

**AL-JAZIRA REIT FUND  
A REAL ESTATE INVESTMENT TRADED FUND  
(MANAGED BY ALJAZIRA CAPITAL COMPANY)  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021  
WITH INDEPENDENT AUDITOR'S REPORT**

**AL-JAZIRA REIT FUND**  
**A Real Estate Investment Traded Fund**  
**Managed By Aljazira Capital Company**  
**Financial Statements**  
**For the year ended 31 December 2021**  
**with the Independent Auditor's Report**

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## INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS**  
**AL-JAZIRA REIT FUND**  
**(MANAGED BY ALJAZIRA CAPITAL COMPANY)**  
**RIYADH, KINGDOM OF SAUDI ARABIA**

### REPORT ON THE AUDIT OF FINANCIAL STATEMENT

#### **Opinion**

We have audited the accompanying financial statements of Al-Jazira REIT Fund (“the Fund”), being managed by Aljazira Capital Company (the “Fund Manager”), which comprise the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement changes in net assets attributable to the unitholders and statement cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements 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 (“ISA”) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors’ 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 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 (CONTINUED)**

**TO THE UNITHOLDERS**  
**AL-JAZIRA REIT FUND**  
**(MANAGED BY ALJAZIRA CAPITAL COMPANY)**  
**RIYADH, KINGDOM OF SAUDI ARABIA**

**REPORT ON THE AUDIT OF FINANCIAL STATEMENT (CONTINUED)**

**Key Audit Matters (continued)**

| Key audit matter   | How our audit addressed the key audit matter   |
|--|--|
| <p>Al-Jazira REIT Fund owns a portfolio of investment properties comprising of commercial warehouses located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, 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 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 a formal valuation of the fund’s investment properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment 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 different/ independent real estate evaluators for each investment properties as at 31 December 2021 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;</li> <li>- We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;</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 higher than the carrying amount of the same except for certain properties, which had an effect of impairment and was therefore recorded by the Fund's management; and</li> <li>- We reconciled the average fair value of the investment properties as per note 13 to the external valuers’ reports.</li> </ul> |

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

**TO THE UNITHOLDERS**  
**AL-JAZIRA REIT FUND**  
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**RIYADH, KINGDOM OF SAUDI ARABIA**

### REPORT ON THE AUDIT OF FINANCIAL STATEMENT (CONTINUED)

#### **Other Information**

Other information consists of the information included in the Fund's 2021 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. We have nothing to report in this regard.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Funds' Management is responsible for the preparation and fair presentation of the financial statements in accordance with (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by (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, the Fund's 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's Board of Directors are responsible for overseeing the Fund's financial reporting process.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS**  
**AL-JAZIRA REIT FUND**  
**(MANAGED BY ALJAZIRA CAPITAL COMPANY)**  
**RIYADH, KINGDOM OF SAUDI ARABIA**

### REPORT ON THE AUDIT OF FINANCIAL STATEMENT (CONTINUED)

#### 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 auditors' 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 "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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's 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 audit 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



**INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**TO THE UNITHOLDERS**  
**AL JAZIRA REIT FUND**  
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**REPORT ON THE AUDIT OF FINANCIAL STATEMENT (CONTINUED)**

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

- 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 compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine the 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 communications.

For and on behalf of  
**Al-Bassam & Co.**  
Riyadh, Kingdom of Saudi Arabia

**Ibrahim A. Al-Bassam**  
Certified Public Accountant  
Registration No. 337  
25 Shabaan 1443  
28 March 2022



**AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund

Managed By Aljazira Capital Company

**STATEMENT OF FINANCIAL POSITION****As at 31 December 2021**

(Amounts in SAR)

|   | Note | As at 31 December<br>2021 | As at 31 December<br>2020 |
|---|------|---------------------------|---------------------------|
| <b><u>ASSETS</u></b>                                    |      |                           |                           |
| <b><u>Current assets</u></b>                            |      |                           |                           |
| Cash at bank  | 6    | 585,480                   | 231,276                   |
| Rent receivable, net                                    | 7    | 287,661                   | -                         |
| Investments carried at FVTPL                            | 8    | -                         | 476,611                   |
| Prepayments and other balance receivables               |      | 40,137                    | 369,445                   |
| <b>Total current assets</b>                             |      | <b>913,278</b>            | <b>1,077,332</b>          |
| <b><u>Non-current assets</u></b>                        |      |                           |                           |
| Investment properties, net                              | 9    | 84,310,513                | 83,358,163                |
| <b>Total non-current assets</b>                         |      | <b>84,310,513</b>         | <b>83,358,163</b>         |
| <b>Total assets</b>                                     |      | <b>85,223,791</b>         | <b>84,435,495</b>         |
| <b><u>LIABILITIES</u></b>                               |      |                           |                           |
| <b><u>Current liabilities</u></b>                       |      |                           |                           |
| Accrued fund management fees                            | 11   | 386,184                   | 212,789                   |
| Unearned rental income                                  | 12   | 1,728,283                 | 1,706,498                 |
| Accrued custodian fees                                  | 11   | 125,556                   | 75,556                    |
| Accrued expenses  |      | 449,638                   | 209,529                   |
| <b>Total current liabilities</b>                        |      | <b>2,689,661</b>          | <b>2,204,372</b>          |
| <b>Total liabilities</b>                                |      | <b>2,689,661</b>          | <b>2,204,372</b>          |
| <b>NET ASSETS ATTRIBUTE TO<br/>UNITHOLDERS</b>          |      | <b>82,534,130</b>         | <b>82,231,123</b>         |
| <b>Units in issue (numbers)</b>                         |      | <b>11,800,000</b>         | <b>11,800,000</b>         |
| <b>Assets carrying value attribute for the<br/>unit</b> |      | <b>6.99</b>               | <b>6.96</b>               |
| <b>Assets fair value attribute for the unit</b>         | 13   | <b>6.99</b>               | <b>6.96</b>               |

The accompanying notes 1 to 23 form an integral part of these financial statements.



**AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund

Managed By Aljazira Capital Company

**STATEMENT OF COMPREHENSIVE INCOME****For the year ended 31 December 2021**

(Amounts in SAR)

|   | Note | <b>For the year ended<br/>31 December 2021</b> | For the year ended<br>31 December 2020 |
|---|------|--|--|
| <b><u>INCOME</u></b>                                    |      |  |  |
| Rental income from investment property                  | 14   | <b>5,238,252</b>                               | 6,074,367                              |
| Profit from investments carried at FVTPL                | 10   | <b>10,394</b>                                  | 13,914                                 |
| <b>Total income</b>                                     |      | <b>5,248,646</b>                               | 6,088,281                              |
| <b><u>EXPENSES</u></b>                                  |      |  |  |
| Properties management expenses                          |      | <b>(209,530)</b>                               | (106,060)                              |
| Fund management fees                                    | 11   | <b>(757,052)</b>                               | (883,554)                              |
| Other expenses  | 15   | <b>(943,007)</b>                               | (1,108,315)                            |
| Expected credit loss expense                            | 7    | -  | (5,226,792)                            |
| <b>Total Expenses</b>                                   |      | <b>(1,909,589)</b>                             | (7,324,721)                            |
| <b>Operating profit / Operating (loss)</b>              |      | <b>3,339,057</b>                               | (1,236,440)                            |
| Reverse / (impairment) in investment properties         | 9    | <b>1,878,703</b>                               | (21,971,791)                           |
| Depreciation of investment properties                   | 9    | <b>(926,353)</b>                               | (687,914)                              |
| <b>Net income / (loss) for the year</b>                 |      | <b>4,291,407</b>                               | (23,896,145)                           |
| Other comprehensive income                              |      | -  | -                                      |
| <b>Total comprehensive income / (loss) for the year</b> |      | <b>4,291,407</b>                               | (23,896,145)                           |

The accompanying notes 1 to 23 form an integral part of these financial statements.

**AL-JAZIRA REIT FUND**  
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Managed By Aljazira Capital Company

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**STATEMENT OF CHANGES IN NET ASSETS**

**For the year ended 31 December 2021**

(Amounts in SAR)

|  | Note | <b>For the year<br/>ended 31<br/>December 2021</b> | For the year<br>ended 31<br>December 2020 |
|--|------|--|---|
| <b>Changes from units' transactions:</b>   |      |  |   |
| <b>Issue of units</b>  |      | -  | -   |
| <b>Net assets value attributable to the unitholders at the beginning of the year</b> |      | <b>82,231,123</b>                                  | 109,667,268                               |
| <b>Dividends during the year</b>   | 18   | <b>(3,988,400)</b>                                 | (3,540,000)                               |
| <b>Net comprehensive income / (loss) for the year</b>                                |      | <b>4,291,407</b>                                   | (23,896,145)                              |
| <b>Net assets value attributable to the unitholders at the end of the year</b>       |      | <b>82,534,130</b>                                  | 82,231,123                                |

The accompanying notes 1 to 23 form an integral part of these financial statements

**AL-JAZIRA REIT FUND**  
A Real Estate Investment Traded Fund  
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**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2021**  
(Amounts in SAR)

|  | <u>Notes</u> | <b>31 December 2021</b> | 31 December 2020 |
|--|--------------|-------------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                |              |                         |                  |
| Net income / (loss) for the year                           |              | <b>4,291,407</b>        | (23,896,145)     |
| <i>Adjustments to</i>                                      |              |                         |                  |
| Realized gain from investments carried at FVTPL            | 8            | <b>(10,394)</b>         | (6,559)          |
| Unrealized gain from investments carried at FVTPL          | 8            | -                       | (7,355)          |
| Investment properties depreciation                         | 9            | <b>926,353</b>          | 687,914          |
| Reverse / (impairment) in investment properties            | 9            | <b>(1,878,703)</b>      | 21,971,791       |
| Expected credit loss provision                             | 7            | -                       | 5,226,792        |
| <b>Changes in operating assets:</b>                        |              |                         |                  |
| Rent Receivable  |              | <b>(287,661)</b>        | (1,815,315)      |
| Prepayments and other balance receivables                  |              | <b>329,308</b>          | (344,726)        |
| Accrued fund management fees                               |              | <b>173,395</b>          | (24,950)         |
| Unearned rent receivables                                  |              | <b>21,785</b>           | 88,306           |
| Accrued custodian fees                                     |              | <b>50,000</b>           | 50,000           |
| Accrued expenses   |              | <b>240,109</b>          | (94,837)         |
| <b>Net cash generated from operating activities</b>        |              | <b>3,855,599</b>        | 1,834,916        |
| <b>INVESTING ACTIVITIES</b>                                |              |                         |                  |
| Proceeds from selling investments at FVTPL                 | 8            | <b>487,005</b>          | 500,000          |
| <b>Net cash generated from investing activities</b>        |              | <b>487,005</b>          | 500,000          |
| <b>FINANCING ACTIVITIES</b>                                |              |                         |                  |
| Dividends  |              | <b>(3,988,400)</b>      | (3,540,000)      |
| <b>Net cash used in financing activities</b>               |              | <b>(3,988,400)</b>      | (3,540,000)      |
| <b>Net change in cash in bank balances during the year</b> |              |                         |                  |
|  |              | <b>354,204</b>          | (1,205,084)      |
| <b>Cash in bank at the beginning of the year</b>           |              | <b>231,276</b>          | 1,436,360        |
| <b>Cash in bank balances at the end of the year</b>        | 6            | <b>585,480</b>          | 231,276          |

The accompanying notes 1 to 23 form an integral part of these financial statements.

## **AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund

Managed By Aljazira Capital Company

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### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

(Amounts in SAR)

#### **1) THE FUND AND ITS ACTIVITIES**

The Al Jazira REIT Fund ("REIT") is a Shariah compliant real estate investment traded fund. The fund operates in accordance with the Real Estate Investment Funds Regulations and REIT Regulations issued by the Capital Market Authority (CMA). The fund is listed on ("Tadawul") and t traded on the Tadawul in accordance with its rules and regulations. The size of the fund is 118 million Saudi riyals, The REIT has a term of 99 years from the beginning of its operation.

Al-Jazirah Financial Markets Company ("Fund Manager"), a Saudi Closed Joint Stock Company registered under Commercial Registry No. 1010351313, authorized to a person by the Capital Market Authority with License No. 07076-37, runs a REIT.

The main investment objective of the fund is to invest in structurally developed real estate that generates periodic income and distributes a percentage of no less than 90% of the fund's net profits in cash to investors during the fund's operating period at least once annually during the third quarter of each year in the event that the rent collection is completed with the possibility of achieving Capital gains upon selling the fund's assets, and the fund will invest mainly in winery warehouses in Jeddah, and these are wholly owned by Al-Jazira Mawten for Income Properties Fund

#### **2) REGULATING AUTHORITY**

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA on 19 Jumada al-Alkhirah 1427H (corresponding to 15 July 2006) thereafter amended on 12 Rajab 1442H (corresponding to 24 February 2021), detailing requirements for all types of funds within the Kingdom of Saudi Arabia.

#### **3) BASIS OF PRESENTATION**

##### ***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 endorsed by the Saudi Organization of Certified Public Accountants ("SOCPA").

##### ***3-2) Basis of measurement and functional and presentation currency***

These financial statements have been prepared in accordance with the modified historical cost principle by re-evaluating the investment carried at fair value through profit or loss using the accrual basis of accounting, as these financial statements are presented in Saudi riyals, which is the functional and presentation currency of the Fund.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016 the Group needs to apply the cost model to measure the properties and equipment, investment properties, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

On 31 December 2019, CMA has examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation options.

## **AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund  
Managed By Aljazira Capital Company

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### **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2021**

(Amounts in SAR)

### **3) BASIS OF PRESENTATION (CONTINUED)**

#### **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.

#### ***Going Concern***

The Fund Manager of the Fund 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 REIT's ability to continue as a going concern. Accordingly, the financial statements have been prepared on the going concern basis.

#### ***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 greater 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 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.

#### ***Residual and useful lives of investment properties***

The Fund manager of the REIT 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.

#### ***Expected credit loss***

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 group of similar financial assets for the purposes of measuring ECL.

**AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund

Managed By Aljazira Capital Company

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2021**

(Amounts in SAR)

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

**4) SIGNIFICANT ACCOUNTING POLICIES*****Cash and cash equivalents***

Cash and cash equivalents consist of cash in current accounts with a local bank. Cash and cash equivalents are measured at amortized cost in the statement of assets and liabilities.

***Receivable***

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.

***Investment properties***

Investment properties are non-current assets held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses if any. The cost is amortized minus the residual value of the real estate investment over the 30-year useful life or the term of the fund, whichever is lower.

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

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

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

The book value of the fund's financial assets is reviewed on the date that any value is ascertained. If such indication exists, the asset's recoverable amount is estimated.

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

**AL-JAZIRA REIT FUND**

A Real Estate Investment Traded Fund  
Managed By Aljazira Capital Company

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**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2021**

(Amounts in SAR)

**4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Investment properties (continued)***

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

***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, 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.

***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.

***Revenue Recognition***

Rental income arising from operating leases on investment properties is recognized in accordance with the terms of lease contracts over the lease term on a straight-line basis.

***Investing transactions***

Investment transactions are recognized on the basis of the date of the transaction.

***Management fees and other expenses***

Management fees and other expenses are charged at rates within the limits mentioned in the fund terms and conditions. Management fees are calculated on a daily basis and paid on a quarterly basis.

***Zakat***

Zakat is an obligation on Unitholders and, accordingly, no provision for this obligation is included in these financial statements.

***Dividends***

The fund's policy is to distribute and pay no less than 90% of the Fund's net profit from collecting rents as annual dividends on a semi-annual basis. It does not include the profit generated from selling any investment properties.

***Equity per unit***

The net asset value of each unit is calculated by dividing the property rights of the owners of the units listed in the balance sheet by the number of units outstanding at the end of the year

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#### **4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### *Units in issue*

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. 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.

##### *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.

###### *Financial assets*

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

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

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

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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



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

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

**IFRS 9****Financial assets**

|                                  |                |
|----------------------------------|----------------|
| Bank current account             | Amortized cost |
| Trade receivables, net           | Amortized cost |
| Investments carried at FVTPL     | Fair value     |
| Prepayment and other receivables | Amortized cost |

***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 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 profit or loss. Any gain or loss on derecognition is recognized in profit or loss.  |
| <b>Debt investments at FVOCI</b>          | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Fund has no such investments. |
| <b>Equity investments at FVOCI</b>        | These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. The Fund has no such investments.   |

***Reclassifications***

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

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### NOTES TO THE FINANCIAL STATEMENTS

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#### **4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### *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*

The impairment requirements in IFRS 9 use more forward-looking information to establish expected credit losses - the "Expected Credit Loss Model". It replaces the "incurred loss model" in IAS 39. The instruments that fall within the scope of the new requirements include loans and other financial assets with a debt type measured at amortized cost and at FVOCI, and contract assets that are recognized and measured in accordance with the IFRS. Financial 15, loan obligations and some financial guarantee contracts (of the issuer) that are not measured at FVTPL.

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

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

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

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

##### **Expected credit loss assessment:**

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against:

- financial assets measured at amortized cost

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

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#### **4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Expected credit loss assessment (continued)**

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

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

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

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

##### ***Model and Framework***

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

##### **Macroeconomic weighted average scenarios**

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

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

##### ***Portfolio segmentation***

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

##### ***Definition of default***

In the above context, the Fund considers default when:

- the customer is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); 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.

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**4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*****Definition of default (continued)***

The carrying amount of the asset is reduced using the above model and the loss is recognized in the statement of profit or loss. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been 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 statement of profit or loss.

***Specific provision***

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

***Write-off***

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

***Financial liabilities***

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

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

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

**Financial liabilities**

|                              | <b>IFRS 9</b>  |
|------------------------------|----------------|
| Accrued Fund management fees | Amortized cost |
| Unearned rental revenue      | Amortized cost |
| Accrued custodian fees       | Amortized cost |
| Accrued expenses             | Amortized cost |

***Derecognition***

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

***Modifications of financial assets and financial liabilities******Financial assets***

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

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**4) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Modifications of financial assets and financial liabilities (continued)**Financial assets (continued)*

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 statement of profit or loss.

*Financial liability*

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 statement of profit or loss.

*Offsetting of financial instruments*

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the 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) ACCRUED FUND MANAGEMENT FEES AND OTHER**

The fund pays the fund manager a management fee of 0.9% per annum of the net fair value of the fund's assets, calculated on a daily basis and paid on a quarterly basis. The fund also pays the fund manager administrative fees to cover direct expenses related to the fund's business, such as the actual costs related to preparing and printing bulletins, reports and notices to investors, remuneration for members of the board of directors, supervisory fees, external auditors, appraisers' fees, and any other parties providing services to the fund and any exceptional expenses, with a maximum of 0.25% annually of the net fair value of the assets, and custody fees, up to a maximum of 0.1% per annum of the net fair value of the assets to be paid on a quarterly basis, and operating, maintenance and marketing fees of 5% annually of the rental income collected. The fund manager is entitled to a 5% performance fee, the positive difference between the sale price of any property owned by the fund and the purchase price.

**6) Cash at banks**

|               | <b>31 December 2021</b> | 31 December 2020 |
|---------------|-------------------------|------------------|
| Bank balances | <b>585,480</b>          | 231,276          |
|               | <b>585,480</b>          | 231,276          |

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**7) RENT RECEIVABLE, NET**

|                                      | note | <u>31 December 2021</u> | 31 December 2020 |
|--------------------------------------|------|-------------------------|------------------|
| Lease receivable                     |      | <b>5,514,453</b>        | 5,226,792        |
| Provision for expected credit losses | 7-1  | <b>(5,226,792)</b>      | (5,226,792)      |
|                                      |      | <b>287,661</b>          | -                |

7-1 The movement for expected credit losses during the year is as follows:

|                                      | <u>31 December 2021</u>           | 31 December 2020 |
|--------------------------------------|-----------------------------------|------------------|
| Balance at the beginning of the year | <b>5,226,792</b>                  | -                |
| Charge during the year               | -                                 | 5,226,792        |
| Balance at the end of the year       | <b>5,226,792</b>                  | 5,226,792        |
|                                      | <u>Overdue and impaired value</u> |                  |

| Year                    | Total            | From 1<br>to 90<br>days | From 91<br>to 180<br>days | From 181<br>to 270<br>days | From 271<br>to 365<br>days | More than 365<br>Days |
|-------------------------|------------------|-------------------------|---------------------------|----------------------------|----------------------------|-----------------------|
| <b>31 December 2021</b> |                  |                         |                           |                            |                            |                       |
| Total                   | <b>5,514,453</b> | <b>287,661</b>          | -                         | -                          | -                          | <b>5,226,792</b>      |
| Expected credit losses  | <b>5,226,792</b> | -                       | -                         | -                          | -                          | <b>5,226,792</b>      |
| Coverage rate           | <b>94.78%</b>    | -                       | -                         | -                          | -                          | <b>100%</b>           |
| <b>31 December 2020</b> |                  |                         |                           |                            |                            |                       |
| Total                   | 5,226,792        | -                       | -                         | -                          | -                          | 5,226,792             |
| Expected credit losses  | 5,226,792        | -                       | -                         | -                          | -                          | 5,226,792             |
| Coverage rate           | 100%             | -                       | -                         | -                          | -                          | 100%                  |

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**8) INVESTMENTS AS FVTPL**

| As at 31 December 2021        | Fund Manager             | No. of units | Cost | Market value |
|-------------------------------|--------------------------|--------------|------|--------------|
| ALJAZIRA SAUDI RIYAL MURABAHA | Aljazira Capital Company | -            | -    | -            |

  

| As at 31 December 2020        | Fund Manager             | No. of units | Cost    | Market value |
|-------------------------------|--------------------------|--------------|---------|--------------|
| ALJAZIRA SAUDI RIYAL MURABAHA | Aljazira Capital Company | 3,183        | 469,257 | 476,612      |

the following is investment movement during the year:

|                                       | 31 December 2021 | 31 December 2020 |
|---------------------------------------|------------------|------------------|
| Balance beginning of the year         | 476,611          | 962,697          |
| Sold during the year                  | (487,005)        | (500,000)        |
| Unrealized profit                     | -                | 7,355            |
| Realized profits                      | 10,394           | 6,559            |
| <b>Balance at the end of the year</b> | <b>-</b>         | <b>476,611</b>   |

**9) INVESTMENTS PROPERTIES, NET**

|                                       | Land              | Building          | 2021              | 2020              |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Cost</b>                           |                   |                   |                   |                   |
| Balance beginning of the year         | 59,765,037        | 26,987,441        | 86,752,478        | 108,724,269       |
| Reverse / (impairment) in value (9-4) | 3,109,459         | (1,230,756)       | 1,878,703         | (21,971,791)      |
| <b>Balance end of the year</b>        | <b>62,874,496</b> | <b>25,756,685</b> | <b>88,631,181</b> | <b>86,752,478</b> |

**Accumulated Depreciation**

|                                     |          |                    |                    |                    |
|-------------------------------------|----------|--------------------|--------------------|--------------------|
| Balance beginning of the year       | -        | (3,394,315)        | (3,394,315)        | (2,706,401)        |
| Depreciation charge during the year | -        | (926,353)          | (926,353)          | (687,914)          |
| <b>Balance end of the year</b>      | <b>-</b> | <b>(4,320,668)</b> | <b>(4,320,668)</b> | <b>(3,394,315)</b> |

**Book Value:**

|                                       |                   |                   |                   |            |
|---------------------------------------|-------------------|-------------------|-------------------|------------|
| <b>Balance as at 31 December 2021</b> | <b>62,874,496</b> | <b>21,436,017</b> | <b>84,310,513</b> |            |
| Balance as at 31 December 2020        | 59,765,037        | 23,593,126        |                   | 83,358,163 |

9-1 Real estate investments are represented in winery warehouses: It represents warehouses located on two lands, a northern block and a southern block located on King Faisal Road in Al-Wadi neighborhood, Jeddah.

9-2 All real estate is registered in the name of Alinma Investment ("the company"). The company holds these properties for the ownership of the usufruct of the fund and does not have any controlling interests and does not pose any risks to the investment properties.

9-3 The fund manager periodically reviews its investment properties to determine whether there is any indication of a decline in the value of assets. An impairment loss is considered at the amount that the carrying value of each investment property exceeds its recoverable value, which is higher than the fair value of the assets minus the cost of sale and value in use. According to the periodic evaluation reports provided by the independent evaluation experts of the Fund.

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**9) INVESTMENTS PROPERTIES, NET (CONTINUED)**

9-4 The impairment of the assets is as follows:

|                               | <u>31 December 2020</u> |                  |                   | <u>31 December 2021</u> |                  |                    |
|-------------------------------|-------------------------|------------------|-------------------|-------------------------|------------------|--------------------|
|                               | <b>Lands</b>            | <b>Buildings</b> | <b>Total</b>      | <b>Lands</b>            | <b>Buildings</b> | <b>Total</b>       |
| Balance beginning of the year | 5,077,017               | 4,198,714        | 9,275,731         | <b>30,444,364</b>       | <b>803,158</b>   | <b>31,247,522</b>  |
| Charged during the year       | 25,367,347              | -                | 25,367,347        | -                       | <b>1,230,756</b> | <b>1,230,756</b>   |
| Refund during the year        | -                       | (3,395,556)      | (3,395,556)       | <b>(3,109,459)</b>      | -                | <b>(3,109,459)</b> |
| Balance end of the year       | <b>30,444,364</b>       | <b>803,158</b>   | <b>31,247,522</b> | <b>27,334,905</b>       | <b>2,033,914</b> | <b>29,368,819</b>  |

**10) PROFIT FROM INVESTMENTS AT FVTPL**

|  | <b>For the year ended 31 December 2021</b> | For the year ended 31 December 2020 |
|--|--|-------------------------------------|
| Realized gain from selling investments at FVTPL      | <b>10,394</b>                              | 6,559                               |
| Unrealized gain from remeasurement of investments at | -  | 7,355                               |
|  | <b>10,394</b>                              | 13,914                              |

**11) BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

Related parties to the fund include Al-Jazira Capital "Fund Manager", "Bank Al-Jazira" (a shareholder in Al-Jazira Capital) and other managed funds managed by the Fund's Board of Directors and Al-Inma Investment Company (Custodian).

In the ordinary course of its activities, the Fund transacts business with related parties. The related parties' transactions are governed by limits set by the regulations issued by the CMA. All related party transactions are approved by the Fund Board.

The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

| <b>Related Party</b>          | <b>Nature of transactions</b> | <b>Amount of transactions</b> |           | <b>Balance receivable \ (payable)</b> |                  |
|-------------------------------|-------------------------------|-------------------------------|-----------|---------------------------------------|------------------|
|                               |                               | <b>2021</b>                   | 2020      | <b>31 December 2021</b>               | 31 December 2020 |
| Al-Jazira Capital             | Fund management fee           | <b>(757,052)</b>              | (883,554) | <b>(386,184)</b>                      | (212,789)        |
| Bank AlJazira                 | Current account               | -                             | -         | <b>585,480</b>                        | 231,276          |
| Al-Inma Investment            | Custodian fees                | <b>(50,000)</b>               | (50,000)  | <b>(125,556)</b>                      | (75,556)         |
| Aljazira Saudi riyal Murabaha | Investments                   | <b>10,394</b>                 | 13,954    | -                                     | 476,612          |
| BOD members                   | Attendance allowance*         | <b>(22,000)</b>               | (22,000)  | <b>(66,000)</b>                       | (44,000)         |

\* Board attendance allowances are included in the financial position under Accrued expenses.



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(Amounts in SAR)

**12) UNEARNED RENTAL REVENUE**

|  | <b><u>31 December 2021</u></b> | <u>31 December 2020</u> |
|--|--------------------------------|-------------------------|
| Balance beginning of the year                        | <b>1,706,498</b>               | 1,618,192               |
| Rental revenue received during the year<br>(note 14) | <b>(5,238,252)</b>             | (6,564,658)             |
| Rental revenue earned during the year                | <b>5,260,037</b>               | 6,652,964               |
| Balance at the end of the year                       | <b><u>1,728,283</u></b>        | <u>1,706,498</u>        |

**13) EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED**

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 are based on the market value obtained. However, in accordance with the 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 fair value of real estate investments is determined by two valuers, namely, Barcode and Amam Real Estate Appraisal Company. The following is the valuation of real estate investments as of December 31:

| <b><u>As at 31 December 2021</u></b> | <b><u>Barcode</u></b>    | <b><u>Amam</u></b>            | <b><u>Average</u></b>    |
|--------------------------------------|--------------------------|-------------------------------|--------------------------|
| <b>Investment properties</b>         | <b>83,792,195</b>        | <b>84,828,830</b>             | <b>84,310,513</b>        |
| <b>Total</b>                         | <b><u>83,792,195</u></b> | <b><u>84,828,830</u></b>      | <b><u>84,310,513</u></b> |
| <br>                                 |                          |                               |                          |
| <b><u>As at 31 December 2020</u></b> | <b><u>Century 21</u></b> | <b><u>Nojoom Al Salam</u></b> | <b><u>Average</u></b>    |
| Investment properties                | 83,398,000               | 83,318,325                    | 83,358,163               |
| Total                                | <u>83,398,000</u>        | <u>83,318,325</u>             | <u>83,358,163</u>        |

The investment and development properties were valued taking into consideration number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the discounted cash flow method and the cost method.

|  | <b><u>31 December 2021</u></b> | <u>31 December 2020</u> |
|--|--------------------------------|-------------------------|
| Estimated fair value of investment properties and Leasehold contracts based on the average of the two valuers used | <b>84,310,513</b>              | 83,358,163              |
| Less: carrying value   |                                |                         |
| - investment properties  | <b>(84,310,513)</b>            | (83,358,163)            |
| Estimated fair value decrease of book value  | -                              | -                       |
| Units in issue (numbers)   | <b><u>11,800,000</u></b>       | <u>11,800,000</u>       |
| Deduct share per unit from estimated fair value  | -                              | -                       |

***Net asset attributable to unitholders:***

|   | <b><u>31 December 2021</u></b> | <u>31 December 2020</u> |
|---|--------------------------------|-------------------------|
| Net assets attributable to unitholders as per the financial statements before fair value adjustment             | <b>84,310,513</b>              | 83,358,163              |
| Increase / (decrease) estimated fair value deficit of book value  | -                              | -                       |
| Net assets attributable to unitholders based on fair valuation of investment properties and Leasehold contracts | <b><u>84,310,513</u></b>       | <u>83,358,163</u>       |

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**13) EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)***Net asset attributable to each unit:*

|  | <u>31 December 2021</u> | <u>31 December 2020</u> |
|--|-------------------------|-------------------------|
| Book value per unit as per the financial statements before fair value adjustment | 6.99                    | 6.96                    |
| Additional value per unit based on fair value                                    | -                       | -                       |
| Net assets attributable to each unit based on fair valuation                     | <u>6.99</u>             | <u>6.96</u>             |

\*All properties are registered in the name of Alinma Investment ("the company"). The company holds these properties for the ownership of the benefit of the fund and does not have any controlling interests and does not pose any risks to the real estate.

**14) RENTAL INCOME**

|                                      | <u>31 December 2021</u> | <u>31 December 2020</u> |
|--------------------------------------|-------------------------|-------------------------|
| Investment properties rental revenue | 5,238,252               | 6,564,658               |
| Rental discount (*)                  | -                       | (490,291)               |
|                                      | <u>5,238,252</u>        | <u>6,074,367</u>        |

**15) OTHER EXPENSES**

|                     | Note | <u>31 December 2021</u> | <u>31 December 2020</u> |
|---------------------|------|-------------------------|-------------------------|
| Supervision charges | 5    | 310,157                 | 277,500                 |
| Professional fees   |      | 35,000                  | 35,000                  |
| BOD fees            | 11   | 22,000                  | 22,000                  |
| Custodian fees      | 11   | 50,000                  | 50,000                  |
| Other               |      | 525,850                 | 723,815                 |
|                     |      | <u>943,007</u>          | <u>1,108,315</u>        |

**16) 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, other receivables, accrued liabilities and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. 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.

***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, interest 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.

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**16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)*****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 due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.

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. Cash is placed with a reputable financial institution.

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

|                  | <u>Note</u> | <u>31 December 2021</u> | <u>31 December 2020</u> |
|------------------|-------------|-------------------------|-------------------------|
| Cash at bank     | 6           | <b>585,480</b>          | 231,276                 |
| Trade receivable |             | <b>287,661</b>          | -                       |

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

Credit risk on accrued income, margin lending and bank balances is limited as:

- Cash balances, included short term deposits are held with banks with sound credit ratings from BBB- and above.
- Rent receivables and Due from related parties:

The rent receivables are shown net of allowance for impairment of account receivables. The Fund applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all rent receivables.

***Liquidity risk***

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

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**16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)***Maturity profiles*

The table below shows the maturity of the Fund's significant assets and liabilities based on expected maturities:

|   | 31 December 2021 |                  |                |
|---|------------------|------------------|----------------|
|   | Less than 1 year | More than 1 year | Total          |
| Cash at bank                              | 585,480          | -                | 585,480        |
| Rent receivable, net                      | 287,661          | -                | 287,661        |
| Investments carried at FVTPL              | -                | -                | -              |
| Prepayments and other balance receivables | 40,137           | -                | 40,137         |
| <b>Total assets</b>                       | <b>913,278</b>   | <b>-</b>         | <b>913,278</b> |
| Accrued fund management fees              | 386,184          | -                | 386,184        |
| Accrued custodian fees                    | 125,556          | -                | 125,556        |
| Accrued expenses                          | 449,638          | -                | 449,638        |
| <b>Total liabilities</b>                  | <b>961,378</b>   | <b>-</b>         | <b>961,378</b> |

|   | 31 December 2020 |                  |                  |
|---|------------------|------------------|------------------|
|   | Less than 1 year | More than 1 year | Total            |
| Cash at bank                              | 231,276          | -                | 231,276          |
| Investments carried at FVTPL              | 476,612          | -                | 476,612          |
| Prepayments and other balance receivables | 369,444          | -                | 369,444          |
| <b>Total assets</b>                       | <b>1,077,332</b> | <b>-</b>         | <b>1,077,332</b> |
| Accrued fund management fees              | 212,789          | -                | 212,789          |
| Accrued custodian fees                    | 75,556           | -                | 75,556           |
| Accrued expenses                          | 209,529          | -                | 209,529          |
| <b>Total liabilities</b>                  | <b>497,874</b>   | <b>-</b>         | <b>497,874</b>   |

*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 of its monetary assets and liabilities are denominated in Saudi riyals.

*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.

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#### **16) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

##### *Fair value estimation*

The Fund's financial assets consist of cash and cash equivalents, accrued rental income, advances to investments measured at fair value due from related parties and other assets.

The fair value of financial instruments traded in active markets is based on quoted market prices at the close of trading on the reporting date. Instruments whose sales were not reported on the day of the valuation are valued at the latest bidding price.

An active market is a market in which assets or liabilities are transacted with sufficient frequency and volume to provide pricing information on an ongoing basis. It is assumed that the carrying amount less impairment of financial instruments granted at amortized cost approximates their fair values. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Investments whose values are based on quoted market prices in active markets include level 2 and include active quoted equity and debt instruments. The Fund does not adjust the quoted price for these instruments.

The Fund classifies all of its financial assets with the exception of those stated at amortized cost, at fair value as Level 2.

#### **17) SIGNIFICANT ACCOUNTING POLICIES**

##### **17.1 New standards, interpretations and amendments**

The accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the annual financial statements of the Fund for the year ended 31 December 2020. There are new standards, amendments and interpretations apply for the first time in 2021, but do not have an impact on the financial statements of the Fund.

There are other several amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements. In the opinion of the Fund's Board, these will have no significant impact on the financial statements of the Fund. The Fund intends to adopt those amendments and interpretations, if applicable.

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**17) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****17.1 New standards, interpretations and amendments (continued)****17.1.1 New standards, amendments to standards and interpretations**Amendments

The following are a number of amendments to the standards issued that are effective as of this year, but do not have a material impact on the financial statements of the fund, with the exception of the below.

| Amendments to standard                     | Description  | Effective for annual years beginning on or after | Summary of the amendment  |
|--|--|--|---|
| IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 | Interest Rate Benchmark Reform – Phase 2                             | January 1, 2021                                  | These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9. |
| IFRS 16                                    | Amendments to IFRS 16<br>Leasing - Covid-19 Related Rent Concessions | April 1, 2021                                    | This amendment extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification for payments originally due on or before June 30, 2022 (rather than payment due on or before June 30, 2021).  |

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**17) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****17.2 New standards, interpretations and amendments (continued)****17.1.2 New standards, amendments and revised IFRS issued but not yet effective**

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

| <b>Amendments to standard</b>      | <b>Description</b>  | <b>Effective for annual years beginning on or after</b> | <b>Summary of the amendment</b>  |
|------------------------------------|---|---|--|
| IAS 37                             | Onerous Contracts<br>Cost of Fulfilling Contract            | 1 January 2022  | The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.  |
| IFRS 16, IFRS 9, IAS 41 and IFRS 1 | Annual Improvements to IFRS Standards 2018–2020             | 1 January 2022  | IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements<br>IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.<br>IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value.<br>IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference. |
| IAS 16                             | Property, Plant and Equipment: Proceeds before Intended Use | 1 January 2022  | The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of ‘testing whether an asset is functioning properly’.  |
| IFRS 3                             | Reference to the Conceptual Framework                       | 1 January 2022  | The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.  |
| IFRS 17                            | Insurance Contracts   | 1 January 2023  | This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.  |

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**17) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****17.1 New standards, interpretations and amendments (continued)****17.1.2 New standards, amendments and revised IFRS issued but not yet effective (continued)**

| <b>Amendments to standard</b>       | <b>Description</b>  | <b>Effective for annual years beginning on or after</b> | <b>Summary of the amendment</b>   |
|-------------------------------------|---|---|---|
| IAS 1                               | Classification of liabilities as current or non-current                               | 1 January 2023  | The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification |
| IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies   | 1 January 2023  | This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements  |
| IAS 8                               | Amendment to definition of accounting estimate  | 1 January 2023  | This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.  |
| IAS 12                              | Income taxes  | 1 January 2023  | This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations   |
| Amendment to IFRS 10 and IAS 28     | Sale or contribution of assets between an investor and its associate or joint venture | N/A   | The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.   |

The application of these interpretations and amendments may not have any material impact on the financial statements of the fund in the initial application period.

**18) DIVIDEND DISTRIBUTION**

On 30 December 2021 the Fund Board of Directors approved the distribution of profits for the full year period (the second half of 2020 and the first half of 2021) at an amount of 0.338 Saudi riyals for each unit, totaling 3,988,400 Saudi riyals for unit owners. It was paid on 17 December 2021.

The Fund Board of Directors approved the distribution of profits for the full year period (the second half of 2019 and the first half of 2020) at an amount of 0.30 Saudi riyals for each unit, totaling 3,540,000 Saudi riyals for unit owners. It was paid on 29 October 2020.



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**NOTES TO THE FINANCIAL STATEMENTS**

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**19) SUBSEQUENT EVENTS**

As of the date of approval of these financial statements, there have been no significant subsequent events requiring disclosure to or adjustment in these financial statements.

**20) SEGMENT INFORMATION**

The fund invests in two investment properties in the Kingdom of Saudi Arabia. Since the fund invests in one segment and one country, there was no segment information presentation.

**21) COMPARATIVE FIGURES**

Certain comparative figures for the year ended December 31, 2020 have been reclassified to conform with the presentation for the current year.

**22) LAST VALUATION DAY**

The last valuation day of the period was 31 December 2021.

**23) APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Fund's Board of Directors on 24 Shabaan 1443 corresponding to 27 March 2022.