

ALJAZIRA JAPANESE EQUITIES FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)
Financial Statements
Together with the
Independent Auditor's Report
For the year ended 31 December 2022

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

Financial statements for the year ended 31 December 2022

	PAGES
INDEPENDENT AUDITOR'S REPORT	1-3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF COMPREHENSIVE LOSS	5
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8-27

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

(1 /3)

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AlJazira Japanese Equities Fund (the "Fund") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the financial statements of the Fund, which comprise of the following:

- The statement of financial position as at 31 December 2022;
- The statement of comprehensive loss for the year then ended;
- The statement of changes in net assets (Equity) attributable to the unitholders for the year then ended;
- The statement of cash flows for the year then ended, and;
- The notes to the financial statements, including a summary of significant accounting policies.

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 code of professional conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's 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 IFRSs that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Fund's Terms and Conditions 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, i.e. the Board of Directors are responsible for overseeing the Fund's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

(2 /3)

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 misstatements, 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.

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 risk 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 by the 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 the material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern; and
- 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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PKF

Ibrahim Ahmed Al-Bassam & Co.
Certified Public Accountants
(Member of PKF International)

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA JAPANESE EQUITIES FUND
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

(3 /3)

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 Al-Bassam & Co.



Ahmed A. Mohandis
Certified Public Accountant
License No. 477
Riyadh:--Ramadhan 1444H
Corresponding to:22 March 2023

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ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

(Amounts in United States Dollars)

	Notes	31 December 2022	31 December 2021
<u>ASSETS</u>			
Cash and cash equivalents	5	1,044,445	1,796,254
Investments carried at fair value through profit or loss (FVTPL)	6	45,165,600	81,466,667
Receivable against sale of investments		114,658	295,665
Dividend receivable		26,874	-
TOTAL ASSETS		46,351,577	83,558,586
<u>LIABILITIES</u>			
Management fee payable	7	396,826	378,257
Accrued expenses and other liabilities		116,612	166,419
TOTAL LIABILITIES		513,438	544,676
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		45,838,139	83,013,910
Units in issue (in numbers)	8	268,619	344,624
Net Asset (Equity) Value per unit		170.64	240.88

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF COMPREHENSIVE (LOSS) / INCOME

For the year ended 31 December 2022

(Amounts in United States Dollars)

	Notes	31 December 2022	31 December 2021
<u>Income</u>			
Net (loss) / gain from investments carried at FVTPL	9	(22,221,686)	450,464
Dividend income		697,763	979,007
Other income		19,260	-
		<u>(21,504,663)</u>	<u>1,429,471</u>
<u>Expenses</u>			
Management fees	7	922,269	1,437,081
Custody fees		14,982	27,985
Other expenses		378,523	224,428
		<u>1,315,774</u>	<u>1,689,494</u>
Net loss for the year		<u>(22,820,437)</u>	<u>(260,023)</u>
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		<u>(22,820,437)</u>	<u>(260,023)</u>

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2022

(Amounts in United States Dollars)

	31 December 2022	31 December 2021
	<hr/>	<hr/>
Net assets (Equity) attributable to the Unitholders at beginning of the year	83,013,910	82,263,526
Total comprehensive loss for the year	(22,820,437)	(260,023)
Contributions and redemptions by the Unitholders		
Issuance of units	4,650,526	10,615,209
Redemption of units	(19,005,860)	(9,604,802)
Net changes from unit transactions	(14,355,334)	1,010,407
Net assets (Equity) attributable to the Unitholders at end of the year	45,838,139	83,013,910
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The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

(Amounts in United States Dollars)

	<u>Notes</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
<u>Cash flows from operating activities:</u>			
Net loss for the year		(22,820,437)	(260,023)
Adjustments for:			
- Unrealized loss from investments carried at FVTPL	9	<u>25,596,767</u>	4,820,180
		2,776,330	4,560,158
<u>Net changes in operating assets and liabilities:</u>			
Investments carried at FVTPL		10,704,300	(4,256,388)
Receivable against sale of investments		181,007	(78,391)
Dividend receivable		(26,874)	-
Management fee payable		18,569	107,372
Accrued expenses and other liabilities		<u>(49,807)</u>	<u>(863,375)</u>
Net cash generated from / (used in) operating activities		13,603,525	(530,625)
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of units		4,650,526	10,615,209
Redemption of units		<u>(19,005,860)</u>	<u>(10,116,036)</u>
Net cash (used in) / generated from financing activities		(14,355,334)	499,173
Net decrease in cash and cash equivalents		(751,809)	(31,452)
Cash and cash equivalents at beginning of the year	5	<u>1,796,254</u>	1,827,706
Cash and cash equivalents at end of the year	5	<u>1,044,445</u>	<u>1,796,254</u>

The accompanying notes 1 to 15 form an integral part of these financial statements.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Aljazira Japanese Equities Fund (the “Fund”) is an open-ended, Japanese investment fund established and managed through an agreement between Aljazira Capital Company - a Saudi Closed Joint Stock Company (the “Fund Manager”) and the investors (the “Unitholders”). The Fund Manager is a wholly owned subsidiary of Bank Aljazira (the “Bank”). The Capital Market Authority (“CMA”) approval to continue issuing units to public was granted through its letter no 7720/5 dated 12 Muharram 1431H (corresponding to 29 December 2009). The Fund commenced its operations on 17 April 2000.

The Fund operates under the terms and conditions contained in its prospectus with the prime objective of providing the investors with the opportunities to invest in Shariah compliant equities, issued and traded in Japan and invest in other Funds. The Fund’s net income is re-invested in the Fund, which is reflected in the net assets attributable to each unit.

The Fund is administered by Northern Trust (the “Administrator”). The Fund’s assets are held in the custody of Northern Trust Securities (the “Custodian”). Nomura Islamic Asset Management SDN BHD act as a Sub Manager to the Fund. Fee paid to the Sub Manager is borne by the Fund Manager.

The Fund is governed by the Investment Fund Regulations (the “Regulations”) published by CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) thereafter amended on 16 Sha’ban 1437H (corresponding to 23 May 2016). The regulation was further amended (the “Amended Regulations”) on 17 Rajab 1442H (corresponding to 1 March 2021) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Amended Regulations have effective dates starting from 19 Ramadan 1442H (corresponding to 1 May 2021).

SUBSCRIPTION / REDEMPTION

Subscription / redemption requests are accepted on all days on which Tadawul is open. The value of the Fund’s portfolio is determined on Monday and Thursday. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets of the Fund by the total number of outstanding Fund units.

2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

2.2 Basis of measurement

These financial statements have been prepared on a historical cost basis, except for investments that are measured at fair value.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in the order of liquidity.

2.3 Functional and presentation currency

These financial statements are presented in United States Dollar (USD) which is the Fund’s functional and presentation currency.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

2 BASIS OF PREPARATION (CONTINUED)

2.3 Functional and presentation currency (continued)

Transactions and balances

Foreign currency transactions are translated into USD using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into USD using the exchange rates prevailing at date of the statement of financial position. Foreign exchange gains and losses, if any, arising from translation are included in the statement of comprehensive income.

3 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments which are significant to these financial statements:

A. Judgement

3.1 Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Accordingly, these financial statements have been prepared on a going concern basis.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Fund's Financial Statements, except for where referenced below.

4.1 New amendments to standards issued and applied effective January 1, 2022

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, amendments and revised IFRS issued but not yet effective (continued)

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 17	Insurance Contracts	January 1, 2023	This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements
IAS 8	Amendment to definition of accounting estimate	January 1, 2023	This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Income taxes	January 1, 2023	This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards interpretations and amendments will be adopted in the Fund's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Cash and cash equivalents

Cash and cash equivalents of the Fund comprise balances held with a bank. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.3 Financial instruments

4.3.1 Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

4.3.2 Classification and measurement of financial assets

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at fair value through profit or loss

The Fund classifies its financial assets at amortized cost. The classification requirements for debt instruments are described below:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPI), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

Fair value through profit or loss (FVTPL): If financial asset's cash flows do not represent solely SPPI or if it not held within the held to collect or the held to collect and sell business model, or then it is measured at FVTPL. A gain or loss on a debt investment measured at FVTPL is recognized in the statement of comprehensive income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments designated at FVTPL". Profit earned from these financial assets is recognized in the statement of comprehensive income using the effective profit rate method.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.4.2 Classification and measurement of financial assets (continued)

Business model: The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVTPL.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPI" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund classifies its financial assets at fair value through profit or loss (FVTPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in the statement of comprehensive income when the Fund's right to receive payments is established.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.3 Derecognition

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

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

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

4.3.4 Financial liabilities

The Fund classifies its financial liabilities at amortized cost unless it has designated liabilities at FVTPL.

4.3.5 Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial instrument assets carried at amortized cost. The Fund recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4.3.6 Trade date accounting

A 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 purchase or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the marketplace.

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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (continued)

4.3.7 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

4.4 Other receivables

Other receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective profit rate method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

4.5 Redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Fund's net assets (equity) 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 holder's rights to a pro rata share of the Fund's net assets (equity).
- 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 recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund over the life of the instrument.

In addition to the redeemable units 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 recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) 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 recognized in equity. 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 recognized in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Accrued expenses and other liabilities

Accrued expenses and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective commission rate method.

4.7 Net gain or loss on financial assets at Fair Value through Profit or Loss (“FVTPL”)

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

Unrealized gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period’s unrealized gains and losses for financial instruments which were realized in the reporting period. Realized 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)

4.8 Income recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, taxes and rebates.

4.9 Dividend income

Dividend income, if any is recognized 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. Dividend income from equity securities designated as at FVTPL, is recognized in the statement of comprehensive income in a separate line item

4.10 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognized in profit or loss as an expense.

4.11 Management fees

Management fee is calculated and payable on the basis as mentioned in terms and conditions of the Fund.

4.12 Other expenses

Other expenses are charged at rates / amounts within limits mentioned in terms and conditions.

4.13 Zakat

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

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Equity Fund by the number of units in issue at the year-end.

4.15 Dividend distribution

Dividend distribution to the Fund's units holders is recognized as a liability in the Fund's financial statements in the period in which the right to make the payment for dividend is established.

4.16 Provisions

Provisions are recognized when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognized for future operating loss.

5 CASH AND CASH EQUIVALENTS

		As at 31 December	
	Notes	2022	2021
Cash at Bank	5.1, 7	-	590
Cash with Custodian		1,044,445	1,795,664
		1,044,445	1,796,254

5.1 Cash at Bank are held in current accounts with Bank Aljazira, a related party (Also see Note 1). The Fund does not earn profit on these current accounts.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

6 INVESTMENTS CARRIED AT FVTPL

These investment portfolio of the fund comprise of the following:

Industry sector	As at 31 December 2022			
	Country	Cost	Fair Value	%
Pharmaceuticals	Japan	4,961,417	6,793,234	15.04
Retail		4,439,658	5,501,272	12.18
Semiconductors		3,689,580	5,360,480	11.87
Chemicals		3,761,032	4,161,696	9.21
Electric and electronics		4,387,839	3,522,674	7.80
Auto parts and equipment		3,310,221	2,407,308	5.33
Machinery diversified		1,624,554	2,407,082	5.33
Commercial services		1,256,001	2,105,178	4.66
Leisure time		1,964,745	1,981,670	4.39
Healthcare products		2,241,596	1,975,940	4.37
Building materials		1,147,963	1,883,430	4.17
Hand / machine tools		1,309,177	1,718,784	3.81
Software		1,160,483	1,712,874	3.79
Apparel		784,531	963,471	2.13
Environmental control		448,590	704,665	1.56
Distribution/Wholesale		732,569	696,918	1.54
Others		1,602,854	1,268,924	2.81
Total		38,822,810	45,165,600	100%

Industry sector	As at 31 December 2021			
	Country	Cost	Fair value	%
Electric and electronics		6,258,608	12,230,809	15.01
Pharmaceuticals		7,079,730	10,780,170	13.23
Semiconductors		3,431,365	9,705,335	11.91
Chemicals		5,060,247	7,724,114	9.48
Retail	Japan	5,480,189	6,903,163	8.47
Commercial services		1,601,828	5,107,226	6.27
Building materials		1,903,939	4,624,922	5.68
Hand / machine tools		1,979,730	4,180,205	5.13
Auto parts and equipment		3,356,318	3,922,563	4.81
Others		13,375,827	16,288,160	19.99
Total		49,527,781	81,466,667	100.00

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

7 RELATED PARTIES TRANSACTIONS AND BALANCES

Management fee and other expenses

For management services, the Fund pays quarterly, the management fees at an annual rate of 1.5% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions.

The Fund pays performance fees at a rate of 20% on the specified benchmark criteria as per the Fund's terms and conditions.

The Fund Manager recovers from the Fund any other expenses incurred on behalf of the Fund such as board compensation, Shariah supervisory board compensation and other similar charges. These expenses are not expected to exceed an annual rate of 0.25% of the value of Fund's net assets (equity) calculated on daily basis.

Transactions with related parties

During the period, the Fund entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund.

Related parties	Nature of relationship	Nature of transaction	31 December 2022	31 December 2021
Aljazira Capital Company	Fund Manager	Management fees	922,269	1,437,081
		Performance fees	-	75,284
Bank Aljazira	Affiliate	Bank charges	660	910
Fund's Board	Key executive	Board remuneration	4,255	4,289

Certain units of the Fund are subscribed by an affiliate of the Fund Manager and the Funds managed and administered by the Fund Manager, the details of which are as follows:

Name of related parties	31 December 2022	31 December 2021
	<i>(Unit in numbers)</i>	
Affiliate		
Aljazira Takaful Taawuni Company	250,975	266,963
Funds managed by the Fund Manager		
Aljazira Asset Allocation Fund - Growth Strategy	-	35,838
Aljazira Asset Allocation Fund - Moderate Strategy	-	9,812
Aljazira Asset Allocation Fund - Conservative Strategy	-	8,209

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

7 RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

Balances with related parties

Related parties	Nature of relationship	Nature of transaction	31 December 2022	31 December 2021
Bank Aljazira	Affiliate	Cash at Bank	-	590
Aljazira Capital Company	Fund Manager	Management fee payable Performance fee payable*	396,826 11,652	378,257 11,652
Fund's Board	Key executive	Remuneration payable*	12,776	8,520

* These amounts are included in accrued expenses and other liabilities.

8 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

	31 December 2022	31 December 2021
	<i>(Unit in numbers)</i>	
Units at beginning of the year	344,624	340,147
Units issued during the year	24,447	44,329
Units redeemed during the year	(100,452)	(39,852)
Net change in units	(76,005)	4,477
Units at end of the year	268,619	344,624

9 NET (LOSS) / GAIN FROM INVESTMENTS CARRIED AT FVTPL

	31 December 2022	31 December 2021
Unrealized loss on revaluation of investments	(25,596,767)	(4,820,180)
Realised gain on disposal of investments	3,375,081	5,270,644
	(22,221,686)	450,464

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

10 FINANCIAL INSTRUMENTS BY CATEGORY

<u>As at 31 December 2022</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash and cash equivalents	1,044,445	-
Investments carried at FVTPL	-	45,165,600
Receivable against sale of investments	114,658	-
Dividend receivable	26,874	-
Total	1,185,977	45,165,600
<u>As at 31 December 2021</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash and cash equivalents	1,796,254	-
Investments carried at FVTPL	-	81,466,667
Receivable against sale of investments	295,665	-
Total	2,091,919	81,466,667

All financial liabilities 31 December 2022 (31 December 2021) were classified as financial liabilities at amortized cost.

11 RISK MANAGEMENT

11.1 Financial risk factors

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its Unitholders and to ensure reasonable safety to the Unitholders.

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

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

The Fund's investments in equity instruments carried at fair value through profit or loss are exposed to the foreign exchange risk in following currencies:

Currency	Country	31 December 2022		31 December 2021	
		Fair Value	%	Fair value	%
YEN	Japan	45,165,600	100%	81,466,667	100%
		45,165,600	100%	81,466,667	100%

The effect on the net assets (equity) value (as a result of the change in the fair value of investments as at 31 December 2022 and 31 December 2021) due to a reasonably possible change in foreign exchange rate, with all other variables held constant is as follows:

Currency	Country	31 December 2022		31 December 2021	
		Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
YEN	Japan	+/- 1%	451,656	+/- 1%	814,667

(ii) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

The Fund does not have significant cash flow commission rate risk as it does not have any significant amount of variable rate financial instruments.

The Fund is not exposed to commission rate risk as the Fund do not hold any special commission rate bearing financial instruments.

(iii) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, Fund has equity investments in listed equity securities.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(a) Market risk

(iii) Price risk

The effect on the net assets (equity) value (as a result of the change in the fair value of investments as at 31 December 2022 and 31 December 2021) due to a reasonably possible change in equity indices based on the industry concentration, with all other variables held constants is as follows:

	31 December 2022		31 December 2021	
	Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
Pharmaceuticals	+/- 1%	67,932	+/- 1%	107,802
Retail	+/- 1%	55,012	+/- 1%	69,032
Semiconductors	+/- 1%	53,604	+/- 1%	97,053
Chemicals	+/- 1%	41,616	+/- 1%	77,241
Electric and electronics	+/- 1%	35,226	+/- 1%	122,308
Auto parts and equipment	+/- 1%	24,073	+/- 1%	39,226
Machinery diversified	+/- 1%	24,070	+/- 1%	-
Commercial services	+/- 1%	21,051	+/- 1%	51,072
Leisure time	+/- 1%	19,816	+/- 1%	-
Healthcare products	+/- 1%	19,759	+/- 1%	-
Building materials	+/- 1%	18,834	+/- 1%	46,249
Hand / Machine tools	+/- 1%	17,187	+/- 1%	41,802
Software	+/- 1%	17,128	+/- 1%	-
Apparel	+/- 1%	9,634	+/- 1%	-
Environmental control	+/- 1%	7,046	+/- 1%	-
Distribution/Wholesale	+/- 1%	6,969	+/- 1%	-
Others	+/- 1%	12,689	+/- 1%	162,882

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The Fund is exposed to credit risk for its cash and cash equivalents, dividend receivable, receivable against sale of investments. Cash at bank balances are placed with reputable financial institutions; hence the credit risk is minimal. For other assets, credit risk is also low.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

11 RISK MANAGEMENT (CONTINUED)

11.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit ratings

The credit quality of the Fund's cash at bank balance is assessed with reference to external credit ratings which, in all cases, are above investment-grade rating. The bank balances along with credit ratings are tabulated below:

Rating of Financial Institution	31 December 2022	31 December 2021
Cash and cash equivalents		
BBB+	-	590
Unrated	1,044,445	1,795,664

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund's terms and conditions provide for subscription and redemption of units on every Saudi business day and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

The Fund Manager monitors liquidity requirements by ensuring that sufficient Funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

The contractual and expected maturity of all liabilities outstanding at the reporting date are within 12 months (2021: due within 12 months).

11.2 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to Unitholders.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

11 RISK MANAGEMENT (CONTINUED)

11.3 Capital risk Management

The capital of the Fund is represented by the equity attributable to holders of redeemable units. The amount of equity attributable to holders of redeemable units can change significantly on each Valuation Day, as the Fund is subject to subscriptions and redemptions at the discretion of unitholders on every Valuation Day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other unitsholdes and maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund Manager monitor capital on the basis of the value of equity attributable to unitholders.

12 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales were reported on the valuation day are valued at the most recent bid price.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The carrying value less impairment provision, if any, of financial instrument carried at amortized cost are assumed to approximate their fair values.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equity instruments. The Fund does not adjust the quoted price for these instruments.

ALJAZIRA JAPANESE EQUITIES FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

(Amounts in United States Dollars)

12 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fund classifies all of its financial assets, except for those carried at amortized cost, at fair value as level 1.

31 December 2022	Fair value Level			Total
	1	2	3	
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	45,165,600	-	-	45,165,600
31 December 2021		Fair value Level		
	1	2	3	Total
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	81,466,667	-	-	81,466,667

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

Other financial instrument such as, cash at bank balances, this is short-term financial asset whose carrying amount approximate its fair value, because of its short-term nature and the high credit quality of counterparty. For all other financial assets and liabilities, the carrying value is an approximation of fair value.

13 SUBSEQUENT EVENTS

As of the date of approval of these financial statements, there have been no significant subsequent events requiring disclosure to or adjustment in these financial statements.

14 LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements was 29 December 2022 (2021: 30 December 2021).

15 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Fund's Board on 30Shaaban 1444H corresponding to 22 March 2023G.