



# SICO Saudi REIT Fund

Annual Report

# 2022



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# Fund Overview

## Fund Overview

**SICO Saudi REIT Fund** is a Sharia-compliant closed-ended real estate investment-traded fund. The fund operates in accordance with the Real Estate Investment Funds Regulations issued by the Capital Market Authority. The fund was listed on Tadawul (Saudi Stock Exchange) in January 2018, and its units are traded in accordance with the rules and regulations of Tadawul. The term of the fund is (99) years from the date of listing, and the size of its initial assets is 572,400,000 SAR.

## Fund Manager

**SICO Capital Company**  
King Fahd Road -CMC Tower – 5th Floor  
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## Custodian

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## Auditor

**PKF Al Bassam & Co.**  
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# Fund's Assets

## Property 1: Eskan Tower 4

Sector	Hospitality
City	Makkah
Land size	1,287.97 m2
Built up area	18,053 m2
Acquisition Price	190,000,000 SAR
Main tenant	Eskan for Development and Investment Company
Occupancy rate	100%
Lease term expiration	26-12-2022

## Property 2: Eskan Tower 5

Sector	Hospitality
City	Makkah
Land size	1,394.5 m2
Built up area	19,905 m2
Acquisition Price	182,400,000
Main tenant	Vacant
Occupancy rate	0%
Lease term expiration	26-12-2021

### Property 3: Eskan Tower 6

Sector	Hospitality
City	Makkah
Land size	1,458 m2
Built up area	15,314 m2
Acquisition Price	200,000,000 SAR
Main tenant	Eskan for Development and Investment Company
Occupancy rate	100%
Lease term expiration	26-12-2022

### Property 4: I-Offices

Sector	Offices
City	Riyadh
Land size	6,155 m2
Built up area	23,195 m2
Acquisition Price	135,000,000 SAR
Main tenant	Multiple tenants
Occupancy rate	100%
Lease term expiration	Multiple tenant

## Portfolio Allocation by Sector

based on the market value as of December 2022

Hospitality	%74
Offices	%26

## Portfolio Allocation by Assets

based on the market value as of December 2022

ESKAN Tower 4	%25
ESKAN Tower 5	%25
ESKAN Tower 6	%24
I-Offices	%26

## Portfolio Allocation by Location


based on the market value as of December 2022

Makkah	%74
Riyadh	%26





# Fund's Investment Objectives

A decorative graphic consisting of a series of overlapping, semi-transparent, light blue shapes that resemble a stylized 'S' or a series of curved lines, positioned to the left of the main text block.

**The Fund targets to invest at a minimum 75% of assets under manager in fully developed income generating real estate assets within the Kingdom of Saudi Arabia, while the Fund can invest a maximum of 25% of assets under management in real estate investments outside the Kingdom of Saudi Arabia.**



# Percentage of value of leased and vacant real estate to total value

## Percentage of value of leased and vacant real estate assets of total value of real estate assets

based on the market value as of December 2022

Property	% of Assets Value	Tenancy Status
ESKAN Tower 4	%25	Leased
ESKAN Tower 5	%25	Vacant
ESKAN Tower 6	%24	Leased
I-Offices	%26	Leased



# Percentage of rent for each asset from total rental income

**Percentage of rent for each asset from total rental income based on lease agreements during 2022**

ESKAN Tower 4	35%
ESKAN Tower 5	-
ESKAN Tower 6	37%
I-Offices	28%





# Details of Uncollected Rent

A decorative graphic consisting of a series of concentric, overlapping semi-circles or a fan-like shape, rendered in a light blue color.

## Uncollected Rents

On 06 December 2022, the Fund Manager undertook legal proceedings against Eskan Company for Investment and Development which is the master tenant for Eskan 4 and Eskan 6 Hospitality Towers, due to incomplete payment of the rental income, where the master tenant paid only SR 8,000,000 out of SR 26,325,000, and the outstanding amount is SR 18,325,000, and uncollected rental income represents 50% of total rental income.



# Percentage of Non-cash Expenditure from Net Income

## Percentage of Non-cash expenditure from Net Income

	SAR	% of Net Income / (Loss)
Net Income / (Loss)	(83,388,207)	-
Depreciation	(9,706,356)	11.64%
Provision for outstanding legal cases	(15,993,927)	19.18%
Impairment Charges in Investment Properties	(83,640,644)	100.30%



# Fund's Performance

## Comparative Table covering the last three financial years

	2020	2021	2022
Fund net asset value	501,646,098	502,164,162	410,189,955
Fund net asset value per unit	8.76	8.77	7.17
Highest net asset value of the Fund per unit	9.59	8.77	9.01
Lowest net asset value of the Fund per unit	8.76	8.65	7.17
Number of units issued at the end of the financial year	57,240,000	57,240,000	57,240,000
Income distributed per unit	0.10	0.15	-
Total expense ratio*	1.75%	1.13%	4.52%
Debt to AUM Ratio**	0%	22.9%	25.97%

\*Excluding depreciation and impairment in real estate investments.

## Details of Borrowed Assets

On 09 March 2021, the Fund obtained Shariaa compliant bank financing in the amount of SR 149,891,640 from Riyadh Bank, the loan represents 25.97% from total assets value as of 31 December 2022, and the loan duration is for 5 years, and the exposure as of 31 December 2022 is 3.19 years, where the due date of the loan principal amount is in March 2026.



## Performance Record

(a) Total Return for one year, three years, and five years (since inception)

Period	One Year	Three Years	Five Years	Since Inception*
Based on Market Price	-35%	-31%	N/A	-44%
Based on Fair Value per Unit	-18%	-31%	N/A	-28%

\*Based on Par Value

\*\*Excluding dividends distributions

(b) The annual total revenue for each of the last ten financial years or (since inception)

Period	2018*	2019	2020	2021	2022
Based on Market Price	-28.60%	13.59%	-1.36%	7.13%	-34.77%
Based on Fair Value per Unit	2.90%	0.29%	-15.12%	0.11%	-18.24%

\*Based on Par Value

\*\*Excluding dividends distributions

(c) Main fees, services and expenses incurred by the fund to third parties

	Amount in SAR
Management fees	0
Custodian fees	175,000
Sharia fees	37,500
Director Board fees	20,000
Auditor's fees	35,500
Listing fees	152,706
REITs - Basic Registry Services	400,000
Admin fee	254,510
<b>Total</b>	<b>1,075,216</b>

\*excluding expenses related to property and facility management

### Waiving of Management fees

The Fund Manager has temporarily waived charging management fees which amounts to 1% of net asset value, which is since 15 March 2020, where the Fund Manager waived such fees to alleviate COVID-19 and the pandemic's aftermath as well as the rising interest rates environment has after the fund's returns, and that is in consideration of the unitholders' interests.

## Fundamental & Non-fundamental Changes

- In the general assembly meeting held on 20 January 2022, the unitholders approved the amendment of the fund's investment strategy where the Fund targets to invest at a minimum 75% of assets under manager in fully developed income generating real estate assets within the Kingdom of Saudi Arabia and as per the Fund's most recent audited financial statements, and that replaces the previous investment strategy which limits the investment allocation to a minimum of 55% in the holy cities of Makkan and Madinah and maximum 45% outside the holy cities of Makkan and Madinah. The Fund can invest a maximum of 25% of assets under management in real estate investments outside the Kingdom of Saudi Arabia, real estate development projects, renovation of current assets, assets buyback agreements, leasehold, cash and cash equivalents, shares in Shariaa compliant real estate companies that are listed in Tadawul.

## Statement about any special commission received by the fund manager during the period

The fund manager did not receive any special commissions during 2022.

## Dividends during fund life

Year	2018	2019	2020	2021	2022
Dividend per unit SAR	0.52	0.52	0.10	0.15	0.00



# Fund Board of Directors

During the year 2022, the Fund's Board of Directors held two meetings, in April and in October. The following is a summary of the most important decision made by the fund's board of directors.

- On 20 March 2022, the Fund's Board of Directors approved the acquisition of a mixed use building in Hittin District in the City of Riyadh, with a total value of SR 448 Million excluding other expenses, where the acquisition to be financed by capital increase as well as bank financing.
- On 11 April 2022, the Fund Board of Directors approved to increase the credit facility from SR 500 Million to SR 665 Million.
- On 11 April 2022, the Fund Board of Directors approved to appoint Securities Depository Center Company ("Edaa") to carryout any future dividend distribution to the fund's unitholders.
- On 16 October 2022, the Fund Board of Directors recommended to execute legal proceedings against the master tenant of Eskan Towers 4 and 6 to collect the outstanding rent.



# Risk Assessment Report



## Risk Assessment Report 2022



<b>Fund Manager</b>	SICO Capital Company
<b>Name of the Fund</b>	SICO Saudi REIT
<b>Type</b>	Sharia-Compliant Closed-Ended Real Estate Investment Fund
<b>Objective</b>	Provide regular income to investors by investing in structurally developed and income-generating real estate assets of no less than 75% of the total value of the fund's assets according to the latest audited financial statements in structurally developed and income-generating real estate assets in the Kingdom of Saudi Arabia. In addition, the Fund may invest in real estate outside the Kingdom of Saudi Arabia up to a maximum of 25% of the Fund's total assets.
<b>Tenure</b>	99 years
<b>Risk Level</b>	High

Key Risk	Description	Mitigation
Market Risk	Market risk refers to the risk of loss resulting from adverse movements in market prices in particular Real Estate sector and changes in the conditions of supply and demand therein. Moreover, funds' performance depends on the sectors the property operates in, which will also be affected by regional and local economic and political conditions along with higher competition resulting in lower Real Estate values. Other economic conditions, including, for example, inflation, new government regulations, tax laws and other factors could also have an impact on the value of Fund-owned real estate properties and the Fund's Investments.	Evaluating the property market and its's sectors on semi-annual basis to understand the market conditions that can affect the valuation and tenancy and take necessary actions as appropriate. Regular monitoring of macro-economic conditions and regulatory trends in laws is carried out. Proactive steps to be taken to mitigate or minimize the impact as much as possible. Also regular review of valuations by independent evaluators to assess the future trend and its impact on the fund prices and taking required actions. Regular review of interest rate trends to assess its impact on financing cost of the fund and considering actions to mitigate the higher financing costs.

<p><b>Real Estate Investment General Risk:</b></p>	<p>The return on real estate investments is subject to many interrelated factors, including adverse changes in local, regional, or international economic conditions, adverse conditions in the local market, financial conditions of real estate tenants, buyers and sellers, changes in operating expenses, and changes in laws, regulations, and financial policies, changes in the relative appetite of different types and locations of real estate, non-insurable losses, and other factors beyond the scope of control of the Fund Manager. Any of these factors may contribute to causing material risks that negatively affect the value of the Fund's assets and the Fund's ability to generate any returns on its investments</p>	<p>The Fund Manager to conduct a thorough feasibility study before acquiring any investment by analyzing the economic conditions and of the target market, as well as the Fund's ability to achieve its investment objectives. Fund manager also considers various financing options for new acquisitions taking into account the current interest rate outlook. Furthermore the fund manager will take all appropriate procedures to sell these properties in-line with the prevailing market conditions at the time.</p>
<p><b>Risks of Commercial Real Estate Market</b></p>	<p>The risk of worsening economic conditions adversely affecting the value and liquidity of the commercial real estate assets, level of rent yields, effective collection of rents and Tenants' ability to make payments that ultimately flow to the Fund.</p>	<p>All of the Fund's assets are commercial real estate assets and the Fund Manager will constantly seek opportunities for investment and diversification to secure a stable and sustained income for investors and to reduce the impact of this risk.</p>

<p><b>Credit Risk</b></p>	<p>The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk in case of delay or default from the tenants and other debtors including bank balances money market investments if any and rent receivables.</p>	<p>For Bank balances and placing excess liquidity in money market investments, the fund’s policy is to enter into financial instrument contracts only with reputable counterparties. Fund manager limit fund’s credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.</p> <p>For rent receivables, The fund manager regularly monitor outstanding dues and follow up with tenants for payments.</p>
<p><b>Liquidity Risk</b></p>	<ol style="list-style-type: none"> <li>1. Inability to convert assets into cash without a loss of capital or income in the process.</li> <li>2. Inability to service the debts of the fund and other financial obligations.</li> </ol>	<ol style="list-style-type: none"> <li>1. Fund manager regularly monitors the liquidity of the fund to meet expected obligations including fund expenses on a timely basis. Any sale of asset shall be planned through a proper sale process keeping market conditions into consideration.</li> <li>2. Continuous monitoring of obligations schedule and ensuring sufficient resources availability to honor these obligations.</li> <li>3. Continuously watching liquidity and coverage ratios for any adverse changes. Debt Service Coverage Ratio as per last audited financials provides adequate comfort on ability of the fund to service its debt.</li> </ol>

<p><b>Interest Rate Risk</b></p>	<p>Risk of increase in profit payments due to increasing in interest rate affecting the fund's net income and Assets Value.</p> <p>As the Fund is leveraged using a floating rate facility (SAIBOR 3 Months+ 2.25%), any increase in SAIBOR would result in higher interest expenses and consequently lower total returns available to the Unitholders Over the last year, SAIBOR rate has increased and the upward trend is expected to continue which could have adverse impact on the Fund.</p>	<p>Fund has obtained Islamic financing amounting to SAR 149.89 Mn dated 09 March 2021 from a local Bank, which has a variable a financing cost.</p> <p>The effect on the net assets value of the fund as a result of change in finance cost as at 31 December 2022 due to a reasonably possible change in commission rate, with all other variable held constant, is as follows in case there was 1% change in the financing cost the impact on the net asset value will be c.a. SAR 1.5 Mn.</p> <p>No specific hedge mechanism in place for mitigating the variable interest rate risk. However, fund manager is working on evaluating the most appropriate structure for the fund's capital to serve the interest of the Fund's unit holders. Interest rate hedging may be considered depending upon the cost of the hedging structure.</p>
<p><b>Country Risk</b></p>	<p>The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity</p>	<p>The Fund is fully invested in Saudi Arabia. Fund manager closely monitors Saudi Arabia's regulatory/ policy/ tax landscapes and to anticipate and being prepared for any potential change</p>
<p><b>Regulatory Risk</b></p>	<p>Risk of not fulfilling legal and regulatory regulations as applicable to the fund.</p>	<p>The fund strictly follows all relevant governance and regulatory regulations. The company's governance and compliance department has an oversight on the fund Management activity.</p>

**Concentration Risk**

Excessive concentration of real estate type, sector, or geographic location.

The Fund invests in four Real Estate assets, three of which are located in Makkah and one located in Riyadh.

The Fund is highly concentrated in terms of sector exposure (Hospitality Sector) & geography exposure; however, the fund manager is continuously working to reduce this concentration.

The Fund Manager is working continuously to diversify fund's portfolio in terms of sector and location and thus investment objective has been changed to allow for investing in any income-generating real estate asset in any city within the Kingdom of Saudi Arabia rather than limiting the investment concentration in the holy cities of Makkah and Madinah.

The Fund has unutilized credit facility of SAR 515 Mn with one of Saudi Banks which gives the Fund the flexibility in acquiring new assets swiftly and efficiently.

Below is the comparison of exposure to various sectors between December 2020 to December 2022 as % of the market value of the portfolio, Fund Manager shall continue its effort to further diversify the portfolio.

Assets	Concentration		
	2022	2021	2020
Hotels	74%	79%	100%
Offices	26%	21%	0%



<p><b>Occupancy Risk</b></p>	<p>Risk of fall in occupancy levels of the properties and thereby affecting the rental income of the fund.</p>	<p>The lease agreement for Eskan 4 and Eskan 6 Towers expired on 26 December 2022, While Eskan 5 Tower lease agreement expired on 26 December 2021.</p> <p>On 26 Mar 2023 all three properties were leased to Moro International Company until 31 December 2023, thus allowing the Fund Manager to re-assess the leasing rates for these properties prior to the Ramadan and Hajj Season of the Hijri Year 1445, in-line with the prevailing market conditions and what serves the interests of the unitholders.</p> <p>I offices property is fully occupied.</p> <p>To mitigate this risk tenants' agreement shall have provision of advance notice by either party before terminating the contract, during such period an alternative arrangement can be searched.</p>
<p><b>Risk of Non-renewal of the Lease, Early termination of the lease or Finding Replacement Tenant:</b></p>	<p>Risk of non-renewal of existing leases or renewal at lower than current lease rate Impacting the rental income of the fund.</p>	<p>Provision of advance notice by tenants before terminating the services. During notice, period alternative tenant can be searched. In some cases, the Fund Manager may accept the renewal of lease as per prevailing market conditions. Any significant impact arising due to such renewals shall be disclosed to the market.</p>

<b>Structural Damage Risk</b>	Any adverse event leading to structural damage to properties owned by the fund thereby risking the income generating potential from such properties may have negative impact on income profile of the fund	Preventative maintenance on regular intervals should be carried out to ensure that properties are kept in good condition.
<b>Availability of Appropriate Investments</b>	Fund Manager's inability to identify appropriate investments leading to negative effect on fund's capacity to achieve desired returns.	Fund Manager will regularly study the market and will have access to reputable research reports for new investment opportunity that meets the fund's objective. The Fund manager has an approved credit line with one of Saudi Banks thus enabling it to take advantage of any prevailing opportunities once they raise.
<b>Distributions Volatility Risk</b>	The risk of inability or failure to achieve the periodic or targeted future distribution obligations as per fund's Terms & Conditions (T&C). Because of the underperformance of funds underlying assets.	<p>The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its performance targets.</p> <p>Fund Manager closely monitor:</p> <ul style="list-style-type: none"> <li>• Rents/receivables aging</li> <li>• Debt covenants to ensure that the Fund is in adherence with all the covenants including the distribution conditions.</li> </ul>
<b>Property Manager Risk</b>	Risk of early termination of the property manager contract may impact the operations of the properties that it manages.	Provision of advance notice of at least 6 months by either party before terminating the services. During which alternative arrangement can be made.

<b>Dependence on Key Personnel</b>	Risk of loss of services of any of the members of management team, in general (whether through resignation or otherwise).	SICO Capital ensures that Real Estate units is staff with experienced and qualified personnel. Any vacancies are timely filled with suitable replacement staff.
<b>Conflicts of Interest Risk</b>	Risk of conflict of interest between the fund manager and unit holder/s	Compliance function as an independent function will continuously monitor for conflict of interest cases and report the same as per applicable regulations.
<b>Operational Risk</b>	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 such as natural disasters.	Fund Manager to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders. And by ensuring compliance with best practices, for key activities that require subject matter expertise can be outsourced to experienced and reputable service providers with strong track record.
<b>Fund Manager Risk</b>	Unitholders might not have the opportunity to participate in or control the Fund's daily operations or Decisions including investment Decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.	The Fund Manager has to set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly. The Fund Manager investment team to act in the best interest of Unitholders and to put all efforts to achieve the Fund's long term growth aspirations.
<b>Risk of Reliance on Rent Revenues</b>	The risk of having the majority of fund's investments concentrated in limited number of sectors exposing the Fund to the risk of economic recession.	The fund manager will put all efforts to achieve the maximum diversification possible in line with funds strategy and T&Cs. Risk management will regularly monitor concentration of real estate type, sector and geography.

<p><b>Risk of Investments Underperformance</b></p>	<p>The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates.</p>	<p>In order to mitigate such risks Fund Manager to follow a number of strategies including:</p> <ul style="list-style-type: none"> <li>• Sign long term contracts with tenants with provisions for contractual increase in the rent</li> <li>• Ensure strong diversified tenant mix</li> <li>• Asset and tenant diversification of the Fund</li> </ul> <p>The Fund Manager will closely monitor the performance of the underlying assets and to meet regularly with the property managers/operator to monitor any issues/ events that might lead to Fund's underperformance.</p>
<p><b>Real Estate Valuation Risks</b></p>	<p>Risk of Incorrect valuation of the properties resulting in notional and reputational losses.</p>	<p>The investment properties were valued taking into consideration a number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, by two independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM). The Fund Manager uses the average of two valuations for reporting and Decision-making. Furthermore, the Fund Manager will mitigate this risk by:</p> <ul style="list-style-type: none"> <li>• Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition.</li> <li>• Post-acquisition: focusing on long term value creation for Unitholders, and on its ability to generate</li> </ul>

		sustainable periodic rental income and long term growth potential
<b>Development Risk</b>	The Risk associated with real estate projects under development include: Delay in construction, costs overrun and time overrun which may affect the profitability and / or financial feasibility of the Project	This type of risk is relatively mitigated because the Fund have a specified CAP of 25% on investment in assets, which are under development. Furthermore the Fund Manager to perform the development work only after carrying out all necessary technical, financial and legal due diligence.
<b>Leverage Risk</b>	The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default.	<p>The Fund Manager to closely monitor:</p> <ul style="list-style-type: none"> <li>• Liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment commitments as they arise</li> <li>• Assessing cash flows from each property and for the total fund on regular basis to ensure that fund is adequately liquid.</li> <li>• Any external funding from the bank should be properly analyzed and quotes from different banks should be obtained before going ahead with any bank funding</li> <li>• Debt covenants to make sure that all covenants are met (all covenants are met as of 31/12/2022)</li> </ul>
<b>Litigation Risk</b>	The Fund is exposed to the possibility of entering into disputes ,procedures and lawsuits with third parties due to the nature of its activities. In such cases the fund will bear legal fees in relation to meetingthe claims of third parties in	The Fund Manager will take all possible and available actions including legal procedures to protect the interests of unit holders. During the year, Fund Manager has appointed a specialized law firm to initiate a legal proceedings against (Eskan For Development & Investment Company) the previous master tenant of

	<p>addition to the amounts of settlement or judgements which would reduce the fund's assets and the cash available for distribution to unitholders. The fund manager and others are entitled to obtain compensation from the fund in relation to these judicial disputes according to certain restrictions based on the nature of any of the procedures, disputes or lawsuits, which negatively affects the profits of the fund.</p>	<p>Eskan Tower 4 and Eskan Tower 6 hotel properties in Makkah Al-Mukarramah, , for the purpose of collection the rental dues owed in favor of the fund which has been due since 27 December 2021, where the fund manager has taken the necessary legal action in order to protect the unitholders interests after the failure of all negotiations of an amicable resolution of overdue rents to the benefit of the unit holder without forgoing their rights, without reaching an agreement, the</p>
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Investment in the Fund involves substantial risk, which may impact the performance of the Fund. Though some of these risks have been mitigated through the actions taken by the Fund Manager they are not eliminated. There also may be other risks and un-certainties that are not currently known to the Fund Manager. The above risks do not purport to serve as a full comprehensive explanation, representation or statement of all the risk factors involved in the investment in Fund or its Units the Fund Manager may consider to be currently insignificant and which may have a negative impact on the Fund's perspectives and business. No guarantee can be made that the Fund will be able to achieve the investment objective or that investors will receive a return on their capital.



# Financial Statements



**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER**  
**2022 AND INDEPENDENT AUDITOR'S REPORT**

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

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**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**  
**AND INDEPENDENT AUDITOR'S REPORT**

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# PKF

Ibrahim Ahmed Al-Bassam & Co.  
Certified Public Accountants  
(Member of PKF International)

## INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)

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### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the SICO SAUDI REIT FUND (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 that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Chartered and Professional Accountants (SOCPA).

We have audited the financial statements of the Fund, which comprise of the following:

- █ The statement of financial position as at 31 December 2022;
- █ The statement of comprehensive (loss) / income for the year then ended;
- █ The statement of changes in net assets (equity) for the year then ended;
- █ The statement of cash flows for the year then ended, and;
- █ The notes to the financial statements, including a summary of significant accounting policies.

#### 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 from 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 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 thereon, and we do not provide a separate opinion on these matters.

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## INDEPENDENT AUDITOR'S REPORT

### TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)

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### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### KEY AUDIT MATTERS (Continued)

Key Audit Matters	How our audit addressed the key audit matter
<b>Investment Property</b>	
<p>SICO Saudi REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia.</p> <p>Investment properties are held for capital appreciation and / or rental yields, are stated at cost less accumulated depreciation and any impairment losses.</p> <p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount of may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgement by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.</p>	<p>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> <li>■ We obtained two valuation reports from independent real estate evaluators Taqueem certified for each investment properties as at 31 December 2022 and confirmed that the valuation approaches are suitable for use in determining the fair values as at the reporting date;</li> <li>■ We assessed the independence of external valuers and read their of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitation on their work;</li> <li>■ We performed input testing on the key assumptions such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties;</li> <li>■ Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be lower than the carrying amount of the same;and</li> <li>■ We reconciled the average fair value of the investment properties as per the note 10 to the external valuers report.</li> </ul>



# PKF

Ibrahim Ahmed Al-Bassam & Co.  
Certified Public Accountants  
(Member of PKF International)

## INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)

(3 /5)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Other Information

Other information consists of the information included in the Fund's 2022 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

#### RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Fund's Management is responsible for the preparation and fair presentation of the financial statements 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 SOCPA and for such internal control as management 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, management 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 management 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 Fund Manager, is responsible for overseeing the Fund's financial reporting process

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# PKF

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## INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)

(4 /5)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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

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# PKF

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## INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS' OF SICO SAUDI REIT FUND (MANAGED BY SICO CAPITAL)

(5 / 5)

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the financial statements of the current year 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.

For Al-Bassam & Co.



Ibrahim A. Al Bassam  
Certified Public Accountant  
License No. 337  
Riyadh: 08 Ramadan 1444H  
Corresponding to: 30<sup>th</sup> March 2023

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**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
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**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2022

(Amounts in Saudi Riyals)

	Notes	As at 31 December	
		2022	2021
<b><u>ASSETS</u></b>			
Cash and cash equivalents	7	5,408,081	11,013,952
Investments carried at fair value through profit or loss (FVTPL)	8	1,501,911	4,138,964
Rent receivable	9	17,967,973	-
Prepayment and other assets		7,010,174	428,747
Investment properties	10	545,238,000	638,585,000
<b>TOTAL ASSETS</b>		<b>577,126,139</b>	<b>654,166,663</b>
<b><u>LIABILITIES</u></b>			
Accrued expenses and other liabilities		17,044,544	699,055
Unearned rental income	9	-	1,411,806
Islamic Financing	12	149,891,640	149,891,640
<b>TOTAL LIABILITIES</b>		<b>166,936,184</b>	<b>152,002,501</b>
<b>NET ASSETS (EQUITY) VALUE</b>		<b>410,189,955</b>	<b>502,164,162</b>
<b>UNITS IN ISSUE</b> ( <i>Number</i> )		<b>57,240,000</b>	<b>57,240,000</b>
<b>PER UNIT VALUE</b>		<b>7.17</b>	<b>8.77</b>
<b>PER UNIT FAIR VALUE</b>	14	<b>7.17</b>	<b>8.77</b>

The accompanying notes 1 to 24 form an integral part of these financial statements.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

**STATEMENT OF COMPREHENSIVE (LOSS) / INCOME**

**For the year ended 31 December 2022**

**(Amounts in Saudi Riyals)**

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Rentals from investment properties	9	<b>36,786,301</b>	15,048,014
Net realized and unrealized (loss) / gain from investments carried at FVTPL	10	<b>(737,053)</b>	130,461
<b>Total operating income</b>		<b>36,049,248</b>	15,178,475
Impairment (charge) / reversal on investment properties	10	<b>(83,640,644)</b>	584,446
Depreciation expense	10	<b>(9,706,356)</b>	(9,072,477)
Finance cost	12	<b>(6,978,368)</b>	(3,661,908)
Other expenses	13	<b>(19,113,840)</b>	(2,046,069)
<b>Total operating expenses</b>		<b>(83,389,960)</b>	982,467
Other income		<b>1,753</b>	-
<b>Net (loss) / income for the year</b>		<b>(83,388,207)</b>	982,467
Other comprehensive income		-	-
<b>Total comprehensive (loss) / income for the year</b>		<b>(83,388,207)</b>	982,467

The accompanying notes 1 to 24 form an integral part of these financial statements.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

**STATEMENT OF CHANGES IN NET ASSETS (EQUITY)**

**For the year ended 31 December 2022**

**(Amounts in Saudi Riyals)**

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<b>Net assets (Equity) value attributable to the Unitholder at beginning of the year</b>		<b>502,164,162</b>	501,181,695
Dividend paid during the year	17	<b>(8,586,000)</b>	-
Total Comprehensive (loss) / income for the year		<b>(83,388,207)</b>	982,467
<b>Net assets (Equity) value attributable to the unitholder at end of the year</b>		<b><u>410,189,955</u></b>	<u>502,164,162</u>

**Transactions in units for the year are summarized as follows:**

	<u>2022</u>	<u>2021</u>
<b>Number of units at the beginning of the year</b>	<b>57,240,000</b>	57,240,000
Subscription of units	-	-
Redemption of units	-	-
<b>Number of units at the end of the year</b>	<b><u>57,240,000</u></b>	<u>57,240,000</u>

The accompanying notes 1 to 24 form an integral part of these financial statements.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

**STATEMENT OF CASH FLOWS**

**For the year ended 31 December 2022**

**(Amounts in Saudi Riyals)**

	Note	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) / income for the year		(83,388,207)	982,467
<i>Adjustment for</i>			
Depreciation on investment properties	9	9,706,356	9,072,477
Impairment charge / (reversal) on investment property	9	83,640,644	(584,446)
Unrealized gain from investments carried at FVTPL	10	789,367	(42,221)
Realized gain from investments carried at FVTPL	10	(52,314)	(88,240)
Finance cost charge		6,978,368	3,661,908
		<b>17,674,214</b>	<b>13,001,945</b>
<b>Changes in operating assets:</b>			
Prepayment and other assets		(6,581,427)	562,242
Purchase of investment property		-	(148,872,291)
Rent receivable		(19,379,779)	615,180
<b>Changes in operating liabilities:</b>			
Accrued management fee		-	-
Accrued expenses and other liabilities		16,345,489	(85,259)
Unearned rental income		-	1,411,806
<b>Net cash generated from / (used in) operating activities</b>		<b>8,058,497</b>	<b>(133,366,377)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments carried at FVTPL		5,189,840	9,500,000
Purchase of investments carried at FVTPL		(2,500,000)	(13,000,000)
<b>Net cash generated from / (used in) investing activities</b>		<b>2,689,840</b>	<b>(3,500,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Islamic Financing	11	-	149,891,640
Finance cost paid		(7,768,207)	(3,341,997)
Dividend paid during the year	17	(8,586,000)	-
<b>Net cash (used in) / generated from financing activity</b>		<b>(16,354,207)</b>	<b>146,549,643</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		(5,605,871)	9,683,266
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>11,013,952</b>	<b>1,330,686</b>
		<b>5,408,081</b>	<b>11,013,952</b>

The accompanying notes 1 to 24 form an integral part of these financial statements.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

**1. THE FUND AND ITS ACTIVITIES**

SICO Saudi REIT Fund (Previously known as Al Masha'ar REIT Fund) (the "REIT" or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund commenced its operation on 27 December 2017.

The REIT is managed by SICO Capital (Previously known as Muscat Capital) (the "Fund Manager"), a Saudi Closed Joint Stock company with commercial registration no.1010259328, and an Authorized Person licensed by the Capital Market Authority ("CMA") under license no. 08096-37 dated 20 June 2009.

The REIT acquired four properties, including one amounting to SAR 182,400,000 from Makkah Income Generating Fund, a Private Closed Fund also managed by SICO Capital (Previously known as Muscat Capital). Consideration of these purchases were disbursed by way of cash payment as well as an "In-Kind" consideration by way of Units in the SICO Saudi REIT Fund (Previously known as Al Masha'ar Fund) amounting to SAR 172,539,000 and SAR 399,861,000 respectively and by loan amounting to SAR 149,891,640.

The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Regulations issued by the CMA. The REIT is listed on Tadawul and the units of the REIT are traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT equal to 57,240,000. The REIT has a term of 99 years, which is extendable at the discretion of the Fund Manager following the approval of CMA.

The Fund was launched with the investment objective of investing in income-generating real estate assets only in the holy cities of Makkah and Medina, Kingdom of Saudi Arabia. Subsequent to the period ended 31 December 2018 and effective from 10 January 2019, the Fund published its new Terms & Conditions with the updated investment objective to invest in income-generating real estate in any city within the Kingdom of Saudi Arabia.

The primary investment objective of the REIT is to provide its investors with current income by investing in construction developed income-producing real estate assets in the Kingdom of Saudi Arabia. While the REIT primarily invests in such assets, the REIT may opportunistically invest in real estate development projects; provided that (i) at least 75% of the REIT's total assets are invested in developed real estate assets which generate periodic income and (ii) the REIT may not invest in vacant land.

The REIT may, on a secondary basis, invest in development opportunities with profitable growth potentials that cater for specific real-estate needs, previously unavailable in certain areas. An added value is expected, in the medium term, to be created to Unitholders in such development projects. In the long term, the REIT's investment portfolio will continue to focus on attractive investment opportunities in different real-estate sectors, including, but not limited to, offices, trade exhibitions, houses, hospitality facilities, warehouses, etc. in order to build a real-estate base with diverse and stable income for Unitholders as well as achieve reasonable increase in the portfolio value.

The REIT shall be governed by the laws of Kingdom of Saudi Arabia and the regulations implemented by the CMA. The investments of the REIT shall comply with the Regulation of Ownership and Investment in Real Estate by Non-Saudis. The initial terms and conditions of the REIT were approved by CMA on 26 Muharram 1439H (Corresponding to 16 October 2017).

**2. REGULATING AUTHORITY**

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA, detailing requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

**3. BASIS OF PREPARATION**

**3.1 *Statement of compliance***

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and to comply with implementing regulations issued by CMA and the Fund terms and conditions.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

**3.2 *Basis of measurement and functional and presentation currency***

These financial statements have been prepared under the historical cost convention except for investments carried at FVTPL, and the amounts are expressed in Saudi Arabian Riyals (SAR), which is REITs functional and presentation currency.

**3.3 *Critical accounting judgments, estimates and assumption***

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. REIT based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of REIT. Such changes are reflected in the assumptions when they occur.

**3.3.1 *Critical accounting judgements***

**Going Concern**

REIT’s management has made an assessment of the REIT’s ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on REIT’s ability to continue as a going concern.

**Residual and useful lives of investment properties**

The REIT’s management determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management will review the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

**3. BASIS OF PREPARATION (CONTINUED)**

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

---

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

**3.3 Critical accounting judgments, estimates and assumption (Continued)**

**3.3.1 Critical accounting judgements (Continued)**

**Business model assessment**

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how Funds of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

**Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted priced included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Measurement of fair values (Continued)**

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement

The Company recognizes transfers between the levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 18 of these financial statements.



**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
**MANAGED BY SICO CAPITAL**

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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

**3. BASIS OF PREPARATION (CONTINUED)**

*3.3 Critical accounting judgments, estimates and assumption (Continued)*

*3.3.2 Critical accounting estimates*

**Valuation of investment properties**

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

**Impairment of non-financial assets**

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

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

**Measurement of the expected credit loss allowance**

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing Fund of similar financial assets for the purposes of measuring ECL.

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods.

**SICO SAUDI REIT FUND**  
**A Real Estate Investments Traded Fund**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2022 (Amounts in Saudi Riyals)**

**3. BASIS OF PREPARATION (CONTINUED)**

*3.3 Critical accounting judgments, estimates and assumption (Continued)*

*3.3.2 Critical accounting estimates (Continued)*

**Useful lives of property and equipment and intangible assets**

The Company's management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortization. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortization charge would be adjusted where the management believes the useful lives differ from previous estimates.

**4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS**

*4.1 New standards, amendments to standards and interpretations*

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Following standard, interpretation or amendment are effective from the current year and are adopted by the Company, however, these does not have any impact on the financial statements of the Company.

- COVID-19 - Related Rent Concessions (Amendments to IFRS 16);
- IFRS 17 - Insurance contracts, applicable for the period beginning on or after January 1, 2023;
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current, applicable for the period beginning on or after January,1, 2022;
- Onerous contracts - Cost of Fulfilling a contract (Amendments to IAS 37);
- Interest Rate Benchmark Reform - Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to Conceptual Framework (Amendments to IFRS 3).

*4.2 New standards, amendments and revised IFRS issued but not yet effective*

The following new standards, amendments and revisions to existing standards, which were issued by IASB but not yet effective up to the date of issuance of the Company's financial statements. The Company has opted not to early adopt these pronouncements and they do not have a significant impact on the financial statements of the Company.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions Extension of the practical expedient;
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;
- Amendments to IAS 1, Presentation of financial statements', on classification of liabilities;
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8;
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction;
- IFRS 17, 'Insurance contracts', as amended in December 2021; and
- A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**5.1 Cash and cash equivalents**

Cash and cash equivalents consist of bank balances with a local Bank. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

**5.2 Rent Receivables**

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

**5.3 Investment properties**

Investment properties are Real estate assets that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e., 35 years.

Residual values and useful lives of investment properties are subject to review and adjustment, as necessary, when an asset's carrying value exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from the disposal, which arises when the selling value of an asset exceeds its carrying value, recorded in the statement of comprehensive (loss) / income.

**5.4 Impairment of non-current assets**

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive (loss) / income.

**5.5 Accrued expenses and other liabilities**

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

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

**5.6 Revenue recognition**

The Fund recognises revenue from contracts with customers based on a five-step model:

Step 1: Identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2: Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.6 Revenue recognition (Continued)**

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment. Rental income arising from operating leases on investment properties is recognized, net of discount, in accordance with the terms of leases over the lease term on a straight-line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

**5.7 Dividend income**

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument

**5.8 Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss (“FVTPL”)**

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period’s unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument’s initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

**5.9 Investment transactions**

Investments transactions are accounted for as of the trade date.

**5.10 Management fees and other expenses**

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fee is calculated and payable quarterly in arrears.

**5.11 Zakat**

Zakat is the obligation of the unitholders and is not provided for in the financial statements.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.12 Net Assets (Equity) per unit**

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

**Units in issue**

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

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

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

**5.13 Dividend distribution**

The REIT has a policy of distributing on annually at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

**5.14 Financial instruments**

**Recognition and initial measurement**

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

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

**A) Financial assets**

**Classification of financial assets**

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

A financial asset is measured at amortized cost if it meets the following conditions:

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.14 Financial instruments (Continued)**

**A) Financial assets (Continued)**

**Classification of financial assets (Continued)**

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

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

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

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

**Financial assets at fair value through profit or loss**

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

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

**Subsequent measurement**

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

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in consolidated statement of profit or loss.
<b>Financial assets at amortized cost</b>	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognized in income statement. Any gain or loss on derecognition is recognized in consolidated statement of profit or loss.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.14 Financial instruments (Continued)**

**A) Financial assets (Continued)**

**Reclassification**

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

**Derecognition**

A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired, or
- the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement, and either:
  - a) the Fund has transferred substantially all the risks and rewards of the asset, or
  - b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

**Impairment of financial assets**

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

**Expected credit losses assessment:**

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime ECL allowance.

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

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

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



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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.14 Financial instruments (Continued)**

**A) Financial assets (Continued)**

**Expected credit losses assessment (Continued)**

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

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

**Definition of default**

In the above context, the Fund considers default when:

- the customer is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing collateral (if any is held by the Fund); or
- the customer is more than 360 days past due on any material credit obligation to the Fund. As the industry norm suggests that such a period fairly represents the default scenario for the Fund, this rebuts the presumption of 90 days mentioned in IFRS 9.

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

**Write-off**

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

**B) Financial liabilities**

All financial liabilities are recognized initially at fair value and, in the case of borrowings and advances, net of directly attributable transaction costs. The Fund's financial liabilities mainly include trade and other payables, related party, and borrowings. After initial recognition, borrowings and advances are subsequently measured at amortized cost using the effective interest method.

**Derecognition**

The Fund derecognizes financial liabilities when the contractual obligations are discharged, cancelled or expired.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.14 Financial instruments (Continued)**

**Modifications of financial assets and financial liabilities**

**Financial assets**

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

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

**Financial liabilities**

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

**Offsetting of financial instruments**

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

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

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

**5.15 IFRS 16 Leases**

The Fund has adopted IFRS 16 - Leases effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exceptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard – i.e., lessor continues to classify leases as finance or operating leases.

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**5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**5.15 IFRS 16 Leases (Continued)**

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases – incentives and SIC-27 Evaluating the Substance of Transactions involving the legal Form of Lease.

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Fund's financial statements as of the reporting date.

**6. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE**

- **MANAGEMENT FEE, OTHER EXPENSES**

On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 1 percent per annum of the Fund's net assets value and is paid on a quarterly basis. The Fund Manager has temporarily suspended charging the Fund with management fees starting from 14 March 2020. No management fees was charged during the year ended 2022, and 2021.

- **TRANSACTION FEE**

The Fund Manager charges the Fund, a one-time acquisition fee at the rate of 2.5% (2.5% December 2020) percent on the acquisition or sale price of the real estate assets, except for Eskan 4, 5 and 6.

**7. CASH AND CASH EQUIVALENTS**

	Notes	31 December 2022	31 December 2021
Cash at bank	7.1	<u>5,408,081</u>	<u>11,013,952</u>
<b>Total</b>		<u><b>5,408,081</b></u>	<u><b>11,013,952</b></u>

**7.1** Cash balances includes current accounts held with Bank Muscat and other local financial institution. The Fund does not earn profit on these current accounts.

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**8. INVESTMENTS CARRIED AT FVTPL**

	<b>31 December 2022</b>	31 December 2021
SICO Capital Money Market Fund	<u><b>1,501,911</b></u>	<u>4,138,964</u>

The following is the movement in investments during the year

	<b>31 December 2022</b>	31 December 2021
Balance at the beginning of the year	<b>4,138,964</b>	508,503
Additions during the year	<b>3,289,839</b>	13,000,000
Sold during the year	<u><b>( 5,137,525)</b></u>	<u>(9,411,760)</u>
At the end of the year	<u><b>2,291,278</b></u>	<u>4,096,743</u>
Change in fair value:		
Changes in fair value during the year	<b>(737,053)</b>	130,461
Realized during the year	<u><b>(52,314)</b></u>	<u>(88,240)</u>
Unrealized at the end of the year	<u><b>(789,367)</b></u>	<u>42,221</u>
Net Investments at the end of the year	<u><b>1,501,911</b></u>	<u>4,138,964</u>

**9. RENT RECEIVABLE / UNEARNED RENTAL**

	<b>31 December 2022</b>	31 December 2021
At the beginning of the year	<b>(1,411,806)</b>	615,180
Earned during the year	<b>36,786,301</b>	15,048,014
Received during the year	<u><b>(17,406,522)</b></u>	<u>(17,075,000)</u>
Rent receivable / (Unearned rentals) at the end of the year	<u><b>17,967,973</b></u>	<u>(1,411,806)</u>

Timing of revenue recognition

	<b>December 31, 2022</b>	December 31, 2021
Performance obligation satisfied over time	<u><b>SR 36,786,301</b></u>	<u>SR 15,048,014</u>

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**10. INVESTMENT PROPERTIES**

As of 31 December 2022

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<b><u>Cost</u></b>				
Balance as of 31 December 2021		381,549,835	339,722,456	721,272,291
Additions		-	-	-
<b>Balance as of 31 December 2022</b>		<b>381,549,835</b>	<b>339,722,456</b>	<b>721,272,291</b>
<b><u>Accumulated Depreciation</u></b>				
Balance as of 31 December 2021		-	29,828,931	29,828,931
Charge for the year	10.1	-	9,706,356	9,706,356
<b>Balance as of 31 December 2022</b>		<b>-</b>	<b>39,535,287</b>	<b>39,535,287</b>
<b><u>Accumulated Impairment losses</u></b>				
Balance as of 31 December 2022		-	52,858,360	52,858,360
Charge for the year		-	83,640,644	83,640,644
<b>Balance as of 31 December 2022</b>		<b>-</b>	<b>136,499,004</b>	<b>136,499,004</b>
<b>Book Value:</b>				
<b>as of 31 December, 2022</b>		<b>381,549,835</b>	<b>163,688,165</b>	<b>545,238,000</b>

As of 31 December 2021

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<b><u>Cost</u></b>				
Balance as of 31 December 2020		330,241,376	242,158,624	572,400,000
Additions		51,308,459	97,563,832	148,872,291
<b>Balance as of 31 December 2021</b>		<b>381,549,835</b>	<b>339,722,456</b>	<b>721,272,291</b>
<b><u>Accumulated Depreciation</u></b>				
Balance as of 31 December 2020		-	20,756,454	20,756,454
Charge for the year	10.1	-	9,072,477	9,072,477
<b>Balance as of 31 December 2021</b>		<b>-</b>	<b>29,828,931</b>	<b>29,828,931</b>
<b><u>Accumulated Impairment losses</u></b>				
Balance as of 31 December 2020		-	53,442,806	53,442,806
Reverse for the year		-	(584,446)	(584,446)
<b>Balance as of 31 December 2021</b>		<b>-</b>	<b>52,858,360</b>	<b>52,858,360</b>
<b>Book Value:</b>				
<b>as of 31 December 2021</b>		<b>381,549,835</b>	<b>257,035,165</b>	<b>638,585,000</b>

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**10. INVESTMENT PROPERTIES (CONTINUED)**

The investment properties represent the following four properties:

- The Eskan 4 building is located in Makkah with an annual rental income of SAR 13.5M;
- The Eskan 5 building is located in Makkah with an annual rental income of SAR 12.825M;
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 12.312M; and
- The I Offices building is located in Riyadh with annual rental income of SAR 10.45M.

**10.1** The Fund has the policy of charging depreciation on building over 35 years using the straight-line method.

**11. NET REALIZED AND UNREALIZED (LOSS) / GAIN FROM INVESTMENTS CARRIED AT FVTPL**

	<b>31 December 2022</b>	31 December 2021
Unrealized (loss) / gain from investments carried at FVTPL	<b>(789,367)</b>	42,221
Realized gain from investments carried at FVTPL	<b>52,314</b>	88,240
<b>Total</b>	<b>(737,053)</b>	130,461

**12. ISLAMIC FINANCING**

The Fund has obtained Islamic financing amounting to SAR 149.89 million dated 09 March 2021 from Riyadh Bank. The finance cost of facility is calculated at 3 months SAIBOR + 2.25%. The contract has a maturity of 3 months, which is renewed after every three months. The Fund is allowed under its terms and conditions to obtain loans for the acquisition of properties in order to achieve the objectives of the Fund. The title of the properties of the Fund are kept as a collateral against the borrowing amount.

**13. OTHER EXPENSES**

	<b>Note</b>	<b>31 December 2022</b>	31 December 2021
Legal and professional charges	<b>13.1</b>	<b>15,993,927</b>	-
Director Board Fees		<b>20,000</b>	20,000
REITs - Basic Registry Services		<b>400,000</b>	400,000
Admin Fee		<b>254,510</b>	249,084
Custodian Fees		<b>175,000</b>	175,000
Listing Fee		<b>152,706</b>	149,450
Sharia Board Fees		<b>37,500</b>	37,500
Audit Fees MG		<b>35,500</b>	35,500
<b>Total</b>		<b>19,113,840</b>	2,046,069

**13.1** The tenant filed two legal cases against the fund to claim back the rental amounts they paid for the below rental periods:

- From 27 December 2019 till 26 December 2020.
- From 27 December 2020 till 26 December 2021.
- From 27 December 2021 till 26 December 2022.

On 06 March 2023, a preliminary (non-final) ruling has been issued in favor of the tenant with an amount of SR 15,993,927.

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**14. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED**

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 an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared is based on the market value obtained. However, in accordance with accounting policy of the Fund, investment properties are carried at cost less accumulated depreciation and impairment losses, if any. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's financial statements.

The valuation of the investment properties (the "properties") is determined by **White Cubes Real Estate Company** and **Qiam Valuation**. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of two valuations for the purpose of disclosing the fair value of the properties. The properties were valued taking into consideration a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost model, direct comparison method and discounted cash flow method.

As of 31 December 2022, the valuation of the investment properties are as follows:

<b><u>31 December 2022</u></b>	<b><u>First Appraiser</u></b>	<b><u>Second Appraiser</u></b>	<b><u>Average</u></b>
Investment properties	<b>509,400,000</b>	<b>581,076,000</b>	<b>545,238,000</b>
<b>Total</b>	<b>509,400,000</b>	<b>581,076,000</b>	<b>545,238,000</b>
<b><u>31 December 2021</u></b>	<b><u>First Appraiser</u></b>	<b><u>Second Appraiser</u></b>	<b><u>Average</u></b>
Investment properties	659,800,000	617,370,000	638,585,000
<b>Total</b>	<b>659,800,000</b>	<b>617,370,000</b>	<b>638,585,000</b>

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration a number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, land plus cost model, direct comparison method and discounted cash flow method. The analysis of investment properties fair value versus cost is disclosed below:

	<b><u>31 December 2022</u></b>	<u>31 December 2021</u>
Estimated fair value of investment properties based on the average of the two valuers used	<b>545,238,000</b>	638,585,000
Less: the carrying value of investment property	<b>(545,238,000)</b>	(638,585,000)
Estimated fair value in surplus of book value	<b>-</b>	-
Units in issue (numbers)	<b>57,240,000</b>	57,240,000
Additional value per unit based on fair value	<b>-</b>	-

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**14. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)**

*Net asset (Equity) value:*

	<u>31 December 2022</u>	<u>31 December 2021</u>
Net assets (Equity) attributable to unitholders as per the financial statements before fair value adjustment	426,183,882	502,164,162
Estimated fair value in surplus of book value	-	-
Net assets (Equity) attributable to unitholders based on fair valuation of investment properties	<u>426,183,882</u>	<u>502,164,162</u>

*Net asset attributable to each unit:*

	<u>31 December 2022</u>	<u>31 December 2021</u>
Net Assets (Equity) value per unit as per the financial statements before fair value adjustment	7.17	8.77
Increase in value per unit based on fair value	-	-
Net assets (Equity) attributable to each unit based on fair valuation	<u>7.17</u>	<u>8.77</u>

The following table shows the valuations techniques used in determining the fair value of investment properties, as well as key unobservable inputs used in valuation models.

Measurement data of fair value according to IFRS 13 as at 31 December 2022 as follows:

<b>White Cubes</b>			
<b>Properties</b>	<b>Valuation approach</b>	<b>Key inputs and valuation assumptions</b>	<b>Rate</b>
Eskan 4	Market approach- comparable method and Cost Approach- DRC method	Capitalization rate	8%
Eskan 5		Capitalization rate	8%
Eskan 6		Capitalization rate	8%
Offices	Market approach- comparable methods, Cost approach-DRC method and Income approach- Cap. method	Capitalization rate	8%

<b>Qiam Valuation</b>			
<b>Properties</b>	<b>Valuation approach</b>	<b>Key inputs and valuation assumptions</b>	<b>Rate</b>
Eskan 4	Discounted cash flows	Discount rate	9%
Eskan 5		Discount rate	9%
Eskan 6		Discount rate	9%
Offices		Discount rate	9%

All properties are held in the name of Al Masha'ar REIT real estate Company (the "SPV"). The SPV is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.



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**15. RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Fund include “SICO Capital” being the Fund Manager, (Bank Muscat being the shareholder of SICO Capital), with the underlying properties of the Fund being custodized with Riyad Capital (being the custodian of the Funds).

For management services, the Fund pays quarterly, the management fees at an annual rate of 1% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions. However, in light of the Fund manager's announcement on Tadawwul for waiver of the management fee, the accrual of management fee was restricted since 14 March 2020.

The Fund pays fixed custodian fees of SR 175,000 per annum, as set out in the Fund's terms and conditions and is paid quarterly.

The significant related party transactions entered into by the Fund during the year are as follows:

<u>Related Party</u>	<u>Nature</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
		<u>Amount</u>	<u>Amount</u>
SICO Capital	Management fee	-	-
	Structuring and Arranging fee	-	2,585,631
	Admin fee	(254,510)	(249,084)
	Others	(38,176)	(37,362)
Riyad Capital	Custodial fees	(175,000)	(175,000)

The balances resulting from related party transactions are as follows:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>31 December 2022</u>	<u>31 December 2021</u>
		<u>Balance</u>	<u>Balance</u>
SICO Capital	Management fee **	142,431	142,431
	Admin fee *	(157,480)	(143,136)
	Others *	(5,408)	(3,257)
Riyad Capital	Custodial fees *	(67,190)	(114,940)
Bank Muscat	Current account	0.00	2,305
SICO Capital Money Market fund	Investments	1,501,911	4,138,964

\* These balances have been recorded under accrued expenses and other liabilities.

\*\* This is recorded under prepayments and other assets.

**16. RISK MANAGEMENT**

**16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Financial instruments carried in these financial statements principally include cash and cash equivalents, rent receivable, and accrued expenses and other liabilities. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.

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**16. RISK MANAGEMENT (CONTINUED)**

**16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(a) Market risk**

The REIT will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, commission rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The REIT management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the REIT.

***Currency risk***

Currency risk is the risk that the value of financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e., bank balances, financial assets held at FVTPL, rent receivable, accrued management fee and accrued expenses and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

***Price risk***

Price risk is the risk that the value of 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. The price risk arises primarily from uncertainty about the future prices of the financial instruments that the Fund holds.

The Fund closely monitors the price movement of its investment in financial instruments. As of the statement of financial position date, the Fund has investment in SICO Capital Money Market Fund.

The effect on the net assets (Equity) (as a result of change in fair value of investments as 31 December) due to a reasonably possible change in equity of FVTPL investments, with all other variable held constant, is as follows:

		<b>31 December 2022</b>	<b>31 December 2021</b>
Effect on Net Assets	±5%	<b>75,096</b>	206,948

***Commission rate risk***

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

The fund has obtained Islamic Financing facility during the year and is exposed to commission rate risk. The effect on the net assets (Equity) (as a result of change in finance cost as at 31 December) due to a reasonably possible change in commission rate, with all other variable held constant, is as follows:

In case there was 1% change in the commission rate:

		<b>31 December 2022</b>	<b>31 December 2021</b>
Effect on Net Assets	±1%	<b>1,498,916</b>	1,498,916

The Fund is not subject to commission rate risk, as it does not currently have any commission bearing financial instruments.

**(b) Credit risk**

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for its rent receivable and cash at bank.

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**16. RISK MANAGEMENT (CONTINUED)**

**16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk (Continued)**

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The credit quality of the Fund's bank balance is assessed with reference to external credit ratings. The bank balances along with credit ratings are tabulated below.

<b>Rating of Financial Institution</b>	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>Cash at bank</b>		
BBB+	5,405,776	11,011,647
Ba2	2,305	2,305
	<b>5,408,081</b>	<b>11,013,952</b>

The measurement category and the carrying amount of financial assets in accordance with IFRS 9 are as follows:

		<b>2022</b>	<b>2021</b>
	<b>Measurement category</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Cash and cash equivalents	Amortized cost	5,408,081	11,013,952
Investments carried at FVTPL	FVTPL (Mandatory)	1,501,911	4,138,964
Rent receivable	Amortized cost	17,967,973	-
Prepayments and other assets	Amortized cost	7,010,174	428,747
<b>Total financial assets</b>		<b>31,888,139</b>	<b>15,581,663</b>

The Fund applies IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for receivables. In respect of interest-bearing financial assets which comprises of term deposits, the Fund applies IFRS 9 general approach to measure expected credit losses. As of 31 December 2022, the Fund has calculated the ECL on the above exposures, however, due to the amount being minimum it is not recorded in the financial statements.

The following table shows maximum exposure to credit risk for the components of the statement of financial position.

	<b>Note</b>	<b>31 December 2022</b>	<b>31 December 2021</b>
Cash and cash equivalents	7	5,408,081	11,013,952
Rent Receivable	9	17,967,973	-

**(c) Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities which comprises of Islamic financing and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted unless specifically approved by CMA.

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**16. RISK MANAGEMENT (CONTINUED)**

**16.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk (Continued)**

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued management and accrued expenses and other liabilities are all due as follows:

**31 December 2022**

	<b>Carrying amount</b>	<b>Up to three months</b>	<b>More than 3 months and up to one year</b>	<b>More than one year</b>
Islamic financing	<b>150,766,249</b>	<b>150,766,249</b>	-	-
Accrued expenses and other liabilities	<b>176,008</b>	<b>176,008</b>	-	-
	<b>150,942,257</b>	<b>150,942,257</b>	-	-

**31 December 2021**

	<b>Carrying amount</b>	<b>Up to three months</b>	<b>More than 3 months and up to one year</b>	<b>More than one year</b>
Islamic financing	150,211,551	150,211,551	-	-
Accrued expenses and other liabilities	379,144	379,144	-	-
	150,590,695	150,590,695	-	-

The Fund Manager already has adequate cash and liquid assets to settle its financial liabilities as they fall due.

**(d) 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, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

**16.2 FAIR VALUE ESTIMATION**

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 Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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**16. RISK MANAGEMENT (CONTINUED)**

**16.2 FAIR VALUE ESTIMATION (CONTINUED)**

- 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 the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are observable inputs for the asset or liability.

As of December 31, 2022, and 2021 the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, rent receivable, accrued management fee and accrued expenses and other liabilities. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments.

31 December 2022	Carrying value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	1,501,911	1,501,911	-	-	1,501,911
<b>31 December 2021</b>					
<b>Financial assets measured at fair value</b>					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	4,138,964	4,138,964	-	-	4,138,964

Valuation technique for calculating the fair value of investments under Level 2 comprises of determining the net asset value per unit of the investee funds.

**17. FINANCIAL INSTRUMENTS BY CATEGORY**

All financial assets and financial liabilities are classified under amortised cost (except for investments carried at fair value through profit or loss which are classified at fair value) as of 31 December 2022 and 31 December 2021.

**18. SEGMENT REPORTING**

The Fund has invested in three real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

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**19. DIVIDEND DISTRIBUTION**

In accordance with the approved terms and conditions of the Fund, directors recommended to distribute dividends with regards to the year ended 31 December 2021 amounting to SR 0.15 per unit amounted to SR 8,586,000 to its unitholders. The same was paid on 25<sup>th</sup> January 2022.

**20. EVENTS AFTER THE REPORTING DATE**

The Terms and Conditions were updated on 26 February 2023, there are no significant changes in the Terms and Conditions of the Fund.

**21. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE**

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

**22. LAST VALUATION DAY**

The last valuation day of the year was at 31 December 2022.

**23. Reclassification**

Certain amounts have been reclassified for presentation purpose only.

**24. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board on 30th March 2023 (Corresponding to 08 Ramadan, 1444H).

**Signed on behalf of Fund's Board of Directors**

.....  
**Authorized Signatory**



SHARIYAH  
REVIEW BUREAU

July 27, 2023



## The Shari'a Committee Report

Shari'a Committee's report to the Unitholders of SICO SAUDI REIT FUND on the state of compliance with Shariah standards and guidelines during the year ended 31 December 2022

### 1. Introduction

Praise be to Allah, Lord of the worlds, and peace and blessings be upon Mohammed, the leader of Prophets and Messengers, and upon his family and Companions, and upon those who follow his Guidance Until the Day of Judgment.

We, collectively, appointed as the Shari'a Committee(SC) of SICO SAUDI REIT FUND (the Fund). We have fulfilled our responsibilities in respect of ensuring the Fund's compliance with Shari'ah standards and guidelines approved by us and are pleased to issue this report.

### 2. Opinion

#### Primary Opinion

Based on our (i) oversight and supervision of the Fund's affairs related to Shari'ah compliance, and (ii) a period-specific review of the activities performed, we report that in our opinion, the Fund's for the year ended 31 December 2022 are in compliance with Shari'ah standards and guidelines approved by us.

#### Additional Opinions

- a. Convening four meetings during the year.
- b. Issuing fatwas, resolutions and opinions on matters presented to the SC in relation to the Fund's activities.
- c. The Zakat is the responsibility of each unit holder.
- d. Ascertaining the level of compliance of distribution of profits between holders of investment accounts and Unitholders with parameters set by the SC.
- e. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
- f. Communicating with the senior management of the Fund (as needed) concerning compliance of the Fund with Shari'ah principles and rulings.

- g. Providing direction to relevant parties in the Fund – to rectify (where possible) incidents cited in the reports prepared by Shari’ah audit – and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.

### **3. Our Responsibilities**

Our responsibilities in respect of the Fund’s compliance with Shariah standards and guidelines include providing supervision, Shari’ah rulings, particularly regarding the design of the transactions (including approval of contracts, related documents, process flows, etc.). We are also responsible for supervising and providing our input where needed about the execution of such transactions and implementation of our decisions. We are also required to perform a period-specific review of the state of compliance of the Fund with Shariah standards and guidelines.

### **4. Shariah Standards and Guidelines as Applicable to the Fund**

The Shariah Standards and Guidelines contained herein sets out as at today’s date certain matters of Sharia compliance as adopted and interpreted by us for the year ended 31 December 2022, and defined for the purposes of this report (in no particular order) as follows:

- a) the Shari’ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Shari’ah-related requirements of the applicable financial accounting standards issued by AAOIFI;
- b) Shari’ah rulings of the institution’s SC [including the interpretation provided by the SC of the requirements of (a), where needed].

### **5. SC’s Independence and Ethical Considerations**

We confirm that we have complied with all ethical and independence requirements, as applicable to us, during the year 2022, until the date of issuance of this report. These requirements include those specified in [IFSB-AAOIFI RSGF/AAOIFI GS 1 and 5] and AAOIFI Code of Ethics for Islamic Finance Professionals.

### **6. The Responsibilities of the Management and the Board of Directors**

#### ***The Responsibilities of the Fund Board***

The Fund board (the “Board”) has an oversight responsibility to ensure that an effective and robust Shari’ah compliance environment and culture exists at the Fund. The Board is responsible for the establishment of a good governance and control framework for the Fund and the development of a strategy for compliance with Shariah standards and guidelines, and for oversight of the management



in implementing the same and in achieving the desired objectives.

**Responsibilities of the Management**

Management has the responsibility to implement the Shari’ah governance framework and to ensure that Shari’ah compliance is embedded in the day-to-day functioning of the Fund. The management is responsible for ensuring that the financial arrangements, contracts, and transactions having Shari’ah implications, entered into by the Fund with its customers and other stakeholders and related policies and procedures, are, in substance and in their legal form, in compliance with the requirements of Shariah standards and guidelines. Management is also responsible for the design, implementation, and maintenance of appropriate internal control procedures with respect to compliance and maintenance of relevant accounting records.

**7. Report Approval and Authentication**

This report is duly approved and signed by the SC.

We beg Allah the Almighty to keep us on the right path and to grant us success.

Name	Designation	Signature
Shaikh Muhammad Ahmad	Chairperson (Shari’ah scholar)	





SHARIYAH  
REVIEW BUREAU

# SICO SAUDI REIT FUND

## SHARI'A AUDIT REPORT

1st January 2022 – 31st December 2022

SHARIA ADVISOR LICENSED BY  
THE CENTRAL BANK OF BAHRAIN



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# Part 1: Preface

## 1. Introduction

This report has been prepared after conducting Shari'a Audit ("Audit") for SICO Saudi REIT Fund ("The Fund") Managed by SICO Capital covering the period from 1<sup>st</sup> January 2022 till 31<sup>st</sup> December 2022. In accordance with the agreed-upon scope of work, our responsibility as Shari'a Auditors for the Fund includes carrying out Audit on the Fund, the pertinent activities, systematic controls, and operations in place for the Fund based on the Shari'a directives and guidelines issued by the Fund's Shari'a Committee ("SC").

## 2. Standards and Guidelines

The Audit was conducted in light of the Shari'a guidelines issued by The Fund's SC while taking in consideration the Shari'a standards issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").



### 3. Responsibility

The Fund Manager is responsible for ensuring that the financial arrangements, contracts, and transactions having Shari'a implications, entered into with its customers, other financial institutions, and stakeholders and related policies, procedures, and systems are, in substance and their legal form, in compliance with the requirements of Shari'a rules and principles laid down by the SC. The Fund Managers is also responsible for:

- > Design, implementation, and maintenance of appropriate internal Shari'a control procedures with respect to such compliance and maintenance of relevant Product documents approved by the SC, internal control manuals, and Islamic accounting records;
- > Prevention and detection of fraud and breaches in Shari'a Compliance for identifying and ensuring that The Fund complies with SC requirements, laws, and regulations applicable to its activities;
- > Arranging training and/or orientation programs on Islamic finance for the staff and appropriate training programs for senior executives to improve their understanding and general acumen in Islamic finance;
- > Arranging programs on a regular basis for orienting and sensitizing the key executives about the business utility and importance of enabling Shari'a compliance environment and the key distinguishing features of Sharia compliant Funds vis- à -vis conventional Fund;
- > Providing us with access to all information of which you are aware that is relevant to The Fund's compliance with the Shari'a rules and principles such as the Financial statements, the list of the investments, records, source documentation, and other matters, additional information that we may request for the purpose of the engagement; and unrestricted access to persons within The management of the Fund from whom we determine it necessary to obtain evidence.

### 4. Procedures Performed

The procedures selected by us for the Shari'a Audit and the factual findings resulting therefrom with respect to each of the aspects covered in this report depended on our judgment.

Because of the inherent limitations in any control environment, misstatements due to error or fraud may occur and not be detected. Our engagement cannot ensure that errors, fraud, or other illegal acts, if present, will be detected; in the case where we detect any fraud or red flags, we will escalate the issue to the audit committee. Our procedures have not been planned or conducted in contemplation of reliance by any third party or with respect to any specific transaction. Therefore, items of possible interest to a third party have not been specifically

addressed, and matters may exist that would be assessed differently by a third party. Accordingly, our report should not be provided to a third party without our prior written consent. Such consent will be granted on the basis that such reports are not prepared for the use or benefit of anyone other than the Fund Manager.

## 5. Scope of Work

The Audit included reviewing the operations and activities of the Fund including the examination of the related transactions to ensure that they are conducted in accordance with the guidelines and pertinent controls approved by the SC.

## 6. Sampling Methodology

Our sampling methodology is based on the likelihood and Shari'a risk involved in the investments or a particular product; where likelihood and Shari'a risk are high, the sampling will be increased accordingly.

Population	Likelihood	Shari'a Risk	Samples Percentage
1 to 100	High	High	100%
	High	Medium	75%
	Medium	High	50%
	Medium	Medium	25%
	Low	Low	10%
101 to 300	High	High	50%
	High	Medium	50%
	Medium	High	25%
	Medium	Medium	20%
	Low	Low	10%
301 to 1000	High	High	25%
	High	Medium	25%
	Medium	High	20%
	Medium	Medium	15%
	Low	Low	10%
1001 and above	High	High	10%
	High	Medium	10%
	Medium	High	5%
	Medium	Medium	1%
	Low	Low	0.10%

## 7. Objectives and Notes

The report's main objective is to evaluate the products and control procedures relating to Shari'a compliance and operations of the Fund in light of Shari'a directives and guidelines issued by the SC. This work is not primarily directed towards the discovery of weaknesses (other than those which would influence us in forming such a view) or the detection of fraud and should not, therefore, be relied upon to show that no other weaknesses exist. Accordingly, our Shari'a Audit would not necessarily allow us to identify all possible improvements that a more exhaustive systems review might develop. Our observations contained herein are of three types:

### **Observations on the Shari'a compliance environment of the Fund**

These observations aim to assess the internal Shari'a supervisory system of The Fund and to improve the level of compliance in accord with the Shari'a standards and guidelines of the SC and to ensure that policies and procedures were designed in line with SC and other regulatory directives.

### **Observations on the operations of the Fund**

The purpose of these observations is to review the Shari'a control systems of the departments making up The Fund, which aims to ensure work within these departments is in accordance with the policies and procedures that govern its activities and that the different departments complement each other to better comply with the approved Shari'a standards and guidelines.

### **Observations on the executed investment of the Fund**

These observations are a result of the Audit procedures carried out on the Shari'a compliant Fund. They exhibit shortcomings in implementing and executing such investments in light of the directives approved by the SC.

## 8. Ratings

The issues identified have been graded based on our assessment of possible risks on the Shari'a Compliant Investment of the Fund. The ratings used in this Audit report are explained in the table below:

Observation Category	Risk Rating
High/serious impact on Shari'a compliance, the achievement of its objectives or serious implications on general/controls or adherence to internal Shari'a directives or applicable external Shari'a compliance requirements (such as AAOIFI, IFSB etc.).	High
Moderate impact on the overall position of Shari'a compliance or significant implications on general/ controls or adherence to internal Shari'a directives or applicable external Shari'a compliance requirements (such as AAOIFI, IFSB etc.).	Moderate
When an absence, weakness or deficiency in Shari'a controls exists, that has or could have a limited/low impact on the immediate or future performance of Shari'a compliance but still requires attention.	Low

## 9. Confidentiality

This report's contents are strictly confidential and are being submitted to the management of the Fund and are not to be distributed to the departments not involved in the Audit process or which do not have the authority to respond to the observations made hereunder.



## Part 2: Observations

### I.Observations On the Environment of The Shari'a Compliance

*The Shari'a control environment requires The Fund Manager to ensure that key organs must maintain and administer Shari'a compliance, including the oversight mechanism, internal Shari'a audit, and enforcement of SC's directives by executive management are operative and effectively undertaking their respective functions. Considering the above, we are pleased with the Fund's level of compliance in accordance with the Shari'a standards and guidelines of the SC by the Fund Manager.*

### II.Observations on the Fund Operations:

We have reviewed the financial statements and operations of The Fund for the period from 1 January 2022 to 31 December 2022 in accordance with agreed-upon Shari'ah guidelines and no observations were found.



# Appendix I

## Assumptions

Our Shari'a Audit is based upon the assumption that:

- > All signatures and seals on all documents reviewed by us are genuine, all documents provided to us as certified copy or copy documents (whether provided in hard copy or electronically) are complete and conform to the originals approved by the Shari'a Committee, and all documents submitted to us as originals are genuine and complete and all translations are accurate translations of the original text thereof;
- > All documents examined by us are and remain up-to-date and effective and have not been amended or supplemented;
- > Neither the Fund nor its division is carrying out activities that breach guidelines issued by the relevant central authority or other competent authority in the country;
- > The documents which we have examined and audited, and on which we base this report, are in the form in which the documents were executed;
- > Any translated document that we have reviewed is an accurate translation of the original text thereof;
- > Each statement of fact made to us by or on behalf of the Fund or any of its employees or otherwise contained in the audited documents remains true, complete, and accurate in all material respects;