

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020**

**AND INDEPENDENT AUDITORS' REVIEW REPORT**

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED INTERIM  
FINANCIAL STATEMENTS****To the unitholders****Musharaka Murabahat and Sukuk Fund****Introduction**

We have reviewed the accompanying condensed interim financial statements of Musharaka Murabahat and Sukuk fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") which comprises of condensed interim statement of financial position as at 30 June 2020, and the related condensed interim statements of profit or loss and other comprehensive income, changes in net assets attributable to unitholders and cash flows for the period from 8 March 2020 to 30 June 2020, and a summary of significant accounting policies and other explanatory notes. The Fund Manager is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with IAS 34 'Interim Financial Reporting' as endorsed in the Kingdom of Saudi Arabia and to comply with the Fund's terms and conditions. Our responsibility is to express a conclusion on the condensed interim financial statements based on our review.

**Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' as endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**Baker Tilly MKM & Co**  
Certified Public Accountants**Majed Muneer Al Nemer**  
(License No. 381)  
Al-Khobar 6 Muharram 1442H  
25 August 2020

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)****AS AT 30 JUNE 2020**

	<i>Note</i>	<i>(Unaudited)</i>
		<i>SR</i>
<b>ASSETS</b>		
Investments at fair value through other comprehensive income (FVOCI)	6	5,532,425
Investments at fair value through profit or loss (FVTPL)	7	3,783,787
Prepayments and other assets	8	78,192
Short term murabaha deposits	9	999,869
Cash and cash equivalents		1,193,555
<b>Total assets</b>		<b>11,587,828</b>
<b>LIABILITIES</b>		
Accrued management fees	10	8,794
Accrued expenses		21,862
<b>Total liabilities</b>		<b>30,656</b>
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<b>11,557,172</b>
<b>Units in issue (number)</b>		<b>1,149,779</b>
<b>Per unit value (SR)</b>		<b>10.05</b>

The accompanying notes from 1 to 17 form an integral part of these condensed interim financial statements

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME  
(UNAUDITED)****FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020**

	<i>Note</i>	<i>(Unaudited)</i> <i>SR</i>
<b>Revenue</b>		
Gain on investments at fair value through profit or loss (FVTPL)	7	23,787
Finance income on short term murabaha deposits	9	14,206
Finance income on investments at fair value through other comprehensive income (FVOCI)	6	72,595
		<u>110,588</u>
<b>Expenses</b>		
Fund management fees	10 , 13	(16,469)
Other expenses	12	(34,259)
Allowance for expected credit losses on investments at FVOCI	6	(3,628)
		<u>(54,356)</u>
<b>Profit for the period</b>		<u>56,232</u>
<b>Other comprehensive income</b>		
Net unrealized gain on investments at FVOCI	6	940
Other comprehensive income for the period		940
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><u>57,172</u></u>

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The accompanying notes from 1 to 17 form an integral part of these condensed interim financial statements

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**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS (UNAUDITED)****FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020**

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	<i>(Unaudited)</i>
	<i>SR</i>
Proceeds from units issued	<u>11,500,000</u>
Profit for the period	56,232
Other comprehensive income	<u>940</u>
Total comprehensive income for the period	<u>57,172</u>
Net assets attributable to unitholders as at 30 June 2020	<u><u>11,557,172</u></u>

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The accompanying notes from 1 to 17 form an integral part of these condensed interim financial statements

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)****FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020**

	<u>(Unaudited)</u>
	<i>SR</i>
<b>OPERATING ACTIVITIES</b>	
Profit for the period	56,232
Adjustments for:	
Allowance for expected credit losses	3,628
Gain on investments at fair value through profit or loss (FVTPL)	(23,787)
Finance income recognised	(86,801)
<i>Changes in operating assets and liabilities</i>	
Investments at fair value through other comprehensive income (FVOCI)	(5,535,113)
Investments at fair value through profit or loss (FVTPL)	(3,760,000)
Prepayments and other assets	(22,210)
Short term murabaha deposits	(999,869)
Accrued management fees	8,794
Accrued expenses	21,862
Finance income received	30,819
<b>Net cash used in operating activities</b>	<u>(10,306,445)</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds from units issued	11,500,000
<b>Net cash generated from financing activities</b>	<u>11,500,000</u>
Net change in cash and cash equivalents	1,193,555
<b>CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD</b>	<u><u>1,193,555</u></u>

The accompanying notes from 1 to 17 form an integral part of these condensed interim financial statements

## **MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020**

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#### **1 - GENERAL**

Musharaka Murabahat and Sukuk Fund (the "Fund") is an open-ended investment fund, managed by Musharaka Capital Company (the "Fund Manager"). The Fund is governed by the Investment Fund Regulations ("the Regulations") published by the Capital Market Authority (CMA) detailing requirements for all funds within the Kingdom of Saudi Arabia.

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

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

The terms and conditions of the Fund were approved by CMA on 28 Rabi II 1441H (corresponding to 26 December 2019). The Fund commenced its activities on 13 Rajab 1441H (corresponding to 8 March 2020) pursuant to such approval and after concluding the subscription procedures.

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

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

The condensed interim financial statements for the period from 8 March 2020 to 30 June 2020 have been prepared in accordance with IAS 34 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

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

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

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

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

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

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

## MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020

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

##### *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, fair value through other comprehensive income or amortized cost. In exercising this judgment, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 Financial Instruments.

##### *Allowance for expected credit losses*

The Fund recognises allowance for expected credit loss (ECL) on its Murabaha deposits and Sukuk instruments.

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

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

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

#### 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Foreign currency transaction**

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

##### **Cash and cash equivalents**

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

##### **Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, taxes and rebates.

Profit on Murabaha contracts and Sukuk is recognised using the effective yield method.



## MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020

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

##### **Financial assets and financial liabilities**

##### ***Recognition and initial measurement***

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

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

##### ***Classification of financial assets***

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

##### ***Financial asset at amortized cost***

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

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

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

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

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

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

##### ***Financial Asset at fair value through profit or loss ("FVTPL")***

All other financial assets are classified as measured at FVTPL.

##### **Business model assessment**

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

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

## MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020

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

##### *Financial assets and financial liabilities (Continued)*

##### **Business model assessment (Continued)**

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

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

##### **Reclassifications**

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

##### **Classification of financial liabilities**

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

##### **Derecognition**

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

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

##### **Expected Credit Loss ("ECL")**

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

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

##### *Significant increase in credit risk*

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and expert credit assessment and including an assessment of the change in probability of default (PD) as at the reporting date with the PD at the time of initial recognition of the exposure.

##### *Definition of default*

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

- the investee is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or
- the investee is past due more than 30 days on any material credit obligation to the Fund.

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

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

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)**  
**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Fair value measurement**

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

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

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

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

**Net assets value per unit**

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

**Zakat**

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

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

A number of new pronouncements are effective for annual periods beginning on or after 1 January 2021, and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these condensed interim financial statements.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date:</i>
IFRS 17	Insurance Contracts	1 January 2021
IAS 1	Classification of Liabilities as Current or Non-Current ( amendments to IAS 1)	1 January 2022
IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28).	1 January 2022 Available for optional adoption/ effective date deferred indefinitely

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)**  
**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****6 - INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)**

	<i>SR</i>
Debt securities - Sukuks	5,531,485
Net unrealized gain on investments at FVOCI	940
	<u>5,532,425</u>

Investment held at FVOCI

<i>Counterparty</i>	<i>Maturity Date</i>	<i>Coupon rate</i>	<i>Face Value</i>	<i>Amortised cost</i>	<i>Market Value</i>
		%	SR	SR	SR
Saudi Electricity Global Sukuk Company 2	8-Apr-43	5.06	858,750	985,496	999,685
Jabal Omar Sukuk Company Ltd.	15-Nov-23	9.85	757,500	751,789	777,491
Riyad Sukuk Ltd.	25-Feb-30	3.17	858,750	844,532	831,842
Almarai Sukuk Ltd.	5-Mar-24	4.31	978,750	1,039,860	1,000,057
KSA Sukuk Ltd.	29-Oct-29	2.97	1,023,750	995,805	1,000,779
Saudi Telecom Company Ltd.	13-May-29	3.89	866,250	914,003	922,571
			<u>5,343,750</u>	<u>5,531,485</u>	<u>5,532,425</u>

During the period the Fund recognised expected credit loss amounted SR 3,628 on investments at fair value through other comprehensive income (FVOCI).

Counterparties with whom the Fund has made placements have credit ratings of investment grade as issued by rating agencies.

**7 - INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)**

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

<i>Investee</i>	<i>Cost</i>	<i>Unrealised gain</i>	<i>Market Value</i>
	SR	SR	SR
Muscat Capital Money Market Fund	1,115,000	4,047	1,119,047
Itqan Fund For Murabahat and Sukuk	2,645,000	19,740	2,664,740
	<u>3,760,000</u>	<u>23,787</u>	<u>3,783,787</u>

Movement during the period was as follows:

	<i>SR</i>
Addition	3,760,000
Change in fair value	23,787
At 30 June	<u>3,783,787</u>

**8 - PREPAYMENTS AND OTHER ASSETS**

	<i>SR</i>
Accrued finance income	55,982
Prepaid expenses	22,210
	<u>78,192</u>

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)**  
**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****9 - SHORT TERM MURABAHA DEPOSITS**

Short term deposits represent the amount invested by the Fund in a Murahaba deposit with a commercial bank, which is in compliance with Sharia standards, has an original maturity of more than 3 months for the purpose of yielding finance income at commercial rates.

Deposits earn interest at rate 2.75% per annum.

**10 - FUND MANAGEMENT FEES**

The Fund is managed and administered by the Fund Manager. For these 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 Funds net assets.

**11 - DIVIDEND**

The fund does not distribute dividend to unitholders. Returns are reinvested in the Fund.

**12 - OTHER EXPENSES**

	<i>SR</i>
Custody fees	12,507
Shariah Committee fee	6,371
Board fees	3,770
CMA fee	2,357
Tadawul fees	1,650
Others	7,604
	<u>34,259</u>

**13 - RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties represent the Fund Manager, a fund managed by the fund manager (Musharaka REIT Fund) and the Fund Board.

The following table provides the total amount of transactions that have been entered into with related parties during the period and their related accruals as at 30 June 2020:

Related party	Nature of transaction	Transactions for the period	Balance as at 30 June 2020
		(unaudited)	(unaudited)
		<i>SR</i>	<i>SR</i>
Fund Manager	Management fee	16,469	8,794
	Units subscribed	6,000,000	-
Musharaka REIT Fund	Units subscribed	5,000,000	-
Fund Board	Board of Directors remuneration	3,770	3,770
		<u>11,020,239</u>	<u>12,564</u>

The Fund Manager holds 600,000 units in Fund as at 30 June 2020.

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)**  
**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****13 - RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)**

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

**14 - FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

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

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

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

The fair value hierarchy has the following levels:

Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs are unobservable inputs for the asset or liability

**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)****FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****14 - 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.

	30 June 2020				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
	SR	SR	SR	SR	SR
<b>Financial assets</b>					
Investments at fair value through other comprehensive income (FVOCI)	5,532,425	-	5,532,425	-	5,532,425
Investments at fair value through profit or loss (FVTPL)	3,783,787	3,783,787	-	-	3,783,787
Short term murabaha deposits	999,869	-	-	-	-
Cash and cash equivalents	1,193,555	-	-	-	-
	<u>11,509,636</u>	<u>3,783,787</u>	<u>5,532,425</u>	<u>-</u>	<u>9,316,212</u>
<b>Financial liabilities</b>					
Accrued management fees	8,794	-	-	-	-
Accrued expenses	21,862	-	-	-	-
	<u>30,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## MUSHARAKA MURABAHAT AND SUKUK FUND

(Managed by Musharaka Capital Company)

### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued) FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020

#### 15 - 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.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

##### (a) Market Risk:

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

##### (i) Currency Risk:

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

##### (ii) Commission Rate Risk

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

##### (b) Credit Risk:

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk on the followings:

	<i>SR</i>
Investments at fair value through other comprehensive income (FVOCI)	5,532,425
Investments at fair value through profit or loss (FVTPL)	3,783,787
Short term murabaha deposits	999,869
Cash and cash equivalents	1,193,555
	<u>11,509,636</u>



**MUSHARAKA MURABAHAT AND SUKUK FUND**

(Managed by Musharaka Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) (Continued)**  
**FOR THE PERIOD FROM 8 MARCH 2020 TO 30 JUNE 2020****15 - FINANCIAL RISK MANAGEMENT (Continued)****Credit Risk: (Continued)**

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

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Bank balances are held with banks with sound credit ratings.

The Fund has recognised expected credit loss against its investments at fair value through other comprehensive income (FVOCI) amounting to SR 3,628 during the period.

**(c) Liquidity Risk:**

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

	30 June 2020			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
<b>Financial Liabilities</b>				
Accrued management fee:	8,794	8,794	-	-
Accrued expenses	21,862	21,862	-	-
	<b>30,656</b>	<b>30,656</b>	<b>-</b>	<b>-</b>

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

**16 - IMPACT OF COVID-19 ON THE FUND'S OPERATIONS AND CONDENSED INTERIM FINANCIAL STATEMENTS**

The outbreak of the newly emerging Corona Virus (COVID-19) is still evolving and increasing. Therefore, it is now difficult to predict the magnitude and full extent of the resulting impact on business and the Fund. It is still not certain what size and extent of these impacts will be determined, depending on future developments that cannot be accurately predicted at the present time, such as the rate of virus transmission and the size and effectiveness of measures taken to contain it.

In light of the current uncertainty of the economic impact, it is not possible to make a reliable estimate of the resulting impact at the date of these condensed interim financial statements being approved. These developments may affect the future financial results, cash flows and the financial position of the Fund.

**17 - APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

The condensed interim financial statements were approved by the Management on 25 August 2020.