

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
AND INDEPENDENT AUDITOR'S REPORT

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

<u>Contents</u>	<u>Page</u>
Independent auditor's report	1-4
Statement of financial position	5
Statement of profit or loss and other comprehensive income	6
Statement of changes in net assets attributable to unit holders	7
Statement of cash flows	8
Notes to the financial statements	9 - 30

INDEPENDENT AUDITOR'S REPORT**TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

Opinion

We have audited the financial statements of Musharaka REIT Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Key Audit Matters (Continued)

Impairment of investment properties	
Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2021, the carrying value of the Fund's investment properties amounted to SR 1.11 billion.</p> <p>At the end of each reporting period, the Fund Manager assesses whether there is any indication that investment properties may be impaired.</p> <p>As part of the assessment of impairment on its investment properties, the Fund uses valuations carried out by third party valuers to ascertain the fair value of these properties.</p> <p>We considered this as a key audit matter as the assessment for impairment involves significant judgement that could have a material impact on the financial statements of the Fund.</p> <p><i>Refer to note 6.12 of the financial statements on the accounting policy for impairment of non-financial assets and note 8 for the disclosures on investment properties.</i></p>	<p>We performed the following as part of our audit:</p> <ul style="list-style-type: none"> - Reviewed management assessment for the existence of impairment indicators on investment properties. - Assessed the independence, professional qualifications, competence and experience of the Fund's independent valuers engaged. - Involved our real estate valuation specialists to review the valuation reports for selected properties and assessed whether the valuation approaches and methods used are in accordance with the established standards for valuation of properties and suitable for use in determining the fair value for the purpose of assessment of impairment and disclosure of fair value in the financial statements. - Met with the Fund's independent valuers and our real estate valuation specialist to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions. - Agreeing the specific details (area, location etc.) of the investment properties as per the valuation reports with the Fund records and title deeds of the investment properties. - Comparing the recoverable amount of the investment properties as per the Valuation Report to their carrying values to determine whether the recognition of any impairment loss is required; and - Assessed the appropriateness and adequacy of the accounting treatment and policies used and disclosures made in the Fund's financial statements including disclosure of key assumptions and judgments.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's terms and conditions, and for such internal control as 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, 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 Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, 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 the 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)**TO THE UNIT HOLDERS OF MUSHARAKA REIT FUND**

(Managed by Musharaka Capital Company)

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

- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of 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.

BAKER TILLY MKM & CO.
Certified Public Accountants



Majid Muneer Alnemer
License No. 381

Al-Khobar 26 Shaban 1443H
29 March 2022



MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	<i>Note</i>	2021	2020
		SR	SR
ASSETS			
Investment properties	8	1,108,922,475	1,039,777,746
Net investment in finance leases	9	230,425,626	247,259,998
Lease receivables	10	35,516,432	10,883,656
Prepayments and other assets	11	3,489,350	5,830,341
Investment at fair value through profit or loss (FVTPL)	12	5,282,150	5,219,050
Cash and cash equivalents		58,135,003	45,169,041
TOTAL ASSETS		1,441,771,036	1,354,139,832
LIABILITIES			
Borrowings	13	405,265,264	303,751,617
Lease liabilities	14	142,220,187	146,838,941
Unearned rental revenue	15	17,855,057	7,268,537
Accrued management fees	16,22	9,864,843	8,801,043
Other liabilities	17	5,836,612	5,778,975
Zakat provision	18	1,959,473	-
TOTAL LIABILITIES		583,001,436	472,439,113
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		858,769,600	881,700,719
Units in issue (Number)		88,000,000	88,000,000
Per unit value (SR)		9.76	10.02

The accompanying notes from 1 to 29 form an integral part of these financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**FOR THE YEAR ENDED 31 DECEMBER 2021**

	<i>Note</i>	2021	2020
		SR	SR
Revenue			
Rental revenue	22	88,784,030	93,454,860
Expenses			
Depreciation and amortization	8	(23,529,595)	(23,249,714)
Fund management fee	16,22	(16,629,524)	(15,369,375)
Other operating expenses	19	(7,818,848)	(6,129,573)
Reversal / (allowance) for expected credit losses	10	116,394	(7,651,575)
Impairment loss on investment properties	8	(4,704,234)	-
		(52,565,807)	(52,400,237)
Operating profit		36,218,223	41,054,623
Unrealised gain on investments at fair value through profit or loss (FVTPL)	12	63,100	219,050
Gain on recognition of investment in finance lease	9	-	1,551,660
Finance income	20	11,911,540	10,116,066
Finance costs	21	(17,184,509)	(17,685,055)
Other income	14	820,000	820,000
Profit before zakat		31,828,354	36,076,344
Zakat	18	(1,959,473)	-
Profit for the year		29,868,881	36,076,344
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		29,868,881	36,076,344
Weighted average number of units outstanding		88,000,000	88,000,000
Basic and diluted earnings per unit	25	0.34	0.41

The accompanying notes from 1 to 29 form an integral part of these financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE YEAR ENDED 31 DECEMBER 2021**

	<u>Note</u>	<u>SR</u>
For the year ended 31 December 2021		
As at 1 January 2021		<u>881,700,719</u>
Profit for the year		<u>29,868,881</u>
Other comprehensive income		<u>-</u>
Total comprehensive income for the year		<u>29,868,881</u>
Dividends	28	<u>(52,800,000)</u>
Net assets attributable to unitholders at 31 December 2021		<u><u>858,769,600</u></u>
For the year ended 31 December 2020		
As at 1 January 2020		<u>907,224,375</u>
Profit for the year		<u>36,076,344</u>
Other comprehensive income		<u>-</u>
Total comprehensive income for the year		<u>36,076,344</u>
Dividends	28	<u>(61,600,000)</u>
Net assets attributable to unitholders at 31 December 2020		<u><u>881,700,719</u></u>

The accompanying notes from 1 to 29 form an integral part of these financial statements

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
OPERATING ACTIVITIES		
Profit before zakat	31,828,354	36,076,344
Adjustments for:		
Depreciation and amortization	23,529,595	23,249,714
Impairment loss on investment property	4,704,234	-
Gain on recognition of investment in finance lease	-	(1,551,660)
Rent concession on lease liabilities	(820,000)	(820,000)
Unrealised gain on investments at fair value through profit or loss (FVTPL)	(63,100)	(219,050)
(Reversal) / allowance for expected credit losses	(116,394)	7,651,575
Finance costs	17,184,509	17,685,055
Finance income	(11,911,540)	(10,116,066)
Changes in operating assets and liabilities:		
Lease receivables	(24,516,382)	(9,480,625)
Prepayments and other assets	355,825	(511,516)
Unearned rental revenue	10,586,520	(10,710,537)
Accrued management fees	1,063,800	80,680
Other liabilities	(1,140,617)	3,174,347
Net cash flows generated from operating activities	<u>50,684,804</u>	<u>54,508,261</u>
INVESTING ACTIVITIES		
Proceeds from investment in finance lease	28,745,912	9,944,088
Addition in investment properties	(95,926,251)	(122,470,430)
Investment in short - term deposits	-	60,340,000
Investments at fair value through profit or loss (FVTPL)	-	(5,000,000)
Net cash flows used in investing activities	<u>(67,180,339)</u>	<u>(57,186,342)</u>
FINANCING ACTIVITIES		
Net change in lease liability	(10,170,000)	(10,600,001)
Net proceeds from borrowings	101,627,757	118,859,246
Finance costs paid	(9,666,340)	(11,737,967)
Dividends paid	(52,329,920)	(61,600,000)
Net cash flows generated from financing activities	<u>29,461,497</u>	<u>34,921,278</u>
Net change in cash and cash equivalents	<u>12,965,962</u>	<u>32,243,197</u>
Cash and cash equivalents at the beginning of the year	<u>45,169,041</u>	<u>12,925,844</u>
CASH AND CASH EQUIVALENTS, AT THE END OF THE YEAR	<u><u>58,135,003</u></u>	<u><u>45,169,041</u></u>
<u>Non-cash transaction:</u>		
Deferred loan arrangement fee transferred to borrowing	1,977,359	2,404,486
Advance against purchase of investment property transferred to investment properties	1,452,307	-
Dividend payable	407,080	-
Recognition of investment in finance lease on exchange transaction	-	38,429,023

The accompanying notes from 1 to 29 form an integral part of these financial statements

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 - GENERAL

Musharaka REIT (the “Fund”) is a closed-ended real estate investment fund incorporated in the Kingdom of Saudi Arabia in compliance with the real estate investment funds regulations and real estate investment traded funds instructions issued by board of the Capital Market Authority (CMA). The Fund is listed and traded in the Saudi Stock Exchange (“Tadawul”) and is Shari'a compliant. The Fund is managed by Musharaka Capital Company (the “Fund Manager”) a Saudi Closed Joint Stock Company licenced by Capital Market Authority under licence no. 13169-27.

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

The offering of the units of the Fund has been approved by the CMA on 23/10/1438H (corresponding to 17 July 2017) and started its operations on 17 August 2017. The Fund's term is 99 years extendable for additional two years at the discretion of the Fund Manager after obtaining CMA approval.

The primary investment objective of the Fund is to invest in developed properties that are qualified to generate periodic rental income, while its dividend policy is to distribute at least 90% of the Fund's net profit as cash dividends to the unit holders annually.

2 - BASIS OF PREPARATION

The financial statements of the Fund for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and Fund's terms and conditions.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Saudi Riyals which is also the functional currency of the Fund and all values are rounded to the nearest Saudi Riyal (SR), except when otherwise indicated.

As per CMA instructions, the Fund has adopted the cost model for investment properties. Accordingly, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

3 - NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS

New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Impact of the initial application of Interest Rate Benchmark Reform.
- Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

4 - STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Fund has not early adopted the following standards, amendments and interpretations that have been issued but not yet effective.

New and revised IFRSs

Effective for annual periods beginning on or after

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Effective date deferred indefinitely

Amendments to IAS 1 *Presentation of Financial Statements* regarding the classification of liabilities.

1-Jan-23

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements—Disclosure of Accounting Policies*.

1-Jan-23

IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 *Insurance Contracts*.

1-Jan-23

Amendments IFRS 3 *Business Combination* updating a reference to the Conceptual Framework.

1-Jan-22

Amendments to IAS 16 *Property, Plant and Equipment* prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use.

1-Jan-22

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the costs to include when assessing whether a contract is onerous.

1-Jan-22

Annual Improvements to IFRS 2018 – 2020 Cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41.

1-Jan-22

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates*.

1-Jan-23

Amendments to IAS 12 *Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction*.

1-Jan-23

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements for the period of initial application and adoptions of these new standards, interpretations and amendments may have no material impact on the financial statements of the Company in the period of initial application.

5 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

5.1 Judgements

Classification of leases as operating or finance leases

Fund as a lessor

The Fund has entered into commercial, residential property, warehouse, hotel, hotel apartments and showrooms leases on its investment property portfolio. The Fund has determined, based on an evaluation of the terms and conditions of the arrangements, where it retains all the significant risks and rewards of ownership of these properties and as such accounts for the contracts as operating leases.

Determining the lease term for lease contracts

Fund as a lessee

The Fund has applied judgement to determine the lease term for those lease contracts in which it is a lessee that include renewal options. The assessment of whether the Fund is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

5.2 Estimates and assumptions

Valuation of investment properties

The Fund hires the services of third party to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the financial statements. The key assumptions used to determine fair values of investment properties are disclosed in note 8.

Useful lives of investment properties

The Fund Manager determines the estimated useful lives of its investment properties for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The Fund Manager periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Impairment of financial assets held at amortised cost

The Fund uses a provision matrix to calculate Expected Credit Losses ("ECLs") for lease receivables and investment in finance lease. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type, and coverage by guarantees and other forms of credit insurance).

The provision matrix is initially based on the Fund's historical observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. At every reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the lease receivables is disclosed in Note 10.

Uncertain zakat position

The Fund's current zakat provision of SR 1,959,473 relates to Fund Manager's assessment of the amount of zakat provision on open zakat positions where the liabilities remain to be agreed with the Zakat, Tax and Customs Authority (ZATCA). Due to the uncertainty associated with such zakat items, it is possible that, on finalization of open zakat assessments at a future date, the final outcome may differ significantly. Note 18 describes the status of zakat assessments.

MUSHARAKA REIT FUND
 (Managed by Musharaka Capital Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5 - SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

5.2 Estimates and assumptions (Continued)

Impact of Covid-19

During March 2020, the World Health Organization ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines, and enforced countrywide lockdowns and curfews.

The Fund has evaluated the current situation to foresee the expected impact on key credit, liquidity, operational, solvency and performance indicators to manage the potential business disruption due to COVID-19 outbreak that may have on its operations and financial performance.

Management's current assessment of the impact of the COVID-19 outbreak is as follows:

i) Expected credit loss for lease receivables

These current events and the prevailing economic condition require the Fund to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). These would primarily revolve around revisions to the scenario probabilities currently being used by the Fund in ECL estimation.

ii) Rental Revenue

As part of Fund's commitment to extend support to its tenants during COVID-19 outbreak, the Fund has offered voluntary arrangements of rent reliefs to its tenants in 2020 and 2021 which are accounted for in accordance with the requirements of IFRS 16 "Leases".

In addition, COVID-19 outbreak pandemic has increased the uncertainty over collectability of lease receivables. The management considers that it is more appropriate to only recognise lease income and the corresponding receivables to the extent that the lease income is considered to be collectible. This approach reflects the uncertainty related to collectability of lease payments and addresses the concern of recognizing income when collectability is uncertain.

As with any forecasts, the projections, and likelihoods of occurrence is underpinned by significant judgment and uncertainty and therefore, the final outcomes may be different from those projected. The impact of such uncertain economic environment is judgmental, and the Fund will continue to reassess its position and the related impact on a regular basis.

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Investment properties

Investment property is the property which is held (by owner or lessee under finance lease) either to earn rental income or for capital appreciation or for both. Investment property is initially measured at cost and are stated subsequently at cost less accumulated depreciation and impairment in value, if any. Freehold land is not depreciated. The cost of investment property is depreciated on a straight-line basis over estimated useful lives of the assets.

The estimated useful lives of the principal classes of investment properties are as follows:

	<u>Years</u>
Buildings	35 - 40
Furniture, fixture and equipment	10

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.2 Leases

(a) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange of consideration.

(b) Fund as a lessee

The Fund recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Fund by the end of the lease term or the cost of the right-of-use asset reflects that the Fund will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of investment property. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Fund's incremental borrowing rate. Generally, the Fund uses its incremental borrowing rate as the discount rate.

The Fund determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
the exercise price under a purchase option that the Fund is reasonably certain to exercise, lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Fund's estimate of the amount expected to be payable under a residual value guarantee, if the Fund changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Fund has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Fund recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.2 Leases (Continued)

(c) Fund as a lessor

At inception or on modification of a contract that contains a lease component, the Fund allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices.

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 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.

When the Fund is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Fund applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Fund applies IFRS 15 to allocate the consideration in the contract

The Fund applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Fund further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Fund recognizes lease payments received under operating leases as income on a straight line basis over the lease term as part of revenue.

6.3 Rental revenue

Rental income arising from operating leases on investment properties is recognised, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis over the non-cancellable period of lease.

6.4 Cash and cash equivalents

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

6.5 Provisions

Provisions are 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 of obligation can be made. Provisions are regularly reviewed and adjusted to reflect the current best estimate.

6.6 Finance income

Finance income is recognised as the interest accrues using the effective interest method.

6.7 Net assets value per unit

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

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.8 Earnings per unit

Earnings per unit (EPU) is calculated by dividing the profit or loss attributable to unit holders of the Fund by the weighted average number of units outstanding during the year.

6.9 Dividend

Unpaid dividend to the unit holders is recognized as a liability in the financial statements in the period in which the dividends are declared by the Fund's Board.

6.10 Zakat

Zakat is provided for in accordance with Zakat, Tax and Customs Authority (ZATCA) regulations. Adjustment arising from final zakat assessment are recorded in the period in which it is finalised.

6.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur.

6.12 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where 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 assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

6.13 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost includes lease receivables, investment in finance lease and cash and cash equivalents.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.13 Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets are classified as investments at fair value through profit or loss if they are acquired for the purpose of selling or repurchasing them in the near term. The Fund designated its holding in a local quoted securities portfolio as financial assets at fair value through profit or loss. Such investments are carried in the statement of financial position at fair value with net changes in fair value presented in the statement of profit or loss.

Derecognition

A financial asset is primarily 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.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Impairment of financial assets

The Fund recognises an allowance for expected credit losses (ECLs). ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For rent receivables, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the tenants and the economic environment. Collateralized debts are assessed by management for Expected Credit Loss (ECL) on an individual basis, whereby the debt is assessed in conjunction with underlying collateralization upon which ECL is calculated.

6.14 Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)
NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6.14 Financial liabilities (Continued)

Subsequent measurement

Loans, borrowings and payables

After initial recognition, borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well through the EIR amortisation process. Transaction costs are amortised using the EIR method from the date at which the loan is recognised over the repayment term.

Derecognition

A financial liability is derecognised when the obligation is discharged, cancelled or expires.

6.15 Fair value measurement

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Fair value measurements are those derived from quoted prices in an active market (that are unadjusted) for identical assets or liabilities.
- Level 2 - Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly observable.
- Level 3 - Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****7 - SEGMENT INFORMATION**

The Fund Manager monitors the operating results of the Fund's business segments separately for the purpose of making decisions about resource allocation and performance assessment.

Business segments

For management purposes, the Fund is organised into three major segments, namely:

i) Commercial properties:

Includes commercial complexes that offer leasable space.

ii) Residential properties:

Includes residential compounds, hotel and hotel apartments.

iii) Warehouse properties:

Includes closed warehouse facilities.

Allocation of the segment revenues ,profit or loss, assets and liabilities as at 31 December 2021 are as following:

	<i>Commercial properties</i>	<i>Residential properties</i>	<i>Warehouse properties</i>	<i>Unallocated</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Revenue					
Major customers	6,572,335	63,658,064	1,776,833	-	72,007,232
Others	16,776,798	-	-	-	16,776,798
	<u>23,349,133</u>	<u>63,658,064</u>	<u>1,776,833</u>	<u>-</u>	<u>88,784,030</u>
Expenses					
Depreciation, amortization and impairment loss	(7,968,051)	(14,489,510)	(5,776,268)	-	(28,233,829)
Others, net	-	-	-	(30,681,320)	(30,681,320)
	<u>15,381,082</u>	<u>49,168,554</u>	<u>(3,999,435)</u>	<u>(30,681,320)</u>	<u>29,868,881</u>
Profit for the year					
	<u>396,929,547</u>	<u>802,592,631</u>	<u>139,825,923</u>	<u>102,422,935</u>	<u>1,441,771,036</u>
Total assets					
	<u>404,638,770</u>	<u>92,126,250</u>	<u>50,720,431</u>	<u>35,515,985</u>	<u>583,001,436</u>
Total liabilities					

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****7 - SEGMENT INFORMATION (Continued)**

Allocation of the segment revenues ,profit or loss, assets and liabilities as at 31 December 2020 are as following:

	<i>Commercial properties</i>	<i>Residential properties</i>	<i>Warehouse properties</i>	<i>Unallocated</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Revenue					
Major customers	6,218,994	65,330,166	4,614,476	-	76,163,636
Others	17,291,224	-	-	-	17,291,224
	<u>23,510,218</u>	<u>65,330,166</u>	<u>4,614,476</u>	<u>-</u>	<u>93,454,860</u>
Expenses					
Depreciation, amortization and impairment loss	(8,411,122)	(13,845,694)	(992,898)	-	(23,249,714)
Others, net	-	-	-	(34,128,802)	(34,128,802)
	<u>15,099,096</u>	<u>51,484,472</u>	<u>3,621,578</u>	<u>(34,128,802)</u>	<u>36,076,344</u>
Profit for the year					
	<u>473,124,547</u>	<u>725,005,408</u>	<u>88,907,789</u>	<u>67,102,088</u>	<u>1,354,139,832</u>
Total assets					
	<u>455,548,291</u>	<u>2,948,795</u>	<u>-</u>	<u>13,942,027</u>	<u>472,439,113</u>

Geographical segments

The Fund's assets and operations are all located in the Kingdom of Saudi Arabia except for The Box the self storage which is located in the United Arab Emirates whereby the land upon which the building is built is recognised in the statement of financial position as an investment property and an investment in finance lease for the net investment in finance lease resulted from the disposal of the building portion of the property.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****8 - INVESTMENT PROPERTIES**

	<i>2021</i>	<i>2020</i>
	<i>SR</i>	<i>SR</i>
Owned investment properties (a)	1,016,931,494	940,747,040
Right of use assets (b)	91,990,981	99,030,706
	<u>1,108,922,475</u>	<u>1,039,777,746</u>

(a) Owned investment properties

	<i>Land</i>	<i>Buildings</i>	<i>Furniture, fixture and equipment</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost:				
1 January 2021	529,376,947	424,184,388	52,678,780	1,006,240,115
Additions	34,409,497	49,086,193	13,882,868	97,378,558
31 December 2021	<u>563,786,444</u>	<u>473,270,581</u>	<u>66,561,648</u>	<u>1,103,618,673</u>
1 January 2020	459,588,770	404,261,998	52,678,780	916,529,548
Additions	69,788,177	52,682,253	-	122,470,430
Disposals	-	(32,759,863)	-	(32,759,863)
31 December 2020	<u>529,376,947</u>	<u>424,184,388</u>	<u>52,678,780</u>	<u>1,006,240,115</u>
Accumulated depreciation and impairment:				
1 January 2021	7,082,415	40,660,071	17,750,589	65,493,075
Impairment loss	4,704,234	-	-	4,704,234
Charge for the year	-	10,840,931	5,648,939	16,489,870
31 December 2021	<u>11,786,649</u>	<u>51,501,002</u>	<u>23,399,528</u>	<u>86,687,179</u>
1 January 2020	7,082,415	30,168,453	12,471,171	49,722,039
Charge for the year	-	10,491,618	5,279,418	15,771,036
31 December 2020	<u>7,082,415</u>	<u>40,660,071</u>	<u>17,750,589</u>	<u>65,493,075</u>
Net book value:				
31 December 2021	<u>551,999,795</u>	<u>421,769,579</u>	<u>43,162,120</u>	<u>1,016,931,494</u>
31 December 2020	<u>522,294,532</u>	<u>383,524,317</u>	<u>34,928,191</u>	<u>940,747,040</u>

Owned investment properties represent the Fund's investments in various residential compounds, warehousing facilities, showrooms, retails, hotel and hotel apartments located within the Kingdom of Saudi Arabia except for one warehouse in UAE.

Investment properties at 31 December 2021 with a net book value of SR 799.54 million (31 December 2020: SR 813.86) million are pledged as security against bank borrowings (note 13).

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****8 - INVESTMENT PROPERTIES (Continued)****(a) Owned investment properties (Continued)**

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on valuations prepared by independent evaluators. In accordance with CMA instructions, investment properties are carried at cost less accumulated depreciation and impairment loss if any.

The fair values of the properties are based on valuations performed by Olaat Valuation Company, Abaad Real Estate Valuation, ValuStrat consulting and JLL Valuation (2020: Olaat Valuation Company, ValuStrat consulting and JLL Valuation) all are independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM).

As at 31 December 2021, the average valuation of the above investment properties amounted to SR 1,063,546,807 (31 December 2020: 984,014,440). Key assumptions used for the valuation of investment properties include discount rate ranging from 8% to 10% (31 December 2020: 8% to 9%) and income yield rate ranging from 8 % to 10% (31 December 2020: 8% to 8.5%).

Except for the Box the self storage property, all of the above properties are registered under the name of the Hifith Al-Musharaka Real Estate Company, a special purpose entity jointly owned by the Fund Manager and Al Inma Investment Company ("the Custodian"). The title deed of the Box the self storage is registered under the name of the MRCO DMCC, a special purpose Emarati entity owned by Hifiz Al Musharaka Real Estate Company, a legal entity formed for the sole purpose of facilitating the legal formalities of owning the Box self storage property.

(b) Right of use assets

	<i>Land</i>	<i>Buildings</i>	<i>Total</i>
	<i>SR</i>	<i>SR</i>	<i>SR</i>
Cost:			
1 January 2021 and 31 December 2021	58,403,266	58,430,976	116,834,242
1 January 2020	62,754,430	60,630,866	123,385,296
Disposals	(4,351,164)	(2,199,890)	(6,551,054)
31 December 2020	58,403,266	58,430,976	116,834,242
Accumulated Amortization:			
1 January 2021	9,206,934	8,596,602	17,803,536
Charge for the year	3,502,556	3,537,169	7,039,725
31 December 2021	12,709,490	12,133,771	24,843,261
1 January 2020	5,712,530	5,494,222	11,206,752
Charge for the year	3,790,550	3,688,128	7,478,678
Disposals	(296,146)	(585,748)	(881,894)
31 December 2020	9,206,934	8,596,602	17,803,536
Net book value			
31 December 2021	45,693,776	46,297,205	91,990,981
31 December 2020	49,196,332	49,834,374	99,030,706

The Fund has acquired right of use assets ("ROU") of certain commercial properties, i.e. land and building for term ranging from 15.5 to 16.5 years.

The fair values of the ROU are based on valuations performed by Olaat Valuation Company and Abaad Real Estate Valuation (2020: Olaat Valuation Company and ValuStrat consulting) all are, independent valuers accredited by the Saudi Authority for Accredited Valuers.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****8 - INVESTMENT PROPERTIES (Continued)****(b) Right of use assets (Continued)**

As at 31 December 2021, the average valuation of the buildings amounted to SR 66,448,991 (2020: SR 60,515,472) calculated by allocating the overall average valuation of the acquired right of use buildings amounted to SR 134,448,271 (2020: SR 124,219,737) to the remaining area after the derecognition of the portion of buildings that was derecognised on finance lease arrangements. The valuation is determined as an average value of the valuation reports made by two independent valuers. Key assumptions used for the valuation of the ROU include discount rate ranging between 7.5% to 12% (31 December 2020: 8.5% to 11%).

Fair value hierarchy

The fair value of investment properties is classified in the third level of fair value hierarchy.

Any significant changes in the assumptions used for fair valuation of investment properties such as discount rates, yield, rental growth, vacancy rate etc. would result in significantly lower/higher fair value of those assets.

9 - NET INVESTMENT IN FINANCE LEASES

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Gross lease receivables	356,804,687	385,550,599
Finance income	(126,379,061)	(138,290,601)
	<u>230,425,626</u>	<u>247,259,998</u>

During the year 2020 the Fund entered into two new finance lease agreements as a lessor against a) newly acquired warehouse in UAE with net investment in finance leases amounted to SR 32,759,863 and; b) right of use property (ROU) with net investment in finance lease amounted to SR 7,220,820. The Fund has recognised gain of SR 1,551,660 on recognition of investment in finance lease on ROU properties.

The maturity analysis of lease liabilities as at 31 December 2021 is as follows:

	<i>Less than one</i>	<i>One to five</i>	<i>More than five</i>	<i>Total</i>
	<i>year</i>	<i>years</i>	<i>years</i>	
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Gross lease receivables	22,753,525	86,525,469	247,525,693	356,804,687
Finance income	(9,674,608)	(41,980,469)	(74,723,984)	(126,379,061)
	<u>13,078,917</u>	<u>44,545,000</u>	<u>172,801,709</u>	<u>230,425,626</u>

The maturity analysis of lease liabilities as at 31 December 2020 is as follows:

	<i>Less than one</i>	<i>One to five</i>	<i>More than five</i>	<i>Total</i>
	<i>year</i>	<i>years</i>	<i>years</i>	
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Gross lease receivables	30,493,864	85,193,671	269,863,064	385,550,599
Finance income	(9,952,774)	(43,907,912)	(84,429,915)	(138,290,601)
	<u>20,541,090</u>	<u>41,285,759</u>	<u>185,433,149</u>	<u>247,259,998</u>

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****10 - LEASE RECEIVABLES**

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Lease receivables - Billed	40,621,109	18,462,879
Lease receivables - Unbilled	3,004,909	1,308,985
	43,626,018	19,771,864
Expected credit losses	(8,109,586)	(8,888,208)
	35,516,432	10,883,656

An aged analysis of rent receivables as at 31 December 2021 and 2020 is as follows:

	<i>Neither past due nor impaired</i>	<i>Days past due</i>				<i>Total</i>
		<i>< 180 days</i>	<i>181-270 days</i>	<i>270-365 days</i>	<i>> 365 days</i>	
	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
2021	3,004,909	25,907,518	1,784,617	6,301,667	6,627,307	43,626,018
2020	1,308,985	5,386,072	3,876,199	781,352	8,419,256	19,771,864

The movement in the expected credit losses is as follows:

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
1 January	8,888,208	2,920,968
(Reversal) / allowance for expected credit losses	(116,394)	7,651,575
Written - off	(662,228)	(1,684,335)
31 December	8,109,586	8,888,208

Lease receivable aged more than 270 days includes an amount of SR 5.94 million from a tenant, this receivable is secured by a promissory note by the lessee entity and personal guarantee of the owner of lessee entity.

11 - PREPAYMENTS AND OTHER ASSETS

	<i>Note</i>	<u>2021</u>	<u>2020</u>
		<u>SR</u>	<u>SR</u>
Deferred loan arrangement fee	11.1	3,489,350	4,022,209
Advance paid for capital expenditure		-	1,452,307
Prepaid expenses		-	68,751
VAT receivable		-	287,074
		3,489,350	5,830,341

11.1 Deferred loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility amounting to SR 586.32 million (2020: SR 688.61 million) (note 13).

12 - INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

During 2020 the Fund made an investment in Musharaka Murabahat and Sukuk Fund which is an open-ended investment fund, managed by Musharaka Capital Company. The Fund recognised this investment at fair value through profit of loss (FVTPL).

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****13 - BORROWINGS**

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Long term loan	413,676,688	311,389,561
Less: transaction costs	(8,411,424)	(7,637,944)
	<u>405,265,264</u>	<u>303,751,617</u>

During the period ended 31 December 2018 the Fund entered into a Sharia compliant bank facility agreement, with Al Rajhi bank in the form of long term loans with an overall withdrawing limit of SR 400 million to finance the acquisition of income generating assets. During the year ended 31 December 2020, the Fund has increased its credit facility limit from SR 400 million to SR 1 billion. These facilities carry interest at SIBOR (6 months) plus a margin of 1.65% (31 December 2020: 1.65% to 1.85%). Interest is payable on a semi-annual basis.

The Fund has withdrawn SR 413.68 million till reporting date for the purpose of acquiring investment properties. The loan is secured by a mortgage of the Fund's investment properties, promissory note and assignment of rental income (note 8).

The maturity analysis of borrowings as at 31 December is as follows:

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
2025	165,232,670	165,232,670
2026	47,381,333	47,381,333
2027	108,122,228	98,775,558
2028	92,940,457	-
	<u>413,676,688</u>	<u>311,389,561</u>

14 - LEASE LIABILITIES

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Gross lease liabilities	191,716,280	202,706,280
Finance charges	(49,496,093)	(55,867,339)
	<u>142,220,187</u>	<u>146,838,941</u>

The maturity analysis of lease liabilities as at 31 December 2021 is as follows:

	<i>Less than one</i>	<i>One to five</i>	<i>More than five</i>	<i>Total</i>
	<i>year</i>	<i>years</i>	<i>years</i>	
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Gross lease liabilities	19,210,000	51,106,000	121,400,280	191,716,280
Finance charges	(4,819,816)	(21,847,940)	(22,828,337)	(49,496,093)
	<u>14,390,184</u>	<u>29,258,060</u>	<u>98,571,943</u>	<u>142,220,187</u>

The maturity analysis of lease liabilities as at 31 December 2020 is as follows:

	<i>Less than one</i>	<i>One to five</i>	<i>More than five</i>	<i>Total</i>
	<i>year</i>	<i>years</i>	<i>years</i>	
	<u>SR</u>	<u>SR</u>	<u>SR</u>	<u>SR</u>
Gross lease liabilities	18,710,000	49,249,000	134,747,280	202,706,280
Finance charges	(5,013,642)	(23,088,019)	(27,765,678)	(55,867,339)
	<u>13,696,358</u>	<u>26,160,981</u>	<u>106,981,602</u>	<u>146,838,941</u>

Lease liabilities represents present value of minimum lease payments for lease of lands. During the year 2021 and 2020, the Fund received a concession on it's land lease of SR 820,000 recognized as other income.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****15 - UNEARNED RENTAL REVENUE**

Unearned rental revenue represents advance rent received / receivable, against operating lease of investment properties (note 8).

16 - FUND MANAGEMENT FEE

The Fund is managed and administered by the Fund Manager. For these services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 1.2% of the Funds total assets.

17 - OTHER LIABILITIES

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
Accrued expenses	2,086,728	1,624,487
Accrued finance charges	2,231,893	1,503,719
Security deposits	1,114,347	978,000
Payable against purchase of an investment property	-	1,474,000
Other	403,644	198,769
	<u>5,836,612</u>	<u>5,778,975</u>

18 - ZAKAT

Pursuant to the the Fund manager initiative to register the Fund under Zakat, Tax and Customs Authority (ZATCA), the Fund started to calculate its zakat provision from 2021. Zakat charge amounting to SR 1,959,473 provided in the statement of profit or loss and other comprehensive income for the year ended December 31, 2021.

The Fund is subject to zakat. Zakat is payable at 2.5% of the greater of the approximate zakat base and adjusted profit. As at 31 December 2021, the principal elements of zakat base which are adjusted to calculate zakat provision are as follows:

	<i>SR</i>
Total assets	1,441,771,036
Total liabilities	583,001,436
Net assets attributable to unit holders, opening balance	858,769,600
Profit before zakat	<u>31,828,354</u>

The movement in the zakat provision is as follows:

	<i>SR</i>
1 January	-
Charge for the year	1,959,473
31 December	<u>1,959,473</u>

Zakat status

During the year the Fund manager started the process of registering the Fund under ZATCA and as at the reporting date, the registration is still under process. The Fund has not filed the zakat return for the period up to 2021, accordingly no zakat assessments have yet been raised by the ZATCA, had the registration process suspended by the Fund manager, the provision will be credited back to the statement of profit or loss and other comprehensive income on the year in which the provision is deemed no longer needed.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****19 - OTHER OPERATING EXPENSES**

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
VAT expense	1,915,807	1,428,763
Legal fee	1,602,250	-
Right of use property manager fee	1,237,571	1,570,006
Utilities	1,270,142	1,141,010
Fees and subscriptions	931,682	832,459
Valuation fee	268,130	416,805
Board of Director's fee	30,000	50,000
Others	563,266	690,530
	<u>7,818,848</u>	<u>6,129,573</u>

20 - FINANCE INCOME

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
Interest income on short - term deposits	-	54,750
Interest income from investment in finance lease	11,911,540	10,061,316
	<u>11,911,540</u>	<u>10,116,066</u>

21 - FINANCE COSTS

	<u>2021</u>	<u>2020</u>
	<i>SR</i>	<i>SR</i>
Interest expense on borrowings	8,950,014	9,487,967
Amortization of loan arrangement fee	1,863,249	1,553,694
Interest expense on lease liabilities	6,371,246	6,643,394
	<u>17,184,509</u>	<u>17,685,055</u>

22 - RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent Musharaka Capital Company (Fund Manager), Alinma Bank (Custodian), the unit holders, the Fund Board and the Fund Sharia Committee.

The following table provides the total amount of transactions that have been entered into with related parties during the period and their related balances:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2021</u>	<u>2020</u>
		<i>SR</i>	<i>SR</i>
Fund Manager	Management fees	16,629,524	15,369,375
	Commission on purchase of investment property and right of use asset	855,000	1,178,803
	Loan arrangement fee	1,444,500	2,250,000
Fund Board	Board of Directors remunerations	30,000	50,000
Sharia Committee	Sharia Committee remunerations	33,000	33,000
Custodian	Custody fee	100,000	100,000
Units holder	Rental revenue	13,481,532	14,094,715
Affiliate Fund	Investment in units of the Fund (managed by same Fund Manager)	-	5,000,000
		<u>-</u>	<u>5,000,000</u>

The Fund Manager's investment in the Fund at 31 December 2021 is 4.64 million units (31 December 2020 is 4.64 million units).

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021****22 - RELATED PARTIES TRANSACTIONS AND BALANCES (Continued)**

Balances with related parties as at 31 December are as follows:

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Fund Manager (a)	9,864,843	8,801,043
Custodian (b)	191,667	91,667
	<u>10,056,510</u>	<u>8,892,710</u>

(a) Presented under accrued management fee

(b) Presented under accrued expenses

The basis and term of payment for fees payable to related parties are as per terms and conditions of the Fund approved by CMA as follows:

<u>Type of fee</u>	<u>Basis and rate</u>	<u>Payment term</u>
Management fees	1.2% of the total assets	Every six (6) months
Commission on purchase of investment property and right of use	Up to 1% of the value of real estate's assets purchased or sold	Upon completion of the transaction
Loan arrangement fees	Up to 2% of the value of financing.	After obtaining financing
Board of directors remunerations	SR 5,000 per meeting only payable to the independent members, maximum up to SR 80,000 per annum for all members.	After the meeting of the Board of Directors
Sharia Committee remunerations	SR 33,000 per annum	Every six (6) months
Custody fees	SR 100,000 per annum	Annually

23 - FAIR VALUES AND RISK MANAGEMENT**23.1 Fair value measurements of financial instruments**

The Fund does not have financial assets and financial liabilities which are measured at fair value, except for Investment at fair value through profit or loss (FVTPL) which is classified in the first level of fair value hierarchy.

23.2 Risk Management

The Fund's activities expose it to a variety of financial risks, credit risk, liquidity risk and market price risk.

Credit Risk:

Credit risk is the risk that one party to financial instruments will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to credit risk on the followings:

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Net investment in finance leases	230,425,626	247,259,998
Cash and cash equivalents	58,135,003	45,169,041
Lease receivables	35,516,432	10,883,656
	<u>324,077,061</u>	<u>303,312,695</u>

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****23 - FAIR VALUES AND RISK MANAGEMENT (Continued)****23.2 Risk Management (Continued)**

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

The Fund seeks to limit its credit risk with respect to rent receivables by charging rent in advance and by monitoring outstanding balances on an ongoing basis. As at 31 December 2021, the Fund's lease receivables of SR 35.52 million(2020: SR 10.88 million) are presented net of allowance for Expected Credit Loss ("ECL") of SR 8.11 million (2020: SR 8.89 million).

Net investment in finance lease represents net balance due to the Fund as per contracts with lessee. Future cash flows are expected as per contracts. Bank balances are held with banks with sound credit ratings.

Liquidity Risk:

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

	31 December 2021			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
Financial Liabilities				
Borrowings	413,676,688	-	212,614,003	201,062,685
Lease liabilities	142,220,187	14,390,184	29,258,060	98,571,943
Unearned rental revenue	17,855,057	17,855,057	-	-
Accrued management fees	9,864,843	9,864,843	-	-
Other liabilities	5,836,612	5,836,612	-	-
	589,453,387	47,946,696	241,872,063	299,634,628
	31 December 2020			
	Carrying amount	Less than 1 year	1 year to 5 years	More than 5 years
	SR	SR	SR	SR
Financial Liabilities				
Borrowings	311,389,561	-	165,232,670	146,156,891
Lease liabilities	146,838,941	13,696,358	26,160,981	106,981,602
Unearned rental revenue	7,268,537	7,268,537	-	-
Accrued management fees	8,801,043	8,801,043	-	-
Other liabilities	5,778,975	5,778,975	-	-
	480,077,057	35,544,913	191,393,651	253,138,493

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

Market Risk:

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

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)**FOR THE YEAR ENDED 31 DECEMBER 2021****23 - FAIR VALUES AND RISK MANAGEMENT (Continued)****23.2 Risk Management (Continued)*****Currency Risk:***

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that's not the Fund's currency. The Fund has no exposure to currency risk.

Interest Rate Risk

Interest rate risk is the exposure associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial position and cash flows. Variable rate financial liabilities as at 31 December 2021 amounted to SR 405,265,264 (2020: SR 303,751,617).

An increase of 100 basis points in the interest rate would have increased finance costs for the year ended 31 December 2021 by SR 4,136,767 (2020: SR 3,113,896).

Management monitors the changes in interest rates and manages its impact on the financial statements.

24 - OPERATING LEASE ARRANGEMENTS***Fund as a lessor***

The Fund has entered into operating leases on its investment properties and right of use with lease terms between 5 to 16.5 years. The minimum rents receivable under non-cancellable lease agreements are as at 31 December are as follows:

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Within one year	56,767,324	85,976,736
After one year but not more than five years	77,469,312	84,705,721
More than five years	136,129,424	118,188,831
	<u>270,366,059</u>	<u>288,871,289</u>

25 - EARNINGS PER UNIT

The calculation of basic earnings per unit is based on the profit attributable to unit holders and the weighted average number of units outstanding.

	<u>2021</u>	<u>2020</u>
	<u>SR</u>	<u>SR</u>
Profit for the year attributable to the unit holders	29,868,881	36,076,344
Weighted average number of units	88,000,000	88,000,000
Basic and diluted earnings per unit	<u>0.34</u>	<u>0.41</u>

26 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Non-current portion of net investment in finance leases (note 9), long term loan and non-current portion of lease liabilities (note 14) are expected to be realized after twelve (12) months from the reporting date. All other financial assets and liabilities are of a current nature.

27 - EVENTS AFTER THE REPORTING DATE

After the reporting date the Fund Manager has declared cash dividend amounting SR 26.4 million for the second half of the year ended 31 December 2021.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

28 - DIVIDENDS

During the year, the Fund Board declared dividends of SR 52.8 million (2020: SR 61.6 million declared). As per the terms and conditions of the Fund, it aims to distribute cash dividend, at least once annually, not less than 90% of the net profit.

29 - APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on March 29, 2022.