

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

**FINANCIAL STATEMENTS**

**31 DECEMBER 2017**



Ernst & Young & Co. (Public Accountants)  
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## INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS 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 balance sheet as at 31 December 2017, and the statement of operations, statement of cash flows and statement of changes in net assets 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 2017, and its financial performance and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

### 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 accounting standards generally accepted in the Kingdom of Saudi Arabia 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 UNIT HOLDERS OF  
AL YUSR MORABAHA AND SUKUK FUND (Managed by Alawwal Invest Company) (continued)**

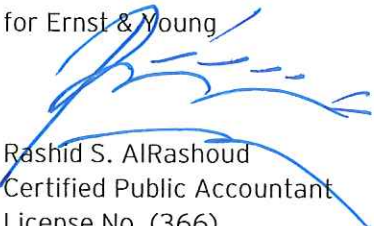
**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

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

  
Rashid S. AlRashoud  
Certified Public Accountant  
License No. (366)



Riyadh: 15 Rajab 1439H  
(01 April 2018)

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

## BALANCE SHEET

As at 31 December 2017

	Notes	2017 SR	2016 SR
<b>ASSETS</b>			
Bank balance		<b>50,468,449</b>	1,604,107
Trading investments	4	<b>452,614,163</b>	125,125,437
Morabaha placements	5	<b>47,000,000</b>	298,000,000
Held to maturity investments	6	<b>405,484,250</b>	251,769,750
Accrued income		<b>2,482,821</b>	6,313,132
Receivables and prepayments	7	<b>2,276,794</b>	2,411,559
		<b>960,326,477</b>	685,223,985
<b>LIABILITY</b>			
Accrued expenses		<b>13,155</b>	76,518
		<b>13,155</b>	76,518
<b>NET ASSETS</b>			
		<b>960,313,322</b>	685,147,467
Units in issue		<b>80,201,624</b>	58,367,131
Per unit value		<b>11.9737</b>	11.7386

The accompanying notes 1 to 13 form an integral part of these financial statements.

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

## STATEMENT OF OPERATIONS

Year ended 31 December 2017

	Notes	2017 SR	2016 SR
<b>INVESTMENT INCOME</b>			
Special commission income		<b>17,579,642</b>	22,266,542
Trading income, net	8	<b>6,694,979</b>	212,030
Other income		<b>884</b>	-
		<b>24,275,505</b>	<b>22,478,572</b>
<b>EXPENSES</b>			
Management fees	10	<b>(4,802,164)</b>	(3,572,367)
Other expenses	9,10	<b>(538,976)</b>	(416,731)
		<b>(5,341,140)</b>	<b>(3,989,098)</b>
<b>NET INCOME FOR THE YEAR</b>		<b>18,934,365</b>	<b>18,489,474</b>

The accompanying notes 1 to 13 form an integral part of these financial statements.

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

## STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	2017	2016
	SR	SR
<b>OPERATING ACTIVITIES</b>		
Net income for the year	<b>18,934,365</b>	18,489,474
Adjustment for:		
Unrealised gains on trading investments	<b>(5,340,084)</b>	(512,623)
	<b>13,594,281</b>	17,976,851
Changes in operating assets and liability:		
Trading investments	<b>(322,148,642)</b>	(81,472,778)
Morabaha placements	<b>251,000,000</b>	44,000,000
Held to maturity investments	<b>(153,714,500)</b>	24,667,875
Accrued income	<b>3,830,311</b>	(4,060,470)
Receivables and prepayments	<b>134,765</b>	(1,119,604)
Accrued expenses	<b>(63,363)</b>	69,104
Net cash (used in) from operating activities	<b>(207,367,148)</b>	60,978
<b>FINANCING ACTIVITIES</b>		
Proceeds from units sold	<b>789,492,835</b>	1,140,555,059
Value of units redeemed	<b>(533,261,345)</b>	(1,026,361,522)
Net cash from financing activities	<b>256,231,490</b>	114,193,537
<b>INCREASE IN BANK BALANCE</b>	<b>48,864,342</b>	114,254,515
Bank balance at the beginning of the year	<b>1,604,107</b>	(112,650,408)
<b>BANK BALANCE AT THE END OF THE YEAR</b>	<b>50,468,449</b>	1,604,107
<b><i>Operational cash flows from special commission income</i></b>		
Special commission income received	<b>10,525,290</b>	18,206,072

The accompanying notes 1 to 13 form an integral part of these financial statements.

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

## STATEMENT OF CHANGES IN NET ASSETS

Year ended 31 December 2017

	2017 SR	2016 SR
<b>NET ASSET VALUE AT THE BEGINNING OF THE YEAR</b>	<b>685,147,467</b>	<b>552,464,457</b>
<b>NET CHANGES FROM OPERATIONS</b>		
Net income for the year	<b>18,934,365</b>	18,489,474
<b>CHANGES FROM UNIT TRANSACTIONS</b>		
Proceeds from units sold	<b>789,492,835</b>	1,140,555,058
Value of units redeemed	<b>(533,261,345)</b>	(1,026,361,522)
Net change from unit transactions	<b>256,231,490</b>	114,193,536
<b>NET ASSET VALUE AT THE END OF THE YEAR</b>	<b>960,313,322</b>	<b>685,147,467</b>

### UNIT TRANSACTIONS

Transactions in units for the year ended 31 December are summarised as follows:

	<i>2017</i> <i>Units</i>	<i>2016</i> <i>Units</i>
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>58,367,131</b>	48,308,163
Units sold	<b>66,649,595</b>	98,792,984
Units redeemed	<b>(44,815,102)</b>	(88,734,016)
Net increase in units	<b>21,834,493</b>	10,058,968
<b>UNITS AT THE END OF THE YEAR</b>	<b>80,201,624</b>	<b>58,367,131</b>

The accompanying notes 1 to 13 form an integral part of these financial statements.

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2017

### 1 GENERAL

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

Al-Yusr Morabaha and Sukuk Fund	
Commencement Date	1 July 2003
Latest Governing T&C Date	31 December 2017
Category	Sharia'ah compliant
Objective	Capital preservation & appreciation
Allowed Investment Channels	Morabaha deposits
	Sukuk
	Investment products
	Morabaha funds

The books and records are maintained in Saudi Riyals (SR).

### 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 06 November 2016).

### 3 SIGNIFICANT ACCOUNTING POLICIES

#### *New accounting framework*

According to the transition plan to International Accounting Standards approved by the board of Saudi Organization for Certified Public Accountants (SOCPA), effective 1 January 2018, the Fund’s financial statements will be prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are issued by SOCPA. Upon IFRS adoption, the Fund will be required to comply with the requirements of IFRS 1 - First-time Adoption of International Financial Reporting Standards which require the Fund to analyze the impacts and incorporate certain adjustments on the comparative figures and its opening balances.

These financial statements have been prepared in accordance with the accounting standard generally accepted in the Kingdom of Saudi Arabia.

The significant accounting policies adopted are as follows:

#### *Accounting convention*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

#### *Investment valuation*

Investments that are bought with the intention of being held to maturity are carried at amortised cost (adjusted for any premium or discount on an effective yield basis), less permanent decline in value.

Trading investments are valued at their quoted bid market price as at the balance sheet date. Unrealised gains and losses on the revaluation of investments and realised gains and losses on the disposal of investments are recognised in the statement of operations.

Morabaha placements are carried at cost less provisions for any uncollectable amounts. Accrued special commission income as at the year end, is disclosed separately.



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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Investment transactions*

Investment transactions are accounted for as on the trade date.

#### *Zakat and income tax*

Zakat and income tax are considered to be the obligation of the Unit Holders and are not provided for in these financial statements.

#### *Revenue recognition*

Special commission income is recognised on an effective yield basis. Realised gains and losses on investments sold are determined on a weighted average cost basis.

Trading income includes all gains and losses from changes in fair value and related special commission income or expense and dividends from financial assets held for trading.

#### *Expenses*

Expenses are recognised based on the accrual method.

### 4 TRADING INVESTMENTS

Investments comprise the following exposures as at 31 December:

<i>Mutual Fund</i>	<i>2017</i>		<i>2016</i>	
	<i>Cost SR</i>	<i>Market value SR</i>	<i>Cost SR</i>	<i>Market value SR</i>
International Trade Finance Fund (Sunbullah SAR) – Samba Capital	<b>195,840,140</b>	<b>198,649,061</b>	110,000,000	110,011,163
Falcom SAR Morabaha Fund	<b>151,383,418</b>	<b>153,693,318</b>	11,000,000	11,012,965
SAIB Trade Finance Fund	<b>100,000,000</b>	<b>100,271,784</b>	-	-
Itqan Fund for Murabahat and Sukuk	-	-	4,000,000	4,101,309
<b>Total</b>	<b>447,223,558</b>	<b>452,614,163</b>	125,000,000	125,125,437

### 5 MORABAHA PLACEMENTS

	<i>2017 SR</i>	<i>2016 SR</i>
Placements with other banks	<b>47,000,000</b>	298,000,000
<b>Total</b>	<b>47,000,000</b>	298,000,000

The maturities of Morabaha placements from original maturity are set out below:

	<i>2017 SR</i>	<i>2016 SR</i>
Maturity between 3 and 6 months	-	62,000,000
Maturity above 6 months	<b>47,000,000</b>	236,000,000
<b>Total</b>	<b>47,000,000</b>	298,000,000

The effective special commission rate on Morabaha placements as at year end is 1.75% (2016: 2.58%).

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

### 6 HELD TO MATURITY INVESTMENTS

<i>Debt securities</i>	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Riyadh Bank – Sukuk	<b>90,000,000</b>	33,000,000
National Commercial Bank Sukuk	<b>90,000,000</b>	20,000,000
Almarai Sukuk 4	<b>58,000,000</b>	28,000,000
Al Hilal Bank Sukuk	<b>54,391,250</b>	54,391,250
Ordeico Sukuk	<b>33,000,000</b>	33,000,000
Saudi British Bank (SABB) – Sukuk	<b>28,000,000</b>	28,000,000
Najran Cement – Sukuk	<b>20,000,000</b>	20,000,000
Alawwal Bank Sukuk	<b>15,000,000</b>	15,000,000
Advance Sukuk	<b>13,000,000</b>	13,000,000
Arabian Aramco Total Services Company Sukuk (SATORP)	<b>4,093,000</b>	4,378,500
Saudi Electricity Company Sukuk – III	-	3,000,000
<b>Total</b>	<b>405,484,250</b>	251,769,750

The contractual maturities of the investments are set out below:

	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Maturity between 1 to 5 years	<b>405,484,250</b>	251,769,750

The effective special commission rate on investments as at year end is 3.78% (2016: 3.91%).

Investments are with counterparties which have investment grade credit rating except for Arabian Aramco Total Services Company Sukuk and Almarai Sukuk IV.

### 7. RECEIVABLES AND PREPAYMENTS

	<i>2017</i>	<i>2016</i>
	<i>SR</i>	<i>SR</i>
Coupon receivable	<b>1,541,199</b>	1,495,313
Premium paid	<b>688,256</b>	884,921
Brokerage paid on sukuk	<b>47,339</b>	31,325
	<b>2,276,794</b>	2,411,559

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

### 8 TRADING INCOME, NET

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Unrealised gain (loss)	<b>5,340,084</b>	(512,623)
Realised gains	<b>1,354,895</b>	724,653
	<b><u>6,694,979</u></b>	<u>212,030</u>

### 9 OTHER EXPENSES

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Amortised expense	<b>491,265</b>	357,820
Audit fees	<b>30,000</b>	30,000
CMA monitoring fee	<b>7,500</b>	7,500
Board member fees	<b>5,211</b>	5,938
Tadawul fees	<b>5,000</b>	5,000
Special commission expense	<b>-</b>	10,473
<b>Total</b>	<b><u>538,976</u></b>	<u>416,731</u>

### 10 TRANSACTIONS WITH RELATED PARTIES

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. In addition, the Fund Manager charges a subscription fee of 1% on gross subscriptions to cover administration costs.

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

In the normal course of business the Fund places Morabaha investments and borrows from the Bank at prevailing market rates.

The Bank acts as the Fund's banker and the Fund Manager acts as the custodian to the Fund's investment.

During the period the Fund has placed special commission bearing Morabaha placements with the Bank.

All related party balances and transactions are disclosed in the financial statements and related note disclosures.

The Unit Holders' account at 31 December included units held as follows:

	<i>2017</i> <i>Units</i>	<i>2016</i> <i>Units</i>
Held by other Funds managed by the Fund Manager	<b>690,088</b>	71,876
<b>Total</b>	<b><u>690,088</u></b>	<u>71,876</u>

## 11 RISK MANAGEMENT

### *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 liabilities. The sensitivity of the income is the effect of the assumed changes in special 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 31 December 2016. The following table sets out the approximate annual aggregate impact on net income by hypothetical changes in the weighted average special commission rates of the floating rate financial assets at 31 December:

	2017		2016	
	<i>Change in basis points</i>	<i>Impact on net income SR</i>	<i>Change in basis points</i>	<i>Impact on net income SR</i>
<i>Special commission rate</i>	<b>10</b>	<b>405,484</b>	10	251,770
	<b>50</b>	<b>2,027,421</b>	50	1,258,849
	<b>100</b>	<b>4,054,843</b>	100	2,517,698

### *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 investment portfolio, bank balance and receivables. The Fund Manager seeks to limit its credit risk by monitoring credit exposures and setting limits for individual counterparties.

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	2017 SR	2016 SR
Bank balance	<b>50,468,449</b>	1,604,107
Held to maturity investments	<b>405,484,250</b>	251,769,750
Morabaha placements	<b>47,000,000</b>	298,000,000
Accrued income	<b>2,482,821</b>	6,313,132
<b>Total exposure to credit risk</b>	<b>505,435,520</b>	<b>557,686,989</b>

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.

### *Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

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 Unitholder redemptions. However the fund is allowed to borrow in order to satisfy redemptions. The Fund's financial assets comprise of bank balance, held to maturity securities and Morabaha placements which are considered to be readily realizable. The Fund Manager monitors liquidity requirements on a regular basis and seeks to ensure that funds are available to meet commitments as they arise.

### *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 Fund views the Saudi Riyal as its functional currency.

As the Fund's investments are denominated in its functional currency, the Fund is not subject to significant currency risks.

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

At 31 December 2017

### 11 RISK MANAGEMENT (continued)

#### *Currency risk (continued)*

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund views the Saudi Riyal as its functional currency.

As the Fund's investments are denominated in its functional currency, the Fund is not subject to significant currency risks.

### 12 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The Fund's financial assets consist of investments. The Fund's financial liability consists of accrued expenses.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

The fair value of held to maturity investments, which are otherwise carried at amortised cost, are set out below:

	<i>2017</i> <i>SR</i>	<i>2016</i> <i>SR</i>
Held to maturity investments	<b><u>405,484,250</u></b>	<b><u>251,769,750</u></b>

As per the Fund Manager's estimate, fair value of other financial instruments approximates the carrying value on account of the short term nature of these assets.

### 13 LAST VALUATION DAY

The last valuation day of the year was 31 December 2017 (2016: 31 December 2016).