

Alinma Retail REIT Fund
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

AND INDEPENDENT AUDITOR'S REPORT

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

FINANCIAL STATEMENTS

31 December 2022

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**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA RETAIL REIT FUND
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company)**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Alinma Retail REIT Fund – formerly known as Swicorp Wabel REIT Fund (the “Fund”) managed by Alinma Investment Company (the “Fund Manager”), which comprise the statement of financial position as at 31 December 2022, and the related statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the 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.

INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA RETAIL REIT FUND
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company) (continued)

Key Audit Matters (continued)

Key Audit Matter	How the key matter was addressed in the audit
<p><u>Impairment of investment properties</u></p> <p>The 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 and are stated at cost less accumulated depreciation and any impairment losses.</p> <p>As at 31 December 2022, the carrying value of investment properties was SR 885 million (2021: SR 897 million) which was net of accumulated depreciation of SR 153 million (2021: SR 122 million) and an accumulated impairment allowance of SR 158 million (2021: SR 178 million).</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 a formal valuation of the Fund's investment properties on semi-annual basis.</p> <p>We considered this as a key audit matter since the impairment assessment of investment properties requires significant judgement, assumption and estimates by the Fund Manager and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements and estimates (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Statement of Financial Position and in the Statement of Comprehensive Income.</p> <p><i>The Fund's accounting policy for investment properties is disclosed in note 5.7, the significant accounting estimates, judgement and assumptions relating to investment properties are disclosed in note 4.1 and 4.2, related disclosures about investment properties are included in notes 6 and 7 of the accompanying financial statements.</i></p>	<ul style="list-style-type: none"> - We agreed the value of all the properties held at the year end to the valuation included in the independent management expert valuation report; - We evaluated the competency, capabilities, independence and objectivity of work performed by the independent management expert; - On sample basis, with the help of our independent expert, we performed the following: <ul style="list-style-type: none"> o We assessed the appropriateness of valuation methods, assumptions, and estimates used by management in the investment properties valuation process; o We engaged in discussions with management and assessed the relevant assumptions used based on market data where possible; o We tested the appropriateness of the key assumptions used in the valuation of investment properties, such as estimated rental value and yield profile applied; - We checked the accuracy of impairment loss or reversal recognized in the statement of comprehensive income during the year; and - We ensured that the financial statements contain adequate disclosures regarding the valuation methods, judgment, assumptions and estimates used in the valuation.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA RETAIL REIT FUND
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company) (continued)**

Other Information included in the Fund's 2022 Annual Report

Fund Manager is responsible for the other information. The other information comprises the information included in the Fund's 2022 annual report other than the financial statements and our auditor's report thereon. The Fund's 2022 annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Fund's 2022 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

The Board of Directors are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA RETAIL REIT FUND
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company) (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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




**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF ALINMA RETAIL REIT FUND
(Formerly known as Swicorp Wabel REIT Fund)
(Managed by Alinma Investment Company) (continued)**

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

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

For Alluhaid & Alyahya Chartered Accountants


Saleh Al Yahya
Certified Public Accountant
Registration No. 473

Riyadh: 8 Ramadan 1444H
(30 March 2023)



Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF FINANCIAL POSITION
31 December 2022

	<i>Note</i>	2022 SR	2021 SR
ASSETS			
NON-CURRENT ASSETS			
Investment properties	6	884,827,327	896,848,797
CURRENT ASSETS			
Prepayment and other receivables	8	11,666,388	8,775,054
Rental income receivable	9	3,264,812	8,664,405
Financial assets at amortised cost	11	15,047,667	-
Cash and cash equivalents		6,917,115	29,348,717
Amounts due from a related party	10	1,219,338	3,039,089
TOTAL CURRENT ASSETS		38,115,320	49,827,265
TOTAL ASSETS		922,942,647	946,676,062
LIABILITIES AND EQUITY			
NON-CURRENT LIABILITIES			
Non-current portion of lease liabilities	12	6,676,748	7,014,911
CURRENT LIABILITIES			
Current portion of lease liabilities	12	650,000	650,000
Amounts due to related parties	10	-	63,592
Contract liabilities	13	409,381	1,564,580
Accrued expenses and other payables	14	8,266,421	1,219,817
Zakat payable	15	1,178,861	997,084
Unitholder payable	23	100,086	2,301,584
TOTAL CURRENT LIABILITIES		10,604,749	6,796,657
TOTAL LIABILITIES		17,281,497	13,811,568
EQUITY			
Net assets attributable to unitholders		905,661,150	932,864,494
TOTAL LIABILITIES AND EQUITY		922,942,647	946,676,062
Units in issue (number)		118,000,000	118,000,000
Net assets value per unit (SR)	7	7.68	7.90
Per unit fair value (SR)	7	7.68	7.90

The accompanying notes from 1 to 26 form an integral part of these financial statements.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	<i>Notes</i>	2022 SR	2021 SR
Income			
Rental income from investment properties	16	48,735,471	59,045,285
Expenses			
Depreciation on investment properties	6	(31,805,335)	(31,125,407)
Property manager fee and operating expenses	18	(20,192,839)	(22,779,613)
Charge for expected credit losses	9	(10,652,661)	(18,244,608)
Management fees	10	(6,927,484)	(7,090,939)
General and administrative expenses	17	(1,965,277)	(4,174,601)
Custodian fees		(205,310)	(228,681)
Board oversight fees	10	(25,000)	(19,750)
Total expenses		(71,773,906)	(83,663,599)
Operating loss for the year		(23,038,435)	(24,618,314)
Other income		509,390	20,071
Finance charges	12	(311,837)	(326,373)
Loss for the year before impairment and zakat		(22,840,882)	(24,924,616)
Reversal of impairment on investment properties	6	19,419,315	10,066,799
Loss for the year before zakat		(3,421,567)	(14,857,817)
Zakat	15	(181,777)	-
Net loss for the year		(3,603,344)	(14,857,817)
Other comprehensive income		-	-
Total comprehensive loss for the year		(3,603,344)	(14,857,817)

The accompanying notes from 1 to 26 form an integral part of these financial statements.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 SR	2021 SR
OPERATING ACTIVITIES		
Loss for the year before zakat	(3,421,567)	(14,857,817)
Adjustments for:		
Depreciation on investment properties	31,327,278	30,647,349
Depreciation on right-of-use assets	478,057	478,058
Reversal of impairment on investment properties	(19,419,315)	(10,066,799)
Charge for expected credit losses	10,652,661	18,244,608
Finance charges	311,837	326,373
Special commission income	(47,667)	-
	<u>19,881,284</u>	<u>24,771,772</u>
Changes in operating assets and liabilities:		
Prepayment and other receivables	(315,493)	2,133,556
Rental income receivable	(5,253,068)	2,096,911
Amounts due from a related party	463,248	1,890,079
Contract liabilities	(1,155,199)	(18,215,059)
Amounts due to related parties	(63,592)	(1,803,895)
Accrued expenses and other payables	5,827,266	799,849
	<u>19,384,446</u>	<u>11,673,213</u>
Cash flows from operating activities	19,384,446	11,673,213
Zakat paid	-	(881,796)
	<u>19,384,446</u>	<u>10,791,417</u>
INVESTING ACTIVITIES		
Purchase of investment properties	(364,550)	(1,721,570)
Purchases of financial assets at amortized cost	(15,000,000)	-
	<u>(15,364,550)</u>	<u>(1,721,570)</u>
Net cash flows used in investing activities	(15,364,550)	(1,721,570)
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(650,000)	(650,000)
Distributions	(25,801,498)	(404,190)
	<u>(26,451,498)</u>	<u>(1,054,190)</u>
Net cash flows used in financing activities	(26,451,498)	(1,054,190)
Net (decrease) increase in cash and cash equivalents	(22,431,602)	8,015,657
Cash and cash equivalents at the beginning of the year	29,348,717	21,333,060
Cash and cash equivalents at end of the year	6,917,115	29,348,717

The accompanying notes from 1 to 26 form an integral part of these financial statements.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	2022 SR	2021 SR
EQUITY AT THE BEGINNING OF THE YEAR	932,864,494	947,722,311
Comprehensive loss:		
Net loss for the year	(3,603,344)	(14,857,817)
Other comprehensive loss for the year	-	-
Total comprehensive loss for the year	(3,603,344)	(14,857,817)
Distributions (note 23)	(23,600,000)	-
EQUITY AT THE END OF THE YEAR	905,661,150	932,864,494
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units for the year are summarized as follows:		
	2022 <i>Units</i>	2021 <i>Units</i>
UNITS AT THE BEGINNING AND END OF THE YEAR	118,000,000	118,000,000

The accompanying notes from 1 to 26 form an integral part of these financial statements.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS
31 December 2022

1 CORPORATE INFORMATION

Alinma Retail REIT Fund, formerly known as Swicorp Wabel REIT Fund (the “Fund”) is a closed-ended real estate investment traded fund established on 24 Dhul Qadah 1439H (corresponding to 6 August 2018). The Fund is listed on the Saudi Stock Exchange (“Tadawul”). The Capital of the Fund is SR 1,180,000,000 divided into 118,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the Capital Market Authority (“CMA”).

The Board of Directors of the Fund on 23 February 2022 approved to change the name of the Fund from “Swicorp Wabel REIT Fund” to “Alinma Retail REIT Fund”, which became effective from 5 April 2022.

The Fund is managed by Alinma Investment Company (the “Fund Manager”), a closed joint stock company with commercial registration number 1010269764, licensed by the Capital Market Authority of the Kingdom of Saudi Arabia (“CMA”) under license number 09134-37.

While the Fund will primarily invest in developed real estate assets which are ready for use, it may also opportunistically invest in real estate development projects in a value not exceeding 25% of the Fund’s total asset value with the aim of achieving an increase in value per unit; provided that:

- (i) at least 75% of the Fund’s total assets are invested in developed real estate assets which generate periodic income and;
- (ii) the Fund shall not invest in white land.

In addition, the Fund can also invest up to 25% of the total value of the Fund according to the latest audited financial statements in each of the following, provided that all these investments are Shariah compliant:

- (i) Units of Real Estate Traded Funds publicly offered in the Saudi Stock Exchange and licensed by CMA,
- (ii) Units of private real estate funds licensed by CMA,
- (iii) Real estate investments outside the Kingdom of Saudi Arabia,
- (iv) Cash liquidity / holding of cash,
- (v) Money market funds publicly offered and licensed by CMA,
- (vi) Shares of real estate companies listed on the Saudi Stock Exchange and licensed by CMA, and;
- (vii) Usufruct rights.

The Fund has appointed Albilad Investment Company (the “Custodian”) to act as its custodian. The fees of the custodian are paid by the Fund.

1.1 Change of Fund Manager

SWICORP Company, the former Fund Manager, published on 18 August 2021 (corresponding to 10 Muharram 1443H) that it received a written request from a number of unitholders who owned more than 25% of the value of the Fund’s units to call for a unitholders’ meeting to remove SWICORP Company as the Fund Manager.

On 16 September 2021 (corresponding to 9 Safar 1443H) SWICORP Company announced the results of the Fund unitholders’ meeting that had been held on Wednesday, 15 September 2021 (corresponding to 8 Safar 1443H) through Tadawul web services, where the unitholders resolved to submit a request to the CMA to dismiss SWICORP Company as Fund Manager and prevent them from entering into any new investments or obtaining financing until the appointment of an alternative Fund Manager.

On 17 November 2021 (corresponding to 12 Rabi Al-Thani 1443H) SWICORP Company announced that they received a letter on 14 November 2021 (corresponding to 9 Rabi Al-Thani 1443H) from Alinma Investment Company expressing their intent to be appointed as an alternative manager for the Fund and to start the regulatory procedures.

On 1 December 2021 (corresponding to 26 Rabi Al-Thani 1443H) SWICORP Company announced that they had received a notification from the CMA on 30 November 2021 (corresponding to 25 Rabi Al-Thani 1443H) about the issuance of the CMA Board’s decision to dismiss SWICORP Company from managing the Fund, and to appoint Alinma Investment Company, a closed joint stock company with commercial registration number 1010269764, licensed by the CMA under license number 09134-37, as an alternative Fund Manager for the Fund based on Article 16 of the Real Estate Investment Funds Regulations. It should be noted that the approval of the CMA Board was issued based on the decision of the unit holders in their meeting held on 16 September 2021 (corresponding to 8 Safar 1443H).

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2022

1 CORPORATE INFORMATION (continued)

1.1 Change of Fund Manager (continued)

SWICORP Company transferred all of their responsibilities as Fund Manager to Alinma Investment Company on 22 February 2022 (corresponding to 21 Rajab 1443H) which was 60 business days from the date of appointing them as the alternative Fund Manager. The legal proceedings and update to the terms and conditions of the Fund were completed during the year ended 31 December 2022.

2 REGULATING AUTHORITY

The Fund operates in accordance with Real Estate Investment Fund Regulations (“REIFR”) and Real Estate Investment Traded Funds (“REITF”) instructions issued by the CMA. The regulations detail the requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3 BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“IFRS as endorsed in KSA”).

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using the accrual basis of accounting except for financial assets at fair value through profit or loss that have been measured at fair value. The financial statement has been prepared on the basis that the Fund will continue to operate as a going concern.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals (“SR”), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

4.1 Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.1.

4.2 Impairment of investment properties

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

Where an impairment loss subsequently reverses, the carrying amount of the asset 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, had no impairment loss been recognised for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately in the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

4.3 Impairment of financial assets held at amortised cost

The Fund recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

As at the year end, the Fund has rents receivable and amounts due from a related party as financial assets carried at amortised cost. For rental income receivables and contract assets, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The information about the ECLs on the Fund's rental income receivables is disclosed in note 9 and note 20.1 in these financial statements.

4.4 Leases - Estimating the incremental borrowing rate

The Fund cannot readily determine the interest rate implicit in leases where it is the lessee, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Fund would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Fund 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Fund estimates the IBR using observable inputs such as market interest rates, as and when available.

4.5 Determining the lease term

The Fund as a lessee determines the lease term as the non-cancellable period of a lease, together with both:
(a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and;
(b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.
For contracts that include extension and termination options, the Fund uses judgement in evaluating whether it is reasonably certain whether to exercise the option to renew or terminate the lease. In doing so, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. Those factors include current and expected retail unit performance, availability, cost and other terms of substitutes, magnitude of leasehold improvements, length of extension or renewal, and cost of extension or renewal. Following the commencement date, the Fund reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Fund and affects its assessment on whether or not to exercise an option previously included in its determination of the lease term.

4.6 Going concern

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

5.1 Financial instruments

5.1.1 Financial Instruments - Initial recognition and subsequent measurement

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1.1 Financial Instruments - Initial recognition and subsequent measurement(continued)

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories

Financial assets measured at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Fund's financial assets at amortised cost includes cash and cash equivalent and receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

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

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

ii) Financial liabilities

Initial recognition and measurement

The Fund's financial liabilities include dividend payable, amounts due to related parties, accrued expenses and other liabilities and lease liabilities. Financial liabilities are measured at amortised cost.

Subsequent measurement

Financial liabilities at amortised cost

This is the category most relevant to the Fund. After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.1 *Financial instruments (continued)*

5.1.1 *Financial Instruments - Initial recognition and subsequent measurement (continued)*

ii) *Financial liabilities (continued)*

Derecognition

Financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

iii) *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

5.1.2 *Current versus non-current classification*

The Fund presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
 - Held primarily for the purpose of trading
 - Expected to be realised within twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle
 - a liability for at least twelve months after the reporting period
 - All other assets are classified as non-current

A liability is current when:

- It is expected to be settled in the normal operating cycle
 - It is held primarily for the purpose of trading
 - It is due to be settled within twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Fund classifies all other liabilities as non-current

5.2 *Fair value measurement*

The Fund measures financial instruments such as equity instruments at fair value at each balance sheet date.

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Fair value measurement (continued)

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 7.

5.3 Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value 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 asset 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, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

5.4 Right-of-use assets

The Fund recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Fund is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

5.5 Lease liabilities

At the commencement date of the lease, the Fund recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Fund and payments of penalties for terminating a lease, if the lease term reflects the Fund exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 Investment properties

Investment properties comprise completed freehold or leasehold properties that are held to earn rentals or for capital appreciation or both. Investment properties under freehold are stated at cost including transaction costs net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes expenditure that is directly attributable to the acquisition of the items. Whereas investment properties under leasehold are accounted for in accordance with IFRS 16. The cost less estimated residual value, if any, of investment property under freehold is depreciated on a straight-line basis over the estimated useful lives of the assets. Land, on the other hand, is reported at cost.

Investment property is derecognised either when it has been disposed of (i.e., at the date the recipient obtains control of the investment property in accordance with the requirements for determining when a performance obligation is satisfied in IFRS 15) or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration to be included in the gain or loss arising from the derecognition of investment property, the Fund considers the effects of variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any) in accordance with the requirements for determining the transaction price in IFRS 15.

The fair value of investment properties is disclosed in note 7 and 19 in these financial statements.

5.7 Prepayment and other receivables

Prepayment and other receivables are carried at cost less any accumulated impairment losses, if any.

5.8 Cash and cash equivalents

For the purposes of cash flows statement, cash and cash equivalents consists of bank balances.

5.9 Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Fund has received consideration from the customer. Contract liabilities are recognised as revenue when the Fund performs under the contract.

5.10 Provision

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.11 Management fees, custodian fees and other expenses

Management fees, custodian fees, administration fees and other expenses are charged at rates / amounts within limits mentioned in the terms and conditions of the Fund.

5.12 Rental income

Rental income from operating lease of property is recognized on a straight-line basis over the term of the operating lease. In addition, the Fund subleases investment property acquired under head leases with lease terms exceeding 12 months at commencement. Subleases are classified as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying investment property. All the Fund's subleases are classified as operating leases.

5.13 Net assets value

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Fund by the number of units in issue at the year-end.

5.14 Distribution

The Fund has a policy of distributing and paying at least 90% percent of the Fund's net profits on 31 March of each year.

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.15 Finance Cost

Finance cost is recognized in statement of comprehensive income in the period in which they are incurred.

5.16 Other expenses

Expenses include legal, accounting, auditing and other fees. They are recognized in the statement of comprehensive income in the period in which they are incurred on an accrual basis.

5.17 Zakat

Zakat is provided for in accordance with Zakat, Tax and Customs Authority (“ZATCA”) regulations. Adjustments arising from final Zakat assessments are recorded in the period in which such assessments are made.

5.18 New standards, amendments and interpretations issued and effective from 1 January 2022

The Fund applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Fund has not early adopted any other standards, interpretations or amendment that has been issued but not yet effective.

Onerous contracts – Cost of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Fund cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract

These amendments had no impact on the financial statements of the Fund as there were no onerous contract as of the reporting date.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB’s Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the Fund as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before intended Use – Amendments to IAS 16 Leases

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Fund.

Alinma Retail REIT Fund
(Managed by Alinma Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.18 *New standards, amendments and interpretations issued and effective from 1 January 2022 (continued)*

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Fund as it is not a first-time adopter.

The accounting policies adopted, and method of computations followed are consistent with those of the previous financial year except for the items disclosed below:

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Covid-19-Related Rent Concessions beyond 30 June 2022 (Amendments to IFRS 16)

These amendments had no impact on the financial statements of the Fund.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the financial statements of the Fund as there were no modifications of the Fund's financial instruments during the period.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Fund as it did not have assets in scope of IAS 41 as at the reporting date.

5.19 *Standards issued but not yet effective*

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Standards / amendments to standards / interpretations

Effective date

IFRS 17 Insurance Contracts

1 January 2023

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

1 January 2023

Definition of accounting estimates (IAS 8)

1 January 2023

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

1 January 2023

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

1 January 2023

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

1 January 2023

Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendments to IAS 1)

1 January 2023

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

6 INVESTMENT PROPERTIES

The composition of the investment properties as of the reporting date is summarized below:

31 December 2022

<i>Description</i>	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Accumulated Impairment (note 6.3.5)</i>	<i>Net book value</i>
	SR	SR	SR	SR
Hafar Al-Batin Mall	472,087,598	(65,479,292)	(60,418,306)	346,190,000
Al Khair Mall	325,168,704	(23,879,415)	(20,364,289)	280,925,000
Tabuk Mall	221,873,667	(28,908,141)	(57,880,527)	135,084,999
Dawadmi Mall	177,290,478	(35,105,745)	(19,557,405)	122,627,328
	<u>1,196,420,447</u>	<u>(153,372,593)</u>	<u>(158,220,527)</u>	<u>884,827,327</u>

31 December 2021

<i>Description</i>	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Accumulated Impairment (note 6.3.5)</i>	<i>Net book value</i>
	SR	SR	SR	SR
Hafar Al-Batin Mall	471,970,278	(51,750,971)	(15,394,521)	404,824,786
Al Khair Mall	324,997,973	(18,367,441)	(64,972,029)	241,658,503
Tabuk Mall	221,857,969	(23,610,436)	(44,523,350)	153,724,183
Dawadmi Mall	177,229,677	(27,838,410)	(52,749,942)	96,641,325
	<u>1,196,055,897</u>	<u>(121,567,258)</u>	<u>(177,639,842)</u>	<u>896,848,797</u>

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2022

6 INVESTMENT PROPERTIES (continued)

6.1 The movement in the investment properties during the year is as follows:

	<i>Land and buildings SR</i>	<i>Right-of-use asset SR</i>	<i>Total SR</i>
Cost			
Balance as at 1 January 2021	1,185,739,767	8,594,560	1,194,334,327
Additions during the year	1,721,570	-	1,721,570
Balance as at 31 December 2021	1,187,461,337	8,594,560	1,196,055,897
Additions during the year	364,550	-	364,550
Balance as at 31 December 2022	1,187,825,887	8,594,560	1,196,420,447
Accumulated depreciation			
Balance as at 1 January 2021	89,485,735	956,116	90,441,851
Depreciation charge during the year	30,647,349	478,058	31,125,407
Balance as at 31 December 2021	120,133,084	1,434,174	121,567,258
Depreciation charge during the year	31,327,278	478,057	31,805,335
Balance as at 31 December 2022	151,460,362	1,912,231	153,372,593
Accumulated impairment			
Balance as at 1 January 2021	187,706,641	-	187,706,641
Impairment reversal during the year	(10,066,799)	-	(10,066,799)
Balance as at 31 December 2021	177,639,842	-	177,639,842
Impairment reversal during the year	(19,419,315)	-	(19,419,315)
Balance as at 31 December 2022	158,220,527	-	158,220,527
Net book amount as at 31 December 2022	878,144,998	6,682,329	884,827,327
Net book amount as at 31 December 2021	889,688,411	7,160,386	896,848,797

Included above within land and buildings is land amounted to SR 312,274,760 (2021: SR 312,274,760).

During the year, depreciation charged to the statement of comprehensive income amounted to SR 31,805,335 (2021: SR 31,125,407).

6.1.1 The useful life of freehold properties is assessed at 25 years from date of acquisition

6.1.2 The useful life of Dawadmi Mall (leasehold) is assessed at 19 years from the date of acquisition.

6.2 Freehold and leasehold properties

Land comprises of the lands acquired or leased on which the buildings are built. The Fund acquired freehold properties in Riyadh, Hafar Al-Batin and Tabuk with an aggregate area of 185,721 square meter of land. The consideration for the properties was partly paid in cash and partly settled through issuance of 79,060,000 units of the Fund. Additionally, the Fund leased land in Dawadmi with an area of 72,678 square meter of land.

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

6 INVESTMENT PROPERTIES (continued)

6.3 *Listed below are the details of the investment properties:*

6.3.1 Dawadmi Mall

This property is a fully constructed commercial facility on a leasehold land, located in Dawadmi, Kingdom of Saudi Arabia ("KSA").

6.3.2 Al Khair Mall

This property is a fully constructed commercial facility on a freehold land, located in Al Malga District, Riyadh, KSA.

6.3.3 Hafar Al-Batin Mall

This property is a fully constructed commercial facility on a freehold land, located in Al Rayan District, Hafar Al-Batin, KSA.

6.3.4 Tabuk Mall

This property is a fully constructed commercial facility on a freehold land, located in Al Rajhi District, Tabuk, KSA.

6.3.5 Impairment of investment properties

During the year, the investment properties were tested for impairment and the management recognized a net reversal of SR 19,419,315 (2021: recognized a reversal of SR 10,066,799) to adjust the value of its investment properties to its recoverable amount based on the average value as at the reporting period determined by the independent evaluators as shown in note 7. The key assumptions used for valuation as at 31 December for these investment properties are disclosed in note 19.

6.3.6 Ownership of investment properties

All properties are held in the name of Wabel Fund Company (the "SPV"), except for Dawadmi land. 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.

7 EFFECTS ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED

In accordance with Article 36 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with the requirement in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less depreciation and impairment, if any, in these financial statements. Accordingly, the fair value below is disclosed for information purposes.

The fair value measurement of the investment properties was performed by ABAAD Real Estate Valuation Company, accredited valuer by the Saudi Authority for Accredited Valuers ("Taqeem"), holding membership number 1210000007 and Value Experts Real Estate Valuation Company, , accredited valuer by the Saudi Authority for Accredited Valuers ("Taqeem"), holding membership number 1210000219 (2021: BARCODE Company – Abdulkarim Abanami, accredited valuer by the Saudi Authority for Accredited Valuers ("Taqeem"), holding membership number 1210000001 and BUSSMA Company and Partner for Real Estate Valuation - Ahmed Saad Almalki, accredited valuer by the Saudi Authority for Accredited Valuers ("Taqeem"), holding membership number 1210001217). The valuers are independent, not related to the Fund, who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

7 EFFECTS ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED (continued)

The discounted cash flow (“DCF”) and income capitalisation valuation model (refer note 19) has been applied in accordance with the Royal Institution of Chartered Surveyors (“RICS”) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (“IVSC”) and applied by Saudi Authority for Accredited Valuers (“TAQEEM”).

7.1 As at 31 December 2022, the valuation of the investment properties, excluding the right of use assets for Dawadmi mall, are as follows:

	Appraiser 1	Appraiser 2	Average
	SR	SR	SR
<i>31 December 2022</i>			
Hafar Al-Batin Mall	351,400,000	340,980,000	346,190,000
Al Khair Mall	266,000,000	295,850,000	280,925,000
Tabuk Mall	141,800,000	128,369,996	135,084,998
Dawadmi Mall	93,200,000	138,690,000	115,945,000
	<u>852,400,000</u>	<u>903,889,996</u>	<u>878,144,998</u>
	Appraiser 1	Appraiser 2	Average
	SR	SR	SR
<i>31 December 2021</i>			
Hafar Al-Batin Mall	411,329,569	398,320,000	404,824,785
Al Khair Mall	245,537,005	237,780,000	241,658,503
Tabuk Mall	152,968,368	154,480,000	153,724,184
Dawadmi Mall	88,991,878	89,970,000	89,480,939
	<u>898,826,820</u>	<u>880,550,000</u>	<u>889,688,411</u>

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 rent amount. The inputs used in the above level 3 fair valuation are disclosed in note 19.

7.2 The unrealized loss on investment properties based on fair value evaluation is set out below:

	2022	2021
	SR	SR
Average fair value of investment properties (note 7.1)	878,144,998	889,688,411
Less: Carrying value of investment properties (note 6.1)	(878,144,998)	(889,688,411)
Net impact based on the fair value estimation	-	-
Units in issue (numbers)	118,000,000	118,000,000
Impact per unit share based on fair value evaluation (SR)	-	-

7.3 The net asset value using the fair values of the real estate properties is set out below:

	2022	2021
	SR	SR
Net assets value at cost	905,661,150	932,864,494
Net impact based on evaluations	-	-
Net assets based on fair value	<u>905,661,150</u>	<u>932,864,494</u>

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

7 EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED (continued)

7.4 The net asset value per unit, using the fair values of the real estate properties is set out below:

	2022 SR	2021 SR
Net assets value per unit at cost	7.68	7.90
Impact on net assets value per unit on account of unrealised profit based on evaluations	-	-
Net assets value per unit based on fair value	<u>7.68</u>	<u>7.90</u>

8 PREPAYMENT AND OTHER RECEIVABLES

	2022 SR	2021 SR
Receivable from ZATCA (i)	9,047,230	8,716,463
Trade receivable	2,575,841	-
Prepaid expenses	43,317	58,591
	<u>11,666,388</u>	<u>8,775,054</u>

(i) During the year ended 31 December 2020, the Fund has received value added tax (“VAT”) assessment from the ZATCA for the year ended 31 December 2018 and year ended 31 December 2021 amounting to SR 18,276,974 for non-submission and payment of its VAT returns. The Fund filed an appeal during the financial year 2021 with ZATCA and the General Secretariate of Tax Committees (“GSTC”) stating that the Fund has submitted and paid the due amounts of VAT through one of its related parties and believes that as the VAT was calculated and submitted based on the regulations of ZATCA accordingly, the demand is not justified. The amount of SR 9,047,230 (2021: SR 8,716,463) represents the payments made to ZATCA as for the eligibility to file an appeal.

After subsequent rejection of the appeal from ZATCA, the management filed an appeal with GSTC on 11 February 2021. GSTC accepted the appeal request, and the first hearing session was held on 29 July 2021 (corresponding to 19 Dhul-Hijjah 1442), but no conclusion was reached during the first session. The second hearing with GSTC was scheduled and attended on 26 September 2021. The appeal was rejected by GSTC. Official decision was received from GSTC on 22 November 2021, allowing the Fund to re-submit the appeal with Higher Appeal Committee (HAC) within 30 days. The revised appeal catering to the earlier discussions with ZATCA and GSTC was filed with HAC on 16 December 2021. Subsequent to the year ended 31 December 2022, the GSTC has issued the final verdict in favour of the Fund.

9 RENTAL INCOME RECEIVABLE

This account represents the rental income receivable from the investment properties in accordance with the terms of the corresponding tenancy agreements. The rental income receivables are current in nature.

As at 31 December 2022, the Fund had an allowance for expected credit losses amounting to SR 49,788,794 (2021: SR 39,136,134). Information about the Fund’s exposure to expected credit loss are shown in note 21.1.

	2022 SR	2021 SR
Rental income receivable	53,053,606	47,800,538
Less: Allowance for expected credit losses	(49,788,794)	(39,136,133)
	<u>3,264,812</u>	<u>8,664,405</u>

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31 December 2022

9 RENTAL INCOME RECEIVABLE (continued)

The following is the aging analysis of the rental income receivables as at the reporting date:

	2022 SR	2021 SR
Less than 90 days	1,656,323	2,969,706
Between 91 to 180 days	2,113,640	6,539,600
Between 181 to 360 days	10,119,412	19,069,258
More than 360 days	39,164,231	19,221,974
	<u>53,053,606</u>	<u>47,800,538</u>

The following is the movement of allowance for expected credit losses as at the reporting date:

	2022 SR	2021 SR
At the beginning of the year	39,136,133	20,891,525
Charge for the year	10,652,661	18,244,608
At the end of the year	<u>49,788,794</u>	<u>39,136,133</u>

10 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Fund Manager and entities / persons related to Fund Manager are considered as related parties of the Fund. In the ordinary course of its activities, the Fund transacts business with its related parties. All the related party transactions are approved by the Fund's Board of Directors.

A) Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the terms and conditions of the Fund charges the Fund a management fee equal to 0.75% (2021: 0.75%) of the net asset value of the Fund calculated quarterly in arrears and payable quarterly.

b) Board of Directors remuneration

Each independent member of the Board of Directors is allowed a remuneration of SR 5,000 (2021: SR 5,000) per board meeting.

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2022

10 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

10.1 Related party transactions

The following are the details of the transactions with related parties during the year:

<i>Name of related party</i>	<i>Nature of relationship</i>	<i>Nature of transaction</i>	2022 SR	2021 SR
Alinma Investment Company	Fund Manager	Management fees (i)	(6,927,484)	-
Fund Board	Board Members	Fund Board fee	(25,000)	(19,750)
Wabel Al Arabia for Investment Company	Property manager and unitholder	Rental income from investment properties	-	1,398,307
		Property manager fees and other expenses	-	712,263
		Payments made on behalf of the Fund	160,520	3,288,382
SWICORP Company	Previous Fund Manager	Management fees	-	(7,090,939)

- (i) The management fees payable amounting to SR 7,125,057 (2021: SR nil), is included as part of accrued and other expenses (note 14).

10.2 Related party balances

The following are the details of the related party balances at the year-end:

a) Amounts due from a related party

	2022 SR	2021 SR
Wabel Al Arabia for Investment Company	-	3,039,089
SWICORP Company	1,219,338	-
	1,219,338	3,039,089

b) Amounts due to related parties

	2022 SR	2021 SR
SWICORP Company	-	38,592
Board oversight fee	-	25,000
At the end of the year	-	63,592

As at 31 December 2022, board members of the Fund held 340,000 units (2021: 755,143 units).

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)
31 December 2022

11 FINANCIAL ASSETS AT AMORTISED COST

	2022 SR	2021 SR
Term Deposits (i)	15,000,000	-
Accrued Special commission income	47,667	-
	<u>15,047,667</u>	<u>-</u>

(i) This deposit represents wakala investments placed with an investment company operating in Kingdom of Saudi Arabia maturity within 1 year and carries an average special commission income rate of 4.4% per annum (31 December 2021: nil).

12 LEASE LIABILITIES

	2022 SR	2021 SR
Balance at the beginning of the year	7,664,911	7,988,538
Add: finance charges	311,837	326,373
Less: payments made during the year	(650,000)	(650,000)
Balance at the end of the year	7,326,748	7,664,911
Less: Current portion of lease liabilities	(650,000)	(650,000)
Non-current portion of lease liabilities	<u>6,676,748</u>	<u>7,014,911</u>

13 CONTRACT LIABILITIES

Contract liabilities represents rental income received during the year but not yet recognised as revenue. The movement in contract liabilities for the year is as follows:

	2022 SR	2021 SR
At the beginning of the year	1,564,580	19,779,639
Received during the year	47,580,272	40,830,226
Recognized during the year	(48,735,471)	(59,045,285)
At the end of the year	<u>409,381</u>	<u>1,564,580</u>

14 ACCRUED EXPENSES AND OTHER PAYABLES

	2022 SR	2021 SR
Management fees (note 10)	7,125,057	-
Value added tax payable	552,589	645,856
Property manager fees	335,534	-
Custody fees	132,413	94,136
Other expenses	120,828	479,825
	<u>8,266,421</u>	<u>1,219,817</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

15 ZAKAT

15.1 Charge for the year

Zakat charge amounting to SR 3,259,697 (2021: SR nil) provided in the statement of comprehensive income for the year ended 31 December 2022 consists of current year provision. The current year's provision is based on the following:

	2022 SR	2021 SR
Unitholders equity	956,364,406	1,180,000,000
Unitholders account and provisions	47,869,346	21,888,609
Book value of long term assets and other assets	<u>(1,043,047,854)</u>	<u>(1,313,959,234)</u>
	(38,814,102)	(112,070,625)
Zakat base before adjusted net loss for the Gregorian year	(40,020,190)	(115,553,046)
Adjusted net loss for the year (note 15.2)	<u>7,231,094</u>	<u>(6,680,008)</u>
	<u>(32,789,096)</u>	<u>(122,233,054)</u>

Zakat is payable at 2.5% higher of approximate zakat base or adjusted net income.

15.2 Adjusted net loss

	2022 SR	2021 SR
Loss before zakat	(3,421,567)	(14,857,817)
Add: Provisions charged during the year	<u>10,652,661</u>	<u>8,177,809</u>
Adjusted net loss for the year	<u>7,231,094</u>	<u>(6,680,008)</u>

15.3 Zakat provision

The movement in the zakat provision for the years ended 31 December is as follows:

	2022 SR	2021 SR
At the beginning of the year	997,084	1,878,880
Charged during the year	181,777	-
Paid during the year	-	<u>(881,796)</u>
At the end of the year	<u>1,178,861</u>	<u>997,084</u>

15.4 Status of assessment

The Fund has filed the zakat returns for all years up to 31 December 2021. No zakat assessments have yet been raised by the ZATCA.

16 RENTAL INCOME FROM INVESTMENT PROPERTIES

	2022 SR	2021 SR
Rental income	<u>48,735,471</u>	<u>59,045,285</u>

- (i) The Fund's rental income from investment properties is concentrated within one operating segment and geographical region of the Kingdom of Saudi Arabia, comprising of 4 investment properties as disclosed in note 6.3.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2022 SR	2021 SR
Property insurance	597,232	492,279
Regulator and listing fees	501,457	577,293
Administration fees	336,006	499,028
Professional fees	311,649	840,937
Legal fees	64,793	177,293
Value-added tax expenses	-	1,200,000
Others	154,140	282,422
	<u>1,965,277</u>	<u>4,174,601</u>

18 PROPERTY MANAGER FEE AND OPERATING EXPENSES

	2022 SR	2021 SR
Operating expenses	16,068,039	19,039,350
Property manager fees	4,124,800	3,740,263
	<u>20,192,839</u>	<u>22,779,613</u>

19 FAIR VALUE MEASUREMENT

19.1 *Financial instruments*

Financial assets consist of rental income receivables, due from a related party, financial assets at amortised cost and other receivables. Financial liabilities consist of dividend payable, due to related parties, and management fee payable. The fair values of financial assets and financial liabilities are not materially different from their carrying values due to short term nature and are classified as level 2.

19.2 *Non-financial assets*

The following table shows the fair value of investment properties disclosed as at year end:

31 December 2022	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<i>Investment properties</i>				
Hafar Al-Batin Mall	-	-	346,190,000	346,190,000
Al Khair Mall	-	-	280,925,000	280,925,000
Tabuk Mall	-	-	135,084,998	135,084,998
Dawadmi Mall	-	-	115,945,000	115,945,000
	<u>-</u>	<u>-</u>	<u>878,144,998</u>	<u>878,144,998</u>
31 December 2021	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<i>Investment properties</i>				
Hafar Al-Batin Mall	-	-	404,824,785	404,824,785
Al Khair Mall	-	-	241,658,503	241,658,503
Tabuk Mall	-	-	153,724,184	153,724,184
Dawadmi Mall	-	-	89,480,939	89,480,939
	<u>-</u>	<u>-</u>	<u>889,688,411</u>	<u>889,688,411</u>

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

19 FAIR VALUE MEASUREMENT (continued)

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The key assumptions are listed below.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by ABAAD Company and VALUE EXPERT Company (2021: Busma and Barcode) as disclosed in note 7. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (“RICS”) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (“IVSC”) and applied by Saudi Authority for Accredited Valuers (“TAQEEM”).

31 December 2022

<i>Valuation approach</i>	<i>Key assumptions</i>	<i>Range</i>	
		<i>2022</i>	<i>2021</i>
Income capitalisation	Discount rate (%)	10.3 - 11.3	-
	Growth rate (%)	2.8	-
	Capitalisation rate	7.5 - 8.5	8 - 9
Discounted cash flow	Discount rate (%)	10.81 - 11.51	9 - 13
	Growth rate (%)	2.01	2.5
	Vacancy rate	25	10 - 15
	Capitalisation rate	7.5 - 9	-
Depreciated replacement cost	Building cost per square meter (SR)	1,800	-
	Profit margin (%)	20.00	-

20 LEASE COMMITMENTS

Future rental receivable commitments under the leases are as follows:

	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
No later than one year	45,428,046	45,327,525
Later than one year and not later than five years	119,621,212	139,580,055
Later than five years	63,906,047	80,176,539
	<u>228,955,305</u>	<u>265,084,119</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

21 FINANCIAL RISK MANAGEMENT

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

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its terms and conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy.

21.1 Credit risk

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

	2022 SR	2021 SR
Financial assets at amortised cost	15,047,667	-
Cash and cash equivalents	6,917,115	29,348,717
Rental income receivables (note 9)	3,264,812	8,664,405
Amounts due from a related party (note 10)	2,575,841	3,039,089
	<u>27,805,435</u>	<u>41,052,211</u>

The carrying amount of financial assets represents the maximum credit exposure. The Fund seeks to limit its credit risk with respect to rental income receivables by charging rent in advance, and by monitoring outstanding balances on an ongoing basis with the actual results for the Fund. As at the year-end, the related parties have sound financial position and have the ability to repay their debts towards the Fund. For banks and financial institutions, the Fund only deals with reputable banks with sound credit ratings.

The following table details the risk profile of rental income receivables based on the Fund's expected credit loss matrix:

	2022		2021	
	<i>Loss rate</i> (%)	<i>Amount</i> SR	<i>Loss rate</i> (%)	<i>Amount</i> SR
Less than 90 days	48.94	810,000	47.15	1,400,315
Between 91 to 180 days	71.64	1,514,222	63.04	4,122,659
Between 181 to 360 days	82.02	8,299,745	75.47	14,391,186
More than 360 days	100.00	39,164,231	100.00	19,221,973

21.2 Liquidity risk

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

Alinma Retail REIT Fund
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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

21 FINANCIAL RISK MANAGEMENT (continued)

21.2 Liquidity risk (continued)

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted payments:

	On demand SR	Less than 12 months SR	More than 12 months SR	Total SR
31 December 2022 -				
Lease liabilities	-	650,000	6,676,748	7,326,748
Contract liabilities	-	409,381	-	409,381
Unitholders' payable	100,086	-	-	100,086
	<u>100,086</u>	<u>1,059,381</u>	<u>6,676,748</u>	<u>7,836,215</u>
	On demand SR	Less than 12 months SR	More than 12 months SR	Total SR
31 December 2021				
Lease liabilities	-	650,000	7,014,911	7,664,911
Unitholders payable	2,301,584	-	-	2,301,584
Amounts due to related parties	-	63,592	-	63,592
Contract liabilities	-	1,219,817	-	1,219,817
	<u>2,301,584</u>	<u>1,933,409</u>	<u>7,014,911</u>	<u>11,249,904</u>

21.3 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund does not have any significant exposure to currency risk as all its monetary assets and monetary liabilities are denominated in Saudi Riyals.

22 OPERATING SEGMENT

The Fund is organised into one operating segment. All of the Fund's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the fund as one segment.

23 DISTRIBUTION

The following dividends were approved in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits

31 December 2022

Dividend declaration date	Dividend period	SR
16 May 2022	From 1 January 2021 to 31 December 2021	11,800,000
27 July 2022	From 1 January 2022 to 30 June 2022	11,800,000
		<u>23,600,000</u>

There were no dividends approved during the year ended 31 December 2021.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2022

24 LAST VALUATION DAY

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

25 EVENTS AFTER THE REPORTING DATE

There were no events subsequent to the reporting date which requires adjustments or disclosures in the financial statements or notes thereto

26 APPROVALS OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on 8 Ramadan 1444H (corresponding to 30 March 2023).