

**ALINMA SAUDI GOVERNMENT SUKUK ETF
FUND – SHORT MATURITY**
(An exchange-traded fund)
Managed by Alinma Investment Company
Financial Statements
For the year ended 31 December 2022
Together with the
INDEPENDENT AUDITOR’S REPORT

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

FINANCIAL STATEMENTS

For the year ended 31 December 2022

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KPMG Professional Services

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Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤
المركز الرئيسي في الرياض

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Alinma Saudi Government Sukuk ETF Fund – Short Maturity** (the "Fund") managed by Alinma Investment Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in net assets (equity) attributable to the Unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended 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").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that is endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. During the audit, no key audit matters were identified.

Other information

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

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

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

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Independent Auditor's Report

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

Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.



Independent Auditor's Report

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

Report on Other Legal and Regulatory Requirements

We draw attention to Note 2 of the financial statements, which describes that the Fund was not in compliance with the Article 3(d) of the terms and conditions of the Fund for the year ended 31 December 2022.

KPMG Professional Services

Fahad Mubark Al Dossari
License No: 469

Riyadh: 7 Ramadan 1444H
Corresponding to 29 March 2023



ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

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

As at 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December 2021
ASSETS			
Investments at amortized cost	6	1,088,088,961	1,236,991,331
Investment at fair value through profit or loss	7	72,846,534	--
Cash and cash equivalents	8	104,421,570	24,635,106
Total assets		<u>1,265,357,065</u>	<u>1,261,626,437</u>
LIABILITIES			
Payable to Unitholders	9	10,000,000	10,000,000
Accrued management fee		302,174	310,369
		<u>10,302,174</u>	<u>10,310,369</u>
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		<u>1,255,054,891</u>	<u>1,251,316,068</u>
Units in issue (Numbers)		<u>12,500,000</u>	<u>12,500,000</u>
Net assets (equity) value per unit – IFRS	14	<u>100.40</u>	<u>100.11</u>
Net assets (equity) value per unit – Dealing	14	<u>99.07</u>	<u>101.80</u>

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY
(An exchange-traded fund)
Managed by Alinma Investment Company
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022
(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December 2021
INCOME			
Income from investments at amortised cost	6.3	26,481,638	27,226,445
Income from investment at fair value through profit or loss	7.2	1,152,269	--
		<u>27,633,907</u>	<u>27,226,445</u>
EXPENSES			
Management fee	10	(3,569,075)	(3,675,667)
Other expenses		(446,588)	(81)
Reversal of expected credit loss allowances, net	6.5,8	120,579	13,447
Total expenses		<u>(3,895,084)</u>	<u>(3,662,301)</u>
Net profit for the year		<u>23,738,823</u>	<u>23,564,144</u>
Other comprehensive income for the year		--	--
Total comprehensive income for the year		<u>23,738,823</u>	<u>23,564,144</u>

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY
(An exchange-traded fund)
Managed by Alinma Investment Company
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE
TO THE UNITHOLDERS
For the year ended 31 December 2022
(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December 2021
Net assets (equity) attributable to the Unitholders at the beginning of the year		1,251,316,068	1,255,751,924
Total comprehensive income for the year		23,738,823	23,564,144
Distributions	9	(20,000,000)	(28,000,000)
Net assets (equity) attributable to Unitholders at end of the year		<u>1,255,054,891</u>	<u>1,251,316,068</u>
UNIT TRANSACTIONS:			
		31 December 2022	31 December 2021
		(in Units)	
Units at the beginning and the end of the year		<u>12,500,000</u>	<u>12,500,000</u>

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

	<u>Note</u>	31 December 2022	31 December <u>2021</u>
Cash flows from operating activities			
Net profit for the year		23,738,823	23,564,144
<i>Adjustments for:</i>			
Income from investments at amortised cost	6.3	(26,481,638)	(27,226,445)
Reversal of expected credit losses allowance	6.5,8.1	(120,579)	(13,447)
Unrealized gain on investment as fair value through profit or loss	7.1	(679,501)	--
		(3,542,895)	(3,675,748)
Changes in operating assets and liabilities			
Accrued management fee		(8,195)	(3,624)
		(3,551,090)	(3,679,372)
Acquisition of investments held at amortised cost	6.1	(173,679,566)	--
Proceeds for maturity of investments held at amortized cost	6.1	311,359,000	--
Acquisition of investment at fair value through profit or loss	7.1	(174,694,264)	--
Proceeds from disposal of investment at fair value through profit or loss	7.1	102,527,231	--
Special commission income received	6.4	37,834,451	37,807,996
Net cash generated from operating activities		99,795,762	34,128,624
Cash flows from financing activities			
Distributions to Unitholders	9	(20,000,000)	(18,000,000)
Net cash used in from financing activities		(20,000,000)	(18,000,000)
Net increase in cash and cash equivalents		79,795,762	16,128,624
Cash and cash equivalents at the beginning of the year		24,635,155	8,506,531
Cash and cash equivalents at the end of the year	8	104,430,917	24,635,155

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Alinma Saudi Government Sukuk ETF Fund – Short Maturity (the "Fund") is an exchange-traded fund, managed by Alinma Investment Company (the "Fund Manager"), that invests through the passive management of a basket of Shariah-approved local government sukuk issued by the government authorities in the Kingdom of Saudi Arabia ("KSA") and listed in the main market to generate a performance that mirrors the performance of the index, and distribute periodic returns among others.

The Fund was established by the approval of the Capital Market Authority on 6 Jumada'l 1441H corresponding to 1 January 2020 and commenced its operations on 22 February 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.

The Fund Manager's address is as follows:

Al-Anoud Tower, Building No.2

King Fahad Road

P.O. Box 66333

Riyadh 11576

Kingdom of Saudi Arabia

2 REGULATORY FRAMEWORK

2.1 The Fund is governed by the Investment Fund Regulations (the "Regulations") published by Capital Market Authority ("CMA") on 3 Dhul Hijja 1427 H (corresponding to 24 December 2006). The Regulations were further amended on 12 Rajab 1442 H (corresponding to 24 February 2021).

2.2. The Fund's investment in the Sukuk represent approximately 86% of the total assets as at the reporting date. Article 3(d) of the terms and conditions of the Fund requires that the Fund must hold not less than 90% of the Fund's investment in Sukuk issued by the Government of the Kingdom of Saudi Arabia. Consequently, the Fund was not in compliance with the aforementioned clause of the terms and conditions for the year ended 31 December 2022.

The Fund Manager has reported the non-compliance to the CMA and is taking necessary steps to bring the Fund's investment allocation in compliance based on the availability of Sukuk meeting the Fund's investment criteria.

3 PRIMARY MARKET OPERATION (CREATION AND REDEMPTION OF UNITS)

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

4 BASIS OF PREPARATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") 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") and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority and the Fund's Terms and Conditions.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

4. BASIS OF PREPARATION (CONTINUED)

b) Basis of measurement

These financial statements have been prepared on a going concern basis, applying the historical cost convention using accrual basis of accounting except for investments at fair value through profit or loss which are recorded 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 order of their liquidity.

c) Functional and presentation currency

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

d) Use of estimates and judgments

In the ordinary course of business, the preparation of financial statements requires Fund Manager to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in future periods affected.

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at market price, because this price is assessed to be a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

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.

The fund has classified the investment measured at Fair Value Through Profit or Loss (FVTPL) per the fair value hierarchy as Level 2. During the period, there has been no transfer in fair value hierarchy for FVTPL investments. For other assets and liabilities such as cash and cash equivalents, other receivables and other payables, the carrying values were determined to be a reasonable approximation of fair value.

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the financial statements:

a) Cash and cash equivalents

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

b) Financial instruments

Initial recognition and measurement

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

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

As at reporting date, the financial assets are held at amortised cost and fair value through profit or loss.

Financial asset at amortised cost

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

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

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

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

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

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

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

Financial asset at amortised cost (continued)

Financial assets at fair value through profit or loss comprises debt and equity investments that do not qualify for measurement at either amortized cost or at fair value through other comprehensive income. Financial instruments held at fair value through profit or loss are initially recognized at fair value, with transaction cost recognized in the statement of profit or loss and other comprehensive income as incurred. Subsequently, they are measured fair value and any gains or losses are recognized in the statement of profit or loss and other comprehensive income as they arises.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise debt and equity investments that do not qualify for measurement at either amortised cost or at fair value through other comprehensive income. Financial instruments held at fair value through profit or loss are initially recognised at fair value, with transaction cost recognised in the statement of profit or loss as incurred. Subsequently, they are measured at fair value and any gain and losses are recognized in the statement of profit or loss as they arise.

Financial liabilities

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

Expected credit losses allowance of financial assets

The Fund assesses on a forward-looking basis the expected credit losses (“ECL”) associated with its financial assets carried at amortised cost. The Fund 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.

Under IFRS 9, expected credit losses allowance is measured on either of the following bases:

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

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial instruments (continued)

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

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

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

Re-balancing

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

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

c) Offsetting

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

d) Net assets (equity) attributable to the Unitholders

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

i) *Subscription and redemption of units*

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

ii) *Trading in the units*

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

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

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

ALINMA SAUDI GOVERNMENT SUKUK ETF FUND – SHORT MATURITY

(An exchange-traded fund)

Managed by Alinma Investment Company

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(All amounts in Saudi Arabian Riyals unless otherwise stated)

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Special commission income

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

f) Zakat

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

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

g) Distributions

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

h) Management fee, other expenses & fees

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

Management fee

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

Other expenses & fees

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

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

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

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB), have been effective from 1 January 2022 and accordingly adopted by the Fund, as applicable:

Effective date	New standards or amendments
1 January 2022	<i>Onerous Contract-Cost of Fulfilling a Contract (amendments to IAS 37)</i>
	<i>Annual Improvement to IFRS standards 2018-2020</i>
	<i>Property, Plant and Equipment: Proceeds before intended Use (amendment to IAS 16)</i>
	<i>Reference to the Conceptual Framework</i>
1 April 2021	<i>COVID-19 Related rent concessions beyond 30 June 2021 -Amendment to IFRS 16.</i>

The adoption of the amended standards and interpretations applicable to the Fund did not have any significant impact on these financial statements.

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5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A number of new standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these financial statements:

Effective date	New standards or amendments
1 January 2023	<i>IFRS 17 Insurance contracts</i>
	<i>Disclosure of accounting policies (amendments to IAS 1)</i>
	<i>Definition of accounting estimates (amendments to IAS 8)</i>
	<i>Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12)</i>
1 January 2024	<i>Classification of Liabilities as Current or Non-current (amendments to IAS 1)</i>
	<i>Lease Liability in a Sale and Leaseback (amendments to IFRS 16)</i>
Available for optional adoption	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendment IFRS 10 and IAS 28)</i>

6 INVESTMENTS AT AMORTISED COST

	31 December 2022	31 December 2021
Nominal value of Sukuk	1,074,859,000	1,205,218,000
Premium	26,939,807	38,013,927
Less: Amortisation of premium	(24,357,587)	(18,396,932)
	1,077,441,220	1,224,834,995
Accrued special commission income (Note 6.4)	10,701,589	12,340,061
	1,088,142,809	1,237,175,056
Less: Expected credit losses allowance (Note 6.5)	(53,848)	(183,725)
	1,088,088,961	1,236,991,331

6.1 Below is the movement during the year:

	31 December 2022	31 December 2021
Balance at the beginning of the year	1,224,834,995	1,235,416,547
Nominal value of sukuk purchased	181,000,000	--
Sukuk matured	(311,359,000)	--
Discount on purchase of sukuk	(7,320,434)	--
	1,087,155,561	1,235,416,547
Less: Amortisation during the year	(9,714,341)	(10,581,552)
	1,077,441,220	1,224,834,995

6.2 The Fund has invested in Saudi Government Sukuk for a cost of SR 1,101.8 million with a nominal value of SR 1,074.9 million, which have a fixed annual special commission income rate of 2.2% to 3.7% (31 December 2021: 2.2% to 3.7%) and with a maturity of 1 year to 5 years (31 December 2021: 1 year to 4 years). These Sukuks are held with the Credit Suisse Saudi Arabia as the custodian of the Fund.

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

	31 December 2022	31 December 2021
Special commission income	36,195,979	37,807,997
Less: Amortisation of premium / discount	(9,714,341)	(10,581,552)
	26,481,638	27,226,445

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6 INVESTMENTS AT AMORTISED COST (CONTINUED)

6.4 Below is the movement for accrued special commission income:

	31 December 2022	31 December <u>2021</u>
Accrued special commission income at the beginning of the year	12,340,061	12,340,060
Special commission income earned during the year	36,195,979	37,807,997
Less: Special commission income received during the year	(37,834,451)	(37,807,996)
Accrued special commission income as at year end	<u>10,701,589</u>	<u>12,340,061</u>

6.5 Below is the movement for expected credit loss allowance on investments at amortised cost during the year:

	31 December 2022	31 December <u>2021</u>
Opening allowance for ECL at the beginning	183,725	185,312
Reversal for the year	(129,877)	(1,587)
Allowance for ECL at the year end	<u>53,848</u>	<u>183,725</u>

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments measured at fair value through profit or loss include the following:

	31 December 2022	31 December <u>2021</u>
Units of Alinma Liquidity Fund – a related party (Units held 6,092,535 units (2021: nil))	<u>72,846,534</u>	<u>--</u>

7.1 During the year, the Fund has entered into subscription of 14,781,657 and redemption of 8,689,122 units amounting to SAR 174,694,264 and SAR 102,527,231 respectively. The Fund holds 6,092,535 units as at the reporting date.

7.2 Below is the breakup for income from investment at fair value through profit or loss:

	31 December 2022	31 December <u>2021</u>
Unrealized gain during the year	679,501	--
Realized gain during the year	<u>472,768</u>	<u>--</u>
	<u>1,152,269</u>	<u>--</u>

8 CASH AND CASH EQUIVALENTS

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

	31 December 2022	31 December <u>2022</u>
Balance held with the bank	104,430,917	24,635,155
Less: Expected credit loss allowance (Note 8.1)	(9,347)	(49)
	<u>104,421,570</u>	<u>24,635,106</u>

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8 CASH AND CASH EQUIVALENTS (CONTINUED)

8.1 Below is the movement for expected credit loss allowance on cash and cash equivalents during the year:

	31 December	31 December
	<u>2022</u>	<u>2021</u>
Opening allowance for ECL at the beginning	49	11,909
Charge / (reversal) for the year	<u>9,298</u>	<u>(11,860)</u>
Allowance for ECL at the year end	<u>9,347</u>	<u>49</u>

9 DISTRIBUTIONS TO UNITHOLDERS

The Fund Manager announced two distributions comprising of SR 0.8 per unit to existing 12,500,000 units amounting to SR 10 million on 27 June 2022 and 27 December 2022. Distribution announced on 27 December 2022 is yet to be paid as at year end.

10 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

Significant transactions and balances with related parties in the ordinary course of Fund's business included in the financial statements other than those disclosed elsewhere in the financial statements, are summarized below:

<u>Related party</u>	<u>Relationship</u>	<u>Transaction</u>	31 December	31 December
			<u>2022</u>	<u>2021</u>
Alinma Investment Company	Fund Manager	Management fee expense	<u>3,569,075</u>	<u>3,675,667</u>
		Management fees paid	<u>3,577,269</u>	<u>3,679,291</u>
		Expense charged and paid	<u>--</u>	<u>80</u>

The following table summarizes the details of balances with related parties:

<u>Related Party</u>	<u>Relationship</u>	<u>Balance</u>	31 December	31 December
			<u>2022</u>	<u>2021</u>
Alinma Investment Company	Fund Manager	Accrued management fee	<u>302,174</u>	<u>310,369</u>
		Balance held with bank	<u>104,430,917</u>	<u>24,635,155</u>
Alinma Bank	Unitholder	Net assets (equity) attributable to Unitholders (11,550,887 units (2021: 7,946,313 units))	<u>1,159,709,055</u>	<u>808,934,663</u>

11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The financial instruments comprise financial assets and financial liabilities. The Fund's financial instruments consist of investments at investment at fair value through profit or loss cost, cash and cash equivalents, payable to Unitholders 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.

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11 FAIR VALUE OF FINANCE INSTRUMENTS (CONTINUED)

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

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

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

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

Fair value hierarchy – Financial instruments measured at amortised cost

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

	Carrying Value	31 December 2022			
		----- Fair value -----			
		Level 1	Level 2	Level 3	Total
Investments at amortised cost	1,088,088,961	1,051,100,365	--	--	1,051,100,365
Investment at FVTPL	72,846,534	--	72,846,534	--	72,846,534
Total	1,160,506,409	1,051,100,365	72,846,534	--	1,123,946,899
	Carrying Value	31 December 2021			
		----- Fair value -----			
		Level 1	Level 2	Level 3	Total
Investments at amortised cost	1,236,991,331	1,234,557,356	--	--	1,234,557,356
Investment at FVTPL	--	--	--	--	--
Total	1,236,991,331	1,234,557,356	--	--	1,234,557,356

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

12 FINANCIAL RISK MANAGEMENT

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

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

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines. The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk

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

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

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

	31 December 2022	31 December <u>2021</u>
Investments at amortised cost	1,085,560,589	1,217,558,061
Cash and cash equivalents	104,430,917	24,635,155
	<u>1,189,991,506</u>	<u>1,242,193,216</u>

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

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss.

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

	31 December 2022	31 December <u>2021</u>
Investments at amortised cost	(129,877)	(1,587)
Cash and cash equivalents	9,298	(11,860)
	<u>(120,579)</u>	<u>(13,447)</u>

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

	As at 31 December 2022		
	12-month ECL	Life-time ECL – not credit impaired	Life-time ECL – credit impaired
<u>Cash and cash equivalents</u>			
BBB+	104,430,917	--	--
Gross carrying amount	104,430,917	--	--
Loss: Expected credit losses allowance	(9,347)	--	--
Carrying amount	<u>104,421,570</u>	--	--
<u>Investment at amortised cost</u>			
AAA	1,088,142,809	--	--
Gross carrying amount	1,088,142,809	--	--
Loss: Expected credit losses allowance	(53,848)	--	--
Carrying amount	<u>1,088,088,961</u>	--	--

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

	As at 31 December 2021		
	12-month ECL	Life-time ECL – not credit impaired	Life-time ECL – credit impaired
<u>Cash and cash equivalents</u>			
BBB+	24,635,155	--	--
Gross carrying amount	24,635,155	--	--
Loss: Expected credit losses allowance	(49)	--	--
Carrying amount	24,635,106	--	--
<u>Investment at amortised cost</u>			
AAA	1,237,175,056	--	--
Gross carrying amount	1,237,175,056	--	--
Loss: Expected credit losses allowance	(183,725)	--	--
Carrying amount	1,236,991,331	--	--

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 subscription and redemption of units on every Saudi business day and it is, therefore, exposed to the liquidity risk of not being able to meet Unitholders' redemption requests on these days. The Fund's investments are readily realisable, and the units can easily be redeemed at any time. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Fund's financial assets and liabilities at 31 December 2022. The amounts are gross and undiscounted, and include contractual special commission receipts:

	31 December 2022				
	Carrying amount	On demand	Less than 12 months	1 to 5 years	Total
<u>Financial assets</u>					
Investments at amortised cost	1,088,088,961	--	485,061,478	650,454,028	1,135,515,506
Investments at FVTPL	72,846,534	72,846,534	--	--	72,846,534
Cash and cash equivalents	104,430,917	104,430,917	--	--	104,430,917
Total	1,265,366,412	177,277,451	485,061,478	650,454,028	1,312,792,957
<u>Financial liabilities</u>					
Distributions payable	10,000,000	--	10,000,000	--	10,000,000
Accrued management fees	302,174	--	302,174	--	302,174
Total	10,302,174	--	10,302,174	--	10,302,174
GAP	177,277,451	474,759,304	650,454,028	1,302,490,783	
GAP – cumulative	177,277,451	652,036,755	1,302,490,783	1,302,490,783	

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12 FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (continued)

	31 December 2021				
	Carrying amount	On demand	Less than 12 months	1 to 5 years	Total
<i>Financial assets</i>					
Investments at amortised cost	1,236,991,331	--	349,166,996	938,278,303	1,287,445,299
Cash and cash equivalents	24,635,106	24,635,106	--	--	24,635,106
Total	1,261,626,437	24,635,106	349,166,996	938,278,303	1,312,080,405
<i>Financial liabilities</i>					
Distributions payable	10,000,000	--	10,000,000	--	10,000,000
Accrued management fees	310,369	--	310,369	--	310,369
Total	10,310,369	--	10,310,369	--	10,310,369
GAP		24,635,106	338,856,627	938,278,303	1,301,770,036
GAP – cumulative		24,635,106	363,491,733	1,301,770,036	1,301,770,036

c) Market risk

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

(i) Currency risk

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

(ii) Interest rate risk

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

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. As of reporting date, the Fund held investment in units of Alinma Liquidity Fund, which is measured at Fair value.

13 CAPITAL MANAGEMENT

The capital of the Fund is represented by net assets (equity) attributable to holders of redeemable units. The amount of equity attributable to holders of redeemable units can change significantly on each valuation day, as the Fund is subject to subscriptions and redemptions at the discretion of Unitholders on every valuation day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for Unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund. The Fund Board and the Fund Manager monitor capital on the basis of the value of net assets (equity) attributable to Unitholders.

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14 UNIT VALUE RECONCILIATION

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

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

	31 December <u>2022</u>	31 December <u>2021</u>
Unit price calculated as per the IFRS	<u>100.37</u>	<u>100.11</u>
Unit price calculated for trading	<u>99.07</u>	<u>101.80</u>

15 LAST VALUATION DAY

In accordance with the terms and conditions of the Fund, the last valuation day for the period was 31 December 2022.

16 CONTINGENCIES AND COMMITMENTS

The Fund has no contingencies and commitments requiring disclosures as at 31 December 2022.

17 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 06 Ramadan 1444H corresponding to 28 March 2023.