

**Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF AL YUSR MORABAHA AND SUKUK FUND (Managed by Alawwal Invest Company)

Opinion

We have audited the financial statements of Al Yusr Morabaha and Sukuk Fund (the "Fund") managed by Alawwal Invest Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

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 professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

The Fund's Board of Directors 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF AL YUSR MORABAHA AND SUKUK FUND
(Managed by Alawwal Invest Company) (continued)**

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

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

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

We communicate with the Fund's Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

Yousef A. AlMubarak
Certified Public Accountant
License No. (427)

Riyadh: 9 Sha'aban 1441H
(2 April 2020)



Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		<i>31 December</i>	<i>31 December</i>
		<i>2019</i>	<i>2018</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
ASSETS			
Cash and cash equivalents		137,334,434	39,155,474
Investments designated at fair value through profit or loss (FVTPL)	5	172,571,523	143,290,996
Morabaha placements measured at amortised cost	6	696,023,000	363,201,907
Investments measured at amortised cost	7	233,237,744	343,072,349
		<u>1,239,166,701</u>	<u>888,720,726</u>
TOTAL ASSETS			
LIABILITY			
Accrued expenses	10	69,387	436,854
EQUITY			
Net assets attributable to the redeemable unitholders		1,239,097,314	888,283,872
		<u>1,239,166,701</u>	<u>888,720,726</u>
TOTAL LIABILITY AND EQUITY			
Units in issue		98,373,281	72,393,574
		<u>12.5959</u>	<u>12.2702</u>
Net assets value attributable to each unit			

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

Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 SR	2018 SR
INCOME			
Net gain from investments designated at FVTPL	8	5,179,633	6,090,190
Special commission income		29,189,659	19,075,844
		<hr/> 34,369,292 <hr/>	<hr/> 25,166,034 <hr/>
EXPENSE			
Management fees	9	(5,504,396)	(4,219,426)
Other expenses	11	(544,477)	(288,271)
		<hr/> (6,048,873) <hr/>	<hr/> (4,507,697) <hr/>
NET INCOME FOR THE YEAR		28,320,419	20,658,337
Other comprehensive income		-	-
		<hr/> 28,320,419 <hr/>	<hr/> 20,658,337 <hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,320,419	20,658,337

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

Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	2019 SR	2018 SR
EQUITY AT THE BEGINNING OF THE YEAR	888,283,872	960,313,322
Profit for the year	28,320,419	20,658,337
Other comprehensive income for the year	-	-
	28,320,419	20,658,337
Issuance of units during the year	884,468,142	327,672,660
Redemption of units during the year	(561,975,119)	(420,360,447)
EQUITY AT THE END OF THE YEAR	1,239,097,314	888,283,872
	<u>Units</u>	<u>Units</u>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the year are summarised as follows:		
UNITS AT THE BEGINNING OF THE YEAR	72,393,574	80,201,624
Units issued during the year	71,068,284	26,883,123
Units redeemed during the year	(45,088,577)	(34,691,173)
NET INCREASE (DECREASE) IN UNITS	25,979,707	(7,808,050)
UNITS AT THE END OF THE YEAR	98,373,281	72,393,574

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

Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	<i>Notes</i>	2019 SR	2018 SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		28,320,419	20,658,337
Adjustments to reconcile profit for the year to net cash flows:			
Unrealized (gain) loss on investments designated at FVTPL	8	(813,858)	3,312,430
		<u>27,506,561</u>	<u>23,970,767</u>
Working capital adjustments:			
(Increase) decrease in investments designated at FVTPL		(28,466,669)	306,010,737
Increase in morabaha placements measured at amortised cost		(332,821,093)	(316,049,026)
Decrease in investments measured at amortised cost		109,834,605	67,018,635
(Decrease) increase in accrued expenses		(367,467)	423,699
		<u>(224,314,063)</u>	<u>81,374,812</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuances of units		884,468,142	327,672,660
Payment on redemption of units		(561,975,119)	(420,360,447)
		<u>322,493,023</u>	<u>(92,687,787)</u>
Net cash flows from (used in) financing activities			
		<u>322,493,023</u>	<u>(92,687,787)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		98,178,960	(11,312,975)
Cash and cash equivalents at the beginning of the year		<u>39,155,474</u>	<u>50,468,449</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
		<u><u>137,334,434</u></u>	<u><u>39,155,474</u></u>

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

Al Yusr Morabaha and Sukuk Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2019

1. INCORPORATION AND ACTIVITIES

Al Yusr Morabaha and Sukuk Fund (the “Fund”) is an open-ended fund domiciled in Kingdom of Saudi Arabia, created by an agreement between Alawwal Invest Company (the “Fund Manager”), a subsidiary of Alawwal Bank (the “Bank”) and investors in the Fund (the “Unitholders”).

The Fund’s Manager registered office is at P.O. Box 1467, Riyadh 11431, Kingdom of Saudi Arabia.

Al Yusr Morabaha and Sukuk Fund	
Commencement Date	1 July 2003
Latest Governing Terms and Condition Date	7 November 2019
Latest Governing Information Memorandum Date	7 November 2019
Category	Sharia’ah compliant
Objective	Capital preservation & appreciation
Allowed Investment Channels	Morabaha deposits
	Sukuk
	Structured investment products
	Morabaha funds

The Fund has appointed Riyadh Capital Company (the “Custodian”) to act as its custodian, administrator and registrar. The fees of the custodian and administrator’s services are paid by the Fund.

The Fund Manager is responsible for the overall management of the Fund's activities. The Fund Manager can also enter into arrangements with other institutions for the provision of investment, custody or other administrative services on behalf of the Fund.

Based on historical information, 62% of the Fund’s units are redeemed throughout the year.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) detailing requirements for all investments funds operating within the Kingdom of Saudi Arabia and published by the Capital Market Authority (the “CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006). The Regulations were further amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) (the “Amended Regulations”). The Fund Manager believes that the Amended Regulations was effective since 6 Safar 1438H (corresponding to 6 November 2016).

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

3.1. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by Saudi Organization of Certified Public Accountants (“IFRS as endorsed in KSA”).

3.2. Basis of preparation

These financial statements have been prepared on a historical cost basis, (except for investments at FVPL which are stated at their fair value) using the accrual basis of accounting and the going concern concept.

The Fund presents its statement of financial position in order of liquidity. An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 13.

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Financial instruments

(i) Classification

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or
- (b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Financial assets

The Fund classifies its financial assets either as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- ▶ The entity's business model for managing the financial assets
- ▶ The contractual cash flow characteristics of the financial asset

- ***Financial assets measured at amortised cost***

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Fund includes in this category Cash and cash equivalents, Investments in Sukuk / Bond, Money market placements and Morabaha placements, due from brokers and other receivables.

- ***Financial assets measured at fair value through profit or loss (FVPL)***

A financial asset is measured at fair value through profit or loss if:

- i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding Or
- ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell Or
- iii. At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Fund includes in this category equity instruments held for trading which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

3.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(i) Classification (continued)

Financial liabilities

- **Financial liabilities measured at fair value through profit or loss (FVPL)**
A financial liability is measured at FVPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVPL.
- **Financial liabilities measured at amortised cost**
This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Fund does not hold any financial liabilities measured at amortised cost.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in statement of comprehensive income.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

Debt instruments

The Fund recognises three classifications to subsequently measure its debt instruments:

- **Amortised cost**
Financial assets held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI) which are measured at amortised cost. A gain or loss on a debt investment subsequently measured at amortised cost and not part of a hedging relationship is recognised in the statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair Value through Other Comprehensive Income (“FVOCI”)**
Financial assets held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the statement of income and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income/expense.
- **Fair Value through profit or loss (“FVPL”)**
Financial assets that do not meet the criteria for subsequent recognition at amortised cost or FVOCI, are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through the statement of income and which is not part of a hedging relationship is recognised and presented net in the statement of income in the year in which it arises.

Equity instruments

The Fund measures all equity investments at fair value through profit or loss and presents changes in fair value of equity investments in the statement of comprehensive income.

Al Yusr Morabaha and Sukuk Fund
(Managed by Alawal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

3.3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(v) Derecognition

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

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

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

(vi) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

(vii) 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 ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Fair value measurement

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

3.3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(vi) Impairment of financial assets (continued)

For assets and liabilities that are recognized in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 12.

Trade date accounting

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

Amounts due to and due from brokers

Amounts due to brokers are payables for securities purchased (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date. Refer to the accounting policy for financial liabilities, other than those classified as at FVPL, for recognition and measurement.

Amounts due from brokers include margin accounts and receivables for securities sold (in a regular way transaction) that have been contracted for, but not yet delivered, on the reporting date.

Margin accounts represent cash deposits held with brokers as collateral against open futures contracts.

Provisions

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

Accrued expenses

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the suppliers or not. These are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method.

Al Yusr Morabaha and Sukuk Fund (Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

3.3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Redeemable units

Redeemable units are classified as equity instruments when:

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

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

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

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

The Fund classifies its net assets attributable to the unitholders as equity because it meets the criteria described above. As such, the issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

Net assets value per unit

Net assets value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

Management fees

Fund management fees are recognised on accrual basis and charged to the statement of comprehensive income. Fund management fee is charged at agreed rates with the Fund Manager and as stated in the terms and conditions of the Fund.

Special commission income

Special commission income and expense including commission income from non-derivative financial assets held at FVPL, are recognized in statement of comprehensive income, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter year) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Commission received or receivable, and commission paid or payable, are recognised in the statement of comprehensive income as commission income and commission expense, respectively.

Al Yusr Morabaha and Sukuk Fund
(Managed by Alawwal Invest Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

3.3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVPL is recognised in statement of comprehensive income in a separate line item.

Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss ("FVPL")

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

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

Foreign currency translation

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses, except for those arising on financial instruments at FVPL, which are recognised as a component of net gain from financial instruments at FVPL.

Fee and other expenses

Fee and other expenses are recognized on an accrual basis.

Zakat and income tax

Under the current system of taxation in Kingdom of Saudi Arabia the Fund is not liable to pay any zakat or income tax as they are considered to be the obligation of the Unitholders and as such, are not provided in the accompanying financial statements

3.4 New standards, interpretations and amendments

There are new standards, amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Fund.

3.5 Standards issued but not yet effective

There are several amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements. In the opinion of the Board, these will have no impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable, when they become effective.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS as endorsed in KSA requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Funds' accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

Going concern

The Board of Directors, in conjunction with the Fund Manager made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value measurement

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price available on respective stock exchange, without any deduction for transaction costs. The Fund is using the last traded prices, which is recognised as standard pricing convention within the industry.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

The Fund measures financial instruments at fair value at each reporting date. Fair values of those financial instruments are disclosed in note 12.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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5. INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of the investments as at statement of financial position date summarized below:

	<i>31 December 2019</i>			<i>31 December 2018</i>		
	<i>Cost</i> <i>SR</i>	<i>Market</i> <i>value</i> <i>SR</i>	<i>Unrealized</i> <i>gain</i> <i>SR</i>	<i>Cost</i> <i>SR</i>	<i>Market</i> <i>value</i> <i>SR</i>	<i>Unrealized</i> <i>gain</i> <i>SR</i>
<i>Mutual fund</i>						
FALCOM SAR Murabaha Fund	169,679,490	172,571,523	2,892,033	141,212,821	143,290,996	2,078,175
	<u>169,679,490</u>	<u>172,571,523</u>	<u>2,892,033</u>	<u>141,212,821</u>	<u>143,290,996</u>	<u>2,078,175</u>

All the investments are made in Kingdom of Saudi Arabia.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

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6. MORABAHA PLACEMENTS MEASURED AT AMORTISED COST

	<i>31 December</i> 2019 SR	<i>31 December</i> 2018 SR
Gulf International Bank	265,302,867	170,174,583
Bank Aljazirah	199,884,958	-
National Bank of Kuwait	161,485,000	-
Banque Saudi Fransi	20,138,511	47,232,505
Alawwal Bank	49,211,664	145,794,819
	696,023,000	363,201,907

Counterparties with whom the Fund has made placements have credit ratings of investment grade as issued by rating agencies. The average effective special commission rate on money market placements as at the yearend is 2.5 % p.a. (31 December 2018: 1.10% p.a.).

Money Market placements measured at amortised cost is subject to impairment assessment based on ECL model as per IFRS 9. The management has assessed that allowances for ECL is not significant.

7. INVESTMENTS MEASURED AT AMORTISED COST

	<i>31 December</i> 2019 SR	<i>31 December</i> 2018 SR
<i>Debt securities</i>		
Riyadh Bank – Sukuk	80,060,571	90,084,422
CBB Int'l Sukuk	68,183,448	-
Abdullah Al Othaim Real Estate Investment and Development Company Sukuk	33,472,901	33,510,079
Saudi British Bank (SABB) – Sukuk	28,093,953	28,113,976
Najran Cement – Sukuk	20,051,167	20,058,522
Arabian Aramco Total Services Company Sukuk (SATORP)	3,375,704	3,762,044
National Commercial Bank Sukuk	-	91,245,622
Al Hilal Bank Sukuk	-	56,252,820
Advance Petrochemical Company Sukuk	-	20,044,864
	233,237,744	343,072,349

The average effective special commission rate on investments as at the year-end is 4.17% p.a. (31 December 2018: 4.42% p.a.).

Investments measured at amortised cost is subject to impairment assessment based on ECL model as per IFRS 9. The management has assessed that allowances for ECL is not significant.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

8. NET GAIN FROM INVESTMENTS DESIGNATED AT FVTPL

	<i>31 December</i> 2019 SR	<i>31 December</i> 2018 SR
Realised gain	4,365,775	9,402,620
Unrealised gain (loss)	813,858	(3,312,430)
	<u>5,179,633</u>	<u>6,090,190</u>

9. TRANSACTIONS WITH RELATED PARTIES

Management fee and other transactions

The Fund is managed and administered by the Fund Manager. For this service the Fund pays a management fee calculated on every valuation day, at an annual rate of 0.5 % of the Fund's daily net assets. Total management fees for the year amounted to SR 5,504,396 (2018: SR 4,219,426).

Other expenses paid by the Fund Manager on behalf of the Fund are charged to the Fund.

The Bank acts as the Fund's banker and the Fund Manager acted as the custodian to the Fund's investment until 31 March 2018 after that custody was transferred to Riyadh Capital Company.

Board of directors

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently SR 3,000 per meeting up to a maximum of 2 meetings per annum per director which is paid equally by all funds supervised by the board, in addition, SR 2,000 are paid to each independent director by the Fund per annum. The directors received total remuneration of SR nil during the year ended 31 December 2019 (for the year ended 31 December 2018: Nil), the fees payable to directors at the year-end were SR 8,571 (31 December 2018: SR 4,267).

Units held by related parties

The balances as at year end resulting from such transactions included in the financial statements are as follows:

<i>Related parties and nature of relationship</i>	<i>Nature of transaction</i>	<i>31 December</i> 2019 Units	<i>31 December</i> 2018 Units
Fund manager	Units held	3,947,549	3,947,549
		<u>3,947,549</u>	<u>3,947,549</u>

10. ACCRUED EXPENSES

	<i>31 December</i> 2019 SR	<i>31 December</i> 2018 SR
Audit fees payable	35,000	30,000
Custody fee payable	13,317	14,874
Board members fees payable	8,570	4,000
CMA fees payable	7,500	7,500
Tadawul fees payable	5,000	5,000
Management fees payable	-	354,677
Value added tax payable	-	20,803
	<u>69,387</u>	<u>436,854</u>

Al Yusr Morabaha and Sukuk Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

11. OTHER EXPENSES

	<i>31 December</i> 2019 SR	<i>31 December</i> 2018 SR
Value added tax (VAT)	287,530	213,029
Custody fees	197,626	28,475
Audit fees	35,000	30,000
Board member fees (note 9)	8,571	4,267
CMA monitoring fees	7,500	7,500
Tadawul fees	5,000	5,000
Brokerage Expense	3,250	-
	544,477	288,271

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

	<i>31 December 2019</i>			
	<i>Level 1</i> SR	<i>Level 2</i> SR	<i>Level 3</i> SR	<i>Total</i> SR
Investments at FVPL	172,571,523	-	-	172,571,523
Total	172,571,523	-	-	172,571,523

	<i>31 December 2018</i>			
	<i>Level 1</i> SR	<i>Level 2</i> SR	<i>Level 3</i> SR	<i>Total</i> SR
Investments at FVPL	143,290,996	-	-	143,290,996
Total	143,290,996	-	-	143,290,996

Al Yusr Morabaha and Sukuk Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

12. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

The fair values of investments measured at amortised cost are set out below:

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Investments measured at amortised cost	<u>233,237,744</u>	<u>343,072,349</u>
	<u><u>233,237,744</u></u>	<u><u>343,072,349</u></u>

The valuation of investments measured at amortised cost is estimated using contractual cash flows discounted at market yield as of reporting date, which is the sukuk market yield plus the prevailing Saudi Inter Bank offer rates (SIBOR). Input into the discounted cash flow techniques includes market yield, contractual cash flows and primary origination spreads.

Other financial instruments such as, cash and cash equivalents and morabaha placements. These are short-term financial assets whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

For all other financial assets and liabilities, the carrying value is an approximation of fair value, including: overdraft and accrued expenses.

13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 31 December 2019</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	137,334,434	-	137,334,434
Investments at fair value through profit or loss	172,571,523	-	172,571,523
Morabaha placements measured at amortised cost	696,023,000	-	696,023,000
Investments measured at amortised cost	<u>133,584,639</u>	<u>99,653,105</u>	<u>233,237,744</u>
TOTAL ASSETS	<u><u>1,139,513,596</u></u>	<u><u>99,653,105</u></u>	<u><u>1,239,166,701</u></u>
LIABILITY			
Accrued expenses	<u>69,387</u>	-	<u>69,387</u>
TOTAL LIABILITY	<u><u>69,387</u></u>	<u><u>-</u></u>	<u><u>69,387</u></u>

Al Yusr Morabaha and Sukuk Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

<i>As at 31 December 2018</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	39,155,474	-	39,155,474
Investments at fair value through profit or loss	143,290,996	-	143,290,996
Morabaha placements measured at amortised cost	343,064,047	20,137,860	363,201,907
Investments measured at amortised cost	167,543,306	175,529,043	343,072,349
TOTAL ASSETS	693,053,823	195,666,903	888,720,726
LIABILITY			
Accrued expenses	436,854	-	436,854
TOTAL LIABILITY	436,854	-	436,854

14. FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risks.

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises listed equity and debt securities (Sukuk, Money market placements and Murabaha placements) and investments in unlisted investment funds.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Fund Board on a [daily/weekly/ monthly] basis. In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

14. FINANCIAL RISK MANAGEMENT (continued)

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 for its investments measured at amortized cost, placements held at amortized cost, bank balance and other receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and by dealing with only reputable counterparties.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position.

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Cash and cash equivalents	137,334,434	39,155,474
Placements measured at amortised cost	696,023,000	363,201,907
Investments measured at amortised cost	233,237,744	343,072,349
Total exposure to credit risk	1,066,595,178	745,429,730

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

As at the reporting date, the Fund's debt securities exposures were concentrated in the following economic sectors and geographies.

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
	<i>Carrying Value</i>	
<i>Sector</i>		
Banks	108,154,524	265,696,839
Corporate	125,083,220	77,375,510
	233,237,744	343,072,349
<i>Geographical distribution</i>		
Kingdom of Saudi Arabia	165,054,296	286,819,529
Kingdom of Bahrain	68,183,448	-
United Arab Emirates	-	56,252,820
	233,237,744	343,072,349

The management has conducted an ECL assessment as required under IFRS 9 and based on that assessment, the management believes that there is no need for any significant impairment loss against the carrying value of the financial assets.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

14. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet 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 subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions. However, the Fund is allowed to borrow in order to satisfy redemptions. The Fund's bank balances, investments measured at amortized cost and placements are considered to be readily realisable. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

Market Risk:

'Market Risk' is the risk that changes in market prices – such as interest rates, foreign exchange rates, and credit spreads – will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the fund manager.

Special commission rate risk

Special commission rate risk arises from the possibility that changes in market commission rates will affect future profitability or the fair value of the financial instruments.

The Fund is subject to special commission rate risk on its commission bearing assets and liability, including Morabaha placements. The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Fund's income for the year based on the floating rate financial assets held at the year end. There are no investments in which Fund has made investment in floating rate securities. Hence, there is no effect of change in market commission rate on the Fund's profitability and is not exposed to cash flow interest rate risk.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

Sensitivity analysis

The table below sets out the effect on net assets attributable to holders of redeemable shares of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

	31 December 2019		31 December 2018	
	SR		SR	
Net gain / (loss) on investments at FVTPL	+/-5%	258,982	+/- 5%	304,510

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund' management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal. In addition, as the Fund's foreign currency transactions are primarily in US dollars which is pegged with the Saudi Riyal, foreign exchange gains and losses are not significant.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2019

15. EVENTS AFTER THE REPORTING PERIOD

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

No events have occurred subsequent to the reporting date and before the issuance of these financial statements, which require adjustments to and/or disclosure in these financial statements.

16. LAST VALUATION DAY

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018).

17. APPROVAL OF FINANCIAL STATEMENTS

These financial statements are approved by the Fund Board on 9 Sha'aban 1441H (Corresponding to 2 April 2020).