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شركة آر إس أم المحاسبون المتحدون للإستشارات المهنية
RSM Allied Accountants Professional Services Co.

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022
AND INDEPENDENT AUDITOR'S REPORT**

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

Financial statements for the year ended 31 December 2022 and independent auditor's report

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders

Musharaka Murabahat and Sukuk Fund

Report on the audit of the financial statements

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 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and the 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 financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, 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 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 International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Fund Manager and those charged with governance for the financial statements

The 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 issued by SOCPA, and the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, and the Fund's terms and conditions, and for such internal control as the 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, the 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 the 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 Fund's Board of Directors is responsible for overseeing the Fund's financial reporting process

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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Independent auditor's report to the Unitholders of Musharaka Murabahat and Sukuk Fund (Continued)

Auditor's responsibilities for the audit of the financial statements (Continued)

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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.

Other matter

The financial statements of the Fund for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 March 2022.

RSM Allied Accountants Professional Services

Mohammed Bin Farhan Bin Nader

License No. 435

Al-Khobar, Saudi Arabia

30 March 2023 (corresponding to 8 Ramadan 1444H)



MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
Revenue			
Fair value changes on investments carried at fair value through profit or loss – net	6	43,686	140,010
Finance income	7	179,814	346,874
Total revenue		223,500	486,884
Expenses			
Fund management fee	8	(73,745)	(119,810)
Other expenses	9	(112,829)	(99,643)
Total expenses		(186,574)	(219,453)
Profit for the year		36,926	267,431
Other comprehensive income		-	-
Total comprehensive income for the year		36,926	267,431
Earnings per unit			
Basic and diluted earnings per unit	12	0.03	0.11

The accompanying notes form an integral part of these financial Statements

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

Statement of financial position

(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December	
		2022	2021
Assets			
Investments	6	6,245,486	12,462,351
Short-term murabahat deposits	7	4,910,333	9,158,747
Accrued finance income		34,652	83,544
Prepaid expenses		4,377	1,842
Cash at banks		1,150,518	2,950,329
Total assets		12,345,366	24,656,813
Liabilities			
Accrued management fee	8	22,046	42,491
Accrued expenses	10	35,410	31,135
Total liabilities		57,456	73,626
Net assets attributable to unit holders		12,287,910	24,583,187
Units in issue		1,156,434	2,326,985
Per unit value (Saudi Riyals)		10.63	10.56

The accompanying notes 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 unitholders
(All amounts in Saudi Riyals unless otherwise stated)

	For the year ended 31 December	
	2022	2021
At 1 January	24,583,187	17,566,285
Change from operation		
Total comprehensive income for the year	36,926	267,431
Changes from transaction with unitholders		
Proceeds from units issued during the year	2,041,210	29,180,000
Value of units redeemed during the year	<u>(14,373,413)</u>	<u>(22,430,529)</u>
Net change from transactions with unitholders	<u>(12,332,203)</u>	6,749,471
At 31 December	<u>12,287,910</u>	<u>24,583,187</u>
<u>Movement in number of units (Quantity)</u>		
At 1 January	2,326,985	1,682,894
Units issued during the year	193,604	2,785,774
Units redeemed during the year	<u>(1,364,155)</u>	<u>(2,141,683)</u>
Net change in units	<u>(1,170,551)</u>	644,091
At 31 December	<u>1,156,434</u>	<u>2,326,985</u>

The accompanying notes form an integral part of these financial Statements.

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

Statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the year ended 31 December	
		2022	2021
Cash flows from operating activities			
Profit for the year		36,926	267,431
Adjustments for:			
Fair value changes on investments at fair value through profit or loss	6	(43,686)	(140,010)
Finance income for the year	7	(179,814)	(346,874)
Changes in operating assets and liabilities:			
Decrease (increase) in investments		6,260,551	(2,446,073)
Decrease (increase) in short term murabahat deposits		4,284,414	(8,144,672)
(Increase) in prepaid expenses		(2,535)	(1,842)
(Decrease) increase in accrued management fee		(20,445)	35,193
Increase (decrease) in accrued expenses		4,275	(10,102)
Net cash generated from / (used in) operations		10,303,686	(10,786,949)
Finance income received		228,706	274,738
Net cash inflow / (outflow) from operating activities		10,532,392	(10,512,211)
Cash flows from financing activities			
Proceeds from subscription of units		2,041,210	29,180,000
Payments on redemption of units		(14,373,413)	(22,430,529)
Net cash (outflow) / inflow from financing activities		(12,332,203)	6,749,471
Net decrease in cash at banks		(1,799,811)	(3,762,740)
Cash at banks at the beginning of the year		2,950,329	6,713,069
Cash at banks at the end of the year		1,150,518	2,950,329

The accompanying notes 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 2022

(All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Musharaka Murabahat and Sukuk Fund (the "Fund") is an open-ended investment fund, managed by Musharaka Capital Company (the "Fund Manager"), licensed by Capital Market Authority ("CMA") under license no. 13169-27 dated 8 March 2020.

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 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. During 2022, the Fund Manager updated the Fund's terms and conditions, however, the changes do not have any direct material effect on these financial statements. The summary of changes in the terms and conditions of the Fund during 2022 are as follows:

- The Fund has changed its policy with respect to the investment in sukuks, money market and investment in non-grade sukuks or murabahat deposits. Consequently, CMA has approved the Fund's risk profile to be low risk rather than low-medium risk.
- The Fund has engaged RSM Allied Accountants Professional Services to be the fund's auditor for the year ended 31 December 2022.
- Updates to reflect resignation and appointment of the new Board member for the Fund.

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

The primary investment objective of the Fund is to generate returns for the unitholders in the short and medium term and to sustain the capital investment.

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

2.1 Statement of compliance

These financial statements have been prepared in accordance with the 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

Th financial statements have been prepared on a historical cost basis, except for investments that are carried at fair value through profit or loss ("FVTPL") that have been measured at fair value.

2.3 Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). The financial statements are presented in Saudi Arabian Riyals ("Saudi Riyals").

2.4 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 2022.

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

Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash in current accounts with banks and other short-term highly liquid investments with maturities of three months or less (if any), which are available to the Fund without any restrictions.

3.2 Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

At initial recognition, the Fund measure financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets are classified as investments at fair value through profit or loss if they are acquired for the purpose of selling or repurchasing them in the near term. The Fund designated its holding in a local quoted securities portfolio as financial assets at fair value through profit or loss. Such investments are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss.

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognized, modified or impaired.

Derecognition

A financial asset is primarily derecognized when the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognize the transferred asset to the extent of its continuing involvement. 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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Financial instruments (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.

Subsequent measurement

Loans, borrowings and payables

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Transaction costs are amortised using the effective interest rate method from the date at which the loan is recognised over the repayment terms.

Derecognition

A financial liability is derecognized when the obligation is discharged, cancelled or expires.

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

3.3 Other payable and liabilities

Other payables are recognized initially at fair value plus directly attributable cost, if any and subsequently measured at amortized cost. Accounts payable are classified as current liabilities if payment is due within one year. If not, they are presented as non-current liabilities.

3.4 Dividends distribution

The Fund does not distribute profits to unit holders, and in the event of realizing returns, they are reinvested for the benefit of the fund.

3.5 Issue and redemption of units

Units issued are recorded at the offer price, determined by the Fund Manager for the applications received, during business hours, as of the close of the previous day on which the applications were received. The offer price represents the net assets value per unit as of the close of previous day plus the allowable sales load, provision for transaction costs and any provision for duties and charges, if applicable.

Units redeemed are recorded at the redemption price, applicable to units as of the close of the previous day. The redemption price represents the net assets value per unit as of the close of the previous day on which the applications were received less any back-end load, any duties, taxes, charges on redemption and any provision for transaction costs, if applicable.

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

Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Net asset value per unit

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at the year end.

3.7 Revenue

- Gain or loss on sale of investment is accounted for in the profit or loss in the year in which it arises.
- Fair value changes on investments classified at FVTPL is included in the statement of profit or loss in the year in which it arises.
- Profit / mark-up on short term murabaha deposits is recognised on effective interest rate method.

3.8 Expenses

All expenses chargeable to the Fund including fee of the Fund Manager, custody fee and annual fee of the CMA etc are recognised in profit or loss on an accrual basis

3.9 Unitholders' fund

Unitholders' fund representing the units issued by the Fund, is carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, 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 periods. 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 a significant impact on the financial statements of the Fund are discussed below:

Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at fair value or amortized cost. In judging whether investments in securities are classified as at fair value or amortized cost, 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 recognizes 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.

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

Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

5 NEW AND AMENDMENTS STANDARDS ADOPTED BY THE FUND

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2022, 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:

- Interest Rate Benchmark Reform phase 2 - amendments to IFRS 9 'Financial instruments', IAS 39 'Financial instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases', address the financial reporting impacts due to the interest rate benchmark reform, including the replacement of an IBOR benchmark rate with an alternative benchmark rate. Phase 2 is effective for financial reporting periods beginning on or after January 1, 2021; and
- Covid-19-Related Rent Concessions - amendment to IFRS 16 'Leases', which extends the practical relief provided to lessees from performing lease modification accounting on a COVID-19-related rent concession when certain criteria are met. The amendment is applicable for lease payments due on or before 30 June 2021. Lessor forgiveness of lease payment (IFRS 9 and IFRS 16)

6 INVESTMENTS

	2022	2021
At fair value through profit or loss (FVTPL)		
- Open ended mutual funds	5,478,934	8,657,127
- Debt instruments-Sukuks	-	3,805,224
At Amortised cost		
- Debt instruments-Sukuks	766,552	-
As at 31 December	6,245,486	12,462,351

The investment portfolio is allocated among the various economic sectors, movement in these investments is as follows:

	Fair value through profit or loss			Amortised cost
	Units of open-ended mutual funds	Sukuks (debt instruments)	Total	Sukuks (debt instruments)
For the year ended 31 December 2022				
At 1 January	8,657,127	3,805,224	12,462,351	-
Additions	8,600,000	-	8,600,000	752,187
Disposals	(11,932,734)	(3,694,369)	(15,627,103)	-
Change in fair value/interest income	154,541	(110,855)	43,686	14,365
As at 31 December 2022	5,478,934	-	5,478,934	766,552
For the year ended 31 December 2021				
At 1 January	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	8,657,127	3,805,224	12,462,351	-

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

Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

6 INVESTMENTS (Continued)

Cost and fair value of the investment portfolio measured at fair value through profit or loss as at 31 December 2022 and 31 December 2021 is as follows:

	As at 31 December 2022		As at 31 December 2021	
	Weighted average Cost	Market value	Weighted average Cost	Market value
(a) Units of open-ended mutual funds				
Itqan Fund for Murabahat and Sukuk	2,800,000	2,849,802	4,376,722	4,483,156
Alkhair Capital Murabaha fund	2,600,000	2,629,132	3,606,101	3,669,744
FALCOM SAR Murabaha Fund	-	-	500,323	504,227
Total investment at FVTPL	5,400,000	5,478,934	8,483,146	8,657,127
(b) Investment in Sukuks (debt instruments)				
Riyadh Sukuk Limited	-	-	888,647	889,630
MAF Sukuk Ltd	-	-	1,986,735	1,955,125
Saudi Telecom Co	-	-	998,922	960,469
Total investment at Amortised cost	-	-	3,874,304	3,805,224

The Fund has changed its business model with respect to the classification of investment in sukuku. Previously, these were classified at fair value through profit or loss, as the business model of the fund was hold to collect and sell contractual cash flows. During 2022, the Fund fund has changed its business model to hold the sukuku till maturity and to collect contractual cash flows. The business model was changed considering the change in the intention of the Fund and to cater the changing circumstances in the market.

7 FINANCE INCOME

	2022	2021
Finance income on short term murabaha deposits	165,449	202,671
Finance income on Sukuku	14,365	144,203
	179,814	346,874

Short term murabaha deposits represent amount invested by the Fund in murabaha deposit held with local banks and financial institutions and have an original maturity of more than 3 months from the placement date with an interest rates ranging from 1% to 4.5% (31 December 2021: 1.5% to 4.5%) per annum. As at year end, accrued finance income on such deposits is amounted to Saudi Riyals 34,652 (31 December 2021: Saudi Riyals 83,544).

8 FUND MANAGEMENT FEE

The Fund is managed and administered by the Fund Manager. For such services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 0.45% of the Fund net assets. For the year ended 31 December 2022, management fee is amounting to Saudi Riyals 73,745 (2021: Saudi Riyals 119,810).

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

Notes to the financial statements for the year ended 31 December 2022
(All amounts in Saudi Riyals unless otherwise stated)

9 OTHER EXPENSES

	<u>2022</u>	<u>2021</u>
Professional fee	20,700	23,000
Custody fee	28,750	27,491
Shariah Committee fees	16,552	16,158
Board of Directors' fee	12,000	12,000
Capital Market Authority ("CMA") fee	7,500	7,500
Tadawul fee	5,750	5,750
Other	20,407	7,744
	<u>112,829</u>	<u>99,463</u>

10 ACCRUED EXPENSES

	<u>2022</u>	<u>2021</u>
Professional fee	21,275	23,000
Custody fee	8,135	8,135
Board fee	6,000	-
	<u>35,410</u>	<u>31,135</u>

11 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent the Fund Manager, funds managed by the fund manager) referred as "affiliate" and the Fund Board.

Name and nature of related parties	Nature of transaction with the related parties	Transactions for the year		Balances	
		2022	2021	2022	2021
Musharaka Capital Company - Fund Manager	Fund management fee	73,745	119,810	22,046	42,491
Board of Directors	Board meeting expense	12,000	12,000	6,000	-
				<u>28,046</u>	<u>42,491</u>

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

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12 EARNINGS PER UNIT

Earnings per unit for the years ended December 31, are computed by dividing net profit for the year by the weighted average number of units during the year are.

	<u>2022</u>	<u>2021</u>
Profit for the year	36,926	267,431
Weighted average number of units as at 31 December	<u>1,348,028</u>	<u>2,326,985</u>
	<u>0.03</u>	<u>0.11</u>
Weighted average number of units as at 31 December are as follows:		
Issued units at January	2,326,985	1,682,894
Effect of new units issued	90,069	2,785,774
Effect of units redeemed	<u>(1,069,026)</u>	<u>(2,141,683)</u>
Weighted average number of units at 31 December	<u>1,348,028</u>	<u>2,326,985</u>

13 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 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 transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

Level 1 - quoted (unadjusted) market price in active markets for identical assets or liabilities;

Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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13 FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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.

	As at 31 December 2022						
	Carrying Amount			Fair value			
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets							
Investments at fair value through profit or loss	5,478,934	-	5,478,934	5,478,934	-	-	5,478,934
Investments at amortised cost		766,552	766,552				
Short-term murabaha deposits	-	4,910,333	4,910,333	-	-	-	-
Accrued finance income	-	34,652	34,652	-	-	-	-
Cash at banks	-	1,150,518	1,150,518	-	-	-	-
	5,478,934	6,862,055	12,340,989	5,478,934	-	-	5,478,934

	As at 31 December 2021						
	Carrying Amount			Fair value			
	Fair value	Amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets							
Investments at fair value through profit or loss	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 at banks	-	2,950,329	2,950,329	-	-	-	-
	12,462,351	12,192,620	24,654,971	8,657,127	3,805,224	-	12,462,351

14 FINANCIAL RISK MANAGEMENT

The objective of the Funds is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide optimum returns to its Unitholders and to ensure reasonable safety to the Unitholders. The Fund's activities expose it to a variety of financial risks: market risk, credit risk 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.

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14 FINANCIAL RISK MANAGEMENT (Continued)

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. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund does not have any financial instruments in foreign currencies and hence is not exposed to such risk.

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.

iii. Equity price

Equity price risk is the risk of unfavorable changes in the fair value of equity securities as a result of changes in the levels of Index and the value of individual shares. The equity price risk exposure arises from the Fund's investments in equity securities for which prices in the future are uncertain. The Fund manages the equity price risk through diversification and by placing limits on individual and total equity instruments sectors.

The following table illustrates the sensitivity of the income for the year and the unit holders' fund to an increase or decrease of 5% in the fair values of the Fund's equity securities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Fund's equity securities at each the reporting date, with all other variables held constant.

	2022	2021
Profit or loss	273,978	422,118
Net assets attributable to unit holder	273,978	422,118

b) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Fund by failing to discharge its obligation. The Fund's policy is to enter into financial contracts with reputable counter parties in accordance with the internal guidelines. The Fund seeks to manage its credit risk with respect to the banks by only dealing with reputable banks, offering document and regulatory requirements. The table below analyses the Fund's maximum exposure to credit risk:

	2022	2021
Cash and cash equivalents	<u>1,150,518</u>	<u>2,950,329</u>
	<u>1,150,518</u>	<u>2,950,329</u>

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14 FINANCIAL RISK MANAGEMENT (Continued)

c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's operations either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior. Operational risk arises from all of the Fund's activities.

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 for investors

d) Unit holders' fund risk management

The Fund's capital is represented by redeemable units. The units issued by the Fund provides an investor with the right to require redemption for cash at a value proportionate to the unit holder's share in the Fund's net assets at the redemption date.

The Fund's objective in managing the unit holders' fund is to ensure a stable base to maximize returns to all investors and to manage liquidity risk arising from redemption. In accordance with the risk management policies, the Fund endeavors to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemption, such liquidity being augmented by disposal of investment.

e) Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities earlier than expected. The Fund is exposed to cash redemptions of its redeemable units on a regular basis. Units are redeemable at the unit holder's option based on the Fund's net asset value per unit at the time of redemption calculated in accordance with the Fund's terms and conditions. The Fund manages its liquidity risk by monitoring investing activities and cash flows on regular basis.

The table below summaries the maturity profile of the Fund's financial liabilities. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity date

	31 December 2022			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Financial Liabilities				
Accrued management fee	22,046	22,046	-	-
Accrued expenses	35,410	35,410	-	-
	<u>57,456</u>	<u>57,456</u>	<u>-</u>	<u>-</u>
	31 December 2021			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
Financial Liabilities				
Accrued management fee	42,491	42,491	-	-
Accrued expenses	31,135	31,135	-	-
	<u>73,626</u>	<u>73,626</u>	<u>-</u>	<u>-</u>

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15 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board of Directors on 30 March 2023 (corresponding to 8 Ramadan 1444H).