

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
(Managed by Musharaka Capital Company)

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2021**

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**INDEPENDENT AUDITOR'S REPORT****TO THE UNIT HOLDERS OF MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

***Opinion***

We have audited the financial statements of Musharaka Murabahat and Sukuk Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, 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 endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics 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 Fund Manager and Those Charged with Governance for the Financial Statements***

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA and Funds' terms and conditions, and for such internal control as Fund Manager 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, Fund Manager 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 Fund Manager 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.

## INDEPENDENT AUDITOR'S REPORT

**TO THE UNIT HOLDERS OF MUSHARAKA MURABAHAT AND SUKUK FUND (CONTINUED)**  
(Managed by Musharaka Capital Company)

### *Auditor's Responsibilities for the Audit of the Financial Statements*

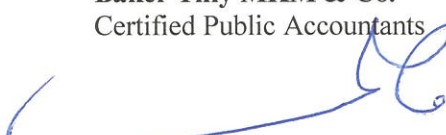
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing ("ISAs") 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with 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.

**Baker Tilly MKM & Co.**  
Certified Public Accountants

  
**Majid Muneer Alnemer**  
License No. 381  
Al-Khobar 25 Sha'ban 1443H  
28 March 2022



**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2021**

	<i>Note</i>	<i>2021</i>	<i>2020</i>
		<i>SR</i>	<i>SR</i>
<b>ASSETS</b>			
Investments at fair value through profit or loss (FVTPL)	7	<b>12,462,351</b>	9,876,268
Short term murabaha deposits	8	<b>9,158,747</b>	1,014,075
Accrued finance income	8	<b>83,544</b>	11,408
Prepaid expenses		<b>1,842</b>	-
Cash and cash equivalents		<b>2,950,329</b>	6,713,069
<b>Total assets</b>		<b>24,656,813</b>	17,614,820
<b>LIABILITIES</b>			
Accrued management fees	13	<b>42,491</b>	7,298
Accrued expenses	9	<b>31,135</b>	41,237
<b>Total liabilities</b>		<b>73,626</b>	48,535
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>24,583,187</b>	17,566,285
<b>Units in issue (number)</b>		<b>2,326,985</b>	1,682,893
<b>Per unit value (SR)</b>		<b>10.56</b>	10.44

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

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
 (Managed by Musharaka Capital Company)  
**STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	<i>Note</i>	<b>2021</b>	<i>For the period from 8 March 2020 to 31 December 2020</i>
		<i>SR</i>	<i>SR</i>
<b>Revenue</b>			
Gain on investments at fair value through profit or loss (FVTPL)	7	<b>140,010</b>	501,778
Finance income	11	<b>346,874</b>	215,050
		<b>486,884</b>	716,828
<b>Expenses</b>			
Fund management fees	13	<b>(119,810)</b>	(50,773)
Other expenses	12	<b>(99,643)</b>	(99,770)
		<b>(219,453)</b>	(150,543)
<b>Profit for the year / period</b>		<b>267,431</b>	566,285
<b>Other comprehensive income</b>			
Other comprehensive income for the year / period		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR / PERIOD</b>		<b>267,431</b>	566,285

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

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

	<b>2021</b>	<i>For the period from 8 March 2020 to 31 December 2020</i>
	<b>SR</b>	<b>SR</b>
Net assets attributable to unit holders at 1 January	<b>17,566,285</b>	-
Proceeds from units issued	<b>29,180,000</b>	17,000,000
Payment for redemption of units	<b>(22,430,529)</b>	-
	<b>24,315,756</b>	17,000,000
Profit for the year / period	<b>267,431</b>	566,285
Other comprehensive income	-	-
Total comprehensive income for the year / period	<b>267,431</b>	566,285
Net assets attributable to unitholders as at 31 December	<b>24,583,187</b>	17,566,285

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

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
 (Managed by Musharaka Capital Company)  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

	<b>2021</b>	<i>For the period from 8 March 2020 to 31 December 2020</i>
	<b>SR</b>	<b>SR</b>
<b>OPERATING ACTIVITIES</b>		
Profit for the year / period	267,431	566,285
Adjustments for:		
Gain on investments at fair value through profit or loss (FVTPL)	(140,010)	(501,778)
Finance income recognised	(346,874)	(215,050)
<i>Changes in operating assets and liabilities</i>		
Investments at fair value through profit or loss (FVTPL)	(2,446,073)	(9,374,490)
Short term murabaha deposits	(8,144,672)	(1,014,075)
Prepaid expenses	(1,842)	-
Accrued management fees	35,193	7,298
Accrued expenses	(10,102)	41,237
<b>Cash used in operations</b>	<b>(10,786,949)</b>	<b>(10,490,573)</b>
Finance income received	274,738	203,642
<b>Net cash used in operating activities</b>	<b>(10,512,211)</b>	<b>(10,286,931)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units issued	29,180,000	17,000,000
Payment for redemption of units	(22,430,529)	-
<b>Net cash generated from financing activities</b>	<b>6,749,471</b>	<b>17,000,000</b>
<b>Net change in cash and cash equivalents</b>	<b>(3,762,740)</b>	<b>6,713,069</b>
Cash and cash equivalents at the beginning of the year / period	6,713,069	-
<b>CASH AND CASH EQUIVALENTS, AT THE END OF YEAR / PERIOD</b>	<b>2,950,329</b>	<b>6,713,069</b>

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

## **MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

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#### **1 - GENERAL**

Musharaka Murabahat and Sukuk Fund (the "Fund") is an open-ended investment fund, managed by Musharaka Capital Company (the "Fund Manager") a Saudi Closed Joint Stock Company licenced by Capital Market Authority (CMA) under licence no. 13169-27. The Fund is governed by the Investment Fund Regulations ("the Regulations") published by the (CMA) detailing requirements for all funds within the Kingdom of Saudi Arabia.

The registered address of the Fund Manager is: Musharaka Capital Company P.O.Box 712, Al Khobar 31952, Kingdom of Saudi Arabia.

The primary investment objective of the Fund is to generate returns for the investors in the short and medium term and to sustain the capital investment. The Fund invests primarily in Saudi market and Gulf Cooperation Council (GCC) countries markets in short and medium term instruments that are sharia compliant.

The terms and conditions of the Fund were approved by CMA on 29 Rabi II 1441H (corresponding to 26 December 2019). The Fund commenced its activities on 13 Rajab 1441H (corresponding to 8 March 2020) pursuant to such approval and after concluding the subscription procedures.

In dealing with the unitholders, the Fund Manager considers the Fund as an independent entity. Accordingly, the Fund prepares its own financial statements. Furthermore, unitholders are considered as owners of the assets of the Fund.

#### **2 - BASIS OF PREPARATION**

The financial statements of the Fund 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 that are issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and the Funds' terms and conditions.

The financial statements have been prepared on a historical cost basis except for investments at fair value through profit or loss (FVTPL). The financial statements are presented in Saudi Riyals which is also the functional currency of the Fund and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

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.

#### **3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future years.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

The key judgments and estimates and assumptions that have an impact on the financial statements of the Fund are discussed below:

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
(Managed by Musharaka Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**3 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)**

*Classification of investments*

Management designates at the time of acquisition of investments whether these should be classified as at fair value through profit or loss, fair value through other comprehensive income or amortized cost. In exercising this judgment, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments.

*Allowance for expected credit losses*

The Fund recognises allowance for expected credit loss (ECL) on its Murabaha deposits and Sukuk instruments that are designated at amortised cost or fair value through other comprehensive income (FVOCI).

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

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets on which credit risk has not increased significantly since their initial recognition.

The Fund considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or certain unrated investment with no default in past. 12- month ECL is the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

**4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Foreign currency transaction**

Transactions during the year in currencies other than the functional currency are translated into the functional currency at the rates of exchange at the dates of the transaction. Monetary assets and liabilities that are denominated in a foreign currency are retranslated at the rate of exchange ruling at the statement of financial position date. Exchange gains or losses are reflected in the statement of profit or loss and comprehensive income.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

**Revenue**

Revenue is recognised 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.

Profit on Murabaha contracts and Sukuk that are designated at amortised cost or fair value through other comprehensive income (FVOCI) is recognised using the effective yield method.

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
(Managed by Musharaka Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial assets and financial liabilities**

***Recognition and initial measurement***

Financial assets and financial liabilities at FVTPL are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognised at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

***Classification of financial assets***

On initial recognition, a financial asset is classified as 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 financial assets in order 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 FVTPL.

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

On initial recognition of an equity investment that is not held for trading, the Fund 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 other financial assets are classified as measured at FVTPL.

**Business model assessment**

The Fund Manager makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's managers;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
(Managed by Musharaka Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Financial assets and financial liabilities (Continued)*

**Business model assessment (Continued)**

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

**Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

*Classification of financial liabilities*

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

*Derecognition*

On derecognition of a financial asset (debt investment at FVOCI), the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in statement of comprehensive income.

The Fund derecognize a financial liability when contractual obligations are discharged, cancelled, or expire.

*Expected Credit Loss ("ECL")*

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

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'.

*Significant increase in credit risk*

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, 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 expert credit assessment and including an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure.

*Definition of default*

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

- the investee 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 investee is past due more than 30 days on any material credit obligation to the Fund.

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortized cost as a deduction from the gross carrying amount of the assets. For the debt instruments measured at fair value through other comprehensive income, loss allowances for ECL is recognised in the other comprehensive income and does not reduce the carrying amount of the

financial asset in the statement of financial position.  
**MUSHARAKA MURABAHAT AND SUKUK FUND**  
(Managed by Musharaka Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

**Net assets value per unit**

The net assets value (NAV) per unit as disclosed on the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at the period end.

**Zakat**

Zakat and income tax are the unitholders obligations and are not provided for in these financial statements.

**5 - NEW STANDARDS AND AMENDMENTS TO STANDARDS**

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Impact of the initial application of Interest Rate Benchmark Reform.
- Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16.

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
 (Managed by Musharaka Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

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**6 - STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The Company has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<i>New and revised IFRSs</i>	<i>Effective for annual periods beginning on or after</i>
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 1 <i>Presentation of Financial Statements</i> regarding the classification of liabilities.	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies.	1 January 2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates.	1 January 2023
Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction.	1 January 2023
IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.	1 January 2023
Amendments to IAS 16 <i>Property, Plant and Equipment</i> prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use.	1 January 2022
Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> regarding the costs to include when assessing whether a contract is onerous.	1 January 2022
Amendments IFRS 3 Business Combination updating a reference to the Conceptual Framework.	1 January 2022
Annual Improvements to IFRS 2018 – 2020 Cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)****FOR THE YEAR ENDED 31 DECEMBER 2021****7 - INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

The investment portfolio is allocated among the various economic sectors, the fair values and cost of these investments are as follows :

	<i>Units of open- ended mutual funds (a)</i>	<i>Investment in debt instruments - Sukuks (b)</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
<b>For the year ended 31 December</b>			
As at 1 January 2021	5,998,908	3,877,360	9,876,268
Additions	8,000,000	1,028,280	9,028,280
Disposals	(5,515,762)	(1,030,038)	(6,545,800)
Change in fair value	173,981	(70,378)	103,603
As at 31 December 2021	<u>8,657,127</u>	<u>3,805,224</u>	<u>12,462,351</u>

For the period from 8 March 2020 to 31 December 2020

Additions	5,910,000	3,874,304	9,784,304
Change in fair value	88,908	3,056	91,964
As at 31 December 2020	<u>5,998,908</u>	<u>3,877,360</u>	<u>9,876,268</u>

For the year ended 31 December 2021 the Fund realised gain amounting to SR 36,407 (31 December 2020: SR 409,814) on sale of these investments.

Cost and fair value of the investment portfolio as at 31 December 2021 and 31 December 2020 is distributed as follows.

<i>Investee</i>	<i>As at 31 December 2021</i>		<i>As at 31 December 2020</i>	
	<i>Cost</i>	<i>Market Value</i>	<i>Cost</i>	<i>Market Value</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
<i>(a) Units of open-ended mutual funds</i>				
Itqan Fund For Murabahat and Sukuk	4,376,722	4,483,156	3,295,000	3,361,459
Alkhair Capital Murabaha Fund	3,606,101	3,669,744	900,000	901,053
Muscat Capital Money Market Fund	-	-	1,115,000	1,134,064
FALCOM SAR Murabaha Fund	500,323	504,227	600,000	602,332
	<u>8,483,146</u>	<u>8,657,127</u>	<u>5,910,000</u>	<u>5,998,908</u>
<i>(b) Investment in debt instruments - Sukuks</i>				
Riyad Sukuk Limited	888,647	889,630	888,647	889,730
MAF Sukuk Ltd	1,986,735	1,955,125	1,986,735	1,987,434
Saudi Telecom Co	998,922	960,469	998,922	1,000,196
	<u>3,874,304</u>	<u>3,805,224</u>	<u>3,874,304</u>	<u>3,877,360</u>
Total investment at FVTPL	<u>12,357,450</u>	<u>12,462,351</u>	<u>9,784,304</u>	<u>9,876,268</u>

**8 - SHORT TERM MURABAHA DEPOSITS**

Short term deposits represent the amount invested by the Fund in Murabaha deposit with an islamic bank that has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rates ranging from 1.5% to 4.5% (31 December 2020: 2.75% to 3.75%) per annum. As at year / period end, accrued finance income on short term deposits amounting to SR 83,544 (31 December 2020: SR 11,408) respectively.

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
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**9 - ACCRUED EXPENSES**

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
Professional fee	23,000	23,000
Custody fee	8,135	12,237
Board of Directors' fee	-	6,000
	<u>31,135</u>	<u>41,237</u>

**10 - DIVIDEND**

As per the Fund's terms and conditions, the Fund does not distribute dividend to unitholders. Returns are reinvested in the Fund.

**11 - FINANCE INCOME**

	<i>Note</i>	<u>2021</u>	<u>For the period from 8 March 2020 to 31 December 2020</u>
		<i>SR</i>	<i>SR</i>
Finance income on short term murabaha deposits	8	202,671	25,615
Finance income on investments at fair value through profit or loss (FVTPL)	7	144,203	-
Finance income on investments at fair value through other comprehensive income (FVOCI)		-	189,435
		<u>346,874</u>	<u>215,050</u>

**12 - OTHER EXPENSES**

	<u>2021</u>	<u>For the period from 8 March 2020 to 31 December 2020</u>
	<i>SR</i>	<i>SR</i>
Professional fees	23,000	34,026
Custody fees	27,491	22,971
Shariah Committee fees	16,158	18,000
Board of Directors' fees	12,000	12,000
Capital Market Authority (CMA) fees	7,500	6,127
Tadawul fees	5,750	4,275
Others	7,744	2,371
	<u>99,643</u>	<u>99,770</u>

**13 - RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent the Fund Manager, two funds managed by the Fund Manager (Musharaka REIT Fund and Arsh real estate fund) and the Fund Board.

The following table provides the total amount of transactions that have been entered into with related parties during the year / period:

**MUSHARAKA MURABAHAT AND SUKUK FUND**

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**FOR THE YEAR ENDED 31 DECEMBER 2021**

**13 - RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)**

Related party	Nature of transaction	For the period from 8 March 2020 to 31 December 2020	
		2021	December 2020
		SR	SR
Fund Manager	Management fee	119,810	50,773
	Units subscribed	-	6,000,000
	Units redeemed	2,100,315	-
Arsh real estate fund	Units subscribed	17,000,000	-
	Units redeemed	4,200,000	-
Musharaka REIT Fund	Units subscribed	-	5,000,000
Fund Board	Board of Directors remuneration	12,000	12,000

The Fund Manager investment in the Fund at 31 December 2021 is 400,000 units (31 December 2020: 600,000 units).

The investment of Arsh real estate fund and Musharika REIT fund in the Fund at 31 December 2021 is 1,221,034 units and 500,000 units, respectively (31 December 2020: nil and 500,000 units, respectively).

Balances with related parties are as follows:

	2021	2020
	SR	SR
Fund Manager (a)	42,491	7,298
Fund Board (b)	-	6,000

(a) Presented under accrued management fee

(b) Presented under accrued expenses

Type of fee	Basis and rate	Payment term
Management fees	0.45% of the net assets calculated on a daily basis.	Monthly
Board of Directors' remunerations	SR 3,000 per member only payable to the independent members, maximum up to SR 6,000 per annum per member.	Paid semi annually.

**14 - FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

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**14 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

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;

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		<b>31 December 2021</b>					
		<b>Carrying amount</b>			<b>Fair value</b>		
		<b>Amortised</b>					
	<b>Fair value</b>	<b>cost</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b>Financial assets</b>							
Investments at fair value through profit or loss (FVTPL)	12,462,351	-	12,462,351	8,657,127	3,805,224	-	12,462,351
Short term murabaha deposits	-	9,158,747	9,158,747	-	-	-	-
Accrued finance income	-	83,544	83,544	-	-	-	-
Cash and cash equivalents	-	2,950,329	2,950,329	-	-	-	-
	<b>12,462,351</b>	<b>12,192,620</b>	<b>24,654,971</b>	<b>8,657,127</b>	<b>3,805,224</b>	<b>-</b>	<b>12,462,351</b>
<b>Financial liabilities</b>							
Accrued management fees	-	42,491	42,491	-	-	-	-
Accrued expenses	-	31,135	31,135	-	-	-	-
	<b>-</b>	<b>73,626</b>	<b>73,626</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>31 December 2020</b>					
		<b>Carrying amount</b>			<b>Fair value</b>		
		<b>Amortised</b>					
	<b>Fair value</b>	<b>cost</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>	<b>SR</b>
<b>Financial assets</b>							
Investments at fair value through profit or loss (FVTPL)	9,876,268	-	9,876,268	5,998,908	3,877,360	-	9,876,268
Short term murabaha deposits	-	1,014,075	1,014,075	-	-	-	-
Accrued finance income	-	11,408	11,408	-	-	-	-
Cash and cash equivalents	-	6,713,069	6,713,069	-	-	-	-
	<b>9,876,268</b>	<b>7,738,552</b>	<b>17,614,820</b>	<b>5,998,908</b>	<b>3,877,360</b>	<b>-</b>	<b>9,876,268</b>
<b>Financial liabilities</b>							
Accrued management fees	-	7,298	7,298	-	-	-	-
Accrued expenses	-	41,237	41,237	-	-	-	-
	<b>-</b>	<b>48,535</b>	<b>48,535</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
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**15 - FINANCIAL RISK MANAGEMENT**

The objective of the Fund's risk management 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 and liquidity 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 sets 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:**

Market price risk is the risk that value of a financial instrument will fluctuate as a result of changes in market prices, such as foreign exchange rates and interest rates, and will affect the Fund's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*(i) Currency Risk:*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Fund's currency. The Fund exposure to foreign currency risk is primarily limited to transactions in United State Dollars ("USD"). The Fund's management believes that their exposure to currency risk associated with USD is limited as the Fund's currency is pegged to USD. The fluctuation in exchange rates against other currencies is monitored on a continuous basis.

*(ii) Commission Rate Risk*

Commission rate risk is the risk that the value of financial instruments will fluctuate due to the changes in the market commission rates. The Fund is not subject to commission rate risk.

**(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. The Fund is exposed to credit risk on the followings:

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
Investments at fair value through profit or loss (FVTPL)	12,462,351	9,876,268
Short term murabaha deposits	9,158,747	1,014,075
Accrued finance income	83,544	11,408
Cash and cash equivalents	<u>2,950,329</u>	<u>6,713,069</u>
	<u>24,654,971</u>	<u>17,614,820</u>

**MUSHARAKA MURABAHAT AND SUKUK FUND**  
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**15 - FINANCIAL RISK MANAGEMENT (Continued)**

**(b) Credit Risk: (Continued)**

The carrying amount of financial assets represents the maximum credit exposure.

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. Bank balances are held with banks with sound credit ratings.

**(c) Liquidity Risk:**

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Following are the contractual maturities at the end of the reporting period of financial liabilities.

	31 December 2021			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
<b>Financial Liabilities</b>				
Accrued management fees	42,491	42,491	-	-
Accrued expenses	31,135	31,135	-	-
	<b>73,626</b>	<b>73,626</b>	<b>-</b>	<b>-</b>

	31 December 2020			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
<b>Financial Liabilities</b>				
Accrued management fees	7,298	7,298	-	-
Accrued expenses	41,237	41,237	-	-
	<b>48,535</b>	<b>48,535</b>	<b>-</b>	<b>-</b>

Liquidity risk is managed by monitoring on a regular basis that sufficient funds and credit facilities are available to meet the Fund's future commitments.

**16 - EARNINGS PER UNIT**

The calculation of basic earnings per unit is based on the profit attributable to unitholders and the weighted average number of units outstanding.

	<i>For the period from 8 March 2020 to 31 December 2020</i>	
	<b>2021</b>	<b>December 2020</b>
	SR	SR
Profit for the year / period attributable to the unitholders	267,431	566,285
Weighted average number of units	2,326,985	1,682,893
Earnings per unit	<b>0.11</b>	<b>0.34</b>

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**17 - VALUATION DAY**

The Fund's units are valued daily from Sunday to Thursday, and unit price is announced on the following business day. The last valuation day for the purpose of preparation of these financial statements was 31 December 2021.

**18 - APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Fund Board of Directors on 28 March 2022.