



AlAhli SEDCO Residential Development Fund – Annual Report

صندوق الأهلي سدكو للتطوير السكني - التقرير السنوي

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أ) معلومات صندوق الاستثمار

A) Investment Fund Information

1) Name of the Investment Fund	اسم صندوق الاستثمار
AlAhli SEDCO Residential Development Fund	صندوق الأهلي سدكو للتطوير السكني
2) Assets in which the fund is investing in	الأصول التي يستهدف الصندوق الاستثمار فيها
The Fund has invested in real estate development project located in Jeddah, AlSalama District. The project consists of 372 residential units.	استثمر الصندوق في مشروع تطوير عقاري سكني في مدينة جدة، حي السلامة، ويتألف من 372 شقة سكنية.

ب) أداء الصندوق

B) Fund Performance

1) A comparative table covering the last (3) financial years/or since inception	جدول مقارنة يغطي السنوات المالية الثلاث الأخيرة/ أو منذ التأسيس
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السنة	2022	2021	2020	Year
صافي قيمة أصول الصندوق (مليون ريال سعودي)	250.3	272.5	270.9	Net Asset Value (in millions of SAR)
صافي قيمة أصول الصندوق لكل وحدة*	0.8442	0.9191	0.9044	NAV per Unit*
أعلى سعر وحدة*	0.9285	0.9191	0.9311	Highest Price Per Unit*
أقل سعر وحدة*	0.8442	0.8987	0.9044	Lowest Price Per Unit*
عدد الوحدات (ألف وحدة)	296,463	296.463	299,507	Number of Units (Thousand Units)
التوزيعات الرأسمالية لكل وحدة*	-	-	0.10	Capital Distribution per Unit*
نسبة الرسوم والمصروفات	0.7%	1.1%	1.4%	Fees & Expense Ratio
نسبة الأصول المقرضة من إجمالي قيمة الأصول، ومدة انكشافها وتاريخ استحقاقها	-	-	-	Percentage of borrowed assets from the total asset value, the period of their exposure period and due date

*In Saudi Riyal

*بالريال السعودي

2) A performance record that covers the following سجل أداء الصندوق (2)

- a) The total return for the Fund for 1 year, 3 years, 5 years and since inception أ. العائد الإجمالي للصندوق لسنة واحدة، وثلاث سنوات، خمس سنوات ومنذ التأسيس

Period	منذ التأسيس Since Inception	5 Years 5 سنوات	3 Years 3 سنوات	1 Year سنة	الفترة
Return %	-1.9	-3.4%	-2.3%	-8.15	عائد الصندوق %

- b) The annual total return for the fund since inception: ب. العائد الإجمالي السنوي للصندوق منذ التأسيس

Year	2022	2021	2020	2019	2018	2017	2016	2015	السنة
Return %	-8.15	1.61	-5.80	-4.20	-7.85	-1.33	5.74	-0.05	عائد الصندوق %

- c) The percentage of the Fund's costs to the Fund total assets value: ج. نسبة التكاليف التي تحملها الصندوق من إجمالي قيمة الأصول:

Fees and Expenses	النسبة المئوية - %	المبلغ بالريال السعودي	الرسوم والمصروفات
Management Fee	0%	0	رسوم الإدارة
Administrative Fee	0%	0	الرسوم الإدارية
Other Fees and Expenses include: Property and facilities management, auditing, real estate appraisal and fund board of directors The Fund Manager has waived the management fee and therefore no fees was charged to the Fund starting from April 28, 2019	0.7%	1.7 مليون ريال	الرسوم والمصاريف الأخرى وتشمل: أتعاب إدارة الأملاك والمرافق، مراجعة الحسابات، التقييم العقاري ومجلس إدارة الصندوق تنازل مدير الصندوق عن رسوم الإدارة وبالتالي لم يتم تسجيل أي استحقاق مقابل هذه الرسوم ابتداء من 28 أبريل 2019

C) Changes and Material Development التغييرات والتطورات الجوهرية خلال الفترة (ج)

1) Fundamental Changes and Material Development: التغييرات الأساسية والتطورات الجوهرية: (1)

- The Fund Manager announced that the court issued the final ruling on Monday, 14/02/2023 G, obliging SEDCO Development Company to compensate the Fund for the cost of repairing the damage and for the engineering experts fees for an amount of SAR 22,797,450
- أعلن مدير الصندوق عن صدور الحكم النهائي بتاريخ 1444/07/23 هـ بثبوت مسؤولية شركة سدكو للتطوير التصديرية بصفتها مطور المشروع والزامها بتعويض الصندوق عن تكاليف إصلاح أضرار تلك العيوب في المباني وعن أتعاب الخبير الهندسي ودفع مبلغ وقدره 22,797,450 ريالاً سعودياً.

2) Non-Fundamental Changes تغييرات غير أساسية خلال الفترة (2)

- Updating the Fund term for additional year ending on 28 April 2023.
- The appointment of Albilad Capital Company as an independent custodian of Fund. The reason for the appointment is to comply with the updated Real Estate Investment Funds Regulations, which requires the appointment of an independent custodian for public real estate funds.
- Updating the Fund Terms and Conditions to comply with the requirements of Annex (1) of the amended Real Estate Investment Funds Regulations.

- تمديد مدة الصندوق لسنة إضافية تنتهي في 28 أبريل 2023.
- تعيين شركة البلاد المالية كأمين حفظ مستقل علما بأن سبب التعيين هو الالتزام بلائحة صناديق الاستثمار العقاري المحدثة، حيث أوجبت تعيين أمين حفظ مستقل للصناديق الاستثمارية العقارية العامة.
- تحديث شروط وأحكام الصندوق للالتزام بمتطلبات الملحق (1) من لائحة صناديق الاستثمار العقاري المعدلة.

D) Fund Board Annual Report

- The Fund Board held two meetings during the year 2022, the following subjects were discussed:
 - The updates of the lawsuit filed against the Saudi Economic, Development and Real Estate Development Company (SEDCO Development) in its capacity as the developer.
 - Main updates relating to the Fund such as: sales activities and challenges faced by the Fund.
 - Approving the appointment of Albilad Investment Company as independent custodian for the Fund.
 - Approving the Fundamental and non-Fundamental changes made to the Fund's Terms and Conditions.
 - Evaluation of the quality of services provided by service providers to the Fund.

د) تقرير مجلس إدارة الصندوق السنوي

- عقد مجلس إدارة الصندوق اجتماعين خلال العام 2022م، وتم مناقشة المواضيع التالية:
 - مستجدات الدعوى القضائية المقامة على الشركة السعودية للاقتصاد والتنمية والتطوير العقاري بصفتها المطور.
 - أبرز مستجدات الصندوق مثل: المبيعات، التحديات التي تواجه الصندوق.
 - الموافقة على تمديد مدة الصندوق لسنة أخرى تنتهي في 28 أبريل 2023م.
 - الموافقة على تعيين شركة البلاد للاستثمار كأمين حفظ مستقل للصندوق.
 - الموافقة على التغييرات الأساسية والغير أساسية التي تمت على شروط وأحكام الصندوق.
 - تقييم جودة الخدمات المقدمة من مزودي الخدمات للصندوق.

E) Risk Assessment Report

هـ) تقرير تقييم المخاطر

The Risk Management Division has conducted a risk assessment and the output was as follows:

أجرى فريق إدارة المخاطر تقييماً لمخاطر الصندوق على النحو التالي:

Type or Risk	Risk Level	Observations
Distribution Risk	Low	Since inception, the Fund has distributed 10% of invested capital. The Fund is not an Income Generating Real Estate Fund, hence has no distribution obligations during the life of the Fund.
Exit Risk	High	The Fund term will expire on 28 April 2023, and given the sale progress, it is challenging to sell all residential units and fully exit before the expiry date.
Profit / Interest Rate (IR) Risk	Medium	The increase in interest rates globally and in Saudi Arabia would lead to a lower demand due to higher mortgage rates. This could have an adverse effect on sales and further delay the exit.

نوع المخاطر	حجم المخاطر	التوضيح
مخاطر التوزيعات	منخفضة	منذ تأسيس الصندوق، وزع الصندوق 10% من رأس المال المستثمر. لا يعتبر الصندوق صندوقاً مدراً للدخل، ولا يوجد توزيعات دورية مطلوبة.
مخاطر التخارج	عالية	تنتهي مدة الصندوق في 28 أبريل 2023م وقد يكون بيع جميع الوحدات السكنية قبل ذلك التاريخ صعباً.
مخاطر أسعار الفائدة	متوسطة	الزيادة في أسعار الفائدة عالمياً وفي المملكة العربية السعودية قد يسبب عزوفاً عن الطلب على الوحدات السكنية بسبب ارتفاع معدلات الفائدة والأرباح. وقد يؤثر ذلك سلباً على المبيعات ويؤدي إلى تأخر محتمل.
مخاطر اقتصادية	عالية	حسب جي ال ال فإن أسعار الوحدات السكنية شهدت زخماً قوياً في 2022 مدعومة بالبرامج الحكومية. ولكن من غير المؤكد بأن هذا الزخم سيستمر.

Economic Risk	High	According to JLL, there's upturn in Jeddah residential market shows an increase in demand though it is mainly driven by government Supported real estate projects. However, it is not certain that such demand will continue.	مخاطر التقييم	عالية	يستثمر الصندوق في أصول عقارية صعبة التسييل. يتم تقييم أصول الصندوق من قبل مقيمين عقاريين مستقلين، وقد يخضع التقييم للخطأ. كما أن عدم وجود وحدات قابلة للمقارنة قد يؤثر على دقة التقييم.
Valuation Risk	High	The Fund is invested in Real Estate which is an illiquid asset and its valuation could be subject to error. Moreover, given the current uncertain property market environment and reduced level of transactions, there is an acute shortage of comparable evidence upon which to base the valuation.	مخاطر الالتزام	متوسطة	يلتزم الصندوق بلائحة صناديق الاستثمار العقاري.
Compliance Risk	Medium	The Fund is in compliance with the Investment Funds Regulations.	المخاطر القانونية	عالية	صدر الحكم النهائي بتاريخ 1444/07/23 هـ الموافق 2023/02/14 م بنبوت مسؤولية شركة سدكو للتطوير التقصيرية بصفتها مطور المشروع وإلزامها بتعويض الصندوق عن تكاليف إصلاح أضرار تلك العيوب في المباني وعن أتعاب الخبير الهندسي ودفع مبلغ وقدره 22,797,450 ريالاً سعودياً.
Legal Risk	High	The court issued the final ruling on Monday, 23/07/1444H corresponding to 14/02/2023G, obliging the Developer to compensate the Fund for the costs of repairing the damage and for the engineering expert fees for a total amount of SAR 22,797,450.			

**ALAHLI SEDCO RESIDENTIAL
DEVELOPMENT FUND**
(Managed by the SNB Capital Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2022
together with the
Independent Auditor's Report to the Unitholders



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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 SEDCO Residential Development Fund

Opinion

We have audited the financial statements of **AIAhli SEDCO Residential Development Fund** ("the Fund") managed by the SNB Capital Company (the "Fund Manager"), 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 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 (the "Code"), 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.

Emphasis of Matter

We draw attention to Note 3 of the financial statements which describes that the Fund's current term expires on 28 April 2023 and the steps taken by the Fund Manager to further extend the term. Our opinion is not modified in respect of this matter.

Independent Auditor's Report

To the Unitholders of AlAhli SEDCO Residential Development Fund (continued)

Responsibilities of Fund the 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 the SOCPA, and to comply with the applicable provisions of the Real Estate Investment Funds Regulations issued by the Capital Market Authority ("CMA"), 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 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the 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.


Independent Auditor's Report

To the Unitholders of AIAhli SEDCO Residential Development Fund (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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 SEDCO Residential Development Fund** ("the Fund").

KPMG Professional Services


Ebrahim Oboud Baeshen
License No. 382

Date: 7 Ramadan 1444H
Corresponding to 29 March 2023



ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	<i>Notes</i>	31 December 2022	31 December 2021
<u>ASSETS</u>			
Cash and cash equivalents	8	68	305
FVTPL investments	9	45,130	45,899
Investments in real estate properties	10	210,125	231,304
Other receivables		154	240
Total assets		255,477	277,748
<u>LIABILITIES</u>			
Advance received from customers		5,100	5,100
Other payables		93	169
Total liabilities		5,193	5,269
Net assets attributable to the Unitholders		250,284	272,479
Units in issue in thousands (number)		296,463	296,463
Net assets value per unit (SAR)		0.8442	0.9191

The accompanying notes 1 to 15 form integral part of these financial statements

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

		For the year ended 31	
	<i>Note</i>	December	
		2022	2021
Unrealised gain on FVTPL investments – net		410	110
Other income		298	355
Realised gain on FVTPL investments – net		11	2
Realised gain / (loss) on sale of residential units		--	(1,474)
Total income		719	(1,007)
(Charge) / reversal of NRV write down on real estate properties	10	(21,179)	8,351
Facility management and maintenance expenses		(1,624)	(2,584)
Professional fees		(71)	(373)
Valuation expense		(32)	(45)
Fund Board remuneration		(8)	(8)
Total operating expenses		(22,914)	5,341
(Loss) / profit for the year		(22,195)	4,334
Other comprehensive income for the year		--	--
Total comprehensive (loss) / income for the year		(22,195)	4,334

The accompanying notes 1 to 15 form integral part of these financial statements

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	For the year ended 31 December	
	<u>2022</u>	<u>2021</u>
Equity attributable to the Unitholders at the beginning of the year	272,479	270,888
Total comprehensive (loss) / income for the year	(22,195)	4,334
Decrease in equity from units transactions during the year		
Value of units redeemed	--	(2,743)
Equity attributable to the Unitholders at the end of the year	<u>250,284</u>	<u>272,479</u>

The accompanying notes 1 to 15 form integral part of these financial statements

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

		For the year ended 31 December	
	<i>Notes</i>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities			
(Loss) / profit for the year		(22,195)	4,334
<i>Adjustments for:</i>			
Charge / (reversal) of NRV write down on real estate properties		21,179	(8,351)
Unrealised gain on FVTPL investments – net		(410)	(110)
Realised gain on FVTPL investments – net		(11)	(2)
		<u>(1,437)</u>	<u>(4,129)</u>
<i>Net changes in operating assets and liabilities:</i>			
FVTPL investments		1,190	(19,655)
Proceeds from real estate units sold		--	22,496
Other receivables		86	52
Payable to the Fund Manager		--	(6)
Advance received from customers		--	(1,395)
Other payables		(76)	(357)
Net cash generated used in operating activities		<u>(237)</u>	<u>(2,994)</u>
Cash flows from financing activities			
Value of units redeemed		--	(2,743)
Net cash generated used in financing activities		<u>--</u>	<u>(2,743)</u>
Net in decrease in cash and cash equivalents		(237)	(5,737)
Cash and cash equivalents at the beginning of the year	8	305	6,042
Cash and cash equivalents at the end of the year	8	<u>68</u>	<u>305</u>

The accompanying notes 1 to 15 form integral part of these financial statements

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

1. THE FUND AND ITS ACTIVITIES

AlAhli SEDCO Residential Development Fund (the "Fund") is a closed-ended, Shariah compliant, real estate investment fund, established and managed by the SNB Capital Company ("the Fund Manager"), a subsidiary of the Saudi National Bank (the "Bank"), for the benefit of the Fund's Unitholders. Al Bilad Capital Company acts as the custodian of the Fund.

The Fund's investment objective is to provide Unitholders with capital gains through the acquisition of land and development, construction and sale of residential units. The Fund may invest surplus funds in short-term investments including, but not limited to, Shariah compliant Murabaha contracts or money market investment funds.

The terms and conditions of the Fund were approved by the Capital Market Authority ("CMA") on 6 Rabi-ul-Awal 1435H (corresponding to 7 January 2014). The Fund commenced its activities on 28 Jumada Al-Akhirah 1435H (corresponding to 28 April 2014).

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") published by the CMA on 19 Jumad Al-Thani 1427H (corresponding to 15 July 2006) thereafter amended on 12 Rajab 1442H (corresponding to 24 February 2021) which became effective from 19 Ramadan 1442H (corresponding to 1 May 2021).

2. BASIS OF ACCOUNTING

These financial statements of the Fund have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") and comply with the applicable provisions of the Real Estate Investment Funds Regulations issued by the Capital Market Authority and Fund's terms and conditions.

3. BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost convention using accrual basis of accounting and going concern concept except for investments measured at fair value through profit or loss ("FVTPL") and investments in real estate properties which are recorded at fair value and lower of cost and net realizable value, respectively.

The Regulations require that the Fund's term can be extended by approval of Unitholders and notification to the CMA. The Fund Manager and the Fund Board has the intent and the ability to extend the term beyond 28 April 2023 subject to Unitholders' approval and is taking necessary steps to do so. The Fund's extended term expires on 28 April 2023. However, the Fund Manager has initiated the communication and taken the necessary steps for extension of the term of the Fund, and the Unitholders' meeting is scheduled on 05 April 2023 to approve the extension of the term. As per the Real Estate Investment Funds Regulations, the extension in the term of the Fund has to be approved by the Unitholders by way of a special fund resolution. The Fund manager asserts that approval in the form of special fund resolution has also been sought in the previous year for extending the initial term of the Fund. Hence, these financial statements have been prepared on a going concern basis.

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 their liquidity.

ALAHLI SEDCO RESIDENTIAL DEVELOPMENT FUND
(Managed by the SNB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). These financial statements are presented in Saudi Arabian Riyal (“SAR”) which is the Fund’s functional and presentation currency and have been rounded off to the nearest thousand unless otherwise stated.

5. CHANGES IN THE FUND’S TERMS AND CONDITIONS

The Fund Manager has updated the terms and conditions of the Fund during the year. The changes include change in custodian and extension of the term of the Fund to April 2023 as stated above.

6. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are minimized in the year in which the estimates are revised and in any future years affected. The significant accounting judgements and estimates applied in the preparation of these financial statements are as follows:

Fair value of financial assets and financial liabilities

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 market price, because this price is assessed to be 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 transfer between levels of fair value at the end of the reporting year during which the change has occurred.

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6. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
(CONTINUED)

Fair value of financial assets and financial liabilities (continued)

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.

The Fund measures fair value in investments in open-ended investment funds using unadjusted net assets value and have classified them as level 2 as per fair value hierarchy. During the year, there has been no transfer in fair value hierarchy for FVTPL investments. For other financial assets and liabilities such as cash and cash equivalents, other receivables and other payables, the carrying values were determined to be a reasonable approximation of fair value due to their short-term nature. The Fund has classified cash and cash equivalents as level 1 while remaining financial assets and liabilities are classified as level 3 as per the fair value hierarchy.

Net realizable value of real estate investment properties

Investments in real estate properties are measured at lower of cost and net realizable value ('NRV'). NRV is based on estimated selling price less estimate costs of completion and estimated costs necessary to make the sale. When NRV falls below cost, a NRV write down is recorded in the statement of profit or loss and other comprehensive income to the extent the cost exceeds the NRV. Where the NRV write down subsequently reverses, the carrying amount of the investment in real estate properties is increased to the revised estimate of its NRV to the extent of its cost. A reversal of NRV write down is recognised as income immediately in the statement of profit or loss and other comprehensive income.

7. SIGNIFICANT ACCOUNTING POLICIES

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

7.1 *Cash and cash equivalents*

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

7.2 *Investments in real estate properties*

Land and buildings under construction, including buildings held for sale in the ordinary course of business, are initially recognised at cost. If the payment for the land is deferred, the consideration payable is recognised initially at the present value of the amount payable. Development in progress comprises construction costs and other related direct costs.

Investments in real estate properties are subsequently measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to sell.

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.3 *Financial assets and liabilities*

Classification of financial assets

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

Financial assets measured at amortised cost

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

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

Financial assets measured at FVOCI

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

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

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

Financial assets measured at FVTPL

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

Business model assessment

The Fund Manager assesses 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;
- how the performance of the portfolio is evaluated and reported to the Fund Manager;
- 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 – for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- 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 realized.

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.3 *Financial assets and liabilities (continued)*

Classification of financial assets (continued)

Business model assessment (continued)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

Financial assets that are held for trading 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.

Assessment whether contractual cash flows are solely payments of principal and interest / commission

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. Interest or 'commission' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example: liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest / commission, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (for example, non-recourse asset arrangements); and
- features that modify consideration of the time value of money – for example, periodical reset of interest / commission rates.

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.

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.3 *Financial assets and liabilities*

Recognition and initial measurement

Financial assets and liabilities measured at FVTPL are initially recognized on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. The Fund shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition issue.

Subsequent measurement

Financial assets measured at FVTPL are subsequently measured at fair value. Net gain or losses including any foreign exchange gains and losses, are recognized in profit or loss in 'realized and unrealized gain / (loss) on FVTPL investments – net' in the statement of profit or loss and other comprehensive income.

Financial assets and financial liabilities measured at amortised cost are subsequently measured at amortised cost using the effective interest / commission rate method and is recognized in the statement of profit or loss and other comprehensive income. Any gain or loss on de-recognition is also recognized in the statement of profit or loss and other comprehensive income. The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative commission using effective interest / commission rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flow from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of the financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in the statement of profit or loss and other comprehensive income. Any commission in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognized on its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risk and rewards are retained, then the transferred assets are not derecognized. The Fund derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.3 *Financial assets and liabilities (continued)*

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

7.4 *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. Provisions are not recognised for future operating losses.

7.5 *Net assets value per unit*

The value of the Fund's portfolio is determined once at the end of each six-month- year ("Valuation day"). The equity per unit is calculated by dividing the net assets attributable to the Unitholders included in the statement of financial position by the number of units outstanding at the period end.

7.6 *Units in issue*

Redeemable units of the Fund are issued and redeemed on the Fund's termination. The net assets value (NAV) of the units is calculated as the total assets of the Fund less the total liabilities divided by the total number of units of the Fund as of the valuation date. As the Fund will be investing substantially all of its assets in the properties, its valuation will be predominantly based on the valuation of the properties. The Fund Manager shall evaluate the Fund's land and properties at least once every six months based on the two valuations done by independent valuers.

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

- they entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- they are in the class of instruments that are subordinate to all other classes of instruments.
- All financial instruments in the class of instruments that are subordinate to all other classes of instruments have identical features.
- The instruments do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata shares of the Fund's net assets.
- The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.7 *Taxation / Zakat*

Under the current system of Zakat and income tax in the Kingdom of Saudi Arabia, the Fund is exempt from paying any Zakat and income tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the financial statements.

The value added tax ("VAT") deducted is recognised as a receivable.

7.8 *Revenue recognition from real estate properties*

The Fund develops and sells residential properties. Revenue is recognised at when control has been transferred to the customer. The properties have generally no alternative use for the Fund. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at 'point in time' when the legal title has passed to the customer and control transferred.

The revenue is measured at the transaction price agreed under the contract. In most cases, the consideration is due when legal title has been transferred. While deferred payment terms may be agreed in some circumstances, the deferral does not exceed twelve months. The transaction price is therefore not adjusted for the effects of a significant financing component.

7.9 *Management fees*

Management fees expense is recognised in the statement of profit or loss and other comprehensive income as the related services are performed.

7.10 *Accrued expenses and other payables*

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

7.11 *New standards, interpretations and amendments thereof, adopted by the Fund*

Below amendments to accounting standards and interpretations became applicable for annual reporting periods commencing on or after 1 January 2022. The Fund Manager has assessed that the amendments have no significant impact on the Fund's financial statements.

Standards, interpretations and amendments

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16

Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract

Annual Improvements to IFRS Standards 2018-2020

Reference to the Conceptual Framework (Amendments to IFRS 3)

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

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7. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7.12 *Standards, interpretations and amendments issued but not yet effective*

Standards, interpretations and amendments issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt these standards when they become effective.

<i>Standards, interpretations and amendments</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
Amendments to IAS 1 and IFRS practice statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to IFRS 17	Insurance Contracts	1 January 2023
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback Transaction	1 January 2024
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between investor or Joint Venture	Available for optional adoption / effective date deferred indefinitely

The above standards, interpretations and amendments are not expected to have a significant impact on the Fund's financial statements.

8. CASH AND CASH EQUIVALENTS

This comprises of balances held with a local bank having sound credit rating.

9. INVESTMENTS – MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31 December 2022</u>		<u>31 December 2021</u>	
	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>
SNB Capital Saudi Riyal Trade Fund – a related party	<u>44,489</u>	<u>45,130</u>	<u>45,668</u>	<u>45,899</u>

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10. INVESTMENTS IN REAL ESTATE PROPERTIES

Investments in real estate properties comprises of the following:

	31 December 2022	31 December 2021
Developed properties	210,125	231,304

- a) SNB Capital, the Fund Manager, has formed a Special Purpose Vehicle ("SPV"), SNB Capital Real Estate Investment Company (the "SPV"), registered under Commercial Registration no. 1010387593 dated 2 Dhul Qadah 1434H (corresponding to 8 September 2013). The primary objective of the SPV is to retain and register real estate assets related to real estate funds under its name.
- b) The title deeds of the land are registered in the name of the SPV. Since the Fund is the beneficial owner of this land, the land has been recorded in these financial statements.
- c) The Fund Manager, based on external opinion from subject matter expert, has estimated that an additional cost of SAR 24.6 million is required to repair certain structural defects to the property as an estimated cost necessary to make the sale. This amount has accordingly been included in the determination of the Net Realizable Value as at reporting date.

The Fund has also initiated a claim against Saudi Economic Development and Real Estate Development Company (the "developer") to address aforementioned structured defects. The claim has been decided in favor of the Fund on 14 February 2023 by the court and the Fund has received the amounts from the developer on 14 March 2023.

- d) The fair value of the investment in real estate properties is based on the average evaluation of two independent evaluators. The valuation of the properties as at 31 December 2022 was carried out by ESNAD Real Estate Valuation and Olat, which are accredited valuers by Saudi Authority for Accredited Valuers (TAQEEM). The valuers have used the comparable approach to evaluate the value of the real estate properties.
- e) The movement in the carrying value of the investments in real estate properties is as follows:

	31 December 2022	31 December 2021
Balance at the beginning of the year	231,304	245,449
Less: Carrying value of residential units sold	--	(22,496)
(Charge) / reversal of NRV write down on real estate properties	(21,179)	8,351
Balance at the end of the year	210,125	231,304

- f) The carrying value of the investments in real estate properties is analysed as follows:

	31 December 2022	31 December 2021
Investments in real estate properties at cost	237,877	237,877
Write down on real estate properties	(27,752)	(6,573)
Net realizable value of real estate properties	210,125	231,304

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11. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Fund include the Fund Manager, the Fund Board, other funds managed by the Fund Manager, and the Saudi National Bank, being parent of the Fund Manager.

Management fees and other expenses

As per the terms and conditions, the Fund is managed and administered by the Fund Manager. The Fund Manager is entitled to a management fee and an administration fee at the rate of 1% and 0.04% per annum, respectively, based on the Fund's net assets value, adjusted to reflect the market value of the investment in real estate properties, to be paid semi-annually in arrears. On 28 April 2019, the Fund Manager has waived the requirement for payment of management fees, therefore, no accrual has been made for the management fees in the current period.

12. FINANCIAL RISK MANAGEMENT

12.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks including market risk, credit risk, liquidity risk and operational 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 are primarily set up to be performed based on the limits established by the Fund Board. The Fund's terms and conditions set out its overall business strategies, its tolerance of risks and its general risk management philosophy. In accordance with the terms and conditions of the Fund, the Fund Manager is obliged to take actions to re-balance the portfolio in line with the investment guidelines when needed.

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

12.1.1 Market risk

'Market Risk' is the risk that changes in market prices – such as commission rates, foreign exchange rates, equity prices and credit spreads – will affect the Fund's income or the fair value of its holdings in financial instruments.

a) Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currencies.

The Fund does not have any foreign exchange risk since all of the transactions are carried out in SAR.

b) Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

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All the assets and liabilities of the Fund are non-commission bearing therefore the Fund is not exposed to commission rate risk.

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 *Financial risk factors (continued)*

12.1.1 *Market risk (continued)*

c) Other price risk

Other price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. Other price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. As of the statement of financial position date, the Fund has investments in units of the investment fund units which is exposed to other price risk.

The effect on the net assets (as a result of the change in the fair value of investments) as at 31 December due to a reasonably possible notional change in market value of investment units by 10%, with all other variables held constants is as follows:

	<u>31 December 2022</u>		<u>31 December 2021</u>	
Effect on net assets attributable to the Unitholders	±10%	<u>4,513</u>	±10%	<u>±4,590</u>

12.1.2 *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge their obligation and cause the other party to incur a financial loss. The Fund Manager seeks to manage credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

As at the statement of financial position date, the Fund's significant exposure to credit risk arises from cash and cash equivalents, which represents balances with a local bank having Moody's credit rating of A3 which is in line with globally understood definition of investment grade. Accordingly, there is no impact of expected credit loss allowance on these financial assets.

12.1.3 *Liquidity risk*

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

As the Fund is closed-ended investment fund, it is not exposed to liquidity risk.

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12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 *Financial risk factors (continued)*

12.1.4 *Operational risk*

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider, and from external factors other than credit, liquidity, market and currency risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance the limiting of financial losses and damage to its reputation while achieving its investment objective of maximising returns to investors.

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service level agreements with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
 - appropriate segregation of duties between various functions, roles and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risks faced,
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation.

12.1.4.1 *Exit risk*

Exit risk arises from the possibility that the Fund will not be able to sell its real estate investment in line with its investment objectives, as the real estate markets conditions may change, therefore, making it difficult to sell the real estate investment at all or at a price higher than the costs.

The Fund's objective is to manage the exit risk by identifying the potential buyers on timely basis, so as to balance the limiting of financial losses and damage to its reputation while achieving its investment objective of generating returns to investors.

13. LAST VALUATION DAY

The last valuation day for the year was 29 December 2022 (2021: 31 December 2021).

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no events subsequent to the statement of financial position date which required adjustment of or disclosure in the financial statements or notes thereto other than those disclosed in note 10 of these financial statements.

15. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 7 Ramadan 1444H corresponding to 29 March 2023.