

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
AND INDEPENDENT AUDITOR'S REPORT**

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

Financial statements for the year ended 31 December 2023

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RSM

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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 2023, and the statements of profit or loss and other comprehensive income, changes in net assets attributable to unitholders and the cash flows for the year then ended, and notes to the financial statements, including material accounting policy information and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2023, 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 requirements of the Code. 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's 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, the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, 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.

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 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's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund's 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.

RSM Allied Accountants Professional Services



Mohammed Bin Farhan Bin Nader

License No. 435

Al-Khobar, Kingdom of Saudi Arabia

19 March 2024 (corresponding to 9 Ramadan 1445H)



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	
		2023	2022
Assets			
Investments carried at fair value through profit or loss	6	3,395,616	6,245,486
Short-term Murabaha deposits	7	2,800,000	4,910,333
Accrued finance income		23,799	34,652
Prepaid expenses		3,313	4,377
Cash at banks		933,117	1,150,518
Total assets		7,155,845	12,345,366
Liabilities			
Accrued management fee		9,463	22,046
Accrued expenses	8	32,078	35,410
Total liabilities		41,541	57,456
Net assets attributable to unit holders		7,114,304	12,287,910
Units in issue (Numbers)			
Net assets value per unit value (Saudi Riyals)		10.92	10.63

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

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	
		2023	2022
Revenue			
Gains on investments carried at fair value through profit or loss	6	148,187	43,686
Finance income	7	297,495	179,814
Total revenue		445,682	223,500
Expenses			
Fund management fee	9	(53,940)	(73,745)
Other expenses	10	(94,459)	(112,829)
Total expenses		(148,399)	(186,574)
Profit for the year		297,283	36,926
Other comprehensive income		-	-
Total comprehensive income for the year		297,283	36,926

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	
	2023	2022
At 1 January	12,287,910	24,583,187
Changes from operations		
Total comprehensive income for the year	297,283	36,926
Changes from unit transaction		
Proceeds from units issued during the year	1,075,000	2,041,210
Payment against units redeemed during the year	(6,545,889)	(14,373,413)
Net change from unit transactions	(5,470,889)	(12,332,203)
At 31 December	7,114,304	12,287,910
<u>Movement in the number of units</u>		
At 1 January	1,156,434	2,326,985
Units issued during the year	99,133	193,604
Units redeemed during the year	(604,032)	(1,364,155)
Net change in units	(504,899)	(1,170,551)
At 31 December	651,535	1,156,434

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	
		2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		297,283	36,926
Adjustments for:			
Fair value changes on investments at fair value through profit or loss	6	(46,214)	(154,541)
Finance income	7	(297,495)	(179,814)
Changes in operating assets and liabilities:			
Decrease in investments		2,896,084	6,371,406
Decrease in short-term Murabaha deposits		2,110,333	4,248,414
Decrease (increase) in prepaid expenses		1,064	(2,535)
Decrease in accrued management fee		(12,583)	(20,445)
(Decrease) increase in accrued expenses		(3,332)	4,275
Net cash generated from operations		4,945,140	10,303,686
Finance income received		308,348	228,706
Net cash inflow from operating activities		5,253,488	10,532,392
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscription of units		1,075,000	2,041,210
Payments against redemption of units		(6,545,889)	(14,373,413)
Net cash outflow from financing activities		(5,470,889)	(12,332,203)
Net decrease in cash at banks		(217,401)	(1,799,811)
Cash at banks at the beginning of the year		1,150,518	2,950,329
Cash at banks at the end of the year		933,117	1,150,518

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 2023

(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 13 Rajab 1441H (corresponding to 8 March 2020). The Regulations were amended by the CMA board on 12 Rajab 1442H (corresponding to 22 February 2021).

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 2023, 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 2023 are as follows:

- The Fund manager undertakes to register the funds with the Zakat, Tax, and Customs Authority (“ZATCA”) within the regulatory period and submit the information and data declarations requested by the ZATCA for the purposes of examining and reviewing the declarations within the regulatory period.
- The fees, commissions, and expenses mentioned in the terms and conditions do not include value-added tax, and the tax will be charged separately according to the rates stipulated in the value-added tax and its executive regulations.

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.

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

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).

The Fund has also complied with Investment Funds Regulations published by CMA and Fund’s terms and conditions, information memorandum and key information summary (collectively hereinafter referred to as “Terms and Conditions”) with respect to preparation and presentation of these financial statements.

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”).

MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (Continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies applied for the preparation of financial statements of the Fund are set out below. The accounting policies have been consistently applied to all the years presented.

3.1 Cash and cash equivalents

Cash and cash equivalents generally 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. At 31 December 2023, cash and cash equivalents represent cash at bank.

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 ("FVTPL") if they are acquired for the purpose of selling or repurchasing them in the near term. The Fund designated its holding in 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 profit or loss.

Financial assets at amortised cost

The Fund holds certain financial assets comprising Sukuks, and carries them at amortised cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at FVTPL:

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

Financial assets (i.e. Sukuks) 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.

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

Notes to the financial statements for the year ended 31 December 2023 (Continued)
(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.2 Financial instruments (Continued)

Financial assets (Continued)

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.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost.

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 method. Transaction costs are amortised using the effective interest rate method from the date at which the liability 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.

MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (Continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

3.4 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.

3.5 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.

3.6 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.

3.7 Expenses

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

3.8 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 NEW AND AMENDED STANDARDS ADOPTED BY THE FUND

The Fund has applied the amendment to the standard for the first time in relation to 'narrow scope amendments to IAS 1, Practice statement 2 and IAS 8, for their reporting periods commencing on or after 1 January 2023.

4.1 Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are mandatory from 1 January 2024 or later reporting periods and have not been early adopted by the Fund. Such standards are not expected to have a material impact in the future reporting periods and on foreseeable future transactions.

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

Notes to the financial statements for the year ended 31 December 2023 (Continued)
(All amounts in Saudi Riyals unless otherwise stated)

5 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'.

6 INVESTMENTS

	<u>2023</u>	<u>2022</u>
At fair value through profit or loss (FVTPL)		
- Open ended mutual funds	2,624,851	5,478,934
At amortised cost		
- Debt instruments - Sukuks	770,765	766,552
As at 31 December	<u>3,395,616</u>	<u>6,245,486</u>

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)
For the year ended 31 December 2023		
At 1 January	5,478,934	766,552
Additions	1,800,000	760,180
Disposals	(4,700,297)	(804,137)
Change in fair value	46,214	-
Finance income	-	48,170
As at 31 December 2023	<u>2,624,851</u>	<u>770,765</u>
For the year ended 31 December 2022		
At 1 January	8,657,127	-
Additions	8,600,000	752,187
Disposals	(11,932,734)	-
Change in fair value	154,541	-
Finance income	-	14,365
As at 31 December 2022	<u>5,478,934</u>	<u>766,552</u>

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

Notes to the financial statements for the year ended 31 December 2023 (Continued)
(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 2023 and 31 December 2022 is as follows:

	As at 31 December 2023		As at 31 December 2022	
	Weighted average cost	Market value	Weighted average cost	Market value
(a) Units of open-ended mutual funds				
Itqan Fund for Murabahat and Sukuk	1,600,098	1,600,877	2,800,000	2,849,802
Al-Khair Capital Murabaha fund	967,695	1,023,974	2,600,000	2,629,132
Total investment at FVTPL	2,567,793	2,624,851	5,400,000	5,478,934

Gain from investments carried at FVTPL:

	2023	2022
Realized gain (loss) from investments carried at FVTPL	101,973	(110,855)
Unrealized gain from investments carried at FVTPL	46,214	154,541
	148,187	43,686

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 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 AND SHORT-TERM MURABAHA DEPOSITS

	2023	2022
Finance income on short-term Murabaha deposits	249,325	165,449
Finance income on Sukuku	48,170	14,365
	297,495	179,814

Short-term Murabaha deposits amounting to Saudi Riyals 2.8 million as at 31 December 2023 (31 December 2022: 4.9 million) represent amount invested by the Fund in Murabaha deposits held with local banks and financial institutions and have an original maturity of more than three months and less than twelve months from the placement date with profit rates ranging from 4.28% to 6% (31 December 2022: 1% to 4.5%) per annum. As at year end, accrued finance income on such deposits amounted to Saudi Riyals 23,799 (31 December 2022: Saudi Riyals 34,652).

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

Notes to the financial statements for the year ended 31 December 2023 (Continued)
(All amounts in Saudi Riyals unless otherwise stated)

8 ACCRUED EXPENSES

	<u>2023</u>	<u>2022</u>
Professional fee	16,100	21,275
Custody fee	8,135	8,135
CMA fee	7,500	-
Board of Directors' fee	-	6,000
Other	343	-
	<u>32,078</u>	<u>35,410</u>

9 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's net assets. For the year ended 31 December 2023, management fee amounted to Saudi Riyals 53,940 (2022: Saudi Riyals 73,745).

10 OTHER EXPENSES

	<u>2023</u>	<u>2022</u>
Custody fee	28,750	28,750
Professional fee	20,700	20,700
Shariah Committee fees	17,977	16,552
Board of Directors' fee	12,000	12,000
Capital Market Authority ("CMA") fee	7,500	7,500
Tadawul fee	5,750	5,750
Other	1,782	21,577
	<u>94,459</u>	<u>112,829</u>

MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (Continued)

(All amounts in Saudi Riyals unless otherwise stated)

11 RELATED PARTIES TRANSACTIONS AND BALANCES

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.

In the ordinary course of its activities, the Fund transacts with related parties. Related party transactions are in accordance with the Terms and Conditions of the Fund. All the related party transactions are approved by the Fund Board.

Name and nature of related parties	Nature of transaction with the related parties	Transactions for the year		Balances	
		2023	2022	2023	2022
Musharaka Capital Company - Fund Manager	Fund management fee	53,940	73,745	9,463	22,046
Board of Directors	Board of Directors fee	12,000	12,000	-	6,000
				<u>9,463</u>	<u>28,046</u>

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

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 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.

MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (Continued)

(All amounts in Saudi Riyals unless otherwise stated)

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 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.

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.

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 and financial institutions by only dealing with reputable parties. The table below analyses the Fund's maximum exposure to credit risk:

	<u>2023</u>	<u>2022</u>
Investments	3,395,616	6,245,486
Short-term Murabaha deposits	2,800,000	4,910,333
Cash and cash equivalents	933,117	1,150,518
	<u>7,128,733</u>	<u>12,306,337</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 investors.

MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (Continued)

(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.

All financial liabilities as at 31 December 2023 amounted to Saudi Riyals 0.04 million (31 December 2022: Saudi Riyals 0.05 million) are to be matured within 12 months from the reporting date.

14 LAST 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 2023.

15 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board on 19 March 2024 (corresponding to 9 Ramadan 1445H).