

Annual Report
(Alawal Invest Sukuk Fund)
2022

*** All reports are available upon request free of charge.**

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A. Fund Information

1- Fund Name

Alawwal Invest Sukuk Fund

2- Investment Objectives and Policies

The Fund is an open-ended investment Fund that aims to achieve income and capital growth over the medium to long term, by investing in Sukuk issued domestically and globally, Murabaha funds, Murabaha operations and Sharia-compliant certificates.

3- Income & Gains Distribution Policy

The Fund will distribute the income to the Unitholders on a quarterly basis subject to the consent of the Board of Directors.

4- Description of the Fund's Benchmark

The Fund's performance is measured against the performance of a weighted index including Dow Jones Sukuk Index (95%) and SOFR for Overnight + 0.05575% (5%).

B. Fund Performance

	2020	2021	2022
Net Asset Value at the end of the year	61,386,769	58,585,089	51,902,314
Net Asset Value per Unit at the end of the year	9.9977	9.6114	8.8620
Highest Net Asset Value per Unit	10.2072	10.2097	9.6062
Lowest Net Asset Value per Unit	9.0571	9.0571	8.7612
Number of Issued Units at the end of the Year	6,140,084	6,095,401	5,856,727
Value of Distributed Dividends per unit (if any)	0.21	0.24	0.28
Expenses Ratio	1.08%	1.01%	0.92%
Percentage of Assets Borrowed from the Asset Value, Exposure Period and Maturity Date	-	-	-

- Fund Performance During the Past Three Years (USD)
- Fund Returns

	One Year	Three Years	Five Years	Since Inception
Fund Returns	-4.85%	-4.86%	3.48%	16.48%
Benchmark Returns	-10.23%	-8.30%	-3.96%	-1.97%

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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Fund Return	0.81%	2.62%	0.81%	1.79%	1.49%	1.32%	7.35%	-0.70	-2.10%	-4.85%
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• **Fees and Expenses**

Type of Expenses or Commission (Including VAT, if any)	Value in USD	Percentage according to Fund Asset Average
Fund Management Fees	449,524	0.81%
Custodian Fees	12,211	0.02%
Administrative Services Fees	31,803	0.06%
Auditor's Fees	9,698	0.02%
Independent Board Members' Remuneration	4,211	0.01%
CMA Fees	2,000	0.004%
Tadawul Fees	1,533	0.003%
Expected Credit Losses Provision	-	
Other Expense	4,186	0.01%

3- Material changes that affected the Fund performance

The were no material change affecting Fund's performance during the year 2022.

4- Annual Voting Practices

Not Applicable

5- Fund Board of Directors' Annual Report

(a) Names and Types of Membership of the Board Members:

- Hamad Ibrahim Al-Washmi, Chairman of the Board of Directors, (a non-independent Board member);
- Tariq Saad Abdul Aziz Al-Tuwaijri, (an independent Board member);
- Ali Saleh Al-Othaim, (an independent Board member);
- Abdulrahman Al-Mudaimigh, (an independent Board member); and
- Rehab Saleh Al-Khudair, (a non-independent Board member).

Names of Members of the Fund's Board of Directors	Experience and qualifications	Current position
Hamad Ibrahim Al-Washmi (Chairman of the Board of Directors – Non-Independent Member)	- Chief Risk and Compliance Officer, HSBC Saudi Arabia (2021) - Member of Audit Committee, Najm Insurance Co. (2020) - Head of Compliance, HSBC Saudi Arabia (2018) - Head of Customer Experience, SABB Customer Experience	Chief Compliance Officer, Al Rajhi Bank (2023)

	<ul style="list-style-type: none"> Department, SABB Bank (2016) - International Assignment with the Global Compliance Department, HSBC Holdings PLC, London, United Kingdom (2016) - Head of RBWM Compliance, Compliance Department, SABB (2014) - Senior Manager, Business Performance & Planning – Retail Banking & Wealth Management, SABB (2010) - Manager Business Performance & Planning, SABB (2009) - Relationship Manager – Large Corporate and Government Entities, Arab National Bank (2003) - Consumer Loans Credit Officer, Arab National Bank (2002) - Recommendation & Call Verification Units Supervisor, Arab National Bank (2002) - Package Account Unit Supervisor, Arab National Bank (2002) - Showroom Manager, Jarir Bookshop (2000) - MBA, University of San Diego, School of Business Administration, San Diego (2009) - Bachelor of Science in Business Administration (2000) 	
Rehab Alkhudair (Non-Independent Member)	<ul style="list-style-type: none"> - Chief Operating Officer Asset Management, HSBC Saudi Arabia (2020) - Senior Investment Performance Analysis Manager– Asset Management Department, HSBC Saudi Arabia (2019) - Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2016) - Assistant Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2014) - Assistant Manager, Regulatory Compliance, HSBC Saudi Arabia (2014) - Assistant Financial Analyst - Treasury & Investments, Riyadh Bank (2012) - Master Degree in Finance Management, Durham University, United Kingdom (2013) - BBA, Finance (with honors degree), Al Yamamah University, Saudi Arabia (2010) 	Chief Operating Officer Asset Management, Alawwal Invest (2022)
Tariq Saad Abdul-Aziz Al-Tuwaijri (Independent Member)	<ul style="list-style-type: none"> - Director of Equity Investments at Nessel Holding Company (2010) - Deputy General Executive President of Mediation at Wasatah Capital Company (2008) - Senior Mediator at Al Jazeera Capital (2004) - Relations Director - Banking Services of Samba Financial Group (1998) - Bachelor of Business Administration from the Open Arabian University (2015) - General Institute of Technical Education and Vocational Training, Diploma of Business Administration (2010) 	Head of the Nomination and Compensation Committee, Non-Independent Member of the Board of Directors of Thoub Al Asil Company and Member of the Saudi Economics Association (2018)
Ali Saleh Ali Al-Othaim (Independent Member)	<ul style="list-style-type: none"> - Member of the Board Directors of Al Khair Capital (2012) - Member of the Board of Directors of the Chamber of Commerce and Industry, Riyadh (2003) 	Businessman

	<ul style="list-style-type: none"> - Member of the Board of Directors of Al Othaim Commercial Group (1998) - Deputy President of Al Othaim Jewelry (formerly) (1994) - Bachelor of Business Administration, Major: Financial Management, King Saud University (1998) 	
Abdulrahman Ibrahim Al-Mudaimigh (Independent Member)	<ul style="list-style-type: none"> - Board member of National Building and Marketing Company (2019) - Chairman of Future Ceramics (2019) - Board member of National Gypsum Company (2019) - Board member of Impact Capital Company (2019) - Board member of FIPCO (2019) - Board member of AL Maather REIT Fund (2017) - CEO of Watar Partners for Business Trading Company (2017) - Acting CEO of Bawan Company (2016) - Deputy President of Business Development for Bawan Company (2011) - Founding partner, General Manager of Bina Holding Company (2007) - Senior credit analyst for the Industrial Development Fund (2004) - MBA from London Business School (2018) - Bachelor degree in Financial Management from Prince Sultan University (2004) 	Executive partner of Watar Partners for Business Trading Company (2017)

(b) Roles and Responsibilities of the Fund Board of Directors

Responsibilities of the Fund Board Members include without limitation:

- Approving all contracts, decisions and material reports to which the Fund is a party.
- Approving a written policy with regard to the voting rights in respect of Fund assets.
- Supervising and, where appropriate, approving any conflict of interest disclosed by the Fund Manager pursuant to Article (13) of the IFR.
- Holding, twice a year at least, a meeting with the Conformity and Compliance Committee at the Fund Manager, or the officer in charge of Conformity and Compliance at the Fund Manager, in order to review compliance by the Fund with all relevant laws and regulations.
- Recognizing any recommendation raised by the liquidator, in case a liquidator is appointed.
- Ensuring completion and accuracy of the Fund Terms and Conditions and any other document involving disclosures in connection with the Fund and the Fund Manager as well as its management of the Fund and the amended Investment Funds Regulations.
- Ensuring that the Fund Manager is fulfilling its responsibilities in a way realizing the interests of the Unitholders pursuant to the Fund Terms and Conditions, and the amended provisions of the Investment Funds Regulations.
- Working honestly, in good faith, and exerting diligence, skill and care, and in a way realizing the interests of the Unitholders.
- Recording the minutes of meetings showing all the occurrences affecting the meetings and decisions taken by the Board.
- Approving delegating the powers and authorities of the Fund Manager to other financial institutions in order to function as adviser, sub-manager, custodian, agent or mediator after having obtained the approval by CMA.

- Approving the appointment of the Auditor.
- Approving the services authorized by the Manager in respect of keeping the books, subscription, redemption, sale and purchase and financial transfers, confirmation and information affecting the investments in response to the subscribers' inquiries. Assuming the tasks of follow-up and control of the Fund's performance, and ensuring that the Fund Manager carries out its responsibilities in a way realizing the interests of the Unitholders, pursuant to the Terms and Conditions of the Fund, the Information Memorandum, the relevant documentation and the provisions of the Investment Fund Regulations.

(c) Particulars of the Fund Board Members' Remuneration

Remuneration of the Board independent members shall be paid by the Fund. The Fund will pay any expenses of the Fund Board of Directors.

(d) Statement of any real or potential conflict of interest between the interests of a Fund board member and those of the Fund:

There is no real or potential conflict between the interest of any Board member and the interests of the Fund.

(f) All Fund Boards of Directors in which the relevant Board Member participates:

Fund Name	Hamad Al-Washmi	Rehab Al-Khudair	Tariq Al-Tuwajri	Ali Saleh Al-Othaim	Abdulrahman Al-Mudaimigh
Alawwal Invest Saudi Riyal Murabaha Fund	√	√	√	√	√
Alawwal Invest US Dollar Murabaha Fund	√	√	√	√	√
Alawwal Invest Saudi Equity Fund	√	√	√	√	√
Alawwal Invest Saudi Equity Income Fund	√	√	√	√	√
Alawwal Invest Saudi Financial Institutions Equity Fund	√	√	√	√	√
Alawwal Invest Saudi Companies Equity Fund	√	√	√	√	√
Alawwal Invest Saudi Industrial Companies Equity Fund	√	√	√	√	√
Alawwal Invest Saudi Construction and Cement Equity Fund	√	√	√	√	√
Alawwal Invest Global Equity Index Fund	√	√	√	√	√
Alawwal Invest GCC Equity Fund	√	√	√	√	√
Alawwal Invest China and India Equity Freestyle Fund	√	√	√	√	√
Alawwal Invest Multi-Assets Defensive Fund	√	√	√	√	√
Alawwal Invest Multi-Assets Balanced Fund	√	√	√	√	√
Alawwal Invest Multi-Assets Growth Fund	√	√	√	√	√
Alawwal Invest Saudi Freestyle Equity	√	√	√	√	√

Fund					
Alawal Invest MSCI Tadawul 30 Saudi ETF	√	√	√	√	√
Alawal Invest Sukuk Fund	√	√	√	√	√
Alawal Invest GCC Equity Income Fund	√	√	√	√	√

G- Subjects Discussed and Resolutions passed thereon including the fund Performance and Attainment of its Objectives

Subject	Approval Description	Meeting Date
Fund management Migration	Updating the fund's board of directors with the process of transferring the fund's management from HSBC Saudi Arabia to Alawal Invest.	20 March 2022
Fund performance	Discussed fund performance in comparison with other competitors.	20 March 2022
Changes in Terms and Conditions	The fund's board of directors approved changes in the terms and conditions.	20 March 2022
Financial Statement preparation	The fund's board of directors approved to continue with Ernst & Young as fund auditor.	17 November 2022
Service Providers Assessment	The Fund's Board of Directors approved the Service Providers post assessment.	17 November 2022
Risk Procedures	The fund's board of directors has approved risk procedures to manage non-financial risks	17 November 2022

C) Fund Manager

Alawal Invest Saudi Arabia

1- Address

Head Office, Olaya Street
Riyadh 11431-1467,
Kingdom of Saudi Arabia,
Unified Number: +966114163133
Fax: +966 112169102
Website: www.Alawwalinvest.com

2- Fund Sub-Manager and/or Investment Advisor (if any)

Not Applicable

3- Investment activities during the period

During 2022, Alawal Invest Sukuk Fund mainly added to Sukuk investments in GCC Sukuk, denominated in US Dollar, with a relatively smaller addition to SAR denominated Sukuk.

4- Report on the Fund performance during the period

Despite compression in spreads in overall GCC Fixed income market, the Sukuk Fund posted negative performance, as US interest rates continued to rise amid strong up-tick in US inflation during the year. US 10-Year treasuries increased from around 1.51% at beginning of the year to close at 3.87% at the end of the year, posting the sharpest one-year increase since the turn of the century. The Fund declared four dividends during the year. The total of the four dividends amounted to USD 0.285/ unit. During the year, the Fund posted a decline of 7.80%; whereas, the benchmark decreased by 10.23%. (Assuming dividends were reinvested, the Fund would have posted a decline of 4.85% during the year).

5- Any changes made to the terms and conditions of the fund during the period

Date	Change
3 March 2022	Update of the terms and conditions to comply with annex (1) of the Investment Funds Regulations.
08 May 2022	To comply with the instructions from the banking regulators to change the index from LIBOR to SOFR. - The duties of the auditor were amended.
18 Sep 2022	Change the fund manager from HSBC Saudi Arabia to Alawal Invest Company.

6- Any additional information that may enable unit holders to Make informed decisions that are based on sufficient information about the fund activities during the period

None

7- Percentage of management fees calculated on the fund itself and other funds that the fund is investing in (if the fund is substantially investing in other investment funds)

Funds	Fees
Alawal Invest Saudi Murabaha Fund	0.70%

8- Special commission received by fund manager during the period

None

9- Any other data or information that shall be included in this report according to investment fund regulations

None

10- Management term of the person recorded as the fund manager

Ten Years

11- Expense ratio of each underlying fund at the end of the year and weighted average expense ratio of all underlying funds

Not Applicable

(D) Custodian

Albilad Capital Company

1- Address

Albilad Capital, Head Office
King Fahd Road, P.O. Box: 140, Riyadh 11411,
Kingdom of Saudi Arabia
Uniform No. 920003636
Fax: +966112906299
Website: www.albilad-capital.com

(2) Concise Description of the Custodian's main roles and responsibilities

- Take custody of the assets of the Investment Fund;
- Open a separate account under its name with a local bank in favor of the Fund;
- Segregate the Fund's assets and register Fund securities under its name for the benefit of the Investment Fund;
- Maintain all necessary documents to support the performance of its contractual responsibilities towards the Fund.
- Deposit all cash belonging to the Fund into the relevant bank account; and
- Manage the Fund cash i.e. deduct the investment amounts and Fund expenses in accordance with the Fund's Terms and Conditions and the Information Memorandum.
- The Custodian shall be liable to the Fund Manager and Unitholders for its obligations pertaining to any losses caused to the Investment Fund due to the Custodian fraud, negligence, willful misconduct or default.
- The Custodian shall be liable for taking custody of, and protecting the Fund's assets on behalf of Unitholders.
- The Custodian shall be liable for taking all necessary administrative measures in relation to the custody of the Fund's assets.

(E) Fund Operator

Alawwal Invest

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Head Office, Olaya Street
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Unified Number: +966114163133
Fax: +966 112169102
Website: www.Alawwalinvest.com

(2) Concise Description of the Fund Operator main roles and responsibilities

- The Fund Operator shall be responsible for operating the Fund; the Fund Operator shall:
- Keep the books and records related to the Fund operation;
- Prepare and update the unit subscribers record and maintain it in the Kingdom according to the Investment Fund Regulations;
- Be liable for the distribution of dividends, if any, according to the distribution policy provided for under the Terms and Conditions;
- Conclude the subscription and redemption procedures provided for under these Terms and Conditions; and
- Fully and fairly evaluate the Fund assets and calculate the Fund unit price.

(F) Auditor:

Ernst & Young & Co.
Olaya Street, 14th Floor, Al Faisaliah Office Tower, Riyadh,
P.O. Box 12212,
Kingdom of Saudi Arabia
Telephone: + 9662159898

(G) Financial Statements

Attached

Alawal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

(Managed by Alawal Invest)

FINANCIAL STATEMENTS

31 DECEMBER 2022



Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF ALAWWAL INVEST SUKUK FUND (MANAGED BY ALAWWAL INVEST)

Opinion

We have audited the financial statements of Alawwal Invest Sukuk Fund (the "Fund") managed by Alawwal Invest (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity attributable to the unitholders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements 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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional 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 the 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional 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.

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



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**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALAWWAL INVEST SUKUK FUND (CONTINUED)
(MANAGED BY ALAWWAL INVEST)**

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.

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

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.

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.



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**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALAWWAL INVEST SUKUK FUND (CONTINUED)
(MANAGED BY ALAWWAL INVEST)**

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young Professional Services

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354



Riyadh: 7 Ramadan 1444H
(29 March 2023)

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		31 December 2022 USD	31 December 2021 USD Restated Note 3.4	31 December 2020 USD Restated Note 3.4
	Notes			
ASSETS				
Cash and cash equivalents		621,553	234,766	331,080
Financial assets at fair value through profit or loss ("FVTPL")	5	3,034,138	3,317,372	3,187,751
Financial assets at fair value through other comprehensive income ("FVOCI")	6	40,502,334	48,174,192	54,980,520
Financial assets at amortised cost	7	8,409,243	7,257,497	3,200,000
Receivables and advances		-	221	41,601
TOTAL ASSETS		52,567,268	58,984,048	61,740,952
LIABILITIES				
Dividends payable	12	578,297	365,724	337,705
Management fees payable	7	45,277	13,058	16,478
Accrued expenses		41,380	20,177	-
TOTAL LIABILITIES		664,954	398,959	354,183
EQUITY				
Equity attributable to unitholders of redeemable units		51,902,314	58,585,089	61,386,769
TOTAL LIABILITIES AND EQUITY		52,567,268	58,984,048	61,740,952
Redeemable units in issue		5,856,727	6,095,402	6,140,085
Equity value per unit – Dealing		8.86	9.61	10.00

The attached notes 1 to 14 form an integral part of these financial statements.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 USD	2021 USD Restated Note 3.4
INCOME			
Special commission income from investments at FVOCI		1,958,977	2,147,115
Unrealized gain on financial assets at FVTPL		42,220	15,720
Realized gain on financial assets at FVTPL		16,636	747
Realized loss on disposal of and maturity of financial assets at FVOCI		(651,030)	(3,091,985)
Net exchange loss		(506)	(809)
TOTAL INCOME		1,366,297	(929,212)
EXPENSES			
Management fees	7	449,524	566,094
Impairment charge for expected credit losses		30,501	(68,610)
Other expenses		65,642	40,270
TOTAL EXPENSES		545,667	537,754
NET (LOSS) INCOME FOR THE YEAR		820,630	(1,466,966)
Other comprehensive income:			
Net movement in unrealized gain (loss) net of transfer of fair value reserves on disposal of investments at FVOCI – debt instruments		(3,699,134)	645,676
Movement in allowance for expected credit losses on investments at FVOCI – debt instruments		30,501	(68,610)
Total other comprehensive income (loss)		(3,668,633)	577,066
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(2,848,003)	(889,900)

The attached notes 1 to 14 form an integral part of these financial statements.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS
For the year ended 31 December 2022

	2022 <i>USD</i>	2021 <i>USD</i> <i>Restated</i> <i>Note 3.4</i>
EQUITY AT THE BEGINNING OF THE YEAR	58,585,089	61,386,769
Net income for the year	820,630	(1,466,966)
Net unrealized gain (loss) including transfer of fair value reserves on investments at FVOCI – debt instrument	(3,699,134)	645,676
Movement in fair value for expected credit losses on investments at FVOCI – debt instrument	30,501	(68,610)
Dividend distributions during the year (Note 12)	(1,719,735)	(1,462,709)
Total	54,017,351	59,034,160
ISSUANCE AND REDEMPTION OF UNITS		
Issue of units during the year	9,885	34,195
Redemption of units during the year	(2,124,922)	(483,266)
Net change from unit during the year	(2,115,037)	(449,071)
EQUITY AT THE END OF THE YEAR	51,902,314	58,585,089
	<u><i>Units</i></u>	<u><i>Units</i></u>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the year are summarised as follows:		
UNITS AT THE BEGINNING OF THE YEAR	6,095,402	6,140,085
Issue of units during the year	1,125	3,477
Redemption of units during the year	(239,800)	(48,160)
Net decrease in units	(238,675)	(44,683)
UNITS AT THE END OF THE YEAR	5,856,727	6,095,402

The attached notes 1 to 14 form an integral part of these financial statements.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 USD	2021 USD <i>Restated Note 3.4</i>
<i>Notes</i>		
Operating activities		
Net income / (loss) for the year	820,630	(1,466,966)
<i>Adjustments to reconcile net income(loss) to net cash flows from operating activities:</i>		
Movement in unrealised loss on financial assets at FVTPL	(42,220)	(15,720)
Impairment (reversal of) / charge for expected credit losses	30,501	(68,610)
	808,911	(1,551,296)
<i>Working capital adjustments:</i>		
Financial assets at FVTPL	325,454	(113,901)
Investments at FVOCI	3,972,724	7,452,004
Investment at Amortised cost	(1,151,746)	(4,057,497)
Receivables and advances	221	41,380
Management fee payable	32,219	(3,420)
Accrued expenses	21,203	20,177
Net cash flows from operating activities	4,008,986	1,787,447
Financing activities		
Proceeds from issuance of units	9,885	34,195
Payment on redemption of units	(2,124,922)	(483,266)
Dividends paid	(1,507,162)	(1,434,690)
	(3,622,199)	(1,883,761)
Net cash flows used in financing activities	(3,622,199)	(1,883,761)
Net increase / (decrease) in cash and cash equivalents	386,787	(96,314)
Cash and cash equivalents at the beginning of the year	234,766	331,080
Cash and cash equivalents at the end of the year	621,553	234,766
<u>Supplemental cash flow information:</u>		
Special commission income received	1,929,869	2,307,977
Cash and Cash Equivalent composition:		
Bank balance	239,224	36,064
Balance with custodian	382,328	198,702
	621,553	234,766

Alawwal Invest Sukuk Fund (Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

1. INCORPORATION AND ACTIVITIES

Alawwal Invest Sukuk Fund (the “Fund”), (formerly known as HSBC Sukuk Fund) is an investment fund created through an agreement between Alawwal Invest (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

Alawwal Invest, Head Office
Olaya Main Street P.O. Box 1467
Riyadh – 11431
Kingdom of Saudi Arabia

The objective of the Fund is to achieve income and capital growth over the medium to long term year, by investing in Sukuk issued globally, along with money market funds and term deposits. The Fund invests primarily in Sukuk (up to 90 % of the Fund’s assets) with the remaining balance invested in Shariah compliant money market funds and term deposits. The Fund has no geographic constraints in terms of investment, but it focuses on investments in the Gulf Cooperation Council (“GCC”).

The Fund is managed by the Fund Manager. The Fund Administration function is carried out by a department within HSBC Saudi Arabia that has reporting line and control structures, which are independent of the Asset management business. Al Bilad Capital is acting as the custodian of the Fund. The Fund is an income-distributing Fund, whereby any income earned by the Fund is distributed to the Unitholders at least on semi-annual basis. Any such income distribution by the Fund, however, will solely be at the discretion of the Fund Board of Directors. However, profit, if any, realized, by the Fund, from the sale of any Sukuk at a price higher than its purchase price will not be distributed to Unitholders and would form part of the net asset (equity) value of the Fund.

The Fund’s performance shall be measured against the performance of legitimate Saudi Standard & Poor’s Ratings. The Fund updated its terms and conditions which were approved by the CMA on 28 Ramadan 1441H (corresponding to 21 May 2020).

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The latest update was approved by the CMA on 18 September 2022.

Further to the announcement made in May 2021, HSBC Saudi Arabia transferred their Asset Management, Retail Brokerage and Retail Margin Lending businesses (together, the “Transferring Businesses”) on 15 September 2022. Effective from the end of business hours of 15 September 2022, Alawwal Invest became the fund manager of the transferred funds.

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 by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12/7/1442H. Corresponding to 24/2/2021G (the “Amended Regulations”). The amended regulations are effective from 19 Ramadan 1442, corresponding to 1 May 2021).

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”) and applicable provisions of Investment Fund Regulations issued by the board of Capital Market Authority and the funds terms and conditions and information memorandum.

Alawwal Invest Sukuk Fund (Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (continued)

3.2 Basis of preparation

The financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for financial assets held at FVTPL and at FVOCI that are measured at fair value. These financial statements are presented in US Dollars (“USD”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest USD.

3.3 Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2022. The Fund has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

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 includes bank balance and custodian balance.

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 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.

Alawwal Invest Sukuk Fund (Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

- 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 comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI, is reclassified from equity to the statement of comprehensive 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.

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

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 on the principal amount outstanding (SPPI); and
- 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 FVTPL 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 investments includes investment in mutual fund instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial liabilities

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

(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 FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

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

(iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income. Special commission income and dividends earned or paid on these instruments are recorded separately in special commission income or expense and dividend income or expense in the statement of comprehensive income.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

(v) Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- 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 either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has 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 rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. 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.

Accounting policy for ECL on Debt FVOCI

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

(vii) Impairment of financial assets (continued)

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.

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 10.

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.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

(vii) Impairment of financial assets (continued)

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 the 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 the 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.

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 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

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

Net assets value per unit

The net asset 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 an accrual basis and charged to the statement of comprehensive income. Fund management fees are charged at agreed rates with the Fund Manager and as stated in the Terms and Conditions of the Fund.

Net gain or loss on financial assets and liabilities at FVTPL

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude commission 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 FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend 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 FVTPL is recognised in the statement of comprehensive income in a separate line item.

Foreign currencies

Transactions in foreign currencies are translated into USD at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in profit or loss.

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

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses.

Expenses

Expenses are measured and recognized as expenses on an accrual basis in the year in which they are incurred.

Zakat and income tax

Zakat and income tax is the obligation of the Unitholders and is not provided for in these financial statements.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Significant accounting policies (continued)

New standards, amendments and interpretations adopted by the Fund

Standards	Description	Mandatory effective date
IFRS 1	First-time adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter	1 January 2022
IFRS 9	Financial instruments: Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
IAS 41 Agriculture	Taxation in fair value measurements	1 January 2022
Amendments to IAS 37	Onerous contracts: costs of fulfilling a contract	1 January 2022

Standards issued but not yet effective and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Based on the Fund's assessment, the below standards are not expected to have potential impacts on the reported numbers and disclosures.

Standards	Description	Mandatory effective date
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current Disclosure of accounting policies	1 January 2024
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred tax on leases and decommissioning obligations	1 January 2023

3.4 Correction of error

Until last year, investment in sukuk (offered by SABB, Bank Albilad, Alinma Bank and Bank Aljazira) were carried at FVTOCI. It was observed that these sukuk had initially passed the 'solely payment of principal and interest' SPPI test as per the business model of the management, however they were wrongly classified as FVOCI instead of being classified as amortized cost. The error has been corrected in the current year by restating each of the affected financial statement line items for the prior periods. The change did not have any impact on OCI for the period, equity or the Fund's operating, investing and financing cash flows.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's financial statements in conformity with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Board, in conjunction with the Fund Manager made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, they are 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 (mid price), without any deduction for transaction costs.

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).

Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 8.

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the investment's portfolio on the last valuation day of the year is summarised below:

	<i>31 December 2022</i>			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain USD</i>
<i>Mutual Fund</i>				
Alawwal Invest Saudi Riyal Murabaha Fund	100%	2,855,937	3,034,138	178,201

The above equity investments are listed on the Saudi Stock Exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

	<i>31 December 2021</i>			
	<i>% of Market Value</i>	<i>Cost USD</i>	<i>Market value USD</i>	<i>Unrealised gain USD</i>
<i>Mutual Fund</i>				
Alawwal Invest Saudi Riyal Murabaha Fund	100%	3,181,392	3,317,372	135,980

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

	<i>31 December 2022 USD</i>	<i>31 December 2021 USD</i>
Debt securities – Sukuks	40,154,165	47,770,051
Accrued special commission income	348,169	404,141
	40,502,334	48,174,192

7. FINANCIAL ASSETS AT AMORTISED COST.

	<i>31 December 2022 USD</i>	<i>31 December 2021 USD</i>
Debt securities – Sukuks	8,266,667	7,200,001
Accrued special commission income	142,576	57,496
	8,409,243	7,257,497

These financial assets are classified as stage 1 and 2. Movement in the allowance for expected credit losses is as follows:

	<i>31 December 2022 USD</i>	<i>31 December 2021 USD</i>
Balance at the beginning of the year	90,118	158,728
Reversals during the year, net	30,501	(68,610)
Balance at the end of the year	120,619	90,118

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

The methodology and assumptions applied by the Fund in estimating the ECL on sukuk placements is based on using the Moody's rating scales which are then adjusted for country specific data based on where the sukuk's underlying assets/projects are, forward looking estimates and macroeconomic variables such as expected GDP growth, to determine the ECL as at the end of the reporting year.

8. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A. Transactions and balances with Fund Manager and board of directors

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager. These transactions were carried out on the basis of approved Terms and Conditions of the Fund.

The following are the details of major related party transactions during the year:

Related party	Nature of transactions	Amount of transactions		Balance	
		31 Dec 2022 USD	31 Dec 2021 USD	31 Dec 2022 USD	31 Dec 2021 USD
Fund Manager	Fund management fee*	449,524	566,094	45,277	13,058
Fund Administrator	Administration fee	31,803	19,222	2,890	2,872
	Board member fee	4,211	2,365	4,200	2,365
Saudi British Bank	Cash at bank	239,225	36,064	239,225	36,064
	Investment in Sukuk		3,199,403	3,199,403	3,199,403

The Fund pays the Fund Manager a management fee calculated at an annual rate of 0.75% per annum calculated on the net asset value at each Valuation Day. The fee is intended to compensate the Fund Manager for administration of the Fund.

*The fund management fees include VAT amount of USD 58,634 (2021: USD 73,838).

Subscription fee up to 2% is not considered in the financial statement of the Fund, as investment to the Fund are always net of subscription fees. The Fund does not charge any redemption fees on redemption of units.

B. Transactions and balances with Funds managed by the Fund Manager

<u>Fund name</u>	<u>Year</u>	<u>Amount/ Unit</u>	<u>Issuance</u>	<u>Closing balance</u>
Alawwal Invest Multi-Assets Defensive Fund	2022	Amounts	-	9,356,731
		Units	-	1,055,826
	2021	Amounts	-	10,147,967
		Units	-	1,055,826
Alawwal Invest Multi-Assets Balanced Fund	2022	Amounts	-	16,811,214
		Units	-	1,897,000
	2021	Amounts	-	18,232,826
		Units	-	1,897,000
Alawwal Invest Multi-Assets Growth Fund	2022	Amounts	-	2,553,170
		Units	-	288,103
	2021	Amounts	-	2,769,075
	Units	-	288,103	

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has investments at fair value through profit or loss and at fair value through other comprehensive income which is measured at fair values and are classified within level 1, 2 and 3 of the fair value hierarchy (Refer Table below). All other financial assets and liabilities are classified as amortized cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. These are all classified within level 3 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

Fair value hierarchy

The following table provides the fair value measurement hierarchy of the Fund's financial assets as at 31 December 2022 and 31 December 2021. There are no other financial assets and financial liabilities measured at fair value.

	<i>Total</i>	<i>Quoted prices in active markets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>As at 31 December 2022</i>				
<i>Financial assets measured at amortised cost</i>	8,409,243	-	-	8,409,243
Financial assets at FVOCI	40,502,334	19,386,585	21,115,750	-
Financial assets at fair value through profit or loss	3,034,138	-	3,034,138	-
Total	51,945,715	-	-	1,414,890,978
<i>As at 31 December 2021</i>				
<i>Financial assets measured at amortised cost</i>	7,257,497	-	-	7,257,497
Financial assets at FVOCI	48,174,192	32,637,823	15,536,369	-
Financial assets at fair value through profit or loss	3,317,372	-	3,317,372	-
Total	58,749,061	-	-	1,970,058,942

Alawwal Invest Sukuk Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

10. 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 Dec 2022</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	621,553	-	621,553
Financial assets at FVTPL	3,034,138	-	3,034,138
Financial assets at FVOCI	1,019,977	39,482,357	40,502,334
Financial assets at Amortised Cost	-	8,409,243	8,409,243
TOTAL ASSETS	4,675,668	47,891,600	52,567,268
LIABILITIES			
Management fee payable	45,277	-	45,277
Dividend payable	578,297	-	578,297
Accrued expenses	41,380	-	41,380
TOTAL LIABILITIES	664,954	-	664,954
<i>As at 31 December 2021</i>	<i>Within 12 months USD</i>	<i>After 12 months USD</i>	<i>Total USD</i>
ASSETS			
Bank balance	234,766	-	234,766
Financial assets at FVTPL	3,317,372	-	3,317,372
Financial assets at FVOCI	3,532,899	44,641,293	48,174,192
Financial assets at Amortised Cost	-	7,257,497	7,257,497
Receivables and advances	221	-	221
TOTAL ASSETS	7,085,258	51,898,790	58,984,048
LIABILITIES			
Management fee payable	13,058	-	13,058
Dividend payable	365,724	-	365,724
Accrued expenses	20,177	-	20,177
TOTAL LIABILITIES	398,959	-	398,959

11. FINANCIAL RISK MANAGEMENT

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 of investments in mutual funds and debt securities.

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 Investment Committee of the Fund. In instances where the portfolio has diverged from target asset allocations, the Fund Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits

Alawwal Invest Sukuk Fund
(Formerly known as HSBC Sukuk Fund)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

11. FINANCIAL RISK MANAGEMENT (continued)

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	31 December 2022 USD	31 December 2021 USD
Bank balance	621,553	234,766
Investments held at FVOCI	40,502,334	48,174,192
Investments held at FVTPL	3,034,138	3,317,372
Investments held at Amortised Cost	8,409,243	7,257,497
Receivable and advances	-	221
	52,567,268	58,984,048

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.

The Fund's cash at bank is held with Bank AlBilad which is rated A3 (2021: A3) respectively, based on Moody's ratings.

Analysis of credit quality

The Fund has sukuk placements with counterparties with the following credit quality:

	31 December 2022 USD	31 December 2021 USD
A1	18,312,299	16,238,270
A2	2,192,967	2,350,209
A3	9,278,041	13,112,026
B1	1,019,977	2,971,287
Ba1	972,726	1,007,500
Baa1	4,553,132	4,295,447
Baa2	4,241,376	2,333,700
Baa3	1,233,117	5,875,867
Unrated	7,107,942	7,247,383
Total	48,911,577	55,431,689

The Fund's cash and cash equivalents are held with SABB and with Al Bilad Investment Company which is a wholly owned subsidiary of Bank AlBilad. Based on Moody's credit ratings, SABB is rated A2 (2021:A2) and Bank Al Bilad is rated A3 (2021: A3). Receivables and advances are usually related to the settlements of trades and issuance of the Fund's units in a normal course and does not carry credit risk.

Credit risk

Amounts arising from ECL

Expected credit loss on investments at FVOCI has been measured on a 12-month and lifetime expected loss basis and reflects the maturities of exposures. The Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

11. FINANCIAL RISK MANAGEMENT (continued)

The Fund has recorded expected credit loss on investments at FVOCI amounting to USD 16,624 as at 31 December 2022 (31 December 2021: USD 90,118) During the year, there were no stage movements in ECL of investments at FVOCI.

Liquidity risk

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

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units on each business day, and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions.

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.

Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, special commission rates and equity prices 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 Fund 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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is subject to special commission rate risk or future risks on its special commission bearing assets including its investments in sukuk.

The following table demonstrates the sensitivity of the Fund's profit or loss for the period to a reasonably possible change in the interest rates, with all the other variable held constant.

Management has determined that a fluctuation in commission rates of 10 basis points is reasonably possible, considering the economic environment in which the Fund operates. The table below sets out the effect on the Fund's net assets (equity) attributable to the Unitholders of a reasonably possible increase of 10 basis points in commission rates at 31 December. The impact of such an increase or reduction has been estimated by calculating the fair value changes of the fixed-interest debt securities and other fixed-interest-bearing assets, less liabilities. The impact is primarily from the decrease in the fair value of fixed income securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	<i>31 December</i>	<i>31 December</i>
	<i>2022</i>	<i>2021</i>
	<i>USD</i>	<i>USD</i>
<i>Effect on net assets (equity)</i>		
Net assets (equity) attributable to the Unitholders	265,864	170,156

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NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2022

12. LAST VALUATION DAY

The last valuation day of the year was 31 December 2022 (year ended 31 December 2021: 31 December 2021).

13. DIVIDEND DISTRIBUTION

In accordance with the Terms and Conditions of the Fund, the Fund Board declared the following dividend out of the Fund during the year, except the 4th dividend which are unpaid as of the end of the year:

	<i>31 December</i> 2022 USD	<i>31 December</i> 2021 USD
1st dividend at a rate of USD 0.075 (2021: SR 0.06) per unit	456,894	365,745
2nd dividend at a rate of USD 0.07 (2021: SR 0.06) per unit	426,435	365,516
3rd dividend at a rate of USD 0.07 (2021: SR 0.06) per unit	426,435	365,724
4th dividend at a rate of USD 0.07 (2021: SR 0.06) per unit	409,971	365,724

13. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund's management on 6 Ramadan 1444H (corresponding to 28 March 2023).