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

MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

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

MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

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

Index	Page
Independent auditor's report	2 - 3
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in net assets attributable to unitholders	6
Statement of cash flows	7
Notes to the financial statements	8 - 17

INDEPENDENT AUDITOR'S REPORT

To the Unitholders
Musharaka Saudi Equity Fund

Report on the audit of the financial statements**Opinion**

We have audited the financial statements of Musharaka Saudi Equity 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 professional code of conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the Fund's financial statements and we have fulfilled our 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 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 the Information Memorandum, 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 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.

Independent auditor's report to the Unitholders of Musharaka Saudi Equity 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 21 April 2022.

RSM Allied Accountants Professional Services



Mohammed Bin Farhan Bin Nader

License No. 435

Al-Khobar, Saudi Arabia

30 March 2023 (corresponding to 8th Ramadan, 1444H)



MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

Statement of financial position

(All amounts in Saudi Riyals unless otherwise stated)

Assets	Note	As at 31 December	
		2022	2021
Prepayments and other current assets		1,400	481,893
Investments at fair value through profit or loss	6	4,559,566	8,442,366
Cash at banks		2,522,622	338,313
Total assets		7,083,588	9,262,572
Liabilities			
Accrued expenses and other liabilities	7	78,434	87,852
Total liabilities		78,434	87,852
Net assets attributable to unit holders		7,005,154	9,174,720
Units in issue		571,640	811,175
Per unit value (Saudi Riyals)		12.25	11.31

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

MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

Statement of profit or loss and other comprehensive income
(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended 31 December	
	Note	2022	2021
Revenue			
Gains on investments carried at fair value, net	6	1,047,037	2,160,149
Dividend income		142,625	180,250
Total revenue		1,189,662	2,340,399
Expenses			
Fund management fee	8	(169,448)	(172,018)
Other expenses	9	(124,566)	(122,204)
Total expenses		(294,014)	(294,222)
Profit for the year		895,648	2,046,177
Other comprehensive income		-	-
Total comprehensive income for the year		895,648	2,046,177
Basic and diluted earnings per unit	11	1.35	2.52

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

MUSHARAKA SAUDI EQUITY 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	9,174,720	7,216,373
Changes from operations		
Total comprehensive income for the year	895,648	2,046,177
Changes from unit transactions		
Proceeds from units issued during the year	20,126	-
Value of units redeemed during the year	(3,085,340)	(87,830)
Net change from unit transactions	(3,065,214)	(87,830)
At 31 December	7,005,154	9,174,720

Movement in the number of units (Quantity)

At 1 January	811,175	819,271
Units issued during the year	1,594	-
Units redeemed the year	(241,129)	(8,096)
Net change in units	(239,535)	(8,096)
At 31 December	571,640	811,175

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

MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

Condensed interim financial position
(All amounts in Saudi Riyals unless otherwise stated)

		For the year ended 31 December	
	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		895,648	2,046,177
Adjustments for:			
Gain on investments carried at fair value through profit or loss	6	(1,047,037)	(2,160,149)
Dividend income		(142,625)	(180,250)
Changes in operating assets and liabilities:			
Decrease (increase) in investments carried at fair value through profit or loss		4,929,837	(561,017)
Decrease (increase) in prepayments and other current assets		481,893	(481,862)
(Decrease) increase in accrued expenses		(9,417)	39,070
Cash generated from (used in) operations		5,108,299	(1,298,031)
Dividend income received		141,224	180,250
Cash generated from (utilized in) operating activities		5,249,523	(1,117,781)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units issued		20,126	-
Payment for redemption of units		(3,085,340)	(87,830)
Net cash outflow from financing activities		(3,065,214)	(87,830)
Net change in cash at banks		2,184,309	(1,205,611)
Cash at banks at beginning of year		338,313	1,543,924
Cash at banks at end of year		2,522,622	338,313

The accompanying notes from an integral part of these financial statements.

MUSHARAKA SAUDI EQUITY FUND
(Managed by Musharaka Capital Company)

Condensed interim financial position
(All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Musharaka Saudi Equity Fund (the “Fund”) is an open-ended public investment fund, managed by Musharaka Capital Company (the “Fund Manager”) licensed by Capital Market Authority (“CMA”) under license 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 terms and conditions of the Fund were approved by CMA on 20 Dhul Qa'dah 1435H (corresponding to 15 September 2014). The Fund commenced its activities on 9 Muharram 1436H (corresponding to 2 November 2014) pursuant to such approval and after concluding the subscription procedures. During the year 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 such changes in the terms and conditions of the Fund during 2022 are as follows:

- Change in the minimum amount of subscription and investment balance, minimum amount for additional subscription, and minimum amount of redemption, to Saudi Riyals 2,000, Saudi Riyals 1,000 and Saudi Riyals 1,000, respectively;
- Update in Shariah Supervisory Committee; and
- Update in the statement showing the participation of members of the Board of Directors of the Fund in other affiliate funds.

The Fund's objective is to invest in the initial public offering (IPO), Real Estate Investment Trust, the shares and premium shares of the companies which are listed on Saudi primary and secondary stock exchange markets.

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

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.

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), and fair value through profit or loss.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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 fair value through other comprehensive income

Upon initial recognition, the fund can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as revenue in the statement of profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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

After initial recognition, financial liabilities 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 EIR 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 Dividend 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 as per terms and conditions 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 SAUDI EQUITY 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 period in which it arises.
- Unrealized gain / loss arising on revaluation of investments classified as 'at fair value through profit or loss' is included in the profit or loss in the year in which it arises.
- Dividend income is recognised when the right to receive the dividend is established.

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 through profit or loss or at fair value through other comprehensive income. In judging whether investments in securities are classified as at FVTPL or FVTOCI, the management has considered the detailed criteria for determination of such classification as set out in IFRS 9 'Financial Instruments'.

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.

MUSHARAKA SAUDI EQUITY 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 (Continued)

- 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 AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

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

Sector wise investments	2022		2021	
	Fair value	Weighted average cost	Fair value	Weighted average cost
Finance	181,000	125,800	1,078,240	945,052
Industrials	-	-	304,000	302,632
Consumer services / discretionary	859,186	913,313	1,411,970	952,692
Telecommunication services / Communication services	183,000	181,550	1,205,508	1,447,946
Materials	503,800	616,690	1,276,250	1,409,219
Health care	-	-	970,550	1,046,631
Banks	701,500	794,850	850,163	566,776
Food & staples retailing	395,450	417,037	495,000	489,249
Real estate	206,662	239,994	742,995	682,916
Software & services/ Information technology	1,014,400	663,500	107,690	112,689
Energy	514,568	593,410	-	-
Total	4,559,566	4,546,144	8,442,366	7,955,792

The above investments are listed on the Saudi stock exchange ("Tadawul"). The Fund Manager seeks to limit risks by monitoring exposures in each investment sector and individual securities.

7 ACCRUED EXPENSES

	2022	2021
Management Fee Payable	48,284	61,726
Audit Fee Payable	15,525	11,500
Custody Fee Payable	8,625	8,625
Fund Board Fee Payable	6,000	6,000
	78,434	87,851

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 terms and conditions at an annual rate of 1.75% of the Fund's net assets' value. For the year ended 31 December 2022, the management fee is amounted to Saudi Riyals 169,448 (2021: Saudi Riyals 172,018).

MUSHARAKA SAUDI EQUITY 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

	2022	2021
Custody fees	34,500	34,500
Securities Transactions Cost	19,971	19,989
Sharia Committee fees	24,000	24,000
Board of Directors fees	12,000	12,000
Audit Fee	20,700	17,250
CMA Fee	7,500	8,707
Tadawul Fee	5,750	5,750
Other	145	7
	124,566	122,203

Basis and terms of payment for fee as per terms and conditions of the Fund approved by CMA are as follows:

Type of fee	Rate	Payment term
Sharia Committee remunerations	Saudi Riyals 24,000 (previously Saudi Riyals 28,000)	Annually
Custody fee (Alinma Investment Company)	Saudi Riyals 30,000 or 0.02% of daily net assets value	Annually

10 RELATED PARTIES BALANCES AND TRANSACTIONS

Related parties comprise the Fund Manager, directors, the associated funds, and key management personnel of the Fund. Related parties also include business entities in which certain Fund manager or senior management have an interest.

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	169,448	172,018	48,284	61,727
Fund Board of Directors	Board meeting expense	12,000	12,000	6,000	6,000
				54,284	67,727

The Fund Manager's investment in the Fund as at 31 December 2022 is Saudi Riyals 5.5 million (31 December 2021: Saudi Riyals 7.7 million) which represents 79% of the Fund's issued units (31 December 2021: 84.46 %).

The remuneration of Fund Board of directors is Saudi Riyals 3,000 per meeting only, payable to the independent members, maximum up to 24,000 per annum. The remuneration is payable After every meeting of the Board of Directors.

MUSHARAKA SAUDI EQUITY 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)

11 EARNINGS PER UNIT

Earnings per unit for the year ended is computed by dividing net profit for the year by the weighted average number of units during the year.

	2022	2021
Profit for the year	895,648	2,046,178
Weighted average number of units at 31 December	611,111	811,175
	<u>1.35</u>	<u>2.52</u>

Weighted average number of units outstanding are calculated as follows:

Issued units at January	811,175	819,271
Effect of new units issued	596	-
Effect of units redeemed	(147,602)	(8,096)
Weighted average number of units at 31 December	<u>664,169</u>	<u>811,175</u>

12 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 maximize 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.

MUSHARAKA SAUDI EQUITY 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)

12 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	4,559,566	-	4,559,566	4,559,566	-	-	4,559,566
Cash at banks	-	2,522,622	2,522,622	-	-	-	-
	4,559,566	2,522,622	7,082,188	4,559,566	-	-	4,559,566
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	8,442,366	-	8,442,366	8,442,366	-	-	8,442,366
Cash at banks	-	338,313	338,313	-	-	-	-
	8,442,366	338,313	8,780,679	8,442,366	-	-	8,442,366

13 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's Board supervises 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's 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.

MUSHARAKA SAUDI EQUITY 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)

13 FINANCIAL RISK MANAGEMENT (Continued)

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	227,978	422,118
Net assets attributable to unitholders	227,978	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
Prepayments and other current assets	1,400	481,893
Cash at banks	2,522,622	338,313
	<u>2,524,022</u>	<u>820,206</u>

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 investor.

MUSHARAKA SAUDI EQUITY 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)

13 FINANCIAL RISK MANAGEMENT (Continued)

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	48,284	-	-	
Accrued expenses	30,150	-	-	
	<u>78,434</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	61,726	-	-	
Accrued expenses	26,126	-	-	
	<u>87,852</u>	<u>-</u>	<u>-</u>	

14 APPROVAL OF THE FINANCIAL STATEMENTS

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