

ALJAZIRA SAUDI RIYAL MURABAHA FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)
Financial Statements
For the year ended 31 December 2023
Together with the
Independent Auditor's Report

ALJAZIRA SAUDI RIYAL MURABAHA FUND
Open-Ended Mutual Fund
(Managed by Aljazira Capital Company)

Financial statements for the year ended 31 December 2023

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**PKF**Ibrahim Ahmed Al-Bassam
& Co. Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA SAUDI RIYAL MURABAHA FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

(1 /3)

RIYADH, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AlJazira Saudi Riyal Murabaha Fund (the "Fund") managed by AlJazira capital company (the "Fund Manager") as at 31 December 2023, 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 2023;
- ❖ The statement of comprehensive income for the year then ended;
- ❖ The statement of Changes in net assets (Equity) attributable to the unitsholders for the year then ended;
- ❖ The statement of cash flows for the year then ended, and;
- ❖ The notes to the financial statements, comprising summary of material 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 the Fund's Term's 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, are responsible for overseeing the Fund's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA SAUDI RIYAL MURABAHA FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

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RIYADH, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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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INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF ALJAZIRA SAUDI RIYAL MURABAHA FUND
[MANAGED BY ALJAZIRA CAPITAL COMPANY]

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RIYADH, KINGDOM OF SAUDI ARABIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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: 18 Ramadan 1445 H
Corresponding to: 28 March 2024 G

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ALJAZIRA SAUDI RIYAL MURABAHA FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
<u>ASSETS</u>			
Cash at bank	5	196,882	4,582,237
Investments carried at fair value through profit or loss (FVTPL)	6	85,850,666	10,123,596
Investments carried at amortized cost - Murabaha	7	981,091,318	1,753,982,893
Investments carried at amortized cost – Sukuk	7	147,367,787	49,097,830
Prepayments and other receivables		-	157,424
TOTAL ASSETS		1,214,506,653	1,817,943,980
<u>LIABILITIES</u>			
Management fee payable	8	2,556,201	3,995,009
Accrued expenses and other liabilities		185,378	70,726
TOTAL LIABILITIES		2,741,579	4,065,735
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS		1,211,765,074	1,813,878,245
Units in issue (in numbers)	9	7,477,227	11,736,419
Net Asset (Equity) Value per unit		162.06	154.55

The accompanying notes 1 to 18 form an integral part of these financial statements.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
<u>Income</u>			
Special Commission income from investments carried at amortized cost – Murabaha	10	81,012,631	71,160,845
Special Commission income from investments carried at amortized cost – Sukuk	10	3,343,173	1,588,070
Amortization of premium on Sukuk		(31,107)	(413,527)
Net gain from investments carried at FVTPL	11	1,065,213	7,811,197
Other income		-	5,947
		85,389,910	80,152,532
<u>Expenses</u>			
Management fees	8	(13,280,573)	13,837,156
Custody fees	8	(92,002)	71,333
Other expenses		(70,850)	54,596
		(13,443,425)	13,963,085
Net income for the year		71,946,485	66,189,447
Other comprehensive income for the year		-	-
Total comprehensive income for the year		71,946,485	66,189,447

The accompanying notes 1 to 18 form an integral part of these financial statements.

ALJAZIRA SAUDI RIYAL MURABAHA 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 2023

(Amounts in Saudi Riyals)

	<u>31 December 2023</u>	<u>31 December 2022</u>
Net assets (Equity) attributable to the Unitholders at the beginning of the year	1,813,878,245	4,264,289,832
Total comprehensive income for the year	71,946,485	66,189,447
Contributions and redemptions by the Unitholders		
Issuance of units	928,196,945	2,639,940,127
Redemption of units	(1,602,256,601)	(5,156,541,161)
Net changes from unit transactions	(674,059,656)	(2,516,601,034)
Net assets (Equity) attributable to the Unitholders at the end of the year	<u>1,211,765,074</u>	<u>1,813,878,245</u>

The accompanying notes 1 to 18 form an integral part of these financial statements.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>31 December 2023</u>	<u>31 December 2022</u>
<u>Cash flows from operating activities:</u>			
Net income for the year		71,946,485	66,189,447
Adjustments for:			
- Unrealized gain from investments carried at FVTPL	11	(727,070)	(123,596)
- Amortization of premium on sukuk	10	31,107	(413,527)
		<u>71,250,522</u>	<u>65,652,324</u>
<u>Net changes in operating assets and liabilities:</u>			
Investments carried at FVTPL		(75,000,000)	1,273,878,247
Investments carried at amortized cost – Murabaha		(19,510,514)	1,897,457,282
Investments carried at amortized cost – Sukuk		(98,301,064)	413,527
Prepayments and other receivables		157,424	421,809
Management fee payable		(1,438,808)	1,692,191
Accrued expenses and other liabilities		114,652	70,726
Net cash (used in) / generated from operating activities		<u>(122,727,788)</u>	<u>3,239,586,106</u>
<u>Cash flows from financing activities:</u>			
Proceeds from issuance of units		928,196,945	2,639,940,127
Redemption of units		(1,602,256,601)	(5,156,541,161)
Net cash used in financing activities		<u>(674,059,656)</u>	<u>(2,516,601,034)</u>
Net (decrease) / increase in cash and cash equivalents		(796,787,444)	722,985,072
Cash and cash equivalents at beginning of the year		<u>1,362,136,533</u>	<u>639,151,461</u>
Cash and cash equivalents at end of the year	5.2	<u>565,349,089</u>	<u>1,362,136,533</u>

The accompanying notes 1 to 18 form an integral part of these financial statements.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For year ended 31 December 2023

(Amounts in Saudi Riyals)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Aljazira Saudi Riyal Murabaha Fund (the “Fund”) is an open-ended, Saudi 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 26 November 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 achieve profits from Murabaha placements and deposits and Islamic deposits with a low risk. The Fund’s net income is reinvested in the Fund, which is reflected in the net assets (equity) attributable to each unit.

The Fund Manager and administrator of the Fund is Aljazira Capital Company. The Custodian of the Fund is NOMW Capital.

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 each business day in KSA. 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 certain 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 order of liquidity.

2.3 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). These financial statements are presented in Saudi Arabian Riyals (SAR) which is the Fund’s functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into SAR using the exchange rates prevailing at the date of transactions. Foreign currency assets and liabilities are translated into SAR 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.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in Saudi Arabian Riyals)

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 period in which the estimates are revised and in any future periods affected.

In the process of applying the Fund's accounting policies, management has made the following estimate and judgment 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.

B. Assumption and estimation uncertainties

3.2 Expected credit loss

In the preparation of these financial statements, management has made a number of significant judgments required in applying the accounting requirements for measuring Expected Credit Loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES

4.1 New standards, interpretations and amendments

The accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2022. There are new standards, amendments and interpretations apply for the first time in 2023, but do not have an impact on the financial statements of the Fund.

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

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in Saudi Arabian Riyals)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, interpretations and amendments (continued)

4.1.1 New standards, amendments to standards and interpretations

Amendments

The following amendments to standards relevant to the Fund are effective for the annual periods beginning on or after January 1, 2023 (unless otherwise stated). The Fund adopted these standards and / or amendments, however, there is no significant impact of these on the financial statements:

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 9 (Amendments to IFRS 4)	Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)	January 1, 2023	The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
IFRS 17	Insurance Contracts	1 January, 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 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January, 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	1 January, 2023	These amendments regarding the definition of accounting estimates help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January, 2023	These amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences
IAS 12	International tax reform (pillar two model rules)	January 1, 2023	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in Saudi Arabian Riyals)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.1 New standards, amendments to standards and interpretations (continued)

4.1.2 New standards, amendments and revised IFRS issued but not yet effective

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
IAS 1	Classification of liabilities as current or non-current	January 1, 2024	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 liability would not impact its classification..
IFRS 16	Leases on sale and leaseback	January 1, 2024	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.
IAS 7 and IFRS 7	Supplier finance arrangements	January 1, 2024	These amendments require to add disclosure requirements to enhance transparency of supplier finance arrangements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
IAS 21	Lack of Exchangeability	January 1, 2025	The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

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 their initial application.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in Saudi Arabian Riyals)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.2 Cash and cash equivalents

Cash and cash equivalents of the Fund comprise balances held with the bank and Murabaha placements with original maturity of 3 months or less, if any. 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 Fund 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. Immediately after initial recognition, an expected credit loss allowance (ECL), if any, is recognized for financial assets measured at amortized cost, as described in Note 3.2, which results in an accounting loss being recognized in the statement of comprehensive income when an asset is newly originated.

4.3.2 Classification and measurement of financial assets

Classification of financial assets

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

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity investment that is not held for trading, the Fund Manager may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL.

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

The classification requirements for debt instruments are described below.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

An Open-Ended Mutual Fund

(Managed by Aljazira Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

(Amounts in Saudi Arabian Riyals)

4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (Continued)

4.3.2 Classification and measurement of financial assets (Continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as Murabaha contracts and Sukuks.

Classification and subsequent measurement of debt instruments depend on:

- The Fund's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into one of the following three measurement categories:

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 as described in Note 3.2. 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 a financial asset's cash flows do not represent SPPI or if it not held within the held to collect or the held to collect and sell business model, 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.

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 assets 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.

ALJAZIRA SAUDI RIYAL MURABAHA FUND

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (Continued)

4.3.2 Classification and measurement of financial assets (Continued)

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 equity instruments 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.

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 recognizes 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 derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expired.

4.3.4 Impairment of financial assets

The Fund recognizes loss allowances for ECL on financial assets measured at amortized cost and debt investments measured at FVOCI.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e., the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.3 Financial instruments (Continued)

4.3.4 Impairment of financial assets (Continued)

Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. One of the key quantitative indicators used by the Fund is the relative downgrade of the internal rating of the borrower and thereby the consequent change in the PD.

4.3.5 Financial liabilities

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

4.3.6 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 marketplace.

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.

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

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 unitholders.

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.

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 profit 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).

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.8 Special commission income

Special commission income presented in the statement of comprehensive income comprise commission on financial assets measured at amortized cost calculated on an effective yield basis.

The 'effective yield rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument:

- to the carrying amount of the financial assets; or
- the amortized cost of the financial liability.

In calculating special commission income, the effective yield rate is applied to the gross carrying amount of the asset (when the assets are not credit impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, special commission income is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of special commission income reverts to the gross basis.

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 statement of comprehensive income or loss as an expense.

4.11 Management fees

Management fee is calculated at rate mentioned in terms and conditions of the Fund and is payable quarterly in arrears.

4.12 Other expenses

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

4.13 Zakat / Taxation

According to the zakat regulations for investment funds, investment funds are not subject to the collection of zakat in accordance with the rules for zakat collection from investors in investment funds, provided that they do not carry out economic activities or investment activities that are not stipulated in the terms and conditions of those investment funds. Zakat will be collected from the fund's unit holders.

The fund manager must submit an information declaration to the Authority within a period not exceeding 120 days from the end of the fiscal year. The fund manager has registered the fund and will submit the annual zakat information return to the Authority.

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 Fund by the number of units in issue at the year-end.

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4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

4.15 Dividends 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 AT BANK

	Notes	As at 31 December	
		2023	2022
Cash at Bank	5.1	196,882	4,582,237
		196,882	4,582,237

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

5.2 Cash and cash equivalent for cash flow purpose:

	Notes	As at 31 December	
		2023	2022
Cash at Bank		196,882	4,582,237
Murabaha placements with original maturity of 3 months or less	7.3	565,152,207	1,357,554,296
		565,349,089	1,362,136,533

6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

These represent investments in open ended mutual funds within the Kingdom of Saudi Arabia:

Name of funds	As at 31 December 2023		
	Cost	Fair Value	%
ANB Capital SAR Trade Fund	50,000,000	50,007,683	58.25
Artal Murabaha Fund	30,000,000	30,628,804	35.68
Riyad SAR Trade Fund	5,000,000	5,214,179	6.07
Total	85,000,000	85,850,666	100%

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6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (CONTINUED)

Name of funds	As at 31 December 2022		
	Cost	Fair Value	%
SICO Capital Money Market Fund	10,000,000	10,123,596	100
Total	10,000,000	10,123,596	100%

6.1 The movement during the period is summarized as follows:

	2023	2022
Carrying amount as at 1 January	10,123,596	1,283,878,247
Additions during the year	85,000,000	160,007,062
Sold during the year during the year	(10,338,143)	(1,441,572,910)
Unrealize gain	727,070	123,596
Realize gain	338,143	7,687,601
Carrying amount as at the year end	85,850,666	10,123,596

7 INVESTMENTS CARRIED AT AMORTIZED COST

	2023	2022
Murabaha Placement	981,091,318	1,753,982,893
Sukuk	147,367,787	49,097,830
Gross Carrying amount	1,128,459,105	1,803,080,723
Expected credit Loss	-	-
Net carrying amount as at the year end	1,128,459,105	1,803,080,723

7.1 INVESTMENT CARRIED AT AMORTISED COST – MURABAHA

	As at 31 December	
	2023	2022
MURABAHA PLACEMENTS		
Bank Aljazira	220,759,000	100,347,222
Emirates NBD – KSA	153,655,208	101,039,166
ABC Bank	151,302,292	242,439,850
Qatar National Bank – KSA	150,530,000	311,922,000
Al Rajhi Bank	103,273,985	50,018,196
Qatar National Bank – Qatar	100,848,611	-
First Abu Dhabi Bank	100,722,222	203,977,556
Al Rayan Bank	-	421,447,153
Qatar Islamic Bank	-	322,791,750
Total	981,091,318	1,753,982,893

7.1.1 The rate of profit on Murabaha placements ranges from 3.70% to 6.85% per annum (2022: 1.10% to 6.85% per annum) and all the Murabaha placements will be matured within a period of less than 12 months from the statement of financial position date.

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7 INVESTMENTS CARRIED AT AMORTIZED COST (CONTINUED)

7.1.2 The following table represents the movement of investments in Murabaha placements measured at amortized cost during the year.

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Carrying amount as at 1 January		1,753,982,893	2,863,881,700
Additions during the year		32,011,153,190	10,576,027,222
Matured during the year		(32,779,165,412)	(11,690,773,727)
Murabaha profit recognized in the statement of comprehensive income	10	81,012,631	71,160,845
Murabaha profit received during the year		(85,891,984)	(66,313,147)
Carrying amount as at the year end		981,091,318	1,753,982,893

7.1.3 The below table represents the maturity profile based on the original maturity of instruments.

	<u>2023</u>	<u>2022</u>
Maturity within 3 months*	565,152,207	1,357,554,296
Maturity within 3 – 12 months	415,939,111	396,428,597
	<u>981,091,318</u>	<u>1,753,982,893</u>

*Murabaha placements with original maturity of 3 months or less are classified within cash and cash equivalents for the Cash flow Purpose (see note 5).

7.2 INVESTMENTS CARRIED AT AMORTIZED COST – SUKUK

	<u>31 December 2023</u>	<u>31 December 2022</u>
SUKUK		
ACWA Power Sukuk	101,815,013	-
KSA Sukuk Limited	25,448,164	18,845,874
Saudi Government SAR Sukuk	20,104,610	30,251,956
TOTAL	147,367,787	49,097,830

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7 INVESTMENTS CARRIED AT AMORTIZED COST (CONTINUED)

7.2 INVESTMENTS CARRIED AT AMORTIZED COST – SUKUK (CONTINUED)

7.2.1 The following table represents the movement of investments in SUKUK measured at amortized cost during the year:

The movement during the period is summarized as follows:

	<u>2023</u>	<u>2022</u>
Carrying amount as at 1 January	49,097,830	49,102,009
Additions during the year	107,112,466	10,000,000
Sold during the year	(10,000,000)	(10,000,000)
Amortization of Premium on Sukuk	(31,107)	-
Sukuk profit recognized in the statement of comprehensive income	3,343,173	1,588,070
Sukuk profit received during the year	(2,154,575)	(1,592,249)
Carrying amount as at the year end	<u>147,367,787</u>	<u>49,097,830</u>
	<u>2023</u>	<u>2022</u>
Maturity within 3 months	1,536,428	150,333
Maturity within 3 – 12 months	-	197,497
Maturity more than 12 months	145,831,359	48,750,000
	<u>147,367,787</u>	<u>49,097,830</u>

7.2.2 The rate of profit on Sukuk ranges from 2.97% to 7.28% per annum (2022: 2.69% to 4.1% per annum).

7.2.3 The Fund Manager has performed an ECL assessment for the financial assets carried at amortized cost. An allowance for impairment over these financial assets was not recognized in the financial statement as the amount was not material.

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8 RELATED PARTIES TRANSACTIONS AND BALANCES

Management fee

For management services, the Fund pays on quarterly basis, the management fees at an annual rate of 15% of investment return, which does not exceed 0.75% of the net asset value of the Fund.

Transactions with related parties

During the year, 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	2023	2022
Aljazira Capital Company	Fund Manager	Management fee	(13,280,573)	(13,837,156)
Fund's Board	Key executive	Board remuneration	(16,002)	(12,407)
AlJazira Takaful Taawuni Company	Affiliate	Cash inflows from Subscription of Units	12,993,184	89,751,277
		Proceeds paid from Redemption of Units	(78,888,762)	(121,083,299)
AlJazira Asset Allocation Fund - Growth Strategy	Funds managed by the Fund Manager	Cash inflows from Subscription of Units	16,495,417	284,147
		Proceeds paid from Redemption of Units	(4,198,012)	(6,547,646)
AlJazira Asset Allocation Fund - Moderate Strategy	Funds managed by the Fund Manager	Cash inflows from Subscription of Units	920,672	546,081
		Proceeds paid from Redemption of Units	(3,179,794)	(3,146,733)
AlJazira Asset Allocation Fund - Conservative Strategy	Funds managed by the Fund Manager	Cash inflows from Subscription of Units	5,727,728	871,313
		Proceeds paid from Redemption of Units	(26,950,418)	(25,249,920)
AlJazira Private Equity Fund - E-Commerce	Funds managed by the Fund Manager	Cash inflows from Subscription of Units	8,706,223	-
		Placements made during the year	12,573,546,000	1,685,000,000
Bank Aljazira	Affiliate	Matured during the year	(12,353,546,000)	(1,585,000,000)
		Profit received during the year	11,339,925	6,025,833
		Profit for the year	12,098,925	6,373,056

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8 RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

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

	<u>31 December 2023</u>	<u>31 December 2022</u>
	<i>(Unit in numbers)</i>	
Affiliate		
Aljazira Takaful Taawuni Company	908,954	1,543,079
Funds managed by the Fund Manager		
Aljazira Asset Allocation Fund - Growth Strategy	176,276	97,910
Aljazira Asset Allocation Fund - Moderate Strategy	94,407	108,309
Aljazira Asset Allocation Fund - Conservative Strategy	105,250	240,797
Aljazira Private Equity Fund - E-Commerce	55,390	-

Balances with related parties

Related parties	Nature of relationship	Nature of transaction	<u>31 December 2023</u>	<u>31 December 2022</u>
Bank Aljazira	Affiliate	Cash at Bank	196,882	4,582,237
		Murabaha placement	220,759,000	100,347,222
Aljazira Capital Company	Fund Manager	Management fee payable	(2,556,201)	(3,995,009)
Fund's Board	Key executive	Remuneration payable	(16,000)	(12,405)
Aljazira Takaful Taawuni Company	Affiliate	Share in net assets	147,305,085	238,482,859
Aljazira Asset Allocation Fund - Growth Strategy			28,567,289	15,131,991
Aljazira Asset Allocation Fund - Moderate Strategy	Funds managed by the Fund Manager	Share in net assets	15,299,598	16,739,156
Aljazira Asset Allocation Fund - Conservative Strategy			17,056,815	37,215,176
Aljazira Private Equity Fund - E-Commerce			8,976,481	-

9 UNIT TRANSACTIONS

Transactions in units for the year are summarized as follows:

	<u>2023</u>	<u>2022</u>
	<i>(Unit in numbers)</i>	
Units at beginning of the year	11,736,419	28,177,014
Units issued during the year	5,883,127	17,324,424
Units redeemed during the year	(10,142,319)	(33,765,019)
Net change in units	(4,259,192)	(16,440,595)
Units at end of the year	7,477,227	11,736,419

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10 INCOME FROM INVESTMENTS CARRIED AT AMORTIZED COST

	<u>2023</u>	<u>2022</u>
Commission from Murabaha placements	81,012,631	71,160,845
Commission from Sukuk	3,343,173	1,588,070
	<u>84,355,804</u>	<u>72,748,915</u>

11 NET GAIN FROM INVESTMENTS CARRIED AT FVTPL

	<u>2023</u>	<u>2022</u>
Unrealized gain on revaluation of investments	727,070	123,596
Realized gain on disposal of investments	338,143	7,687,601
	<u>1,065,213</u>	<u>7,811,197</u>

12 FINANCIAL INSTRUMENTS BY CATEGORY

<u>As at 31 December 2023</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash at bank	196,882	-
Investments carried at FVTPL	-	85,850,666
Investments carried at amortized cost - Murabaha	981,091,318	-
Investments carried at amortized cost – Sukuk	147,367,787	-
Total	<u>1,128,655,987</u>	<u>85,850,666</u>
<u>As at 31 December 2022</u>	<u>Amortized cost</u>	<u>FVTPL</u>
Assets as per statement of financial position		
Cash at bank	4,582,237	-
Investments carried at FVTPL	-	10,123,596
Investments carried at amortized cost - Murabaha	1,753,982,893	-
Investments carried at amortized cost – Sukuk	49,097,830	-
Prepayments and other receivables	157,424	-
Total	<u>1,807,820,384</u>	<u>10,123,596</u>

All financial liabilities as at 31 December 2023 (31 December 2022) were classified as financial liabilities measured at amortized cost.

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13 RISK MANAGEMENT

13.1 Financial risk factors

The objective of the Fund is to safeguard its 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.

(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 does not have any foreign exchange risk since all of its transactions are carried out in SAR.

(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.

As At 31 December 2023, the Fund is not exposed to commission rate risk with respect to the future cash flows of a financial instrument as the Fund has no variable rate investments.

Moreover, the fixed coupon financial instruments [Murabaha placements and Sukuks] are carried at amortized cost, therefore, the Fund is not subject to commission rate risk on the said 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, the Fund has investments in mutual funds.

The effect on the net assets (equity) value (as a result of the change in the fair value of investments as at 31 December 2023 and 31 December 2022) due to a reasonably possible change in Fund's NAV based on the underlying assets concentration, with all other variables held constants is as follows:

	31 December 2023		31 December 2022	
	Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
ANB Capital SAR Trade Fund	+/- 1%	500,077	+/- 1%	-
Artal Murabaha Fund	+/- 1%	306,288	+/- 1%	-
Riyad SAR Trade Fund	+/- 1%	52,142	+/- 1%	-
SICO Capital Money Market Fund	+/- 1%	-	+/- 1%	101,236

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13 RISK MANAGEMENT (CONTINUED)

13.1 Financial risk factors (Continued)

(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, Investments measured at amortized cost and other receivables. Cash is placed with reputable financial institutions; hence the credit risk is minimal. For other assets, credit risk is also low.

Expected credit loss measurement

The Fund does not have a formal internal grading mechanism. Credit risks are generally managed on the basis of external credit ratings of counterparties.

Under the general approach of IFRS 9 ECL, the financial assets are classified into three stages. Each stage indicates the credit quality of the particular financial asset.

Stage 1: includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and profit is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).

Stage 2: includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but profit is still calculated on the gross carrying amount of the asset.

Stage 3: includes financial instruments that have objective evidence of impairment at the reporting date. This stage has obligors that already are impaired (defaulted).

One of the key components of IFRS 9 ECL is to determine whether there have been significant increases in credit risk (SICR) of an entity's credit exposures since initial recognition. The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL.

Definition of 'Default'

The Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Fund. Overdrafts are considered as being past due once the counterparty has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Fund considers indicators that are:

- qualitative- e.g., breaches of covenant;
- quantitative- e.g., overdue status and non-payment on another obligation of the same issuer to the Fund; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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13 RISK MANAGEMENT (CONTINUED)

13.1 Financial risk factors (continued)

(b) Credit risk (continued)

Probability of Default (PD)

Through the yearly review of investments in debt instruments, the Fund shall draw a yearly transition matrix to compute account-based PD over the one-year horizon for the past 5 years. These PDs will be grouped as per credit ratings. This rating migration shall capture the movement of obligors into default at yearly intervals. An average default rate of the 5 yearly transition matrices provides the through the cycle PDs. IFRS 9 requires the use of a PD that is a 'point-in-time' (PiT PD) estimate reflecting current forecasts of future economic conditions. To derive PiT PDs, the Fund will annually source macro-economic forecast data for selected variables from appropriate sources.

Loss Given Default (LGD)

Loss given default is defined as the forecasted economic loss in case of default. LGD computation will be based on the Fund's losses on defaulted accounts after the consideration of recovery percentages. IFRS 9 also requires that LGD be estimated in collaboration with the forward-looking valuation of collaterals based on macro-economic factors. LGD computation is independent of the assessment of credit quality and thus applied uniformly across all stages.

For LGD estimation on its non-collateralized portfolio, the Fund shall compute LGD based on actual recoveries on its defaulted portfolio over a period of at least 5 years prior to the assessment date.

Exposure at Default (EAD)

Exposure at default is an estimation of the extent that the Fund may be exposed to an obligor in the event of default. The estimation of EAD should consider any expected changes in the exposure after the assessment date. This is of importance in the case of Stage 2 assets where the point of default may be several years in the future.

Discount rate

The Fund will compute effective profit rate at a contractual level. If the computation of the effective profit rate (at reporting date) is not feasible, the Fund will use the contractual profit (at reporting date) for discounting purposes.

The Fund Manager has performed an ECL assessment for the financial assets carried at amortized cost. An allowance for impairment over these financial assets was not recognized in these financial statements as the amount was not material.

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13 RISK MANAGEMENT (CONTINUED)

13.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit ratings

The Fund Manager reviews credit concentration of the investment portfolio based on counterparties. The credit quality of the financial assets is managed using the ratings from reputable credit ratings agencies. As at 31 December 2023 and 31 December 2022, the Fund has investments measured at amortized cost with the following credit quality:

Rating of financial institution	31 December 2023	31 December 2022
Cash at Bank		
BBB+(Fitch)	196,882	4,582,237
Murabaha placements		
A(S&P)	251,378,611	311,922,000
A1(Moody's)	-	421,447,153
A3(Moody's)	153,655,208	101,039,166
A-(S&P)	220,759,000	322,791,750
AA-(S&P)	100,722,222	203,977,556
BBB-(S&P)	151,302,292	242,439,850
BBB+(Fitch)	103,273,985	150,365,418
	981,091,318	1,753,982,893
Sukuk		
Unrated	147,367,787	49,097,830
	147,367,787	49,097,830

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13 RISK MANAGEMENT (CONTINUED)

13.1 The table below shows the maximum exposure to credit risk on financial instruments subject to impairment.

	As at 31 December 2023				As at 31 December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash at bank	196,882	-	-	196,882	4,582,237	-	-	4,582,237
Investments carried at amortized cost – Murabaha	981,091,318	-	-	981,091,318	1,753,982,893	-	-	1,753,982,893
Investments carried at amortized cost – Sukuk	147,367,787	-	-	147,367,787	49,097,830	-	-	49,097,830
Gross carrying amount	1,128,655,987	-	-	1,128,655,987	1,807,662,960	-	-	1,807,662,960
Loss allowance	-	-	-	-	-	-	-	-
Net carrying amount	1,128,655,987	-	-	1,128,655,987	1,807,662,960	-	-	1,807,662,960

The Fund Manager has performed an ECL assessment for the financial assets carried at amortized cost. An allowance for impairment over these financial assets was not recognized in the financial statement as the amount was not material.

The geographical concentration of the investments held at amortized cost is as follows:

	31 December 2023	31 December 2022
Saudi Arabia	876,308,202	816,401,970
Qatar	100,848,611	744,238,903
Bahrain	151,302,292	242,439,850
	1,128,459,105	1,803,080,723

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13 RISK MANAGEMENT (CONTINUED)

13.1 Financial risk factors (continued)

(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 business day and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions on these days. 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 (2022: due within 12 months).

13.2 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.

13.3 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 units holder 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.

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14 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.

Fund classifies all of its financial assets, except for those carried at amortized cost, at fair value accordingly to below levels.

2023	Fair value Level			Total
	1	2	3	
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	-	85,850,666	-	85,850,666
2022	1	2	3	Total
FINANCIAL ASSET				
Investments carried at fair value through profit or loss (FVTPL)	-	10,123,596	-	10,123,596

Valuation technique for calculating the fair value of investments under Level 2 comprises of determining the net asset value per unit of the funds which is based on observable market data.

The Investee Funds classified in Level 2 were fair valued using the net asset value of the Investee Fund, as reported by the respective Investee Fund's administrator. For these Investee Funds, management believes the Fund could have redeemed its investment at the net asset value per share at the statement of financial position date.

During the year, there has been no transfer in fair value hierarchy for FVTPL investments.

Other financial instrument such as, cash at bank, are 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.

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalent, investment carried at amortized cost, other receivables and accrued expenses and other liabilities. Due to their short-term nature, the carrying value of these financial instruments approximates their fair value.

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15 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.

16 RECLASSIFICATIONS OF COMPARATIVE NOTE

During the year, the Fund has made certain reclassifications in the comparative financial statements to conform to current period presentation.

17 LAST VALUATION DAY

The last valuation day for the purpose of preparation of these financial statements was 31 December 2023 (2022: 29 December 2022).

18 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Fund's Board on 9 Ramadan 1445H corresponding to 19 March 2024G.