

ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2022
together with
INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2022

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Unitholders of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company)

Opinion

We have audited the financial statements of **AIAhli REIT Fund (1)** (the "Fund"), managed by SNB Capital Company, formerly NCB Capital Company, which comprise the statement of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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), that is endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Independent Auditor's Report

To the Unitholders of AlAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company) (continued)

Valuation of investment properties	
See Note (10) to the financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2022, the carrying value of Fund's investment properties amounted to SR 1,851.4 million (31 December 2021: 1,825.7 million) and the fair value of these properties amounted to SR 2,018.1 million (31 December 2021: 1,854.6 million).</p> <p>The investment properties are stated at cost net of accumulated depreciation and impairment losses, (if any). However, the fair values of the investment properties along with its impact on net assets (equity) per unit is disclosed in the notes to the financial statements.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its investment properties at each reporting date. In case impairment indicators are identified, the recoverable amount of the investment properties are required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both internal and external indicators of impairment including but not limited to net cash flows, operating losses, physical condition of its properties and adverse market changes or conditions. The Fund also uses the valuation reports from the independent valuers engaged by the Fund Manager to evaluate the recoverable amount of properties at the reporting date.</p> <p>We considered this as a key audit matter since the assessment of recoverable amounts, where required, involves the exercise of significant judgment and estimates.</p> <p><i>Refer to the summary of significant accounting policies in note 4 relating to impairment of investment properties, note 5 which contains the significant accounting judgment, estimates and assumptions relating to impairment and note 10 relating to investment properties.</i></p>	<p>Our audit procedures in response to the assessed risk of material misstatement in assessing impairment in the investment properties comprised of:</p> <ul style="list-style-type: none">- Obtaining an understanding of the process adopted by the Fund Manager in identifying the impairment in investment properties.- Obtaining an understanding of the valuation approach adopted by the Fund manager. We corresponded with the Fund's independent valuers through the Fund Manager to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the independent valuers to support their assumptions. We also obtained an understanding of the involvement of the Fund manager's valuation process to assess whether appropriate oversight has occurred.- Assessing valuers' credentials, their independence, professional qualifications, competence, experience and ensured that they are certified from Saudi Authority for Accredited Valuers (TAQEEM).- Assessing the value in use calculation of investment properties determined by the Fund Manager.- Involving our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the independent valuers in determining the fair values of the investment properties.- Comparing the recoverable amounts of the investment properties with their carrying values to determine whether recognition of any impairment loss is required.- Assessing the adequacy of the disclosures in the financial statements.

Independent Auditor's Report

To the Unitholders of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company) (continued)

Other Information

The Fund Manager is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of 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 IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable provisions of the Real Estate Investment Funds Regulations issued by the Capital Market Authority and the Fund's terms and conditions, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Fund's Board, are 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism 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.



Independent Auditor's Report

To the Unitholders of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company) (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 of AIAhli REIT Fund (1) (the "Fund").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Professional Services

Hani Hamzah A. Bedairi
License Number: 460

Riyadh on: 7 Ramadan 1444H
Corresponding to: 29 March 2023

ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December 2021
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	6	9,975	12,176
Investments at fair value through profit or loss	7	-	40,031
Receivables from operating leases	8	72,134	56,326
Prepayments and other receivables	9	3,216	2,551
Total current assets		85,325	111,084
Non-current assets			
Investment properties	10	1,851,363	1,825,667
Total non-current assets		1,851,363	1,825,667
Total assets		1,936,688	1,936,751
<u>LIABILITIES</u>			
Current liabilities			
Due to related parties	16	22,752	20,354
Unearned rental income	11	30,228	30,326
Other liabilities	12	4,703	7,082
Advances from operating leases	13	14,704	14,954
Provision for Zakat	15	2,154	2,230
Total current liabilities		74,541	74,946
Non-current liabilities			
Borrowings	14	589,203	558,728
Total non-current liabilities		589,203	558,728
Total liabilities		663,744	633,674
Net assets (equity) attributable to the unitholders		1,272,944	1,303,077
Units in issue (Numbers in thousands)		137,500	137,500
Net assets (equity) per unit (SAR)		9.26	9.48
Net assets (equity) per unit at fair value (SAR)	21	10.47	9.69

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2022**

Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December 2021
Revenue from properties	18	185,120	183,407
Other income		61	143
Gain on investments at fair value through profit or loss		51	31
Total income		185,232	183,581
Expenses			
Operational expenses	19	(44,675)	(38,838)
Depreciation	10	(23,933)	(24,625)
Impairment loss on receivables from operating leases	8	(4,000)	(6,000)
Management fees		(20,339)	(19,087)
Professional fees		(530)	(530)
Board fees		(100)	(100)
Tadawul fees		(805)	(805)
Custody fees		(515)	(553)
Shariah fees		(24)	(24)
Other expenses		(1,344)	(2,042)
Total operating expenses		(96,265)	(92,604)
Operating profit before finance cost		88,967	90,977
Finance cost	20	(20,850)	(14,057)
Operating profit before Zakat		68,117	76,920
Zakat	15	(2,000)	(1,500)
Profit for the year		66,117	75,420
Other comprehensive income for the year		-	-
Total comprehensive income for the year		66,117	75,420

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS**For the year ended 31 December 2022**

Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2022	31 December <u>2021</u>
Net assets (equity) attributable to the unitholders at beginning of the year		1,303,077	1,320,470
Total comprehensive income for the year		66,117	75,420
Dividend declared during the year	22	(96,250)	(92,813)
Net assets (equity) attributable to the unitholders at end of the year		<u>1,272,944</u>	<u>1,303,077</u>

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2022
Expressed in Saudi Riyals '000 (unless otherwise stated)

	<u>Note</u>	31 December 2022	31 December <u>2021</u>
Cash flows from operating activities			
Operating profit before Zakat		68,117	76,920
<i>Adjustment for non-cash items:</i>			
Depreciation	10	23,933	24,625
Finance cost		20,850	14,057
Impairment loss on receivables against operating leases	8	4,000	6,000
Gain on investment at fair value through profit or loss		(51)	(31)
		116,849	121,571
Changes in:			
Receivables from operating leases		(19,808)	(12,296)
Prepayments and other receivables		(665)	166
Due to related parties		2,398	(1,411)
Unearned rental income		(98)	5,266
Other liabilities		(615)	(1,537)
Advances from operating leases		(250)	2,214
		97,811	113,973
Zakat paid	15	(2,076)	(429)
Net cash generated from operating activities		95,735	113,544
Cash flows from investing activities			
Additions to investment properties	10	(47,170)	(6,114)
Disposal / (addition) of investment at fair value through profit or loss	7	40,082	(40,000)
Net cash used in investing activities		(7,088)	(46,114)
Cash flows from financing activities			
Dividend paid	22	(96,250)	(92,813)
Proceeds from loan	14	29,775	42,678
Finance cost paid		(24,373)	(11,597)
Net cash used in financing activities		(90,848)	(61,732)
Net (decrease) / increase in cash and cash equivalents		(2,201)	5,698
Cash and cash equivalents at the beginning of the year		12,176	6,478
Cash and cash equivalents at end of the year		9,975	12,176

The accompanying notes 1 to 28 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Expressed in Saudi Riyals '000 (unless otherwise stated)

1 THE FUND AND ITS ACTIVITIES

AlAhli REIT Fund (1) ("Fund") is a closed-ended Shariah compliant real estate investment traded fund, established and managed by SNB Capital Company, formerly NCB Capital Company ("Fund Manager"), a subsidiary of the Saudi National Bank ("SNB"), for the benefit of the Fund's unitholders. The Fund is ultimately supervised by the Fund Board.

As per license number 37-06046 granted by the Capital Market Authority ("CMA"), the Fund Manager is authorized to carry out the following activities with respect to securities:

- a) Dealing as principal and agent, and underwriting;
- b) Arranging;
- c) Managing;
- d) Advising; and
- e) Custody.

The Fund's objective is to provide periodic rental income to its unitholders by investing mainly in developed income-generating properties and to potentially provide capital growth by developing and/or expanding and/or selling assets.

The Fund invests mainly in developed income-generating real estate assets and may invest part of its assets and cash surplus in Murabaha transactions and short term deposits in Saudi Riyals with banks that are licensed by the Saudi Central Bank ("SAMA") and operate in Saudi Arabia. The Fund may also invest in public money market funds approved CMA.

The terms and conditions of the Fund were approved by CMA on 11 Rabi AlAwwal 1439H (corresponding to 29 November 2017). The offering period for the subscription of the units was from 6 December 2017 to 19 December 2017. Unitholders subscribed for the units of the Fund during the offering period and cash was held in collection account of SNB Capital. The cash was transferred to the bank account of the Fund on its commencement date which was used to purchase the investment properties and units were issued to the unitholders simultaneously. The Fund commenced its activities on 25 December 2017 (the "Inception Date"). On the Inception Date, the Fund issued 137,500 units for SR 1,375 million, which was considered as an initial capital contribution of the Fund.

The Fund's term is ninety nine (99) years. The term of the Fund may be extended at the Fund Manager's discretion, subject to CMA approval.

The Fund was established and units were offered in accordance with the Real Estate Investment Traded Funds Instructions issued by CMA pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G amended by Resolution No. 2-115-2018, dated 13/2/1440H corresponding to 22/10/2018G. The Fund is governed by Real Estate Investment Funds Regulations issued by CMA on 19/6/1427 corresponding to 15/7/2006G.

As per the terms and conditions of the Fund, the Fund will distribute at least 90% of its net income to its unitholders.

2 BASIS OF ACCOUNTING

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA") and to comply with the related Implementing Regulations issued by CMA and the Fund's terms and conditions.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Expressed in Saudi Riyals '000 (unless otherwise stated)

2 BASIS OF ACCOUNTING (CONTINUED)

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption except for investment at fair value through profit or loss ("FVTPL") which is recorded at fair value.

On 31 December 2019, CMA has examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation option and made the following decisions:

- Obligating listed funds to continue to use the cost model to measure property (under IAS 16) and investment property (under IAS 40) in the financial statements prepared for financial periods before the calendar year 2023.
- Allowing listed funds to choose between fair value model and revaluation model to measure property (under IAS 16) and investment property (under IAS 40) for the financial periods starting from the calendar year 2023 or thereafter.

2.3 Presentation and functional currency

The presentation and functional currency of the Fund is Saudi Riyals (SAR). The amounts included in these financial statements have been presented to the nearest thousand.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Several amendments and interpretations were applied for the first time with the possibility of early adoption, yet the Fund did not early adopted of any of the new standards as they have no significant impact on these financial statements. The forthcoming standards will also have no significant impact on the Fund.

New currently effective requirements:

Effective date	New standards or amendments
1 January 2022	Onerous contracts: cost of fulfilling a contract (Amendments to IAS 37).
	Annual Improvements to IFRSs 2018-2020 cycle
	Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
	Reference to the Conceptual Framework - Amendment to IFRS 3;

Forthcoming requirement

Effective date	New standards or amendments
1 January 2023	Classification of Liabilities as Current or Non-current – Amendments to IAS 1
	IFRS 17 Insurance Contracts
	Definition of Accounting Estimate – Amendments to IAS 8
	Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Expressed in Saudi Riyals '000 (unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented unless otherwise stated.

Cash and cash equivalents

Cash and cash equivalents include cash at bank, cash at hand, cash held in investment accounts, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial instruments

Recognition and initial measurement

Receivables from operating leases are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable from operating leases without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. Receivable from operating leases without a significant financing component is initially measured at the transaction price.

Financial assets

Classification of financial assets

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

A financial asset is measured at **amortised cost** if it meets both of the following conditions:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b. 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.

A financial asset shall be measured at **FVTOCI** if both of the following conditions are met:

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

A financial asset shall be measured at **FVTPL** unless it is measured at amortised cost or at FVTOCI.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2022**

Expressed in Saudi Riyals '000 (unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets

Cash and cash equivalents
Investment at fair value through profit or loss
Receivable from operating leases
Other assets

IFRS 9 classification

Financial assets at amortised cost
FVTPL
Financial assets at amortised cost
Financial assets at amortised cost

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Fund has no such investments.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Fund has no such investments.

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NOTES TO THE FINANCIAL STATEMENTS

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Expressed in Saudi Riyals '000 (unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Derecognition

A financial asset is derecognised 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

Impairment of financial assets

IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVTOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead, the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2')
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.
- '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss assessment for operating lease receivables:

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against financial assets measured at amortised cost.

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified GDP of the Kingdom of Saudi Arabia (the country in which it renders the services), inflation rate and government spending to be the most relevant factor and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD). These are briefly described below:

Loss Given Default (LGD): This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Probability of Default (PD): the likelihood of a default over a particular time horizon.

Exposure At Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from operating leases are presented separately in the statement of profit or loss and other comprehensive income.

Model and framework

The Fund uses a point in time (PIT) probability of default model to measure its impairment on financial assets. Point-in-time PD models incorporate information from a current credit cycle and assess risk at a point-in-time. The point-in-time PD term structure can be used to measure credit deterioration and starting PD when performing the allowance calculations. Also, when calculating lifetime expected credit losses, after the inputs are correctly converted, cash flows can be projected and gross carrying amount, loss allowance, and amortized cost for the financial instrument are then calculated.

Macroeconomic weighted average scenarios

The Fund includes a macroeconomic factor of GDP, inflation rate and government spending to develop multiple scenarios, the purpose is towards the realization of most likely outcome using worst and best case scenarios. The scenario-based analysis incorporates forward-looking information into the impairment estimation using multiple forward-looking macroeconomic scenarios. The estimate of expected credit losses reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Macroeconomic weighted average scenarios (continued)

After the inputs to the model are adjusted for the above mentioned macroeconomic scenarios, PD of each scenario is calculated and then weighted average PD based on the likelihood of scenarios is calculated. In the last step, a weighted average lifetime ECL based on the likelihood of the scenarios is determined.

Portfolio segmentation

The Fund assesses its financial assets based on credit risk characteristics using segmentations such as geographical region, type of customer, customer rating etc. The different segments reflect differences in PDs and in recovery rates in the event of "default".

Definition of default

In the above context, the Fund considers default when:

- the customer is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the customer is more than 455 days past due on any material credit obligation to the Fund. As the industry norm suggests that such a period fairly represents the default scenario for the Fund, management has rebutted the presumption of 90 days being a default.

The carrying amount of the asset is reduced using the above model and the loss is recognised in the statement of profit or loss. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognised under other income in the statement of profit or loss.

Specific provision

Specific provision is recognized on customer to customer basis at every reporting date. The Fund recognizes specific provision against receivables from certain customers. Provisions are reversed only when the outstanding amounts are recovered from the customers.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Financial liabilities

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Fund's financial liabilities mainly include trade and other payables, related parties and borrowings.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

Due to related parties
Other liabilities
Borrowings

IFRS 9 classification

Financial liabilities at amortised cost
Financial liabilities at amortised cost
Financial liabilities at amortised cost

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of profit or loss.

Financial liability

The Fund derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Fund's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are non-current assets held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses if any.

Investment properties are derecognized when they are sold, owner-occupied or in case of not holding it for an increase in its value.

Any gain or loss on disposal of the investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Cost includes expenditures that are directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Useful lives of different components of investment properties are as follows:

Categories	Years
Building	20 - 40
Furniture and fixtures	5 - 10
Computer and hardware	3 - 10
Office equipment	4 - 10

Impairment of non-financial assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or Funds of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognized in the statement of comprehensive income.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Fund estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognised for future operating losses.

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

Revenue recognition

The Fund's revenue mainly comprises of revenue from operating leases and revenue from hotel operations.

Rental revenue from lease of investment properties

As a lessor:

When the Fund acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Fund makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Fund considers certain indicators such as whether the lease is for the major part of the economic life of the asset. The Fund has assessed that all of its leases are operating leases. Properties leased out under operating leases are included in investment property in the statement of financial position. Rental income from operating leases is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Revenue from hotel operations:

Revenue from hotel services comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount, applicable taxes and municipality fees on an accrual basis when the services are rendered under IFRS 15.

Zakat and income tax

The Fund is subject to Zakat in accordance with the Zakat regulation issued by the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on net assets (equity) using the basis defined in the Zakat regulation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the ZATCA and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat is charged to the statement of profit or loss and other comprehensive income. Additional Zakat liability, if any, related to prior years' assessments arising from ZATCA are accounted for in the period in which the final assessments are finalized.

Net assets (equity) per unit

The net assets (equity) per unit is calculated by dividing the net assets (equity) attributable to the unitholders included in the statement of financial position by the numbers of units outstanding at the year end.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Units in issue

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets (equity). They rank pari passu in all respects and have identical terms and conditions. The units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets (equity) in the event of the Fund's liquidation.

Units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets (equity) in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund over the life of the instrument.

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Fund at the functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the financial statements. All differences are recognised in the statement of profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgement, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgements, which are significant to the financial statements:

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5 CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgements

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements. Judgement has been applied in the cases of determining whether an arrangement contains a lease and classification of leases.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the financial statements are described below:

Provision for expected credit losses on receivables from operating leases

The Fund uses a provision matrix to calculate ECLs of receivable from operating leases. The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product, inflation rate and governmental spending) is expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecasted economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually, and changes in depreciation charges, if any, are adjusted in current and future periods.

Impairment of investment properties

The Fund uses the services of third party professionally qualified evaluator to obtain estimates of the market value of investment properties using recognized valuation techniques for the purpose of impairment review and disclosures in the financial statements, For further details of assumptions and estimates please refer to note 10.

Impairment of non-financial assets "Value in use calculation"

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance the performance of the assets tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to properties recognised by the Fund.

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6 CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash at banks	9,927	12,104
Cash in hand	48	72
	<u>9,975</u>	<u>12,176</u>

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss comprises of the following:

	31 December 2022		31 December 2021	
	<u>Cost</u>	<u>Fair value</u>	Cost	Fair value
<i>Investment in units of a mutual fund managed by the Fund Manager (a related party)</i>				
ALAhli Saudi Riyal Trade Fund	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>40,031</u>

8 RECEIVABLES FROM OPERATING LEASES

Receivables from operating leases comprise of the following:

	31 December 2022	31 December 2021
Receivables from operating leases	92,000	72,192
Less: Impairment loss on receivables from operating leases	<u>(19,866)</u>	<u>(15,866)</u>
Receivables from operating leases – net	<u>72,134</u>	<u>56,326</u>

The movement in impairment loss on receivables from operating leases is as follows:

	2022	2021
Opening balance	15,866	9,866
Charge for the year	<u>4,000</u>	<u>6,000</u>
Closing balance	<u>19,866</u>	<u>15,866</u>

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9 PREPAYMENTS AND OTHER RECEIVABLES

	31 December	31 December
	<u>2022</u>	<u>2021</u>
Other receivables	1,305	1,210
Input value added tax	1,028	469
Prepaid expenses	883	872
	<u>3,216</u>	<u>2,551</u>

10 INVESTMENT PROPERTIES

10.1 The Fund owns the following investment properties:

<u>Name of the property</u>	<u>Nature of property</u>	<u>Purchase price</u>
AlAndalus Mall, Jeddah (<i>notes 10.1(i), 10.1(ii)</i>)	Mall	1,195,686
AlAndalus Mall Hotel, Jeddah (<i>note 10.1(i)</i>)	Hotel	200,000
Salama Tower, Jeddah (<i>note 10.1(iii)</i>)	Office	255,000
Qbic Plaza, Riyadh (<i>note 10.1(iv)</i>)	Office	250,000

- i. The Fund acquired AlAndalus Mall and AlAndalus Mall Hotel at the Fund's inception against cash consideration of SR 405 million (representing 30% of the total purchase values of SR 1,350 million) and by issuing units in the Fund valuing SR 945 million to AlAndalus Property Company ("APC"), the previous owner.

AlAndalus Mall and AlAndalus Mall Hotel is pledged against the Islamic Financing Facility obtained from SNB Bank amounting to SR 650 million. The carrying values of AlAndalus Mall and AlAndalus Mall Hotel aggregates to SR 1,330 million as at the reporting date.

- ii. The Fund acquired land measuring 9,669 square meters adjacent to AlAndalus Mall on 9 November 2020 against cash consideration of SR 45.7 million for the purpose of expanding AlAndalus Mall.
- iii. The Fund acquired Salama Tower on 4 August 2019 against cash consideration of SR 255 million. It was subsequently leased to the seller for a net lease amount of SR 23.1 million per annum for a period of 5 years. The seller is allowed to sub-lease the property to multi-tenants during this period.
- iv. The Fund acquired Qbic Plaza on 22 June 2020 against cash consideration of SR 250 million and financed the acquisition through additional Islamic financing. The property is leased for a net lease amount of SR 21.6 million per annum, for a period of 3 years.
- v. The Fund's properties are held under the custody of Sandoog Tamkeen Real Estate Company ("SPV"), which is owned by AlBilad Capital (the Custodian of the Fund). The Fund pays a custody fee of 0.025% per annum based on the average market values of the properties.

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10 INVESTMENT PROPERTIES (CONTINUED)

10.2 At 31 December 2022, investment properties represent the properties that were initially recognized at their cost and are subsequently measured at cost less accumulated depreciation and impairment. The break-up of the cost of investment properties is as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Furniture & fixture</u>	<u>Computer & hardware</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>*Construction in progress</u>	<u>Total</u>
Cost:								
Balance at 1 January 2022	1,015,293	896,047	9,015	2,117	7,277	33	7,903	1,937,685
Additions during the year	-	-	-	-	-	-	49,629	49,629
Transfers during the year	-	3,101	-	-	-	-	(3,101)	-
Balance at 31 December 2022	<u>1,015,293</u>	<u>899,148</u>	<u>9,015</u>	<u>2,117</u>	<u>7,277</u>	<u>33</u>	<u>54,431</u>	<u>1,987,314</u>
Accumulated depreciation								
Balance at 1 January 2022	-	(102,267)	(4,248)	(893)	(4,602)	(8)	-	(112,018)
Depreciation during the year	-	(22,183)	(967)	(224)	(552)	(7)	-	(23,933)
Balance at 31 December 2022	-	<u>(124,450)</u>	<u>(5,215)</u>	<u>(1,117)</u>	<u>(5,154)</u>	<u>(15)</u>	-	<u>(135,951)</u>
Net book value at 31 December 2022	<u>1,015,293</u>	<u>774,698</u>	<u>3,800</u>	<u>1,000</u>	<u>2,123</u>	<u>18</u>	<u>54,431</u>	<u>1,851,363</u>

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10 INVESTMENT PROPERTIES (CONTINUED)

	Land	Buildings	Furniture & fixture	Computer & hardware	Office equipment	Motor vehicles	*Construction in progress	Total
<u>Cost:</u>								
Balance at 1 January 2021	1,015,293	889,476	9,015	2,117	7,277	33	8,360	1,931,571
Additions during the year	-	-	-	-	-	-	6,114	6,114
Transfers during the year	-	6,571	-	-	-	-	(6,571)	-
Balance at 31 December 2021	<u>1,015,293</u>	<u>896,047</u>	<u>9,015</u>	<u>2,117</u>	<u>7,277</u>	<u>33</u>	<u>7,903</u>	<u>1,937,685</u>
<u>Accumulated depreciation</u>								
Balance at 1 January 2021	-	(80,085)	(3,186)	(668)	(3,453)	(1)	-	(87,393)
Depreciation charged for the year	-	(22,182)	(1,062)	(225)	(1,149)	(7)	-	(24,625)
Balance at 31 December 2021	<u>-</u>	<u>(102,267)</u>	<u>(4,248)</u>	<u>(893)</u>	<u>(4,602)</u>	<u>(8)</u>	<u>-</u>	<u>(112,018)</u>
Net book value at 31 December 2021	<u>1,015,293</u>	<u>793,780</u>	<u>4,767</u>	<u>1,224</u>	<u>2,675</u>	<u>25</u>	<u>7,903</u>	<u>1,825,667</u>

*The construction in progress relates to construction works at AlAndalus Mall. This includes capitalized borrowing cost amounted to SR 2,459,539 (2021: SR 1,052,448).

In accordance with Article 8 of the Real Estate Investment Traded Funds Instructions issued by CMA, the Fund Manager assesses the Fund's real estate values by appointing two independent evaluators to determine the market values in conformity with the International Valuation Standards Council's International Valuation Standards. However, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation which is an allowed treatment under the IFRS.

The carrying amounts of the investment properties are:

	31 December 2022	31 December <u>2021</u>
AlAndalus Mall	1,223,336	1,184,292
AlAndalus Mall Hotel	141,292	145,825
Salama Tower	243,302	248,378
Qbic Plaza	243,433	247,172
Total	<u>1,851,363</u>	<u>1,825,667</u>

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10 INVESTMENT PROPERTIES (CONTINUED)**10.3 Market values**

10.3.1 The assumptions used in determining the fair values of the investment properties are as follows:

Description	Valuation approach	Key assumptions	Market Value	
			As at 31 December 2022	As at 31 December 2021
Evaluator: ValuStrat				
AlAndalus Mall	Discounted cash flows	Discount rate: 11% (2021: 11%) Exit yield rate: 8.50% (2021: 8.50%)	1,346,500	1,175,000
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.5% (2021: 11.5%) Exit yield rate: 9% (2021: 9%)	156,000	149,000
Salama Tower	Discounted cash flows	Discount rate: 10.5% (2021: 11.5%) Exit yield rate: 8.5% (2021: 9%)	246,000	258,400
Qbic Plaza	Discounted cash flows	Discount rate: 11% (2021: 11%) Exit yield rate: 8.5% (2021: 8.5%)	252,000	259,000
			<u>2,000,500</u>	<u>1,841,400</u>
Evaluator: Knight Frank				
AlAndalus Mall	Discounted cash flows	Discount rate: 11.25% (2021: 10.75%) Exit yield rate: 8.75% (2021: 8.75%)	1,390,885	1,227,975
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.25% (2021: 11.25%) Exit yield rate: 8.75% (2021: 9.25%)	133,100	148,200
Salama Tower	Discounted cash flows	Discount rate: 10.75% (2021: 10.25%) Exit yield rate: 8.25% (2021: 8.25%)	242,820	240,000
Qbic Plaza	Discounted cash flows	Discount rate: 10.50% (2021: 10%) Exit yield rate: 8% (2021: 8%)	266,180	251,700
			<u>2,032,985</u>	<u>1,867,875</u>
Evaluator: ESNAD				
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.00% Exit yield rate: 8%	148,705	-
			<u>148,705</u>	<u>-</u>

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10 INVESTMENT PROPERTIES (CONTINUED)

The average fair value measurements of investment properties have been categorized as level 3 fair values based on inputs to the valuation techniques used. The table shows the breakdown as at 31 December 2022 and 31 December 2021:

	<u>Average fair value measurement at 31 December 2022</u>		
	Using quoted prices from active markets for identical assets (level 1)	Other observable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	<u>-</u>	<u>-</u>	<u>2,018,128</u>
	<u>Average fair value measurement at 31 December 2021</u>		
	Using quoted prices from active markets for identical assets (level 1)	Other observable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	<u>-</u>	<u>-</u>	<u>1,854,638</u>

11 UNEARNED RENTAL INCOME

	<u>31 December 2022</u>	31 December <u>2021</u>
Opening balance	30,326	25,060
Invoices issued during the year	185,022	188,673
Revenue recognized during the year	<u>(185,120)</u>	<u>(183,407)</u>
Closing balance	<u>30,228</u>	<u>30,326</u>

12 OTHER LIABILITIES

	<u>31 December 2022</u>	31 December <u>2021</u>
Accrued expenses and others	4,568	5,183
Finance cost payable	-	1,764
Trade payables	<u>135</u>	<u>135</u>
	<u>4,703</u>	<u>7,082</u>

13 ADVANCES FROM OPERATING LEASES

	<u>31 December 2022</u>	31 December <u>2021</u>
Advances from tenants	7,258	7,741
Security deposits from tenants	<u>7,446</u>	<u>7,213</u>
	<u>14,704</u>	<u>14,954</u>

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14 BORROWINGS

	31 December 2022	31 December 2021
Opening balance	558,728	514,995
Financing facility utilized during the year	29,775	42,678
Amortization of loan arrangement fee	700	1,055
Closing balance	<u>589,203</u>	<u>558,728</u>

On 7 November 2018, the Fund signed an agreement of Islamic financing facility of SAR 650 million with Saudi National Bank (SNB) (formerly known as NCB). The Fund transferred the title deed of properties, Al Andalus Mall and Al Andalus Mall Hotel, in favour of Real Estate Development Company for Management and Ownership, a fully owned subsidiary of the SNB as a security against the Islamic financing facility.

On 1 August 2019, the Fund utilized SAR 255 million as the first tranche from the Islamic financing facility. During the year 2020, the Fund utilized SAR 263 million as the Second tranche from the Islamic financing facility. During the year 2021, the Fund utilized further SAR 43 million. During the year 2022, the Fund utilized further SAR 30 million. The unutilized balance as at 31 December 2022 is SAR 59 million (31 December 2021: SAR 89 million). The tenor of Islamic financing facility is 15 years where the first payment is due on 30 June 2026. Accordingly, the whole balance is disclosed as non-current. The Islamic financing facility provides 5 years grace period during which only profit payments are to be made. Following the grace period, the principal amount shall be repaid over 10 years on a quarterly basis. The Islamic financing facility carries commission rate of SAIBOR plus 1.75% per annum.

15 ZAKAT

Zakat is calculated for the year ended 31 December using the Zakat base as follows:

	<u>2022</u>	<u>2021</u>
Net Zakat positive base (A)		
Net assets (equity)	1,272,944	1,303,077
Provisions	15,866	9,866
Borrowings	589,203	558,728
Net adjusted profit	82,218	89,200
Zakat base positive	<u>1,960,231</u>	<u>1,960,871</u>
Zakat base negative (B)		
Investments properties	<u>1,851,363</u>	<u>1,825,667</u>
	<u>1,851,363</u>	<u>1,825,667</u>
Net positive Zakat base	<u>108,868</u>	135,204
Net adjusted profit	<u>82,218</u>	89,200
Zakat for the year (at 2.5%)	<u>2,055</u>	<u>2,230</u>

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15 ZAKAT (CONTINUED)

Zakat provision movement is as follows:

	31 December	31 December
	<u>2022</u>	<u>2021</u>
Opening balance	2,230	1,159
Charge for the year	2,000	1,500
Payments made during the year	<u>(2,076)</u>	<u>(429)</u>
Closing balance	<u>2,154</u>	<u>2,230</u>

Zakat assessment status

The Fund has filed its zakat returns with the Zakat, Tax and Customs Authority for the years up till 2021. However, final assessments are yet to be finalized.

16 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Fund comprise of the following and the Fund transacts with these parties in its ordinary course of business:

<u>Name of entity</u>	<u>Relationship</u>
SNB Capital Company, formerly NCB Capital Company	Fund Manager and Unitholder
Saudi National Bank (SNB)	Shareholder of the Fund Manager
AlAndalus Property Company (APC)	Unitholder and Property Agent

Fund management fee

The Fund pays the Fund Manager a management fee of 1% per annum of the Fund's total assets (based on the last valuation) less the Fund's current liabilities. The management fee is payable in arrears on a semi-annual basis.

Agency fee and property management fee

The Fund via a master transfer agreement dated 25 December 2017 appointed APC as the "Property Agent". Under the agreement, APC is appointed to exercise, perform and discharge all rights and obligations as an agent of AlAndalus Mall and AlAndalus Mall Hotel. The Fund pays a fixed amount of SR 500,000 per annum to APC for the aforementioned agency services. APC also manages the AlAndalus mall for which it charges management fee from the Fund.

The Fund entered into the following transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund. All related party transactions were approved by the Fund's Board.

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16 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

<u>Related party</u>	<u>Nature of transactions</u>	<u>2022</u>	<u>2021</u>
AlAndalus Property Company	Rent collected on behalf of the Fund	4,282	9,418
	Payments received from APC	2,122	-
	Payments made to APC	50,895	-
	Parking & development fees	53,043	
	Miscellaneous expenses	203	120
	Management fee charged	10,523	9,218
	Agency fees charged	575	575
SNB Capital Company, formerly NCB Capital Company	Management fees charged	20,364	19,087
	Payments made by the Fund	29,230	20,993
Saudi National Bank	Service fees charged	14	26
	Loan arrangement fees charged	259	371
	Payments made	273	397

The significant transactions with key management personnel are:

<u>Key management personnel</u>	<u>Nature of transactions</u>	<u>2022</u>	<u>2021</u>
Key management personnel	Board fee	100	100

The above-mentioned transactions give rise to the following amounts due to related parties at the reporting date:

Due to related parties

<u>Related party</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
SNB Capital, formerly NCB Capital Company	10,196	19,087
AlAndalus Property Company	12,556	1,267
	<u>22,752</u>	<u>20,354</u>

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17 SEGMENT REPORTING

The Fund's activities include number of sectors as follows:

Retail Sector: This includes AlAndalus Mall.

Hospitality Sector: This includes AlAndalus Mall Hotel.

Offices Sector: This includes Salama Tower and Qbic Plaza.

The summary of the financial position and financial performance of these segments is as below:

For the year ended	31 December 2022					31 December 2021				
	Mall	Hotel	Office	Unallocated	Total	Mall	Hotel	Office	Unallocated	Total
Revenue	125,266	14,469	45,385	-	185,120	126,525	11,497	45,385	-	183,407
Operational expenses	(28,944)	(14,111)	(1,495)	(125)	(44,675)	(26,707)	(11,382)	(612)	(137)	(38,838)
Depreciation	(10,547)	(4,533)	(8,853)	-	(23,933)	(10,676)	(5,096)	(8,853)	-	(24,625)
Impairment loss on receivables against operating leases	(4,000)	-	-	-	(4,000)	(6,000)	-	-	-	(6,000)
Net profit / (loss)	81,024	(4,488)	14,186	(24,605)	66,117	81,804	(5,330)	21,680	(22,734)	75,420

As at	31 December 2022					31 December 2021				
	Mall	Hotel	Office	Unallocated	Total	Mall	Hotel	Office	Unallocated	Total
Total assets	<u>1,288,007</u>	<u>145,320</u>	<u>499,607</u>	<u>3,754</u>	<u>1,936,688</u>	<u>1,232,631</u>	<u>155,175</u>	<u>505,163</u>	<u>43,782</u>	<u>1,936,751</u>
Total liabilities	<u>135,415</u>	<u>1,779</u>	<u>513,640</u>	<u>12,910</u>	<u>663,744</u>	<u>94,381</u>	<u>2,097</u>	<u>515,309</u>	<u>21,887</u>	<u>633,674</u>

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18 REVENUE FROM PROPERTIES

	31 December 2022	31 December <u>2021</u>
AlAndalus Mall	125,266	126,525
Salama Tower	23,100	23,100
Qbic Plaza	22,285	22,285
AlAndalus Mall Hotel	14,469	11,497
	<u>185,120</u>	<u>183,407</u>

19 OPERATIONAL EXPENSES

	31 December 2022	31 December <u>2021</u>
Operation and maintenance	14,044	12,072
Payroll expenses	9,924	8,192
Leasing and management fee	5,962	5,418
Utilities	4,771	5,299
Marketing	1,538	1,643
Insurance	1,062	1,057
Other operating cost	7,374	5,157
	<u>44,675</u>	<u>38,838</u>

20 FINANCE COST

	31 December 2022	31 December <u>2021</u>
Total finance cost	23,310	15,109
Less: Finance cost capitalized during the year	(2,460)	(1,052)
Finance cost charged to profit or loss	<u>20,850</u>	<u>14,057</u>

21 EFFECT ON NET ASSETS (EQUITY) PER UNIT IF INVESTMENT PROPERTIES ARE FAIR VALUED

	<i>Note</i>	31 December 2022	31 December <u>2021</u>
Fair value of investment properties	10.3	2,018,128	1,854,638
Less: Carrying value of investment properties	10.2	<u>(1,851,363)</u>	<u>(1,825,667)</u>
Increase in net assets (equity)		<u>166,765</u>	<u>28,971</u>
Units in issue in thousands (number)		<u>137,500</u>	<u>137,500</u>
Additional net assets (equity) per unit based on fair value		<u>1.21</u>	<u>0.21</u>

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21 EFFECT ON NET ASSETS (EQUITY) PER UNIT IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)

	31 December 2022	31 December 2021
Net assets (equity) attributable to unitholders before fair value adjustment	1,272,944	1,303,077
Increase in net assets (equity)	166,765	28,971
Net assets (equity) attributable to unitholders after fair value adjustment	1,439,709	1,332,048
<u>Net Assets Attributable to each unit</u>		
Net assets (equity) per unit (SAR) before fair value adjustment	9.26	9.48
Increase in net assets (equity) per unit (SAR) based on fair value	1.21	0.21
Net assets (equity) attributable to unitholders after fair value adjustment	10.47	9.69

22 OPERATING LEASES*As a lessor*

The maturity analysis of undiscounted lease payments to be received in future years is as follows:

	31 December 2022	31 December 2021
Up to one year	92,029	16,409
1 year to 5 years	146,900	254,581
More than 5 years	139,115	401,646
	378,044	672,636

23 DIVIDEND DISTRIBUTION

On 9 February 2022 and 20 July 2022, the Fund's Board approved the distribution of dividend for the year ended 31 December 2021 and period ended 30 June 2022 amounted to SR 0.350 per unit and 0.350 per unit respectively. The same was paid on 08 March 2022 and 25 August 2022 respectively.

24 FINANCIAL RISK MANAGEMENT**Financial risk factors**

The Fund is subject to various financial risks due to its activities including: market risk (including currency risk, fair value and cash flows of commission rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Fund.

The Fund Manager is responsible for risk management. Financial instruments carried on the statement of financial position include cash and cash equivalents, investment at fair value through profit or loss, receivables from operating leases, certain other receivables, long-term debt, due to related parties, trade payables, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. A financial asset and liability is offset and net amount is reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)**a. Market risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Fund's income 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. The Fund manages its market risk by investing in low risk securities as per terms and conditions of the Fund.

	31 December 2022	31 December 2021
Investment at fair value through profit or loss	<u>-</u>	<u>40,031</u>

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's transactions are principally in Saudi Riyals and hence the Fund is not exposed to any significant current risk.

Commission rate risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Fund's financial positions and cash flow.

The Fund's commission rate risks arise mainly from its borrowings, which are at variable rate of interest and are not subject to re-pricing on a regular basis.

The Fund's interest rate risks arise mainly from its borrowings, which are at variable commission rate and the sensitivity analysis as follows:-

	Balance as at 31 December 2022			
	Statement of Profit or loss and other comprehensive income		Statement of Financial Position	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(5,892)	5,892	(5,892)	5,892
Cash-flow sensitivity (net)	(5,892)	5,892	(5,892)	5,892
	Balance as at 31 December 2021			
	Statement of Profit or loss and other comprehensive income		Statement of Financial Position	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(5,587)	5,587	(5,587)	5,587
Cash-flow sensitivity (net)	(5,587)	5,587	(5,587)	5,587

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)**b. Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk in respect of its receivables from lessees under operating leases, investment at fair value through profit or loss, cash and cash equivalents, due from related parties and certain other receivable balances.

	31 December 2022	31 December <u>2021</u>
Cash and cash equivalents	9,927	12,104
Receivables from operating leases, gross	92,000	72,192
Other receivables	1,305	1,210
	<u>103,232</u>	<u>85,506</u>

The carrying amounts of financial assets represents the maximum credit exposure on these assets.

Credit risk on receivables and bank balances is limited as:

- Cash balances are held with local banks having sound credit ratings;
- Financial position of lessees is stable.

The Fund has receivables from lessees against operating leases in the Kingdom of Saudi Arabia. The Fund manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. The Fund seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the objective that the Fund's exposure to bad debts is not significant.

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at:

	Weighted average loss rate (%)	Gross carrying amount	Impairment allowance	Credit impairment
<u>31 December 2022</u>				
0-90 Days	6%	34,784	2,007	No
090-180 Days	14%	14,368	2,025	No
180-270 Days	34%	17,546	6,041	No
270-365 Days	11%	10,454	1,055	No
365- 455days	23%	7,915	1,805	No
More than 455	100%	6,933	6,933	Yes
Total		<u>92,000</u>	<u>19,866</u>	
	Weighted average loss rate (%)	Gross carrying amount	Impairment allowance	Credit impairment
<u>31 December 2021</u>				
0-90 Days	6%	19,102	1,198	No
090-180 Days	15%	18,771	2,863	No
180-270 Days	35%	8,705	3,050	No
270-365 Days	12%	10,850	1,287	No
365- 455days	24%	9,570	2,274	No
More than 455	100%	5,194	5,194	Yes
Total		<u>72,192</u>	<u>15,866</u>	

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24 FINANCIAL RISK MANAGEMENT (CONTINUED)**e. Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

The Fund's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts and bank loans.

The table below analyses the Fund's financial liabilities as at the reporting date and classifies into relevant maturities based on the contractual undiscounted cash flows.

At 31 December 2022:	Less than 1 year	More than 1 year
Borrowings	-	589,203
Due to related parties	22,752	-
Other liabilities	4,703	-
	<u>27,455</u>	<u>589,203</u>
At 31 December 2021:	Less than 1 year	More than 1 year
Borrowings	-	558,728
Due to related parties	20,354	-
Other liabilities	7,082	-
	<u>27,436</u>	<u>558,728</u>

25 FAIR VALUE

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 and at prevailing market conditions regardless if the price is directly identified or estimated using other valuation technique.

All assets and liabilities whether measured at fair value or their fair values are disclosed in the financial statements in accordance with the hierarchical levels of fair value measurements as stated below are classified into the lowest level of measuring input which is considered significant for measuring the fair value as a whole.

Level 1: Declared (unadjusted) and quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs that are directly or indirectly observable or tracked for an asset or a liability other than declared prices mentioned in level 1.

Level 3: Inputs that are unobservable or not tracked for an asset or a liability.

Fair values of financial instruments

The Fund is exposed to risks as a result of using financial instruments. The following explains the Fund's objectives, policies and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

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25 FAIR VALUE (CONTINUED)

There were no significant changes that may expose the Fund to financial instrument risks through its objectives, policies and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

- The Fund's management considers the fair value for receivables from operating lease, due to related parties, accruals and other payables approximate to their carrying values because of the short terms nature of the financial instruments.
- There were no transfers between level 1, 2 or 3 during the reporting period.

Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rates and periods of re-pricing or maturity of financial assets and liabilities are mentioned in the related notes.

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.

	Carrying amount Designated at fair value	Fair value		
		Level 1	Level 2	Level 3
31 December 2022				
Financial instruments- FVTPL	-	-	-	-
31 December 2021				
Financial instruments- FVTPL	40,031	-	40,031	-

26 SUBSEQUENT EVENT

On 9 March 2023, the Fund's Board recommended the payment of dividend of SR 41.25 million (SR 0.30 per unit) to the Fund's unitholders. The dividend will be paid in due course.

Other than the above, there are no events subsequent to the year that require adjustment or disclosure in these financial statements.

27 LAST VALUATION DAY

The last valuation day for the year was 31 December 2022.

28 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board on 4 Ramadan 1444H (corresponding to 26 March 2023).