Related parties | Nature of relationship | Nature of transaction | 31 December | 31 December |
|--------------------------|------------------------|-----------------------------|-------------|-------------|
| | | | 2021 | 2020 |
| Aljazira Capital Company | Fund Manager | Management fee payable | 52,293 | 24,495 |
| | Key executive | Board remuneration payable* | 4,091 | 2,133 |

*Included in the Other payables in the statement of financial position.

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8 UNIT TRANSACTIONS

Transactions in units for the year / period are summarized as follows:

| | 31 December 2021 | For the period from 23 August 2020 (Date of Commencement) to 31 December 2020 |
|--|--------------------------|--|
| | <i>(Unit in numbers)</i> | |
| Units at beginning of the year / period | 131,404 | - |
| Units issued during the year / period | 302,545 | 131,526 |
| Units redeemed during the year / period | (184,334) | (122) |
| Net change in units | 118,211 | 131,404 |
| Units at end of the year / period | 249,615 | 131,404 |

9 (LOSS) / GAIN FROM INVESTMENTS, NET

| | 31 December 2021 | For the period from 23 August 2020 (Date of Commencement) to 31 December 2020 |
|--|------------------|--|
| Unrealized (loss) / gain on investments at FVTPL | (113,215) | 165,462 |
| Realized loss on investments at FVTPL | (52,397) | (1,378) |
| | (165,618) | 164,084 |

10 FINANCIAL INSTRUMENTS BY CATEGORY

| <u>As at 31 December 2021</u> | <u>Amortized cost</u> | <u>FVTPL</u> |
|---|-----------------------|-------------------|
| Assets as per statement of financial position | | |
| Cash and cash equivalents | 1,229,549 | - |
| Investments carried at FVTPL | - | 24,119,485 |
| Prepayments and other receivables | 16 | - |
| Total | 1,229,565 | 24,119,485 |
| | | |
| <u>As at 31 December 2021</u> | <u>Amortized cost</u> | <u>FVTPL</u> |
| Liabilities as per statement of financial position | | |
| Management fee payable | 52,293 | - |
| Other payables | 38,741 | - |
| Total | 91,034 | - |

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10 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

| As at 31 December 2020 | Amortized cost | FVTPL |
|--|----------------|-------------------|
| Assets as per statement of financial position | | |
| Cash and cash equivalents | 810,741 | - |
| Investments carried at FVTPL | - | 12,487,370 |
| Accrued special commission income | 90,890 | - |
| Total | 901,631 | 12,487,370 |

| As at 31 December 2020 | Amortized cost | FVTPL |
|---|----------------|----------|
| Liabilities as per statement of financial position | | |
| Management fee payable | 24,495 | - |
| Other payables | 27,562 | - |
| Total | 52,057 | - |

11 FINANCIAL RISK MANAGEMENT

11.1 Financial risk factors

The objective of the Fund is to safeguard its 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, liquidity risk and operational 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 are 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

(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.

The Fund's investments in debt instruments measured at FVTPL are not exposed to any foreign exchange risk because the Saudi Riyal is pegged against United States Dollar and therefore, there are no fluctuations between the exchange rates.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(a) Market risk (continued)

(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.

The portfolio management team of the Fund Manager monitors risk exposures on a daily basis. If the commission rate risk is not in accordance with the Fund's terms and conditions, then the Fund Manager is required to rebalance the portfolio within a reasonable period of time of each determination of such occurrence.

Exposure

A breakdown of the investments based on the type of commission rate on Sukuk is as follows:

| | 31 December 2021 | | 31 December 2020 | |
|------------|------------------|-----|------------------|-----|
| | Amount in USD | % | Amount in USD | % |
| Fixed rate | 24,119,485 | 100 | 12,487,370 | 100 |

(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.

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

It is the Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk for its cash and cash equivalents, investments carried at FVTPL and other receivables. Cash is placed with reputable financial institutions; hence the credit risk is minimal. For other assets, credit risk is also low.

Credit ratings

The credit quality of the Fund's cash and cash equivalents, investment at FVPL and other receivables is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. The cash and cash equivalents and debt instruments along with credit ratings are tabulated below:

| Rating of financial institution | 31 December 2021 | 31 December 2020 |
|----------------------------------|---------------------|---------------------|
| Cash and cash equivalents | | |
| Unrated | 1,229,549 | 810,741 |
| Sukuks | | |
| A (Fitch) | 3,378,615 | 844,246 |
| A1 (Moody's) | 2,986,690 | 2,552,390 |
| Baa2 (Moody's) | 2,837,014 | 2,543,134 |
| baa1 (Moody's) | 1,698,700 | 1,032,199 |
| baa3 (Moody's) | 1,515,741 | 670,740 |
| BBB(Fitch) | 1,299,384 | 764,418 |
| A2 (Moody's) | 927,394 | 426,084 |
| AA- (Fitch) | 877,428 | 218,454 |
| b3 (Moody's) | 836,872 | 202,958 |
| AAA (Moody's) | 784,824 | 359,723 |
| caa1 (Moody's) | 659,000 | 42,694 |
| F1 (Fitch) | 614,748 | - |
| A+ (Fitch) | 605,145 | 207,384 |
| b2 (Moody's) | 560,988 | 441,804 |
| ba2 (Moody's) | 500,899 | 218,224 |
| b1 (Moody's) | 472,000 | 328,933 |
| Aa3 (Moody's) | 441,053 | 209,222 |
| A3 (Moody's) | - | 469,545 |
| Unrated | 2,623,000 | 955,218 |
| | 23,619,495 | 12,487,370 |

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11 FINANCIAL RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(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 business day and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions on these days. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

| | 31 December 2021 | | |
|-----------------------------------|-------------------|------------------|-------------------|
| | Less than 1 year | More than 1 year | Total |
| Cash and cash equivalents | 1,229,549 | - | 1,229,549 |
| Investments carried at FVTPL | 24,119,485 | - | 24,119,485 |
| Prepayments and other receivables | 16 | - | 16 |
| TOTAL ASSETS | 25,349,050 | - | 25,349,050 |
| Management fee payable | 52,293 | - | 52,293 |
| Other payables | 38,741 | - | 38,741 |
| TOTAL LIABILITIES | 91,034 | - | 91,034 |

| | 31 December 2020 | | |
|-----------------------------------|-------------------|------------------|-------------------|
| | Less than 1 year | More than 1 year | Total |
| Cash and cash equivalents | 810,741 | - | 810,741 |
| Investments carried at FVTPL | 12,487,370 | - | 12,487,370 |
| Accrued special commission income | 90,890 | - | 90,890 |
| TOTAL ASSETS | 13,389,001 | - | 13,389,001 |
| Management fee payable | 24,495 | - | 24,495 |
| Other payables | 27,562 | - | 27,562 |
| TOTAL LIABILITIES | 52,057 | - | 52,057 |

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to Unitholders.

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12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales were reported on the valuation day are valued at the most recent bid price.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The carrying value less impairment provision, if any, of financial instrument carried at amortized cost are assumed to approximate their fair values.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed debt instruments. The Fund does not adjust the quoted price for these instruments.

Fund classifies all of its financial assets, except for those carried at amortized cost as below.

| 31 December 2021 | Fair value Level | | | Total |
|-------------------------------------|-------------------|----------------|----------|-------------------|
| | 1 | 2 | 3 | |
| FINANCIAL ASSET | | | | |
| Investments carried at FVTPL | 23,619,495 | 499,990 | - | 24,119,485 |

| 31 December 2020 | Fair value Level | | | Total |
|-------------------------------------|-------------------|----------------|----------|-------------------|
| | 1 | 2 | 3 | |
| FINANCIAL ASSET | | | | |
| Investments carried at FVTPL | 11,987,305 | 500,065 | - | 12,487,370 |

Investments in level 2 are valued based on market observable data including broker rates etc.

For assets and liabilities that are measured at fair value on a recurring basis, the Fund identifies transfers between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) and deems transfers to have occurred at the end of the reporting period during which the change has occurred. During the year/period, there was no transfer in fair value hierarchy for the financial assets held at FVTPL.

Other financial instrument such as, cash and cash equivalents, are short-term financial asset whose carrying amount approximate their fair value, because of its short-term nature and the high credit quality of counterparty. For all other financial assets and liabilities, the carrying value is an approximation of fair value.

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13 SUBSEQUENT EVENTS

As of the date of approval of these financial statements, there have been no significant subsequent events requiring disclosure to or adjustment in these financial statements.

14 LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements was 30 December 2021 (31 December 2020).

15 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Fund's Board on 26 Shaaban 1443H corresponding to 29 March 2022G.