

**ALINMA SAUDI GOVERNMENT SUKUK ETF  
FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**Interim condensed financial statements (unaudited)**  
**For the six-month period from 1 January 2020 (date of  
inception) to 30 June 2020**  
together with the  
independent auditor’s review report

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020

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# Independent auditor's report on review of interim condensed financial statements

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

## Introduction

We have reviewed the accompanying interim condensed financial statements of **Alinma Saudi Government Sukuk ETF Fund – Short Maturity** (the "Fund") which comprises:

- the statement of interim condensed financial position as at 30 June 2020;
- the statement of interim condensed profit or loss and other comprehensive income for the six-month period from 1 January 2020 (date of inception) to 30 June 2020;
- the statement of interim condensed changes in net assets (equity) attributable to the Unitholders for the six-month period from 1 January 2020 (date of inception) to 30 June 2020;
- the statement of interim condensed cash flows for the six-month period from 1 January 2020 (date of inception) to 30 June 2020; and
- the notes to the interim condensed financial statements.

The Fund Manager is responsible for the preparation and presentation of these interim condensed financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by Capital Market Authority, the Fund's terms and conditions and our responsibility is to express a conclusion on these interim condensed financial statements based on our review.


## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2020 interim condensed financial statements of **Alinma Saudi Government Sukuk ETF Fund – Short Maturity** are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For **KPMG Al Fozan & Partners**  
**Certified Public Accountants**

  
**Khalil Ibrahim Al Sedais**  
License No: 371  
Date: 11 Muharram 1442H  
Corresponding to: 30 August 2020



**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
As at 30 June 2020  
(All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	<b>30 June 2020</b>
<b>ASSETS</b>		
Investments at amortised cost	6	1,249,553,988
Cash and cash equivalents	7	<u>9,652,083</u>
<b>Total assets</b>		<b><u>1,259,206,071</u></b>
<b>LIABILITY</b>		
Accrued management fee	8	<u>561,017</u>
<b>NET ASSETS VALUE (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS</b>		<b><u>1,258,645,054</u></b>
<b>Units in issue (Numbers)</b>		<b><u>12,500,000</u></b>
<b>Net assets (equity) value per unit -IFRS</b>	12	<u>100.69</u>
<b>Net assets (equity) value per unit – Dealing</b>	12	<u>103.71</u>

The accompanying notes from 1 to 17 form an integral part of these interim condensed financial statements.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
 (An exchange-traded fund)  
**INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER  
 COMPREHENSIVE INCOME (UN-AUDITED)**  
 For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
 (All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	<b>For the six-month period from 1 January 2020 to 30 June 2020</b>
<b>Income</b>		<b><u>2020</u></b>
Income from investments at amortised cost	6.2	10,442,637
<b>Expenses</b>		
Management fee	8.1	(1,179,296)
Other expenses		(548,442)
Impairment allowance for expected credit losses	10	(69,845)
<b>Total expenses</b>		<b><u>(1,797,583)</u></b>
<b>Net profit for the period</b>		<b>8,645,054</b>
Other comprehensive income for the period		<u>                  --</u>
<b>Total comprehensive income for the period</b>		<b><u><u>8,645,054</u></u></b>

The accompanying notes from 1 to 17 form an integral part of these interim condensed financial statements.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS (EQUITY)**  
**ATTRIBUTABLE TO THE UNITHOLDERS (UN-AUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
(All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	<b>For the six-month period from 1 January 2020 to 30 June 2020</b>
Total comprehensive income for the period		<b>8,645,054</b>
<b><i>Contributions and redemptions by the Unitholders:</i></b>		
Issuance of units – in kind	8.2	<b>1,225,000,000</b>
Issuance of units – in cash	8.2	<b>25,000,000</b>
Redemption of units		<b>--</b>
Net change from unit transactions		<b>1,250,000,000</b>
<b>Net assets (equity) attributable to Unitholders at end of the period</b>		<b>1,258,645,054</b>

Transaction in units for the period ended 30 June 2020 is summarized as follows:

	<b>For the period from 1 January 2020 to 30 June 2020 (in Units)</b>
Unit issued during the period	<b>12,500,000</b>
Units redeemed during the period	<b>--</b>
<b>Net change in units</b>	<b>12,500,000</b>
<b>Units at end of the period</b>	<b>12,500,000</b>

The accompanying notes from 1 to 17 form an integral part of these interim condensed financial statements.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**INTERIM CONDENSED STATEMENT OF CASH FLOWS (UN-AUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
(All amounts in Saudi Riyals unless otherwise stated)

	<i>Note</i>	<b>For the six-month period from 1 January 2020 to 30 June 2020</b>
<b>Cash used in operating activities</b>		<b><u>8,645,054</u></b>
Net profit for the period		8,645,054
<u>Adjustments for:</u>		
Income from investments at amortised cost	6.2	(10,442,637)
Impairment allowance for expected credit losses	10	<u>69,845</u>
		(1,727,738)
<b>Changes in operating assets and liabilities</b>		
Increase in accrued management fee		<u>561,017</u>
		(1,166,721)
Increase in investments held at amortised cost		(25,000,000)
Special commission income received	6.3	<u>10,826,048</u>
<b>Net cash used in operating activities</b>		<b><u>(15,340,673)</u></b>
<b>Cash flows from investing activities</b>		--
<b>Cash flows from financing activity</b>		
Proceeds from issuance of units		<u>25,000,000</u>
<b>Net cash generated from financing activities</b>		<b><u>25,000,000</u></b>
<b>Net increase in cash and cash equivalents</b>		<b>9,659,327</b>
Cash and cash equivalents at the beginning of the period		--
<b>Cash and cash equivalents at the end of the period</b>	7	<b><u>9,659,327</u></b>
<b>Non-cash transactions:</b>		
Units issued against in-kind consideration	8.2	<b><u>1,225,000,000</u></b>

The accompanying notes from 1 to 17 form an integral part of these interim condensed financial statements.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
(All amounts in Saudi 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 provide 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. The first financial statements are for the six-month period from 1 January 2020 to 30 June 2020. According to the terms and conditions of the Fund, the first annual financial period starts from inception date 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 interim condensed financial statements have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA"). The Fund has also complied with Investment Funds Regulations published by CMA and Fund's terms and conditions with respect to preparation and presentation of these interim condensed financial statements.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements.

**b) Basis of measurement**

These interim condensed 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. 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, the interim condensed financial statements have been prepared on going concern basis.

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



**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
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**4 BASIS OF PREPARATION (CONTINUED)**

**c) Functional and presentation currency**

These interim condensed financial statements are presented in Saudi Riyal (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 interim condensed financial statements requires management 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.

*Impairment of financial assets*

The Fund applies and determines expected credit loss (ECL) model for the measurement and recognition of impairment loss on financial assets and credit risk exposure 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 allowance for expected credit losses in the statements of comprehensive income even for receivables that are newly originated or acquired.

Judgement is required by management in the estimation of the amount and timing of future cash flows when determining impairment 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 impairment 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 are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Fund's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs and the effect on PDs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

**5 SIGNIFICANT ACCOUNTING POLICIES**

**a) Cash and cash equivalents**

Cash and cash equivalents comprise 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 and are used by the Fund in the management of short-term commitments.

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**5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 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.

*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 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 provision for impairment.

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. For credit impaired financial assets, the Fund applies the effective interest to the amortised cost (gross carrying amount less provision for 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 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.

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**5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Financial instruments (continued)**

***Impairment 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, loss allowances is measured on either of the following bases:

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. 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 recognized in the interim condensed statement of profit or loss. 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 recognized in the interim condensed statement of profit or loss.

**c) Offsetting**

Financial assets and financial liabilities are offset and the net amount is presented in the interim condensed 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 interim condensed financial statements.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
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**5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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 assets (equity) value per unit**

Net assets (equity) value per unit disclosed in the interim condensed statement of financial position is calculated by dividing the net assets of the Funds by the number of units in issue at the period end.

**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 interim condensed statement of profit or loss. 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 loss allowance.

**f) Zakat and income tax**

Zakat and income tax are the obligations of the Unitholders and are not provided for in the accompanying interim condensed financial statements.

**g) 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 actual basis as per the terms and conditions of the Fund.

The Fund Manager recovers from the Fund any other expense incurred on behalf of the Fund as per terms and conditions of the Fund.

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
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**6 INVESTMENTS AT AMORTISED COST**

	<b>30 June 2020</b>
Nominal value of Sukuk	1,205,431,000
Premium paid	<u>35,132,518</u>
Gross amount of Sukuk ( <i>Note 6.1</i> )	1,240,563,518
Less: Amortization of premium paid	(3,597,911)
Accrued special commission income ( <i>Note 6.3</i> )	<u>12,650,982</u>
	1,249,616,589
Less: Impairment allowance for expected credit losses	<u>(62,601)</u>
	<u><u>1,249,553,988</u></u>

**6.1** The Fund has invested in Saudi Government Sukuks for a cost of SR 1,241 million with a nominal value of SR 1,205 million, which have a fixed annual rate for special commission income of 2.7% to 3.68% and maturity of 2 years to 5 years. The premium paid on transfer of the sukuk is amortized over their remaining term. These sukuk are held with the custodian Credit Suisse Saudi Arabia. Below is the movement during the period:

**6.2** Below is the breakup of income from investments at amortised cost

	<b>30 June 2020</b>
Special commission income	14,040,548
Amortization of premium paid	<u>(3,597,911)</u>
	<u>10,442,637</u>

**6.3** Below is the movement for accrued special commission income:

	<b>30 June 2020</b>
Special commission income earned during the period ( <i>Note 6.2</i> )	14,040,548
Special commission transferred to the Fund from Alinma Bank ( <i>Note 8.2</i> )	9,436,482
Less: Special commission income received during the period	<u>(10,826,048)</u>
Accrued special commission income	<u>12,650,982</u>

**7 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise balance held with the Fund Manager in an investment account. Below is the breakup for cash and cash equivalents:

	<b>30 June 2020</b>
Balance with Fund Manager	9,659,327
Less: Impairment allowance for expected credit losses	<u>(7,244)</u>
	<u>9,652,083</u>

**8 TRANSACTIONS AND BALANCES WITH RELATED PARTIES**

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

**ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY**  
(An exchange-traded fund)  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS (UN-AUDITED)**  
For the six-month period from 1 January 2020 (date of inception) to 30 June 2020  
(All amounts in Saudi Riyals unless otherwise stated)

**8 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)**

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

<u>Related party</u>	<u>Relationship</u>	<u>Nature</u>	<u>For the six-month period from 1 January 2020 to 30 June 2020</u>
Alinma Investment Company	Fund Manager	Management fee (Note 8.1)	<u>1,179,296</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>

The following table summarises the details of balances with related parties

<u>Related Party</u>	<u>Relationship</u>	<u>Nature</u>	<u>30 June 2020</u>
Alinma Investment Company	Fund Manager	Accrued management fee	<u>561,017</u>
Alinma Bank	Unitholder	Net assets (equity) attributable to Unitholders (Note 8.2)	<u>1,225,000,000</u>

**8.1** During the period, the Fund recognized management fees amounting to SR 1.179 million . During the period, the Fund paid SR 0.6 million to the Fund Manager.

**8.2** 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.

**9 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The financial instruments comprise financial assets and financial liabilities. The Fund's financial instruments consists 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 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).

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**9 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*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.

	Carrying Value	30 June 2020			Total
		Level 1	Level 2	Level 3	
Investments at amortised cost	1,249,553,988	1,287,177,501	--	--	1,287,177,501
<b>Total</b>	<b>1,249,553,988</b>	<b>1,287,177,501</b>	<b>--</b>	<b>--</b>	<b>1,287,177,501</b>

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 term nature and the high quality of counter parties.

**10 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 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. The Fund does not have a formal grading mechanism. 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 Fund’s maximum exposure to credit risk as at the reporting date:

	<b>30 June</b>
	<b>2020</b>
Investments at amortised cost	1,218,081,982
Cash and cash equivalents	<u>9,659,327</u>
	<b><u>1,227,741,309</u></b>

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**10 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**a) Credit risk (continued)**

The Fund's cash and cash equivalents balance is held with custodian which has sound credit rating.

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.

Impairment losses on financial assets recognized in the interim condensed statement of profit or loss are as follows:

	<b>For the six-month period from 1 January 2020 to 30 June 2020</b>
Investments at amortised cost	62,601
Cash and cash equivalents	7,244
	<b>69,845</b>

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

	<b>As at 30 June 2020</b>		
	<b>12-month ECL</b>	<b>Life-time ECL – not credit impaired</b>	<b>Life-time ECL – credit impaired</b>
<b><u>Cash and cash equivalents</u></b>			
BBB+	9,659,327	--	--
Gross carrying amount	9,659,327	--	--
Loss: Allowance	(7,244)	--	--
<b>Carrying amount</b>	<b>9,652,083</b>	--	--
<b><u>Investments at amortised cost</u></b>			
A1	1,249,616,589	--	--
Gross carrying amount	1,249,616,589	--	--
Loss: Allowance	(62,601)	--	--
<b>Carrying amount</b>	<b>1,249,553,988</b>	--	--

**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.



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**10 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**b) Liquidity risk (continued)**

The table below summarizes the maturity profile of the Fund's financial assets and liabilities at 30 June 2020. The amounts are gross and undiscounted, and include contractual special commission receipts:

	Carrying amount	Contractual cash flows			Total
		On demand	Less than 12 months	1 to 5 years	
<b><i>Financial assets</i></b>					
Investments at amortised cost	1,247,939,343	--	12,650,982	1,321,818,483	1,334,469,465
Cash and cash equivalents	9,652,083	9,659,327	--	--	9,659,327
	<u>1,257,591,426</u>	<u>9,659,327</u>	<u>12,650,982</u>	<u>1,321,818,483</u>	<u>1,344,128,792</u>
<b><i>Financial liabilities</i></b>					
Accrued management fees	561,017	--	561,017	--	561,017
<b>Total</b>	<u>561,017</u>	<u>--</u>	<u>561,017</u>	<u>--</u>	<u>561,017</u>
<b>GAP</b>		<u>9,659,327</u>	<u>12,089,965</u>	<u>1,321,818,483</u>	<u>1,343,567,775</u>
<b>GAP – cumulative</b>		<u>9,659,327</u>	<u>21,749,292</u>	<u>1,343,567,775</u>	<u>1,343,567,775</u>

**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 Riyals. As the Fund's financial assets and financial liabilities are denominated in its functional currency, 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 amortized 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.

**(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.

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**11 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.

**12 UNIT VALUE RECONCILIATION**

Sukuks are measured at market price to give an indicative unit price for trading. However, Sukuks are carried at amortized cost in the statement of financial position. The below table provides the unit price after adding the effect of the Fair value (Market Price).

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 the financial statements.

	<b>30 June 2020</b>
Unit price calculated in accordance with the financial statements	<b>100.69</b>
Add: Effect of fair value of Sukuk on unit price	<b>3.01</b>
Add: Effect of expected credit loss on unit price	<b>0.01</b>
Unit price used for trading	<b><u>103.71</u></b>

**13 COVID-19**

The recent COVID-19 outbreak and the lockdowns in the country had direct and indirect impact on all organizations across all industry sectors. There remains an element of uncertainty on the businesses from the potential disruption from the COVID-19 pandemic. As a leading player in the market, our staff have been staying close to our clients to support them navigate through the crisis period. The Fund's operations have been resilient during the pandemic period and the Fund was able to offer uninterrupted services to its clients and in maintaining day-to-day business operations. The management believes that the Fund's liquidity and capital position will continue to remain strong and well positioned to deal with any disruptions and uncertainties in the future. The management is closely assessing the ongoing situation and any potential impact it could have on its financial performance in 2020 and is taking necessary steps to deal with the challenges.

**14 LAST VALUATION DAY**

In accordance with the terms and conditions of the Fund, the last valuation day for the period was 30 June 2020.

**15 CONTINGENCIES AND COMMITMENTS**

The Fund has no contingencies and commitments requiring disclosures as at 30 June 2020.

**16 SUBSEQUENT EVENT**

The Fund has no subsequent events requiring adjustment or disclosures as at 30 June 2020 except the affect of COVID-19 as disclosed above.

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**17 APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS**

These interim condensed financial statements were approved by the Fund Manager on 11 Muharram 1442H corresponding to 30 August 2020.