

 SNB Capital

Annual Report 2021

AlAhli REIT Fund 1




الأهلي ريت (1)
AlAhli REIT (I)



AlAhli REIT Fund (1) ("Fund") is a real estate investment traded fund listed on Tadawul, the Saudi Stock Exchange.



The Fund aims to provide regular rental income to its unitholders by investing mainly in developed income-generating real properties.



The Fund is managed by SNB Capital, the largest Asset Manager in Saudi Arabia and the largest Sharia Compliant Asset Manager globally, with over SAR 250 billion of assets under management.



The Fund's diverse portfolio comprises AlAndalus Mall, AlAndalus Mall Hotel, Salama Tower – a premium office building, and Qbic Plaza - a top quality office complex leased to the Ministry of Housing.



The combined market value of the portfolio is around SAR 1.9 billion.



The Fund is actively looking to acquire new quality assets and enhance the value of the existing assets to have more robust cash flows and enhanced returns for the unitholders.





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Management Statement

Dear Unitholders,

Year 2021 has been a great year for AlAhli REIT Fund (1). Together with the easing of the pandemic and the lifting of restrictions, which has made doing business in the retail and hospitality sectors (a core component of the Fund) a great deal easier, there have been exciting developments both for the Fund and its underlying assets.

AlAhli REIT (1) was pleased to receive the Restatex Riyadh Real Estate Award for Best Real Estate Banking Fund in 2021, a welcome recognition of our hard work to make the Fund the most attractive prospect for investors both large and small.

And it's not just the Fund that has garnered acclaim, so have its assets. AlAndalus Mall not only surpassed its 2021 targets despite the pandemic, but was also praised by Retail Congress MENA 2021 for having one of the best operations team in the Middle East, was honoured by the Ministry of Health as its best partner during the Covid crisis, and was even certified by the Guinness Book of World Records for producing the longest gift card sentence.

The Mall is increasingly attracting attention as a premier venue for events. In 2021, it was asked to host exhibitions for the Ministry of Culture and the Social Development Bank – the latter for their first ever entrepreneurs show. It was also approached exclusively to host Formula One activities for the Saudi Arabian Grand Prix's inaugural event in Jeddah.

In line with the Fund's relentless focus on growth and improvement, the first phase of a major development project began at the Mall, with the construction of a three-story parking building. This is part of a significant expansion, including an additional 15000 square meters along the front and surrounding areas of the Mall, with a unique architectural design.

This exciting development will also include a 450-metre walking boulevard from the southern to the eastern side, and the boulevard area will be

decorated with plants and fountains at the front of the Mall. A 7000 square meter open yard will be constructed between the hospital, the hotel and the Mall, including a dancing fountain and playground area. This is in addition to internal renovations in the Mall.

Footfall at the Mall rose to 7.5 million visitors in 2021 and occupancy stayed high at 96%, expected to increase further throughout 2022 as economic growth continues to pick up pace. With the Mall's plans to secure an even more varied range of brands in the coming months, particularly international ones, together with the major expansion of the Mall's facilities, we anticipate footfall (and thus returns for investors) being driven ever higher.

However, positive change wasn't confined to the Mall, with the Fund and its management driving development across the portfolio. This included a major review of AlAndalus Mall Hotel to increase returns for investors, leading to the revitalization of its marketing strategy, registering on all major online travel agencies, enhancement and updating of its social media and other online profiles, and improved control of its expenses.

Salama Tower, one of the portfolio's two commercial real estate assets, continues to enjoy full occupancy with a variety of top-tier businesses in residence. Year 2021 saw the implementation of improved fire and safety measures at the Tower to ensure its smooth and safe running into the future. Likewise, Qbic Plaza, remains fully leased to the Ministry of Housing.

Overall, the Fund navigated the challenges of 2021 with agility and dynamism, weathering the pandemic by remaining true to its commitment to continual improvement of Fund assets and reducing operational costs to increase the efficiency of the Fund. In 2022, our key objective is to strengthen the income streams and maintain the dividend pay-out. As ever, the Fund continues to seek out high-quality assets that would diversify the portfolio and enhance returns for our investors.

Introduction to REITs



REITs (Real Estate Investment Trade Funds) have seen rapid growth in Saudi Arabia since the first REIT was listed on the Tadawul in late 2016. These real estate investment funds, publicly offered and whose units are traded on the stock exchange, had their best year in 2021, with the FTSE NAREIT Equity Index (an index of the top REITs across the world) up 36%.

The primary investment objective of a REIT is to invest in developed real estate that generates an income and to distribute a prescribed percentage of net profit to the unitholders at least annually.

This allows REITs to offer a variety of benefits, including superior liquidity (due to their being traded on the stock exchange), lower minimum requirements for investors, ready access to a diverse range of premium properties, the provision of professional management (to save an investor having the onerous task of looking after properties themselves, and they can act as a hedge to inflation (particularly important in today's relatively high inflation environment).

REITs offer competitive total returns, based on high, steady dividend income and long-term capital appreciation. They feature broad diversification and have a comparatively low correlation with other assets - in other words, their price movement is less affected by changes in price in other types of assets such as stocks or bonds. This makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.



Fund Overview

Fund Name

AlAhli REIT Fund (1)

Fund Description

AlAhli REIT (1) is a closed-ended Real Estate Investment Traded Fund operating in accordance with the Shariah Guidelines set by the Shariah Board. It has been incorporated in accordance with the laws and regulations of the Kingdom of Saudi Arabia and complies with the regulations and instructions of the Capital Market Authority.

Fund Objectives

The Fund aims to provide rental income to unitholders by investing mainly in income generating developed properties, and to distribute at least 90% of the Fund's net profits to unitholders on a semi-annual basis. In addition, the Fund may seek to achieve growth in the total value of the Fund's assets by means of asset development, expansion, or acquisition of new assets.

Fund Size (Book Value)

SAR 1,375,000,000

Duration of the Investment Fund

The Fund's term is 99 years starting from the date of listing, extendable at the Fund manager's discretion and subject to CMA approval.

The Fund's Portfolio

The Fund comprises very high-quality assets in prime locations in both Jeddah and Riyadh, which are carefully diversified by sector.

AlAndalus Mall is an increasingly prominent retail space, covering the fashion, food & beverage, indoor sports, and entertainment sectors with its variety of shops, restaurants, sports facilities and its state-of-the-art Empire Cinema complex.

AlAndalus Mall Hotel provides exposure to the hospitality sector, while Salama Tower and Qbic Plaza round out the portfolio by offering investors exposure to the commercial sector.

AlAndalus Mall

Jeddah, Saudi Arabia



AlAndalus Mall Hotel

Jeddah, Saudi Arabia



Salama Tower

Jeddah, Saudi Arabia



Qbic Plaza

Riyadh, Saudi Arabia



Portfolio Occupancy Rate

Leased = 97.10%; Unleased 2.90%

These ratios exclude AlAndalus Mall Hotel as it is not leased but operated.

Our Team

The Fund itself is managed by a qualified team at SNB Capital, founded in 2007 as the investment banking arm of the National Commercial Bank (NCB). The merger of NCB and Samba Financial Group, the most significant in Saudi Arabia's history – formed a new entity called the Saudi National Bank (SNB).

Today, SNB Capital it is the largest Asset Manager in Saudi Arabia and the largest Sharia-compliant Asset Manager globally with over SAR 250 billion of assets under management.

The Fund is audited by KPMG, one of the Big Four audit firms globally, and its properties are diligently evaluated by one of the world's largest global property consultancies, Knight Frank, together with ValuStrat – one of the Middle East's leading consulting and advisory groups. Both property evaluators follow IVS, RICS and TAQEEM valuation standards.





Prospects

We have created an ideal mix of assets to take advantage of the strong growth that is expected in Saudi Arabia in 2022, as the government seeks to continue its programme of reforms to strengthen the potential of the private sector and as the global economy rebounds from the pandemic.

AlAndalus Mall's major expansion will drive further footfall to a location that is already acting as a key venue for prestigious events in Jeddah. The addition of a larger car parking capacity will allow the Mall to accommodate more visitors each year.

With its high-tech cinema, the region's first Sphera premium cinema concept, the Mall is also well placed to take advantage of the dramatic growth in the entertainment sector.

The new boulevard at AlAndalus Mall will be adjacent to Dr. Sulaiman Al-Habib Hospital, which is currently being developed and is due to begin operating in 2023. The largest provider of healthcare in the Middle East, the Habib Medical Group's Southwest Jeddah Hospital will feature 330 beds and 245 clinics. Once completed, it will be the first complex in Jeddah to offer a mall, hotel, and hospital together in one location.

Combined with the Saudi government's committed drive to encourage tourism to The Kingdom and the strategic review of AlAndalus Mall Hotel's marketing strategy, the completion of the new hospital will drive up occupancy at the Hotel and increase footfall at the Mall.

The Management Team have designed a balanced and sustainable portfolio, that combines both prospects for high growth and surety of income, and always remain vigilant for risks in the current asset bundle or new assets which the Fund might acquire to enhance returns for investors. Next year, our main drive will be to strengthen the income streams and maintain the dividend pay-out for investors, ensuring we remain the best REIT Fund in The Kingdom.

AlAndalus Mall



AlAndalus Mall is situated in the heart of the city at King Abdullah Street intersection with Prince Majed Street, Jeddah, and is in close proximity to Al Haramain Train Station and Kind Abdul Aziz University.

AlAndalus Mall has the finest brands and a diverse tenant mix consisting of Fashion, Food & Beverage, Entertainment, Indoor Sports etc. It is one of the biggest malls with more than 350 shops and a net leasable area around 90,000 sqm.

It is a preferred shopping destination for families which is evident from the huge influx of visitors. During 2020, more than 7.5 million visitors came to AlAndalus Mall. Its occupancy rate of 96% is amongst the highest, relative to comparable malls in Jeddah.

Always seeking to provide the best service and offering for its customers, AlAndalus Mall is undertaking a major construction programme to further expand the Mall. This will feature a three-story carpark, over 15,000 square meters of additional space along the front and surrounding areas of the Mall showcasing a unique architectural design, and a new 450-metre walking boulevard.

Location	Al Fayhaa District, Jeddah
Total Land Area	162,579 square meters
Leasable Area	c.90,000 square meters
Operator and Lease Manager	AlAndalus Property Company
Purchase Price	1,195,686,025 SAR
Percentage of Asset's Rent Relative to Fund's Total Rent	68.99%

AlAndalus Mall (continued)

Sample of Tenants



Salama Tower



Salama Tower is located in a prime location in Al Salama district on Al Madina road close to Hira intersection. It is located close to the centre of Jeddah and is less than 10 minutes away from the new King Abdul Aziz International Airport, Jeddah.

The tower has 13 floors above ground, one basement floor and a mezzanine floor. The tower comprises 109 offices, eight showrooms, and two warehouses.

The tower is 100% leased for a remaining period of one and a half years. The tower is occupied by strong brand names such as Al Rajhi Takaful, Taajeer Group, Tim Hortons, and Salama Insurance Company.

Location	Al Madinah Road, Jeddah
Total Land Area	7,682 square meters
Leasable Area	29,921 square meters
Operator	Jabal Edsas
Purchase Price	255,000,000 SAR
Percentage of Asset's Rent Relative to Fund's Total Rent	12.59%

Salama Tower (continued)

Sample of Tenants



تكاful الراجحي
Al Rajhi Takaful

مجموعة تاجير
Taajeer Group



Tim Hortons

سلامة
SALAMA

Qbic Plaza



وزارة الإسكان
MINISTRY OF HOUSING



A high-end, three-floors office complex that is located just 170 meters North of the intersection of King Abdulaziz Road with Northern Ring Branch Road in Al Ghadeer District in Riyadh.

The complex was fully leased to the Ministry of Housing for three years, with another year left on its contract. The contract is renewable for a similar period subject to mutual agreement.

Location	Al Ghadeer District, Riyadh
Total Land Area	17,444 square metres
Leasable Area	21,253 square metres
Purchase Price	250,000,000 SAR
Percentage of Asset's Rent Relative to Fund's Total Rent	12.15%

AlAndalus Mall Hotel



AlAndalus Mall Hotel is an upscale hotel interconnected to AlAndalus Mall. It is just 20 minutes from King Abdul Aziz International Airport Jeddah and features luxurious residential-style rooms.

The hotel comprises 44 studios, 90 one-bedroom apartments, and 30 two-bedroom apartments. Guests at AlAndalus Mall Hotel can unwind in the state-of-the-art fitness centre, play tennis, and enjoy time at the elite café beside the swimming pool. In addition to the leisure amenities, the hotel offers a business centre, meeting convention spaces, and a ballroom for the business segment. The hotel enjoys an 8.3 rating on Booking.com.

Dr. Sulaiman Al Habib Hospital is currently being constructed adjacent to AlAndalus Mall Hotel and is scheduled to be completed in 2023. It is expected to enhance the hotel demand further.

Location	Al Fayhaa District, Jeddah
Total Land Area	6,223 square metres
Total Construction Area	28,255 square metres
Operator	AlAndalus Property Company
Purchase Price	200,000,000 SAR
Percentage of Asset's Rent Relative to Fund's Total Rent	6.27%

Fund Updates

- ◆ The Fund began the first phase of the development project at the Mall, which will include:
 - The construction of a three-story parking building
 - An additional 15,000 square meters along the front and surrounded areas of the Mall, with a unique architectural design
 - A 450-metre walking boulevard from the southern to the eastern side, and the decoration of the area with plants and fountains at the front of the Mall
 - A 7,000 square meter open yard between the hospital, the hotel and the Mall, including a dancing fountain and playground area
 - Internal renovations inside the Mall.
 - Construction of the development project is scheduled to conclude in two years' time.

- ◆ The Fund appointed AlAndalus Property Company as the developer to expand AlAndalus Mall and increase parking spaces.

- ◆ On 8 November and 27 September 2021, the Fund announced changes in the Board of Directors. These included:
 - The resignation of Board Member Mr. AbdulJabbar Al AbdulJabbar
 - The resignation of Mr. Nayef Al-Masnad and Mr. Saleh Al-Habib
 - The appointment of Mr. Hathal AlOtaibi and Mr. Feras Houhou

- ◆ The Fund updated its terms and conditions according to the changes in the composure of the Fund Board. The updated Terms and Conditions can be found here: https://www.alahlicapital.com/MutualFundDocuments/file-2022021312331488610439_1041_2021-11-10_12-31-39_en.pdf



Historical Comparison

Historical Comparison Between 2019, 2020, and 2021

	2019	2020	2021
Closing NAV	1,367,621,000	1,320,470,000	1,303,077,000
Closing NAV per Unit [Cost/Fair Value]	9.95/10.16	9.60/9.90	9.48/9.69
Highest NAV per Unit [Cost/Fair Value]	10.16/10.31	9.95/10.16	9.60/9.90
Lowest NAV per Unit [Cost/Fair Value]	9.95/9.92	9.60/9.58	9.48/9.69
Highest Market Price	9.50	10.20	14.24
Lowest Market Price	7.48	7.83	8.83
Total Units Outstanding	137,500,000	137,500,000	137,500,000
Dividends Distributed per Unit*	0.65	0.45	0.675
Total Expense Ratio	1.09%	1.14%	1.19%
Fund's Performance vs Benchmark	The Fund does not have a benchmark		
Borrowing % of Total Assets	14.93%	27.06%	28.85%
Loan Term	15 years	14 years	13 years
Loan Due Date	30 Sep 2034	30 Sep 2034	30 Sep 2034

Total Cumulative Return

	1 Year	3 Year	Since Inception
Based on NAV [Cost/Fair Value]	5.78%/4.70%	11.06%/11.74%	15.80%/17.90%
Based on Market Price	35.37%	64.66%	35.00%

Annual Total Return

	2018	2019	2020	2021
Based on NAV [Cost/Fair Value]	4.85%/6.35%	4.33%/4.85%	1.01%/1.87%	5.78%/4.70%
Based on Market Price	-19.15%	30.80%	-1.37%	35.37%

Fund Performance

Summary of Fund Performance 2021

Number of Units Issued	137,500,000 Units
Opening NAV at Year Beginning	1,320,470,000
Closing NAV at Year End	1,303,077,000
Opening NAV per Unit at Year Beginning [Cost/Fair Value]	9.60/9.90
Closing NAV per Unit at Year End [Cost/Fair Value]	9.48/9.69
Funds from Operations (FFO)	100,045,000
Funds from Operations per Unit	0.73
Total Dividends Distributed per Unit	0.675
Highest Unit Closing Price	14.24
Lowest Unit Closing Price	8.83
Uncollected Revenue/Total Revenue	14.76%
Non-cash expenses/ Fund's Net Profits	40.61%

Fund Performance (continued)

Fund Fees and Expenses 2021

Management Fees	SAR 19,087,000
Professional Fees	SAR 530,000
Board Fees	SAR 100,000
Tadawul Fees	SAR 805,000
Custody Fees	SAR 553,000
Shariah Fees	SAR 24,000
Other Expenses	SAR 2,042,000

Fund Timeline

December 2017

Fund Inception

1

December 2017

Acquisition of AlAndalus Mall and AlAndalus Mall Hotel

2

January 2018

Listing on Tadawul

3

August 2019

Acquisition of Salama Tower in Jeddah

4

December 2019

Inclusion in FTSE EPRA NAREIT Global Real Estate Index Series

5

December 2019

Winning Global Business Outlook's 'Best Islamic REIT Award'

6

Fund Timeline (continued)

June 2020

Acquisition of QBIC Plaza in Riyadh

7

November 2020

Acquired land adjacent to AlAndalus Mall for development

8

September 2021

Appointment of AlAndalus Property Company as the operator for AlAndalus Mall Hotel

9

December 2021

Appointment of AlAndalus Property Company as the developer for AlAndalus Mall

10

January 2022

Andalus Mall was awarded as one of the best operations teams in the Middle East by the Council of Shopping Centers in the Middle East and North Africa

11

January 2022

The Fund won the Restatex Riyadh Real Estate Award for the Best Real Estate Banking Fund for the year 2021

12

Service Providers



Fund Manager

SNB Capital



Custodian

Al Bilad Capital



Auditor

KPMG



Real Estate Evaluators

Knight Frank & ValuStrat



الأندلس العقارية
Alandalus Property

AlAndalus Mall Operator & Property Agent

AlAndalus Property Company



الأندلس العقارية
Alandalus Property

AlAndalus Mall Hotel Operator

AlAndalus Property Company

Board Report

The Fund Manager held three board meetings during the year. The meetings included:

Discussion on the economic conditions and its effects on the Fund's assets.

Discussion on Fund performance

Discussion on the potential real estate acquisition

Review of the annual budget

Approval of the appointment of AIAndalus Property Company as the developer for AIAndalus Mall expansion

Approval of the appointment of Board Secretary and Board members

Approval of capital expenditure

Approval of amendments to terms & conditions

Approval of interim and annual financial statements

Approval of dividend distributions

Dividends Distribution 2021

The Fund's dividends policy is to distribute at least 90% of its annual net profit as cash dividends to unitholders twice a year, excluding the capital gains resulting from the sale of real estate assets and investments in money market funds and transactions which may be reinvested in additional assets for the Fund.

Summary of Dividends for 2021

Total distributed dividends for the period	96,250,000
Dividend per unit	0.675
Number of units outstanding	137,500,000 Units
Unit nominal value (initial price)	10
Dividends/unit initial price	6.75%
Dividends/net asset value [Cost/Fair Value]	7.12%/6.97%
NAV as of 31 Dec 2021	1,303,077,000

Disclosures

Other investments:

The Fund Manager invested the surplus cash balances in a Sharia compliant money market instrument, AlAhli Saudi Riyal Trading Fund.

Special commissions:

The Fund is exempted from paying the management fees charged for its investments in the money market fund (AlAhli Saudi Riyal Trading Fund).

Leverage:

The Fund signed an Islamic loan facility of SAR 650 million with SNB. It is a 15 years' loan with a grace period of 5 years. The Fund has drawdown of a total of SAR 561 million as of 31st December 2021.

Material changes:

N/A

Annual voting rights:

N/A

Changes to the Terms and Conditions:

Updates to the board of director section due to the resignation of Mr. Nayef Al-Masnad (non-independent member), Mr. Saleh Al-Habib (non-independent member) and Mr. AbdulJabbar Al AbdulJabbar (non-independent member).

Updates to the board of director section due to the appointment of Mr. AbdulJabbar Al AbdulJabbar (non-independent member) - later resigned, Mr. Hathal AlOtaibi (non-independent member) and Mr. Feras Houhou (non-independent member).

Updates to the "Description of Real Estate Asset Types to be Invested by The Fund".

Updates to AlAndalus Mall and AlAndalus Mall Hotel performance as of December 31st, 2020.

Updates to the name of hotel in Jeddah from "Staybridge Suites Hotel" to "AlAndalus Mall Hotel".

Updates to "Fees, Charges, Expenses and Management Fees" which reflected the change in the annual sharia audit and advisory fees.

Updating Appendix 2 - Summary of the Fund performance to reflect the Fund performance as of December 31st, 2020.

Dividends:

Dividends for the first half of 2021 were distributed in August 2021, whereas dividends for the second half were distributed in March 2022.

Conflict of Interest:

In December 2021, the Fund appointed AlAndalus Property Company, a related party, as the developer to expand AlAndalus Mall and increase parking spaces.

Risk Assessment Report

AlAhli REIT Fund Risk Assessment Report

Fund Name	AlAhli REIT Fund (I)
Fund Term	99 years, extendable for additional periods
Country	Kingdom of Saudi Arabia
Risk Level	High
Date of Review	March 2022

Risk	Risk Description	Risk Mitigation
Income Distribution Risk	<p>The Fund's objective is to provide periodic rental income to its unitholders through its investments in income generating properties. Any underperformance of its underlying assets, would expose the Fund to the risk of inability or failure to achieve the periodic or targeted future distribution obligations as per its Terms & Conditions (T&C).</p> <p>Moreover, as per the T&C of the facility provided to the Fund, the Fund should meet a number of conditions under a distribution test to be able to distribute dividends to unitholders. Any breach to these conditions could result in the Fund's inability to make such distributions.</p>	<ul style="list-style-type: none">◆ The Fund's approach to mitigate this risk, is to ensure that the underlying assets are performing well and generating the expected cash flows.◆ AlAndalus Mall: The Fund has signed long term contracts with anchor tenants and is continuously looking for ways to make sure that the Mall enjoys a diversified and strong tenant mix.◆ AlAndalus Mall Hotel: The Fund Manager is seeking top expertise to run the hotel efficiently and to insure a sustainable income from the property.◆ Salama Tower: The 18 floor office building is fully leased for 5 years to one primary tenant (Head lease with 2.5 years remaining).◆ Qbic Building: The property is fully leased to one primary tenant (the Ministry of Housing) for a term of 3 years since 25 February 2020.◆ Moreover, specific marketing strategies related to increasing footfall for the Fund's properties are being implemented by property managers and operators.◆ The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its performance targets.◆ The Fund Manager closely monitors the debt covenants to make sure that the Fund is in adherence with all the covenants including the distribution test.

Exit Risk

The Fund is invested in Real Estate assets which are illiquid in nature. This exposes the Fund to the risk of inability to liquidate the underlying assets in a timely manner and according to the Fund's strategy. This risk is more relevant as the Fund gets closer to maturity.

- ◆ The Fund has a very long term to maturity (99 years, extendable) and the Fund's units continue to be tradable on the stock exchange, giving unitholders the ability to exit at the time of their choice based on prevailing market prices.
- ◆ The Fund's invested in Real Estate assets that are located in good and central locations in a major city. These assets have suitable appetite and strong investors demand and are easier to liquidate than other Real Estate assets.

Credit Risk

The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables (receivables from lessees under operating leases).

- ◆ For bank balances, the Fund's policy is to enter into financial instrument contracts only with reputable counterparties.
- ◆ For rent receivables, the Fund is always looking to enter into long term lease agreements with well-established and reputable anchor tenants. Moreover, the Mall enjoys a diversified and strong tenant mix which is considered to be the best mitigation strategy against risk of tenants' delinquencies.

Concentration Risk

Portfolio Concentration:

The Fund invests in 3 Real Estate assets located in Jeddah and one asset located in Riyadh. Although this portfolio concentration may enhance total returns to unitholders, if any large Investment results in a material loss, then returns to unitholders may be lower than if the Fund had invested in a well-diversified portfolio.

Clients/ Tenants Concentration:

The Fund is well diversified in terms of client base and main contributors to its rental income. As of 31st December 2021, the top 5 largest rental revenue account for ~ 34% over all fund's properties, also the mall top 5 rental revenue represent 16% of the property total revenue.

- ◆ In its effort to further diversify the Fund's asset base, the Fund Manager has completed multiple acquisitions in Jeddah and Riyadh. The Fund's asset breakdown is as follows (by % of total Fund's Revenue):

Assets	Concentrations	
	2021	2020
Shopping Mall	69%	72%
Hotel	6%	6%
Office Plaza	12%	8%
Office Tower	13%	14%

- ◆ The Fund Manager continues to explore additional options to diversify and mitigate this risk by looking for additional properties that meet its overall risk-return profile to add to the portfolio's diversification mix

Valuation Risk

The risk that the market value of the Fund is materially lower than its Net Asset Value. This might be due to an overvaluation of the underlying assets.

- ◆ The Fund Manager manages this risk by:
 - ◆ Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition.
 - ◆ Post-acquisition: focusing on long term value creation for unitholders, and on its ability to generate sustainable periodic rental income and long term growth potential.
- ◆ For the valuation of its assets, the Fund relies on two independent valuations from reputable Real Estate Valuation companies (ValuStrat and Knight Frank). These valuations are internally reviewed and checked by the Fund Manager to make sure that they are not overstating the fair value of the assets.
- ◆ The risk that units of the Fund are valued lower than NAV, is also driven by general market sentiment, views on the entire REITs sector and real estate in general. When benchmarking against global valuation, in most countries REITs trade at a discount (lower) to NAV.

Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations (e.g. debt servicing, dividends distribution, operating expenses, capital expenditure) in full as they fall due or can only do so on terms that are materially disadvantageous.

- ◆ The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise.
- ◆ The Fund enjoys a credit facility that can be used to meet new acquisition requirements.

Profit Rate Risk

The risk that the value of Fund's assets and financial instruments will fluctuate due to adverse changes in profit/ interest rates.

- ◆ The Fund Manager is negotiating spread rate with the lender and also assessing viability of taking interest rate swap.

As the Fund is leveraged using a floating rate facility (priced at a SAIBOR + spread rate), any adverse change in SAIBOR would result in higher profit/ interest expenses and consequently lower total returns to the Unitholders.

Over the last year, SAIBOR rate has increased and the upward trend is expected to continue over the next couple of years (in line with US Fed's direction) which could have adverse impact on the Fund.

Leverage Risk

The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default.

The Fund has obtained a Shariah Compliant Ijara facility to acquire income-generating properties. While this would contribute in diversifying the assets and would increase the Fund's cash distribution capacity and its total return, it also has the effect of potentially increasing losses in adverse scenarios.

- ◆ The Fund Manager was able to negotiate and secure a financing agreement with favourable terms in order to guarantee optimal returns to the unitholders.
- ◆ The Fund Manager closely monitors liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment commitments as they arise. Moreover, the Fund Manager closely monitors the debt covenants to make sure that all covenants are met.

Fund Manager Risk

Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.

- ◆ The Fund Manager has set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly.
- ◆ The Fund Manager relies on the expertise of its highly experienced investment team to act in the best interest of unitholders and to achieve the Fund's long term growth aspirations.
- ◆ In case where certain functions/ activities are outsourced to 3rd party service provider, the Fund Manager ensures that proper due diligence is performed on the 3rd party provider and that the latter accepts and adheres to the Fund Manager's terms of business.

Country Risk

The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity.

- ◆ The Fund is fully invested in Saudi Arabia.
- ◆ The Fund manages this risk by closely monitoring Saudi Arabia's regulatory/ policy/ tax landscapes and by anticipating and being prepared for any potential change.

Economic Risk

The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.

- ◆ The Fund Manager continues to closely monitor the general macro-economic situation and any specific development in the Real Estate sector to ensure that appropriate decisions are made accordingly.

**Asset Under-
Performance
Risk**

The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates.

As of 31st December 2021, the Fund has recorded cumulative ~ SAR18 million as an impairment loss on receivables from operating leases. The property manager continues to monitor this to ensure that all outstanding amounts are recovered.

- ◆ The Fund Manager has followed a number of mitigation strategies which include:
 - ◆ Sign long term contracts with anchor tenants
 - ◆ Ensure that the Mall enjoys a strong diversified tenant mix
 - ◆ Always assess the best potential ways to operate the Hotel.
 - ◆ Sign a long term head lease contract with a reputable company for the office tower and plaza
 - ◆ Asset and tenant diversification of the Fund
- ◆ The Fund Manager also closely monitors the performance of the underlying assets and meets regularly with the property managers and hotel operator to monitor any issues/ events that might lead to Fund's underperformance.

**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 such as natural disasters.

- ◆ The Fund is managed by SNB Capital which has excellent track record and experience in asset management.
- ◆ In order to ensure compliance with best practices, certain key activities that require subject matter expertise have been outsourced to experienced and reputable service providers with strong track record.
- ◆ AlAndalus Property Company was appointed as the operator of AlAndalus Mall. The company is considered to be one of the most prominent malls management companies in KSA with long positive track record.
- ◆ The Salama Tower and Qbic Plaza were triple-net leased (NNN) to one primary tenant each.
- ◆ Broadly, the Fund objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders.

Compliance Risk

Failure of the Fund to adhere to laws, rules and regulations.

This risk includes: Legal, Regulatory and Sharia Compliance risks.

- ◆ The Fund Manager continues to monitor the Fund's compliance against regulations and its Terms and Conditions and will take all necessary actions to fulfil and meet those requirements.

Structural Damage Risk

Structural damage lead by adverse events, where it could risk the income generating ability of the damaged property.

- ◆ The Fund Manager maintained a preventative maintenance on a regular basis.
- ◆ The Triple Net leased properties, annual inspection by the Fund Manager/disclosure by the anchor tenant.
- Property insurance in place for all the assets of the Fund.



Disclaimer

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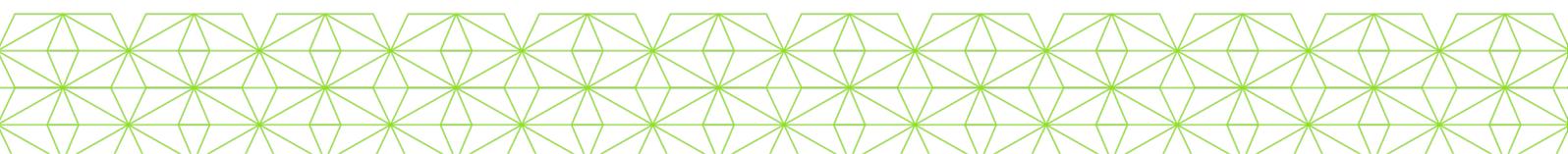
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SNB Capital is authorised by the Capital Market Authority under License number 37-06046. SNB Capital's registered office is King Saud Road, P.O Box 22216, Riyadh 11495, Kingdom of Saudi Arabia, www.alahlicapital.com



ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2021
together with
INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2021

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KPMG Professional Services

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Commercial Registration No 1010425494

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

المركز الرئيسي في الرياض

Independent Auditor's Report

To the Unitholders of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company)

Opinion

We have audited the financial statements of AIAhli REIT Fund (1) (the "Fund"), managed by SNB Capital Company, formerly NCB Capital Company, which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. 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 of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company)

Key audit matters (continued)

Valuation of investment properties

Note (10) to the financial statements.

Key audit matter	How the matter was address in our audit
<p>As at 31 December 2021, the carrying value of Fund's investment properties amounted to SR 1,825.7 million (31 December 2020: 1,844.2 million) and the fair value of these properties amounted to SR 1,854.6 million (31 December 2020: 1,885.1 million).</p> <p>The investment properties are stated at cost net of accumulated depreciation and impairment losses, (if any). However, the fair values of the investment properties along with its impact on net assets (equity) per unit is disclosed in the notes to the financial statements.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its investment properties at each reporting date. In case impairment indicators are identified, the recoverable amount of the investment properties are required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both internal and external indicators of impairment including but not limited to net cash flows, operating losses, physical condition of its properties and adverse market changes or conditions. The Fund also uses the valuation reports from the independent valuers engaged by the Fund Manager to evaluate the recoverable amount of properties at the reporting date.</p> <p>We considered this as a key audit matter since the assessment of recoverable amounts, where required, involves the exercise of significant judgment and estimates.</p> <p><i>Refer to the summary of significant accounting policies in note 4 relating to impairment of investment properties, note 5 which contains the significant accounting judgment, estimates and assumptions relating to impairment and note 10 relating to investment properties.</i></p>	<p>Our audit procedures in response to the assessed risk of material misstatement in assessing impairment in the investment properties comprised of:</p> <ul style="list-style-type: none"> - Obtaining an understanding of the process adopted by the Fund Manager in identifying the impairment in investment properties. - Obtaining an understanding of the valuation approach adopted by the Fund manager. We corresponded with the Fund's independent valuers through the Fund Manager to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the independent valuers to support their assumptions. We also obtained an understanding of the involvement of the Fund manager's valuation process to assess whether appropriate oversight has occurred. - Assessing valuers' credentials, their independence, professional qualifications, competence, experience and ensured that they are certified from Saudi Authority for Accredited Valuers (TAQEEM). - Assessing the value in use calculation of investment properties determined by the Fund Manager. - Involving our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the independent valuers in determining the fair values of the investment properties. - Comparing the recoverable amounts of the investment properties with their carrying values to determine whether recognition of any impairment loss is required. - Assessing the adequacy of the disclosures in the financial statements.

Independent auditor's report (continued)

To the Unitholders of AIAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company)

Other Information

The Fund Manager is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance, the Fund's Board, is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional 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 Manager's internal control.

Independent auditor's report (continued)

To the Unitholders of AlAhli REIT Fund (1) managed by SNB Capital Company (formerly NCB Capital Company)

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of AlAhli REIT Fund (1) (the "Fund").

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

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

KPMG Professional Services

Hani Hamzah A. Bedairi
License Number: 460



Riyadh on: 28 Sha'aban 1443H
Corresponding to: 31 March 2022

ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2021
Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2021	31 December <u>2020</u>
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	6	12,176	6,478
Investments at fair value through profit or loss	7	40,031	-
Receivables from operating leases	8	56,326	50,030
Prepayments and other receivables	9	2,551	2,717
Total current assets		<u>111,084</u>	<u>59,225</u>
Non-current assets			
Investment properties	10	1,825,667	1,844,178
Total non-current assets		<u>1,825,667</u>	<u>1,844,178</u>
Total assets		<u>1,936,751</u>	<u>1,903,403</u>
<u>LIABILITIES</u>			
Current liabilities			
Due to related parties	16	20,354	21,765
Unearned rental income	11	30,326	25,060
Other liabilities	12	7,082	7,214
Advances from operating leases	13	14,954	12,740
Provision for Zakat	15	2,230	1,159
Total current liabilities		<u>74,946</u>	<u>67,938</u>
Non-current liabilities			
Borrowings	14	558,728	514,995
Total non-current liabilities		<u>558,728</u>	<u>514,995</u>
Total liabilities		<u>633,674</u>	<u>582,933</u>
Net assets (equity) attributable to the unitholders		<u>1,303,077</u>	<u>1,320,470</u>
Units in issue (Numbers in thousands)		<u>137,500</u>	<u>137,500</u>
Net assets (equity) per unit (SAR)		<u>9.48</u>	<u>9.60</u>
Net assets (equity) per unit fair value (SAR)	20	<u>9.69</u>	<u>9.90</u>

The accompanying notes 1 to 27 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**For the year ended 31 December 2021**

Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2021	31 December 2020
Revenue from properties	18	183,407	141,310
Other income		143	361
Gain on investments at fair value through profit or loss		31	-
Total revenue		183,581	141,671
Expenses			
Operational expenses	19	(38,838)	(42,378)
Depreciation	10	(24,625)	(22,916)
Impairment loss on investment properties	10	-	(25,000)
Impairment loss on receivables from operating leases	8	(6,000)	(1,000)
Management fees		(19,087)	(17,399)
Professional fees		(530)	(500)
Board fees		(100)	(100)
Tadawul fees		(805)	(700)
Custody fees		(553)	(446)
Shariah fees		(24)	(24)
Other expenses		(2,042)	(2,473)
Total operating expenses		(92,604)	(112,936)
Operating profit before finance cost		90,977	28,735
Finance cost		(14,057)	(12,673)
Operating profit before Zakat		76,920	16,062
Zakat	15	(1,500)	(1,338)
Profit for the year		75,420	14,724
Other comprehensive income for the year		-	-
Total comprehensive income for the year		75,420	14,724

The accompanying notes 1 to 27 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS**For the year ended 31 December 2021**

Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2021	31 December <u>2020</u>
Net assets (equity) attributable to the unitholders at beginning of the year		1,320,470	1,367,621
Total comprehensive income for the year		75,420	14,724
Dividend declared during the year	22	(92,813)	(61,875)
Net assets (equity) attributable to the unitholders at end of the year		<u>1,303,077</u>	<u>1,320,470</u>

The accompanying notes 1 to 27 form an integral part of these financial statements.

ALAHLI REIT FUND (1)
(Managed by SNB Capital Company, formerly NCB Capital Company)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2021
Expressed in Saudi Riyals '000 (unless otherwise stated)

	<i>Note</i>	31 December 2021	31 December 2020
Cash flows from operating activities			
Profit before Zakat		76,920	16,062
<i>Adjustment for non-cash items:</i>			
Depreciation	10	24,625	22,916
Impairment loss on investment properties	10	-	25,000
Finance cost		14,057	12,673
Impairment loss on receivables against operating leases	8	6,000	1,000
Gain on investment at fair value through profit or loss		(31)	(361)
		121,571	77,290
Changes in:			
Receivables from operating leases		(12,296)	(16,026)
Due from related party		-	2,461
Prepayments and other receivables		166	12,268
Due to related parties		(1,411)	1,175
Unearned rental income		5,266	(3,037)
Other liabilities		(1,537)	(3,408)
Advances from operating leases		2,214	1,200
		113,973	71,923
Zakat paid	15	(429)	(1,679)
Net cash generated from operating activities		113,544	70,244
Cash flows from investing activities			
Additions to investment properties	10	(6,114)	(302,609)
(Addition)/ disposal of investment at fair value through profit or loss	7	(40,000)	42,264
Proceeds from gain on disposal of investment at fair value through profit or loss		-	361
Net cash used in investing activities		(46,114)	(259,984)
Cash flows from financing activities			
Dividend paid	22	(92,813)	(61,875)
Proceeds from loan	14	42,678	261,028
Finance cost paid		(11,597)	(13,110)
Net cash (used in)/ generated from financing activities		(61,732)	186,043
Net change in cash and cash equivalents		5,698	(3,697)
Cash and cash equivalents at the beginning of the year		6,478	10,175
Cash and cash equivalents at end of the year		12,176	6,478

The accompanying notes 1 to 27 form an integral part of these financial statements.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Riyals '000 (unless otherwise stated)

1 THE FUND AND ITS ACTIVITIES

AlAhli REIT Fund (1) ("Fund") is a closed-ended Shariah compliant real estate investment traded fund, established and managed by SNB Capital Company, formerly NCB Capital Company ("Fund Manager"), a subsidiary of the Saudi National Bank ("SNB"), for the benefit of the Fund's unitholders. The Fund is ultimately supervised by the Fund Board.

As per license number 37-06046 granted by the Capital Market Authority ("CMA"), the Fund Manager is authorized to carry out the following activities with respect to securities:

- a) Dealing as principal and agent, and underwriting;
- b) Arranging;
- c) Managing;
- d) Advising; and
- e) Custody.

The Fund's objective is to provide periodic rental income to its unitholders by investing mainly in developed income-generating properties and to potentially provide capital growth by developing and/or expanding and/or selling assets.

The Fund invests mainly in developed income-generating real estate assets and may invest part of its assets and cash surplus in Murabaha transactions and short term deposits in Saudi Riyals with banks that are licensed by the Saudi Central Bank ("SAMA") and operate in Saudi Arabia. The Fund may also invest in public money market funds approved CMA.

The terms and conditions of the Fund were approved by CMA on 11 Rabi AlAwwal 1439H (corresponding to 29 November 2017). The offering period for the subscription of the units was from 6 December 2017 to 19 December 2017. Unitholders subscribed for the units of the Fund during the offering period and cash was held in collection account of SNB Capital. The cash was transferred to the bank account of the Fund on its commencement date which was used to purchase the investment properties and units were issued to the unitholders simultaneously. The Fund commenced its activities on 25 December 2017 (the "Inception Date"). On the Inception Date, the Fund issued 137,500 units for SR 1,375 million, which was considered as an initial capital contribution of the Fund.

The Fund's term is ninety nine (99) years. The term of the Fund may be extended at the Fund Manager's discretion, subject to CMA approval.

The Fund was established and units were offered in accordance with the Real Estate Investment Traded Funds Instructions issued by CMA pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G amended by Resolution No. 2-115-2018, dated 13/2/1440H corresponding to 22/10/2018G. The Fund is governed by Real Estate Investment Funds Regulations issued by CMA on 19/6/1427 corresponding to 15/7/2006G.

As per the terms and conditions of the Fund, the Fund will distribute at least 90% of its net income to its unitholders.

2 BASIS OF ACCOUNTING

2.1 Statement of compliance

These have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants ("SOCPA") and to comply with the related Implementing Regulations issued by CMA and the Fund's terms and conditions.

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Riyals '000 (unless otherwise stated)

2 BASIS OF ACCOUNTING (CONTINUED)

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption except for investment at fair value through profit or loss ("FVTPL") which is recorded at fair value.

On 31st 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 option and made the following decisions:

- Obligating listed funds to continue to use the cost model to measure property (under IAS 16) and investment property (under IAS 40) in the financial statements prepared for financial periods before the calendar year 2023.
- Allowing listed funds to choose between fair value model and revaluation model to measure property (under IAS 16) and investment property (under IAS 40) for the financial periods starting from the calendar year 2023 or thereafter.

2.3 Presentation and functional currency

The presentation and functional currency of the Fund is Saudi Riyals (SAR). The amounts included in these financial statements have been presented to the nearest thousand.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new standards issued, however, the adoption of the following amendments to the existing standards had no significant financial impact on the financial statements of the Fund on the current or prior periods and is expected to have no significant effect in future periods:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID-19 - Rent Concessions (Amendment to IFRS 16)

Forthcoming requirement

Effective date	New standards or amendments
1 January 2022	Onerous Contracts: Cost of Fulfilling a Contract – Amendments to IAS 37
	Annual Improvements to IFRS Standards 2018–2020 – Amendments to IFRS 1, IFRS 9, illustrative examples accompanying IFRS 16 and IAS 41
	Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
	Reference to the Conceptual Framework – Amendments to IFRS 3
1 January 2023	Classification of Liabilities as Current or Non-current – Amendments to IAS 1
	IFRS 17 Insurance Contracts
	Definition of Accounting Estimate – Amendments to IAS 8
	Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
Available for optional adoption/ effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

ALAHLI REIT FUND (1)

(Managed by SNB Capital Company, formerly NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

Expressed in Saudi Riyals '000 (unless otherwise stated)

4 SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Financial instruments

Recognition and initial measurement

Receivables from operating leases are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised 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

Classification of financial assets

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

A financial asset is measured at **amortised 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 amortised cost or at FVTOCI.

ALAHLI REIT FUND (1)

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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 amortised 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 recognised in the statement of profit or loss.

Financial assets

Cash and cash equivalents
Investment at fair value through profit or loss
Receivable from operating leases
Other assets

IFRS 9 classification

Financial assets at amortised cost
FVTPL
Financial assets at amortised cost
Financial assets at amortised cost

Subsequent measurement

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

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	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.
Equity investments at FVOCI	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 recognised in OCI and are never reclassified to profit or loss. The Fund has no such investments.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Derecognition

A financial asset is derecognised when:

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

Impairment of financial assets

IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVTOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for 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.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss assessment for operating lease receivables:

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 amortised 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.

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.

Presentation of impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from operating leases are presented separately in the statement of profit or loss and other comprehensive income.

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.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Macroeconomic weighted average scenarios (continued)

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 realising security (if any is held); or
- the customer is more than 455 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, management has rebutted the presumption of 90 days being a default.

The carrying amount of the asset is reduced using the above model and the loss is recognised 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 realised 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 recognised, the previously recognised impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognised 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 recognised 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 parties and borrowings.

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

Financial liabilities

Due to related parties
Other liabilities
Borrowings

IFRS 9 classification

Financial liabilities at amortised cost
Financial liabilities at amortised cost
Financial liabilities at amortised cost

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised 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 recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of profit or loss.

Financial liability

The Fund derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised 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 recognised amounts and there is an intention to settle on a net basis, to realise 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 amortisation.

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.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 expenditures that are 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 capitalised borrowing costs.

Useful lives of different components of investment properties are as follows:

Categories	Years
Building	20 - 40
Furniture and fixtures	5 - 10
Computer and hardware	3 - 10
Office equipment	4 - 10

Impairment of non-financial assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then 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.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised 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 recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

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4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

Revenue recognition

The Fund's revenue mainly comprises of revenue from operating leases and revenue from hotel operations.

Rental revenue from lease of investment properties

As a lessor:

When the Fund acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Fund makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Fund considers certain indicators such as whether the lease is for the major part of the economic life of the asset. The Fund has assessed that all of its leases are operating leases. Properties leased out under operating leases are included in investment property in the statement of financial position. Rental income from operating leases is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Revenue from hotel operations:

Revenue from hotel services comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount, applicable taxes and municipality fees on an accrual basis when the services are rendered under IFRS 15.

Zakat and income tax

The Fund is subject to Zakat in accordance with the Zakat regulation issued by the Zakat, Tax and Customs Authority ("ZATCA") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on net assets (equity) using the basis defined in the Zakat regulation. The management establishes provisions where appropriate on the basis of amounts expected to be paid to the ZATCA and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat is charged to the statement of profit or loss and other comprehensive income. Additional Zakat liability, if any, related to prior years' assessments arising from ZATCA are accounted for in the period in which the final assessments are finalized.

Net assets (equity) per unit

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

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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 (equity). 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 (equity) 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 (equity) 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 (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) of the Fund over the life of the instrument.

Foreign currency transactions

Transactions in foreign currencies are initially recorded by the Fund at the functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the financial statements. All differences are recognised in the statement of profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

5 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments, which are significant to the financial statements:

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5 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements. Judgement has been applied in the cases of determining whether an arrangement contains a lease and classification of leases.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the financial statements are described below:

Provision for expected credit losses on receivables from operating leases

The Fund uses a provision matrix to calculate ECLs of receivable from operating leases. The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product, inflation rate and governmental spending) is expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecasted economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Useful lives of investment properties

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

Impairment of investment properties

The Fund uses the services of third party professionally qualified evaluator to obtain estimates of the market value of investment properties using recognized valuation techniques for the purpose of impairment review and disclosures in the financial statements, For further details of assumptions and estimates please refer to note 10.

Impairment of non-financial assets "Value in use calculation"

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 of disposal and its value in use. The fair value less costs of disposal 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 of 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 next five years and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance the performance of the assets 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. These estimates are most relevant to properties recognised by the Fund.

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6 CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash at banks	12,104	6,401
Cash in hand	72	77
	<u>12,176</u>	<u>6,478</u>

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments at fair value through profit or loss comprises of the following:

	31 December 2021		31 December 2020	
	<u>Cost</u>	<u>Fair value</u>	Cost	Fair value
<i>Investment in units of a mutual fund managed by the Fund Manager (a related party)</i>				
AlAhl Saudi Riyal Trade Fund	<u>40,000</u>	<u>40,031</u>	<u>-</u>	<u>-</u>

8 RECEIVABLES FROM OPERATING LEASES

Receivables from operating leases comprise of the following:

	31 December 2021	31 December 2020
Receivables from operating leases	72,192	59,896
Less: Impairment loss on receivables from operating leases	<u>(15,866)</u>	<u>(9,866)</u>
Receivables from operating leases – net	<u>56,326</u>	<u>50,030</u>

The movement in impairment loss on receivables from operating leases is as follows:

	2021	2020
Opening balance	9,866	8,866
Provided during the year	<u>6,000</u>	<u>1,000</u>
Closing balance	<u>15,866</u>	<u>9,866</u>

The aging analysis of receivable from operating leases at the reporting date is presented below:

Year	Total	Past due and impaired					
		1 to 90 days	From 91-180 days	From 181-270 days	From 271-365 days	From 366-455 days	More than 455 days
2021	<u>72,192</u>	<u>19,102</u>	<u>18,771</u>	<u>8,705</u>	<u>10,850</u>	<u>9,570</u>	<u>5,194</u>
2020	<u>59,896</u>	<u>10,864</u>	<u>28,014</u>	<u>6,343</u>	<u>2,028</u>	<u>2,479</u>	<u>10,168</u>

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9 PREPAYMENTS AND OTHER RECEIVABLES

	<u>2021</u>	<u>2020</u>
Other receivables	1,210	156
Prepaid expenses	872	952
Input value added tax	469	1,609
	<u>2,551</u>	<u>2,717</u>

10 INVESTMENT PROPERTIES

10.1 The Fund owns the following investment properties:

<u>Name of the property</u>	<u>Nature of property</u>	<u>Purchase price</u>
AlAndalus Mall, Jeddah (<i>notes 10.1(i), 10.1(ii)</i>)	Mall	1,195,686
AlAndalus Mall Hotel, Jeddah (<i>note 10.1(i)</i>)	Hotel	200,000
Salama Tower, Jeddah (<i>note 10.1(iii)</i>)	Office	255,000
Qbic Plaza, Riyadh (<i>note 10.1(iv)</i>)	Office	250,000

- i. The Fund acquired AlAndalus Mall and AlAndalus Mall Hotel at the Fund's inception against cash consideration of SR 405 million (representing 30% of the total purchase values of SR 1,350 million) and by issuing units in the Fund valuing SR 945 million to AlAndalus Property Company ("APC"), the previous owner.

AlAndalus Mall and AlAndalus Mall Hotel is pledged against the Islamic Financing Facility obtained from SNB Bank amounting to SR 650 million. The carrying values of AlAndalus Mall and AlAndalus Mall Hotel aggregates to SR 1,330 million as at the reporting date.

- ii. The Fund acquired land measuring 9,669 square meters adjacent to AlAndalus Mall on 9 November 2020 against cash consideration of SR 45.7 million for the purpose of expanding AlAndalus Mall.
- iii. The Fund acquired Salama Tower on 4 August 2019 against cash consideration of SR 255 million. It was subsequently leased to the seller for a net lease amount of SR 23.1 million per annum for a period of 5 years. The seller is allowed to sub-lease the property to multi-tenants during this period.
- iv. The Fund acquired Qbic Plaza on 22 June 2020 against cash consideration of SR 250 million and financed the acquisition through additional Islamic financing. The property is leased for a net lease amount of SR 21.6 million per annum, for a period of 3 years.
- v. The Fund's properties are held under the custody of Sandoq Tamkeen Real Estate Company ("SPV"), which is owned by AlBilad Capital (the Custodian of the Fund). The Fund pays a custody fee of 0.025% per annum based on the average market values of the properties.

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10 INVESTMENT PROPERTIES (CONTINUED)

10.2 At 31 December 2021, investment properties represent the properties that were initially recognized at their cost and are subsequently measured at cost less accumulated depreciation. The break-up of the cost of investment properties is as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Furniture & fixture</u>	<u>Computer & hardware</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
<u>Cost:</u>								
Balance at 1 January 2021	1,015,293	889,476	9,015	2,117	7,277	33	8,360	1,931,571
Additions during the year	-	-	-	-	-	-	6,114	6,114
Transfers during the year	-	6,571	-	-	-	-	(6,571)	-
Balance at 31 December 2021	<u>1,015,293</u>	<u>896,047</u>	<u>9,015</u>	<u>2,117</u>	<u>7,277</u>	<u>33</u>	<u>7,903</u>	<u>1,937,685</u>
<u>Accumulated depreciation and impairment loss</u>								
Balance at 1 January 2021	-	(80,085)	(3,186)	(668)	(3,453)	(1)	-	(87,393)
Depreciation during the year	-	(22,182)	(1,062)	(225)	(1,149)	(7)	-	(24,625)
Balance at 31 December 2021	<u>-</u>	<u>(102,267)</u>	<u>(4,248)</u>	<u>(893)</u>	<u>(4,602)</u>	<u>(8)</u>	<u>-</u>	<u>(112,018)</u>
Net book value at 31 December 2021	<u>1,015,293</u>	<u>793,780</u>	<u>4,767</u>	<u>1,224</u>	<u>2,675</u>	<u>25</u>	<u>7,903</u>	<u>1,825,667</u>
Net book value at 31 December 2020	<u>1,015,293</u>	<u>809,391</u>	<u>5,829</u>	<u>1,449</u>	<u>3,824</u>	<u>32</u>	<u>8,360</u>	<u>1,844,178</u>

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10 INVESTMENT PROPERTIES (CONTINUED)

	<u>Land</u>	<u>Buildings</u>	<u>Furniture & fixture</u>	<u>Computer & hardware</u>	<u>Office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
Cost:								
Balance at 1 January 2020	865,804	739,903	8,860	2,039	7,141	-	5,215	1,628,962
Additions during the year	149,489	149,573	155	78	136	33	3,145	302,609
Balance at 31 December 2020	<u>1,015,293</u>	<u>889,476</u>	<u>9,015</u>	<u>2,117</u>	<u>7,277</u>	<u>33</u>	<u>8,360</u>	<u>1,931,571</u>
Accumulated depreciation and impairment loss								
Balance at 1 January 2020	-	(34,590)	(2,134)	(446)	(2,307)	-	-	(39,477)
Depreciation charged for the year	-	(20,495)	(1,052)	(222)	(1,146)	(1)	-	(22,916)
Impairment loss	-	(25,000)	-	-	-	-	-	(25,000)
Balance at 31 December 2020	<u>-</u>	<u>(80,085)</u>	<u>(3,186)</u>	<u>(668)</u>	<u>(3,453)</u>	<u>(1)</u>	<u>-</u>	<u>(87,393)</u>
Net book value at 31 December 2020	<u>1,015,293</u>	<u>809,391</u>	<u>5,829</u>	<u>1,449</u>	<u>3,824</u>	<u>32</u>	<u>8,360</u>	<u>1,844,178</u>

In accordance with Article 8 of the Real Estate Investment Traded Funds Instructions issued by CMA, the Fund Manager assesses the Fund's real estate values by appointing two independent evaluators who determined the market values in conformity with the International Valuation Standards Council's International Valuation Standards. However, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation which is an allowed treatment under the IFRS.

The carrying amounts of the investment properties are as under:

	31 December 2021	31 December 2020
AlAndalus Mall	1,184,292	1,191,618
AlAndalus Mall Hotel	145,825	150,916
Salama Tower	248,378	250,912
Qbic Plaza	247,172	250,732
Total	<u>1,825,667</u>	<u>1,844,178</u>

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10 INVESTMENT PROPERTIES (CONTINUED)**10.3 Market values**

10.3.1 The assumptions used in determining the fair values of the investment properties are as follows:

Description	Valuation approach	Key assumptions	Market value	
			As at 31 December 2021	As at 31 December 2020
Evaluator: ValuStrat				
AlAndalus Mall	Discounted cash flows	Discount rate: 11% Exit yield rate: 8.50%	1,175,000	1,195,000
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.5% Exit yield rate: 9%	149,000	153,000
Salama Tower	Discounted cash flows	Discount rate: 11.5% Exit yield rate: 9%	258,400	258,400
Qbic Plaza	Discounted cash flows	Discount rate: 11% Exit yield rate: 8.5%	259,000	259,000
			<u>1,841,400</u>	<u>1,865,400</u>
Evaluator: Knight Frank				
AlAndalus Mall	Discounted cash flows	Discount rate: 10.75% Exit yield rate: 8.75%	1,227,975	1,259,050
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.25% Exit yield rate: 9.25%	148,200	148,600
Salama Tower	Discounted cash flows	Discount rate: 10.25% Exit yield rate: 8.25%	240,000	244,000
Qbic Plaza	Discounted cash flows	Discount rate: 10.00% Exit yield rate: 8%	251,700	253,070
			<u>1,867,875</u>	<u>1,904,720</u>

The average fair value measurements of investment properties have been categorized as level 3 fair values based on inputs to the valuation techniques used. The table shows the breakdown as at 31 December 2021 and 31 December 2020:

Average fair value measurement at 31 December 2021			
	Using quoted prices from active markets		
	for identical assets (level 1)	Other observable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	-	-	1,854,638
	<u>-</u>	<u>-</u>	<u>1,854,638</u>
Average fair value measurement at 31 December 2020			
	Using quoted prices from active markets		
	for identical assets (level 1)	Other observable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	-	-	1,885,060
	<u>-</u>	<u>-</u>	<u>1,885,060</u>

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11 UNEARNED RENTAL INCOME

	31 December 2021	31 December 2020
Opening balance	25,060	28,097
Invoices issued during the year	188,673	138,273
Revenue recognized during the year	<u>(183,407)</u>	<u>(141,310)</u>
Closing balance	<u><u>30,326</u></u>	<u><u>25,060</u></u>

12 OTHER LIABILITIES

	31 December 2021	31 December 2020
Accrued expenses and others	5,183	3,701
Finance cost payable	1,764	359
Trade payables	135	3,154
	<u><u>7,082</u></u>	<u><u>7,214</u></u>

13 ADVANCES FROM OPERATING LEASES

	31 December 2021	31 December 2020
Advances from tenants	7,741	5,820
Security deposits from tenants	7,213	6,920
	<u><u>14,954</u></u>	<u><u>12,740</u></u>

14 BORROWINGS

	31 December 2021	31 December 2020
Opening balance	514,995	253,050
Financing facility utilized during the year	42,678	261,028
Amortization of loan arrangement fee	<u>1,055</u>	<u>917</u>
Closing balance	<u><u>558,728</u></u>	<u><u>514,995</u></u>

On 7 November 2018, the Fund signed an agreement of Islamic financing facility of SAR 650 million from Saudi National Bank (SNB) (formerly known as NCB). The Fund transferred the title deed of properties, Al Andalus Mall and Al Andalus Mall Hotel, in favour of Real Estate Development Company for Management and Ownership, a fully owned subsidiary of the SNB as a security against the Islamic financing facility.

On 1 August 2019, the Fund utilized SAR 255 million as the first tranche from the Islamic financing facility. During the year 2020, the Fund utilized SAR 263 million as the Second tranche from the Islamic financing facility. During the year 2021, the Fund utilized further SAR 43 million. The tenor of Islamic financing facility is 15 years. The Islamic financing facility provides 5 years grace period during which only profit payments are to be made. Following the grace period, the principal amount shall be repaid over 10 years on a quarterly basis. The Islamic financing facility carries commission rate of SAIBOR plus 1.75% per annum.

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15 ZAKAT

Zakat is calculated for the year ended 31 December using the Zakat base as follows:

	<u>2021</u>	<u>2020</u>
Net Zakat positive base (A)		
Net assets (equity)	1,303,077	1,305,746
Provisions	9,866	8,866
Borrowings	558,728	514,995
Net adjusted profit	89,200	46,360
Zakat base positive	<u>1,960,871</u>	<u>1,875,967</u>
Zakat base negative (B)		
Investments properties	<u>1,825,667</u>	1,844,178
	<u>1,825,667</u>	<u>1,844,178</u>
Net positive Zakat base	<u>135,204</u>	31,789
Net adjusted profit	<u>89,200</u>	46,360
Zakat for the year (at 2.5%)	<u>2,230</u>	<u>1,159</u>

Zakat provision movement is as follows:

	31 December <u>2021</u>	31 December <u>2020</u>
Opening balance	1,159	1,500
Charge:		
- For the year	1,500	1,159
- In respect of prior years	-	179
	1,500	1,338
Payments made during the year	<u>(429)</u>	<u>(1,679)</u>
Closing balance	<u>2,230</u>	<u>1,159</u>

Zakat assessment status

The Fund has filed its zakat returns with the Zakat, Tax and Customs Authority for the years up till 2020. However, final assessments are yet to be finalized.

16 RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Fund comprise of the following and the Fund transacts with these parties in its ordinary course of business:

<u>Name of entity</u>	<u>Relationship</u>
SNB Capital Company, formerly NCB Capital Company	Fund Manager and Unitholder
Saudi National Bank (SNB)	Shareholder of the Fund Manager
AlAndalus Property Company (APC)	Unitholder and Property Agent

Fund management fee

The Fund pays the Fund Manager a management fee of 1% per annum of the Fund's total assets (based on the last valuation) less the Fund's current liabilities. The management fee is payable in arrears on a semi-annual basis.

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16 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)*Agency fee and property management fee*

The Fund via a master transfer agreement dated 25 December 2017 appointed APC as the "Property Agent". Under the agreement, APC is appointed to exercise, perform and discharge all rights and obligations as an agent of AlAndalus Mall and AlAndalus Mall Hotel. The Fund pays a fixed amount of SR 500,000 per annum to APC for the aforementioned agency services. APC also manages the AlAndalus mall for which it charges management fee from the Fund.

The Fund entered into the following transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund. All related party transactions were approved by the Fund's Board.

<u>Related party</u>	<u>Nature of transactions</u>	<u>2021</u>	<u>2020</u>
AlAndalus Property Company	Rent collected on behalf of the Fund	9,418	7,988
	Payments received from APC	-	10,449
	Payments made to APC	-	8,336
	Miscellaneous expenses	120	-
	Management fee charged	9,218	8,845
	Agency fees charged	575	500
SNB Capital Company, formerly NCB Capital Company	Management fees charged	19,087	17,399
	Transaction cost capitalized to investment properties	-	3,959
	Payments made by the Fund	20,993	15,189
Saudi National Bank	Service fees charged	26	26
	Loan arrangement fees charged	371	-
	Payments made	397	26

The significant transactions with Key management personnel are:

<u>Key management personnel</u>	<u>Nature of transactions</u>	<u>2021</u>	<u>2020</u>
Key management personnel	Board fee	100	100

The above-mentioned transactions give rise to the following amounts due to related parties at the reporting date:

Due to related parties

<u>Related party</u>	<u>31 December 2021</u>	<u>31 December 2020</u>
SNB Capital, formerly NCB Capital Company	19,087	20,993
AlAndalus Property Company	1,267	772
	<u>20,354</u>	<u>21,765</u>

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17 SEGMENT REPORTING

The Fund's activities include number of sectors as follows:

Retail Sector: This includes AlAndalus Mall.

Hospitality Sector: This includes AlAndalus Mall Hotel.

Offices Sector: This includes Salama Tower and Qbic Plaza.

The summary of the financial position and financial performance of these segments is as below:

<u>For the year ended</u>	31 December 2021				31 December 2020			
	<u>Mall</u>	<u>Hotel</u>	<u>Office</u>	<u>Total</u>	<u>Mall</u>	<u>Hotel</u>	<u>Office</u>	<u>Total</u>
Revenue	126,525	11,497	45,385	183,407	101,711	8,566	31,033	141,310
Operational expenses	(26,844)	(11,382)	(612)	(38,838)	(26,269)	(15,575)	(534)	(42,378)
Depreciation	(10,676)	(5,096)	(8,853)	(24,625)	(10,315)	(5,525)	(7,076)	(22,916)
Impairment loss on investment properties	-	-	-	-	-	(25,000)	-	(25,000)
Impairment loss on receivables against operating leases	(6,000)	-	-	(6,000)	(1,000)	-	-	(1,000)

<u>As of</u>	31 December 2021					31 December 2020				
	<u>Mall</u>	<u>Hotel</u>	<u>Office</u>	<u>Fund</u>	<u>Total</u>	<u>Mall</u>	<u>Hotel</u>	<u>Office</u>	<u>Fund</u>	<u>Total</u>
Total assets	<u>1,232,631</u>	<u>155,175</u>	<u>505,163</u>	<u>43,782</u>	<u>1,936,751</u>	<u>1,228,815</u>	<u>157,282</u>	<u>513,024</u>	<u>4,282</u>	<u>1,903,403</u>
Total liabilities	<u>94,381</u>	<u>2,097</u>	<u>515,309</u>	<u>21,887</u>	<u>633,674</u>	<u>54,967</u>	<u>1,340</u>	<u>507,332</u>	<u>19,294</u>	<u>582,933</u>

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18 REVENUE FROM PROPERTIES

	31 December 2021	31 December <u>2020</u>
AlAndalus Mall	126,525	101,711
Salama Tower	23,100	19,250
Qbic Plaza	22,285	11,783
AlAndalus Mall Hotel	11,497	8,566
	<u>183,407</u>	<u>141,310</u>

19 OPERATIONAL EXPENSES

	31 December 2021	31 December <u>2020</u>
AlAndalus Mall	26,844	26,269
AlAndalus Mall Hotel	11,382	15,575
Salama Tower	419	318
Qbic Plaza	193	216
	<u>38,838</u>	<u>42,378</u>

20 EFFECT ON NET ASSETS (EQUITY) PER UNIT IF INVESTMENT PROPERTIES ARE FAIR VALUED

	31 December 2021	31 December <u>2020</u>
Fair value of investment properties	1,854,638	1,885,060
Less: Carrying value of investment properties	(1,825,667)	(1,844,178)
Increase in net assets (equity)	28,971	40,882
Units in issue in thousands (number)	137,500	137,500
Additional net assets (equity) per unit based on fair value	<u>0.21</u>	<u>0.30</u>
Net assets (equity) attributable to unitholders before fair value adjustment	1,303,077	1,320,470
Increase in net assets (equity)	28,971	40,882
Net assets (equity) attributable to unitholders after fair value adjustment	<u>1,332,048</u>	<u>1,361,352</u>
<u>Net Assets Attributable to each unit</u>		
Net assets (equity) per unit (SAR) before fair value adjustment	9.48	9.60
Increase in net assets (equity) per unit (SAR) based on fair value	<u>0.21</u>	<u>0.30</u>
Net assets (equity) attributable to unitholders after fair value adjustment	<u>9.69</u>	<u>9.90</u>

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21 OPERATING LEASES

As a lessor

The maturity analysis of undiscounted lease payments to be received in future years is as follows:

	31 December 2021	31 December 2020
Up to one year	16,409	117,800
1 year to 5 years	254,581	210,209
More than 5 years	401,646	92,928
	<u>672,636</u>	<u>420,937</u>

22 DIVIDEND DISTRIBUTION

On 9 February 2021 and 12 July 2021, the Fund's board approved the distribution of dividend for the year ended 31 December 2020 and period ended 30 June 2021 amounted to SR 0.325 per unit and 0.350 per unit respectively. The same was paid on 25 February 2021 and 12 August 2021 respectively.

23 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Fund is subject to various financial risks due to its activities including: market risk (including currency risk, fair value and cash flows of commission rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Fund.

The Fund Manager is responsible for risk management. Financial instruments carried on the statement of financial position include cash and cash equivalents, investment at fair value through profit or loss, receivables from operating leases, certain other receivables, long-term debt, due to related parties, trade payables, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. A financial asset and liability is offset and net amount is reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

a. Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Fund manages its market risk by investing in low risk securities as per terms and conditions of the Fund.

	31 December 2021	31 December 2020
Investment at fair value through profit or loss	<u>40,031</u>	<u>-</u>

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's transactions are principally in Saudi Riyals and hence the Fund is not exposed to any significant current risk.

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23 FINANCIAL RISK MANAGEMENT (CONTINUED)**Commission rate risk**

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Fund's financial positions and cash flow.

The Fund's commission rate risks arise mainly from its borrowings, which are at variable rate of interest and are not subject to re-pricing on a regular basis.

The Fund's interest rate risks arise mainly from its borrowings, which are at variable commission rate and the sensitivity analysis as follows:-

	Balance as at 31 December 2021			
	Income Statement		Statement of Owners' Net assets (equity)	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(5,587)	5,587	(5,587)	5,587
Cash-flow sensitivity (net)	(5,587)	5,587	(5,587)	5,587

	Balance as at 31 December 2020			
	Income Statement		Statement of Owners' Net assets (equity)	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(5,149)	5,149	(5,149)	5,149
Cash-flow sensitivity (net)	(5,149)	5,149	(5,149)	5,149

b. Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk in respect of its receivables from lessees under operating leases, investment at fair value through profit or loss, cash and cash equivalents, due from related parties and certain other receivable balances.

	31 December 2021	31 December 2020
Cash and cash equivalents	12,176	6,478
Receivables from operating leases, gross	72,192	59,896
Other receivables	510	-
	84,878	66,374

The carrying amounts of financial assets represents the maximum credit exposure on these assets.

Credit risk on receivables and bank balances is limited as:

- Cash balances are held with local banks having sound credit ratings;
- Financial position of lessees is stable.

The Fund has receivables from lessees against operation leases in the Kingdom of Saudi Arabia. The Fund manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. The Fund seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the objective that the Fund's exposure to bad debts is not significant.

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23 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at:

	Weighted average loss rate (%)	Gross carrying amount	Impairment allowance	Credit impairment
<u>31 December 2021</u>				
0-90 Days	6%	19,102	1,198	No
090-180 Days	15%	18,771	2,863	No
180-270 Days	35%	8,705	3,050	No
270-365 Days	12%	10,850	1,287	No
365- 455days	24%	9,570	2,274	No
More than 455	100%	5,194	5,194	Yes
Total		<u>72,192</u>	<u>15,866</u>	
	Weighted average loss rate (%)	Gross carrying amount	Impairment allowance	Credit impairment
<u>31 December 2020</u>				
0-90 Days	5%	10,864	571	No
090-180 Days	6%	28,014	1,610	No
180-270 Days	18%	6,343	1,132	No
270-365 Days	22%	2,028	444	No
365- 455days	37%	2,479	922	No
More than 455	51%	10,168	5,187	Yes
Total		<u>59,896</u>	<u>9,866</u>	

e. Liquidity risk

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

The Fund 's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts and bank loans.

The table below analyses the Fund's financial liabilities as at the reporting date and classifies into relevant maturities based on the contractual undiscounted cash flows.

At 31 December 2021:	Less than <u>1 year</u>	More than <u>1 year</u>
Borrowings	-	558,728
Due to related parties	20,354	-
Other liabilities	7,082	-
	<u>27,436</u>	<u>558,728</u>

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23 FINANCIAL RISK MANAGEMENT (CONTINUED)

At 31 December 2020:	Less than <u>1 year</u>	More than <u>1 year</u>
Borrowings	-	514,995
Due to related parties	21,765	-
Other liabilities	7,214	-
	<u>28,979</u>	<u>514,995</u>

24 FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and at prevailing market conditions regardless if the price is directly identified or estimated using other valuation technique.

All assets and liabilities whether measured at fair value or their fair values are disclosed in the financial statements in accordance with the hierarchical levels of fair value measurements as stated below are classified into the lowest level of measuring input which is considered significant for measuring the fair value as a whole.

Level 1: Declared (unadjusted) and quoted market prices in active markets for identical assets or liabilities.

Level 2: Inputs that are directly or indirectly observable or tracked for an asset or a liability other than declared prices mentioned in level 1.

Level 3: Inputs that are unobservable or not tracked for an asset or a liability.

Fair values of financial instruments

The Fund is exposed to risks as a result of using financial instruments. The following explains the Fund's objectives, policies and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

There were no significant changes that may expose the Fund to financial instrument risks through its objectives, policies and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

- The Fund's management considers the fair value for receivables from operating lease, due to related parties, accruals and other payables approximate to their carrying values because of the short terms nature of the financial instruments.
- There were no transfers between level 1, 2 or 3 during the reporting period.

Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rates and periods of re-pricing or maturity of financial assets and liabilities are mentioned in the related notes.

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24 FAIR VALUE (CONTINUED)

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount Designated at <u>fair value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>31 December 2021</u>				
Financial instruments- FVTPL	<u>40,031</u>	-	<u>40,031</u>	-
<u>31 December 2020</u>				
Financial instruments- FVTPL	<u>-</u>	-	-	-

25 SUBSEQUENT EVENT

On 9 February 2022, the Fund's Board recommended the payment of dividend of SR 48.125 million (SR 0.35 per unit) to the Fund's unitholders. The dividend has been paid subsequent to the announcement.

Other than the above, there are no events subsequent to the year that require adjustment or disclosure in these financial statements.

26 LAST VALUATION DAY

The last valuation day for the year was 31 December 2021.

27 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board on 26 Sha'aban 1443 (corresponding to 29 March 2022).