

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
AND INDEPENDENT AUDITOR'S REPORT**

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

Financial statements for the year ended 31 December 2023

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RSM

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INDEPENDENT AUDITOR'S REPORT

To the Unitholders Musharaka REIT Fund

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Musharaka REIT Fund (the "Fund"), managed by Musharaka Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2023, and the statements of profit or loss and other comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended and notes to the financial statements, including material accounting policy information 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 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) that are endorsed in the Kingdom of Saudi Arabia (the "Code") that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion there on, and we do not provide a separate opinion on these matters.

Independent auditor's report to the unitholders of Musharaka REIT Fund (continued)

| Valuation of investment properties | |
|--|--|
| Key audit matter | How our audit addressed the key audit matter |
| <p>As at 31 December 2023, the carrying value of the Fund's investment properties amounted to Saudi Riyals 1.3 billion.</p> <p>At the end of each reporting period, the Fund Manager assesses whether there is any indication that investment properties may be impaired.</p> <p>As part of the assessment of impairment on its investment properties, the Fund uses valuations carried out by third party valuers to ascertain the fair value of these properties.</p> <p>We considered this as a key audit matter as the assessment for impairment involves significant judgement that could have a material impact on the financial statements of the Fund.</p> <p>Refer to Note 2.15 of the financial statements on the accounting policy for impairment of non-financial assets and Note 10 for the disclosures on investment properties.</p> | <p>We have performed the following as part of our audit:</p> <ul style="list-style-type: none"> • Reviewed management assessment for the existence of impairment indicators on investment properties; • Assessed the independence, professional qualifications, competence and experience of the Fund's independent valuers; • Reviewed and discussed with the Fund's independent valuers the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions; • Agreed the specific details (area, location etc.) of the investment properties as per the valuation reports with the Fund records and title deeds of the investment properties; • Compared the recoverable amount of the investment properties as per the valuation report to their carrying values to determine whether the recognition of any impairment loss is required; and • Assessed the appropriateness of the accounting treatment and adequacy of the disclosures made in the Fund's financial statements including key assumptions and judgments |

Other information

The Fund manager is responsible for the other information. Other information consists of the information included in the Fund's annual report, other than 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 statement does not cover the other information and we do not will not express any form of assurance conclusion thereon.

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

When we read the information, if we conclude that there is a material misstatement therein, we are required to communicated other matter to those charged with governance.

Independent auditor's report to the unitholders of Musharaka REIT Fund (continued)

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

Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA, Investment Fund Regulations the Fund terms and conditions, and for such internal control as Fund manager determines is necessary to enable the preparation of financial statements that are free of 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 Fund manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund manager.
- Conclude on the appropriateness of Fund manager's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent auditor's report to the unitholders of Musharaka REIT Fund (continued)

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

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

RSM Allied Accountants Professional Services



Mohammed Bin Farhan Bin Nader

License No. 435

Al-Khobar, Saudi Arabia

28 March 2024 (corresponding to 18th Ramadan, 1445H)



MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For the year ended 31 December | |
|---|------|---------------------------------------|--------------|
| | | 2023 | 2022 |
| Rental revenue | 5 | 95,517,923 | 100,616,509 |
| Finance income | 6 | 11,165,201 | 11,596,685 |
| Total income | | 106,683,124 | 112,213,194 |
| Depreciation | 11 | (31,006,327) | (28,689,703) |
| Fund management fee | 7 | (18,971,287) | (15,780,449) |
| Other operating expenses | 8 | (23,258,058) | (13,668,354) |
| Reversal of impairment loss on investment properties | 11 | 14,995,195 | (8,439,546) |
| Allowance for expected credit losses | 13 | (1,885,428) | (5,050,770) |
| Total expenses | | (60,125,905) | (71,628,822) |
| Total income from operations | | 46,557,219 | 40,584,372 |
| Unrealised gain on investments carried at fair value through profit or loss | 14 | 147,500 | 30,000 |
| Finance costs | 9 | (57,200,810) | (32,282,156) |
| Finance income on short-term Murabaha deposits | 15 | 1,626,621 | 288,750 |
| Other income | 18 | 520,000 | 320,000 |
| (Loss) profit before zakat | | (8,349,470) | 8,940,966 |
| Zakat reversal | 10 | - | 1,959,473 |
| (Loss) profit for the year | | (8,349,470) | 10,900,439 |
| Other comprehensive income | | - | - |
| Total comprehensive (loss) income for the year | | (8,349,470) | 10,900,439 |
| Weighted average number of units outstanding | | 88,000,000 | 88,000,000 |
| Basic and diluted earnings per unit | | (0.09) | 0.12 |

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

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

Statement of financial position

(All amounts in Saudi Riyals unless otherwise stated)

| | Note | As at 31 December | |
|--|------|----------------------|---------------|
| | | 2023 | 2022 |
| Assets | | | |
| Investment properties | 11 | 1,322,642,938 | 1,334,991,726 |
| Net investment in finance leases | 12 | 210,677,060 | 219,945,398 |
| Lease rental receivables | 13 | 38,995,529 | 26,705,723 |
| Prepayments and other assets | | 2,521,940 | 3,718,823 |
| Investments carried at fair value through profit or loss | 14 | 5,459,650 | 5,312,150 |
| Short-term Murabaha deposits | 15 | 45,274,633 | 35,000,000 |
| Cash at banks | 16 | 8,377,682 | 31,486,197 |
| Total assets | | 1,633,949,432 | 1,657,160,017 |
| Liabilities | | | |
| Borrowings | 17 | 661,720,789 | 657,438,425 |
| Lease liabilities | 18 | 132,589,120 | 139,419,106 |
| Unearned rental revenue | 19 | 17,575,536 | 15,595,152 |
| Accrued expenses and other liabilities | 20 | 26,063,910 | 20,370,576 |
| Accrued fund management fee | 21 | 11,239,508 | 7,466,719 |
| Total liabilities | | 849,188,863 | 840,289,978 |
| Net assets attributable to unit holders | | 784,760,569 | 816,870,039 |
| Units in issue (Numbers) | | 88,000,000 | 88,000,000 |
| Per unit value (Saudi Riyals) | | 8.92 | 9.28 |

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

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Statement of changes in net assets attributable to unitholders

(All amounts in Saudi Riyals unless otherwise stated)

| | For the year ended 31 December | |
|--|---------------------------------------|--------------|
| | 2023 | 2022 |
| Net assets attributable to unitholders at 1 January | 816,870,039 | 858,769,600 |
| Change from operations | | |
| Total comprehensive (loss) income for the year | (8,349,470) | 10,900,439 |
| Dividends (Note 24) | (23,760,000) | (52,800,000) |
| | (32,109,470) | (41,899,561) |
| Net assets attributable to unitholders at 31 December | 784,760,569 | 816,870,039 |

The accompanying notes form are an integral part of these financial statements.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Statement of cash flows

(All amounts in Saudi Riyals unless otherwise stated)

| | Note | For the year ended 31 December | |
|---|------|--------------------------------|---------------|
| | | 2023 | 2022 |
| Cash flow from operating activities | | | |
| (Loss) profit for the year | | (8,349,470) | 8,940,966 |
| <u>Adjustment for:</u> | | | |
| Depreciation | 11 | 31,006,327 | 28,689,703 |
| Reversal of impairment loss on investment properties | 11 | (14,995,195) | 8,439,546 |
| Allowance for expected credit losses | 13 | 1,885,428 | 5,050,770 |
| Unrealised gain on investments carried at fair value through profit or loss | 14 | (147,500) | (30,000) |
| Finance income on short term deposits | | (1,626,621) | (288,750) |
| Finance costs | 9 | 57,200,810 | 32,282,156 |
| Finance income on finance leases | 6 | (11,165,201) | (11,596,685) |
| Rent concession on lease liabilities | 18 | (520,000) | (320,000) |
| <u>Changes in operating assets and liabilities:</u> | | | |
| (Increase) decrease in lease rental receivables | | (14,175,234) | 8,810,709 |
| Decrease (increase) in prepayments and other assets | | 1,196,883 | (229,473) |
| Increase in unearned rental revenue | | 1,980,384 | 2,259,905 |
| Increase in accrued fund management fee | 21 | 3,772,789 | 2,398,124 |
| Increase (decrease) in accrued expenses and other liabilities | 20 | 5,320,567 | (14,533,964) |
| Cash generated from operations | | 51,383,967 | 69,873,007 |
| Finance cost paid | | (44,715,665) | (13,866,828) |
| Net cash inflow from operating activities | | 6,668,302 | 56,006,179 |
| Cash flow from investing activities | | | |
| Additions to investment properties | 11 | (3,662,344) | (260,291,493) |
| Principal element of investment in finance lease | | 9,268,338 | 10,480,228 |
| Finance income received | 12 | 11,165,201 | 11,596,685 |
| Placement of short-term murabaha deposits | 15 | (8,648,012) | (35,000,000) |
| Net cash inflow (outflow) from investing activities | | 8,123,183 | (273,214,580) |
| Cash flow from financing activities | | | |
| Proceeds from borrowings | 17 | 320,736,231 | 254,879,595 |
| Repayment of borrowings | 17 | (320,736,231) | - |
| Repayment of lease liabilities | 18 | (14,140,000) | (11,520,000) |
| Dividends paid | 24 | (23,760,000) | (52,800,000) |
| Net cash (outflow) inflow from financing activities | | (37,900,000) | 190,559,595 |
| Net change in cash at banks | | (23,108,515) | (26,648,806) |
| Cash at banks at beginning of year | | 31,486,197 | 58,135,003 |
| Cash at banks at end of year | | 8,377,682 | 31,486,197 |
| Non-cash financing and investing activities | 25 | | |

The accompanying notes form an integral part of this financial information.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023

(All amounts in Saudi Riyals unless otherwise stated)

1 GENERAL INFORMATION

Musharaka REIT Fund (the “Fund”) is a closed-ended Shari’ah-compliant real estate investment traded fund incorporated in the Kingdom of Saudi Arabia in compliance with the Real Estate Investment Funds Regulations and Real Estate Investment Traded Funds Instructions issued by the board of the Capital Market Authority (“CMA”).

The Fund is listed and traded in the Saudi Stock Exchange (“Tadawul” or “Saudi exchange”) and is managed by Musharaka Capital Company (the “Fund Manager”).

The offering of the units of the Fund has been approved by the CMA on 23 Ramadan 1438 H (corresponding to 17 July 2017) and started its operations on 25 Dhul Qadah 1438H (corresponding to 17 August 2017). The Fund’s term is 99 years and is extendable for additional two years at the discretion of the Fund Manager after obtaining CMA’s approval.

During 2021, the Fund’s board of directors and CMA issued approval for a change in the terms and conditions of the Fund converting the Fund into a closed-ended Traded Real Estate Investment Fund that takes the form of a special purpose entity.

During the year the Fund Manager updated the Fund’s terms and conditions, however, the changes do not have any direct material effect on these financial statements. The summary of such changes in the terms and conditions of the Fund during 2023 are as follows:

The Fund manager undertakes to register the Fund with the Zakat, Tax and Customs Authority (“ZATCA”) within the regulatory period. The Fund also undertakes to submit the information and data declaration required by the ZATCA for the purposes of examining and reviewing the declarations within the statutory period and to provide the assigned unit owners with publishable information necessary to calculate the zakat base.

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

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

The Fund is governed by the Real Estate Investment Funds Regulations (the “Regulations”) published by the CMA detailing requirements for all real estate funds within the Kingdom of Saudi Arabia. The Regulations were amended by the CMA board on 12 Rajab 1442H (corresponding to 22 February 2021).

2 BASIS OF PREPARATION

2.1 Basis of preparation

These financial statements of fund have been prepared in accordance with the 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”).

2.2 Historical cost convention

These financial statements have been prepared on a historical cost basis except for investments carried at fair value through profit or loss (“FVTPL”).

2.3 Functional and presentation currency

Items included in the financial statement of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Saudi Arabian Riyals (“Saudi Riyals”) which is the Fund’s functional currency.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

2 BASIS OF PREPARATION(Continued)

2.4 New and amended Standards adopted by the Fund

The Fund has applied the amendments to the standards for the first time in relation to ‘narrow scope amendments to IAS 1, Practice statement 2 and IAS 8, for reporting periods commencing on or after 1 January 2023.

There were certain other amendments to the standards applicable for the periods beginning on or from 1 January 2023, which were not relevant for the Fund, hence are not presented.

2.5 Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are mandatory from 1 January 2024 or later reporting periods and have not been early adopted by the Fund. Such standards are not expected to have a material impact in the future reporting periods and on foreseeable future transactions.

3 MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policies applied for the preparation of financial statements of the Fund are set out below. The accounting policies have been consistently applied to all the years presented.

3.1 Rental revenue

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

3.2 Earnings per unit

Earnings per unit (“EPU”) is calculated by dividing the total comprehensive income attributable to unit holders of the Fund by the weighted average number of units outstanding during the year.

3.3 Investment properties

Investment property is the property which is held (by owner or lessee under finance lease) either to earn rental income or for capital appreciation or for both. Investment property is initially measured at cost and are stated subsequently at cost less accumulated depreciation and impairment in value, if any. Freehold land is not depreciated. The cost of investment property is depreciated on a straight-line basis over estimated useful life ranging from 10 to 40 years.

An investment property is derecognized on sale or disposal when permanently withdrawn or when transferred to inventory properties. Any gain or loss arising from de-recognition of the property is recognized in the profit or loss immediately.

Investment properties also include properties under construction for future use as investment properties. Such properties are carried at cost and is not depreciated.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.4 Leases

At the inception of the contract, the Fund assesses whether a contract is or contains a lease. The Fund recognises a Right of Use (“RoU”) asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets. For these leases, the Fund recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities

The lease liability is initially measured at the net present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Fund, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the RoU asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Fund:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the individual lessee, which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

Right-of-use (RoU) assets

The RoU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

RoU assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfer’s ownership of the underlying asset or the cost of the RoU asset reflects that the Fund expects to exercise a purchase option, the related RoU asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The RoU assets are presented as a separate line in the statement of financial position.

The Fund determines whether a RoU asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the RoU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the profit or loss.

Net investment in finance lease

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

To classify each lease, the Fund makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Fund considers certain indicators such as whether the present value of the minimum lease payments amounts is substantially all of the fair value of the leased asset or whether the lease is for the major part of the economic life of the asset.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Net investment in finance lease (continued)

Finance lease

The Fund records the net investment in finance lease at lower of the fair value of the leased assets and the present value of the minimum lease payments. Gross investment in finance lease includes the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Operating lease

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

3.5 Cash and cash equivalents

Cash and cash equivalents usually include cash in hand and with banks and other short-term highly liquid investments, if any, with original maturities of three months or less from the purchase date. As at 31 December 2023, cash and cash equivalents include cash at banks.

3.6 Borrowings

Borrowings are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, long-term borrowings are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are removed from the statement of financial position when the obligation specified in the underlying contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or financial costs.

Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

3.7 Net assets value per unit

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

3.8 Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Fund. Unpaid dividends to the unit holders are recognized as a liability in the financial statements in the period in which the dividends are declared by the Fund's Board.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial instruments

Financial assets

Classification

Financial assets at amortised cost

The Fund classifies its financial assets as measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

Financial assets at fair value through profit or loss

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

Recognition and derecognition

At initial recognition, the Fund measures financial assets at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of financial asset. Transactions cost of financial assets carried at fair value through profit or loss are expensed in profit or loss.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

The Fund derecognizes a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

Measurement

Subsequent measurement of financial assets depends on the Fund's business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are measure at amortised cost. A gain or loss on a financial instrument that is subsequently measured at amortized cost and is not part of the hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is calculated using the effective interest rate method.

All financial liabilities are recognised at the time when the Fund becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial instruments (continued)

Measurement (continued)

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in the profit or loss.

The Fund measures financial instruments, i.e. investment carried at FVTPL and financial derivatives, at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible by the Fund.

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

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

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

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

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities,

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.10 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts are reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.11 Impairment of financial and non-financial assets

• Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets of the Fund. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators. Impairment losses from continuing operations are recognised in profit or loss and presented as a separate line item.

• Impairment of financial assets

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

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

3.12 Financial income and cost

Financial income is measured using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

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

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (Continued)

Valuation of investment properties

The Fund hires the services of third parties to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the financial statements. The key assumptions used to determine fair values of investment properties are disclosed in Note 11.

Useful lives of investment properties

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

Impairment of financial assets held at amortised cost

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

The provision matrix is initially based on the Fund’s historically observed default rates. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. At every reporting date, the 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, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Fund’s historical credit loss experience and forecast of economic conditions may also not be representative of customer’s actual default in the future. The information about the ECLs on the lease receivables is disclosed in Note 13.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

5 RENTAL REVENUE

During the year ended 31 December 2023, the Fund has earned revenue of Saudi Riyals 95.52 million (2022: Saudi Riyals 100.62 million) from rentals of investment properties, that is recorded on an accrual basis in accordance with the terms of the corresponding contracts. Revenue also includes, rental revenue amounting to Saudi Riyals Nil million (2022: Saudi Riyals 8.5 million) earned through related party. Also see Note 21.

6 FINANCE INCOME

| | 2023 | 2022 |
|--|-------------------|------------|
| Finance income on investment in finance leases (Note 12) | 11,165,201 | 11,596,685 |

7 FUND MANAGEMENT FEE

The Fund is managed and administered by the Fund Manager. For these services, the Fund calculates the management fee, as set out in the Fund's terms and conditions, at an annual rate of 1.2% of the Fund's total assets after deducting accrued fee and expenses. For 2023, management fee amounted to Saudi Riyals 19 million (2022: Saudi Riyals 16 million).

8 OTHER OPERATING EXPENSES

| | | 2023 | 2022 |
|---------------------------------|-----|-------------------|------------|
| Properties maintenance expenses | 8.1 | 11,579,716 | 7,624,784 |
| Manpower expenses | 8.1 | 7,186,106 | 2,442,183 |
| Property management fee | | 2,223,276 | 899,168 |
| Fees and subscriptions | | 925,913 | 901,091 |
| Valuation fee | | 236,342 | 434,826 |
| Board of director's fee | | 50,000 | 30,000 |
| Others | | 1,056,705 | 1,336,302 |
| | | 23,258,058 | 13,668,354 |

8.1 This represent the expenses incurred on investment properties i.e. maintenance, utilities, and other miscellaneous operating expenses.

9 FINANCE COST

| | | 2023 | 2022 |
|---|------|-------------------|------------|
| Finance cost on borrowings (Note 17) | Note | 46,871,455 | 23,516,480 |
| Finance cost on lease liabilities (Note 18) | | 6,046,991 | 6,131,911 |
| Amortization of loan arrangement fee | 9.1 | 2,377,900 | 2,633,765 |
| Arrangement fee written-off | 9.2 | 1,904,464 | - |
| | | 57,200,810 | 32,282,156 |

9.1 Loan arrangement fee constitutes administrative and consultancy fee on the unavailed loan facility arrange by the Fund. Such arrangement fee for the loan is amortized over the loan term once the loan facilities are withdrawn.

9.2 During 2023, unamortized loan arrangement fee related to repaid borrowings has been written off. Also See Note 17.

10 ZAKAT PROVISION

As per the ZATCA resolution no 29791 (the "Resolution") issued in 2023 stated that investment funds are not required to pay any zakat and are only required to be registered with the ZATCA. The Resolution further explained that the unitholders are responsible to pay the zakat in lieu of their investments in funds without any liability on part of the funds.

MUSHARAKA REIT FUND
(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)
(All amounts in Saudi Riyals unless otherwise stated)

11 INVESTMENT PROPERTIES

| | Note | 2023 | 2022 |
|-----------------------------|------|----------------------|----------------------|
| Owned investment properties | 11.1 | 1,241,933,569 | 1,247,386,713 |
| Right of use assets | 11.2 | 80,709,369 | 87,605,013 |
| | | 1,322,642,938 | 1,334,991,726 |

11.1 Owned investment properties

| | Land | Buildings | Furniture and fixtures | Leasehold improvements | Total |
|---|--------------------|--------------------|---------------------------|---------------------------|----------------------|
| 2023 | | | | | |
| <u>Cost</u> | | | | | |
| At 1 January | 639,921,589 | 650,641,688 | 66,561,648 | 6,785,241 | 1,363,910,166 |
| Additions during the year | - | - | - | 2,399,321 | 2,399,321 |
| Transfers | - | 9,184,562 | - | (9,184,562) | - |
| At 31 December | 639,921,589 | 659,826,250 | 66,561,648 | - | 1,366,309,487 |
| <u>Accumulated depreciation and reversal of impairment</u> | | | | | |
| At 1 January | 19,478,816 | 66,992,590 | 30,052,047 | - | 116,523,453 |
| Reversal of impairment | (9,167,731) | (5,827,464) | - | - | (14,995,195) |
| Charge for the period | - | 16,195,142 | 6,652,518 | - | 22,847,660 |
| At 31 December | 10,311,085 | 77,360,268 | 36,704,565 | - | 124,375,918 |
| Net book value at 31 December | 629,610,504 | 582,465,982 | 29,857,083 | - | 1,241,933,569 |

| | Land | Buildings | Furniture and fixtures | Leasehold improvements | Total |
|---|--------------------|--------------------|---------------------------|---------------------------|----------------------|
| 2022 | | | | | |
| <u>Cost</u> | | | | | |
| At 1 January | 563,786,444 | 473,270,581 | 66,561,648 | - | 1,103,618,673 |
| Additions during the year | 76,135,145 | 177,371,107 | - | 6,785,241 | 260,291,493 |
| At 31 December | 639,921,589 | 650,641,688 | 66,561,648 | 6,785,241 | 1,363,910,166 |
| <u>Accumulated depreciation and impairment</u> | | | | | |
| At 1 January | 11,786,649 | 51,501,002 | 23,399,528 | - | 86,687,179 |
| Charge for the year | - | 14,744,209 | 6,652,519 | - | 21,396,728 |
| Impairment charge for the year | 7,692,167 | 747,379 | - | - | 8,439,546 |
| At 31 December | 19,478,816 | 66,992,590 | 30,052,047 | - | 116,523,453 |
| Net book value at 31 December | 620,442,773 | 583,649,098 | 36,509,601 | 6,785,241 | 1,247,386,713 |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

11 INVESTMENT PROPERTIES (continued)

11.1 Owned investment properties (continued)

Owned investment properties comprise the Fund's investments in various residential compounds, warehousing facilities, showrooms, retail, hotels, hotel apartments, commercial and administrative buildings located within the Kingdom of Saudi Arabia except for one warehouse in the United Arab Emirates ("UAE").

Investment properties as of 31 December 2023 with a net book value of Saudi Riyals 1,137.50 million (31 December 2022: Saudi Riyals 1,145.56 million) are pledged as security against borrowings obtained from Commercial banks (also see Note 17).

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on valuations carried out by two independent evaluators.

The fair values of the properties are based on valuations performed by the following independent valuers accredited by the Saudi Authority for Accredited Valuers:

- Qiam Valuation Company;
- Abaad Real Estate Valuation;
- ValuStrat consulting; and
- JLL Valuation

As at 31 December 2023, the average valuation of the above investment properties amounted to Saudi Riyals 1,304.27 million (31 December 2022: Saudi Riyals 1,351.20 million).

Based on the results of the independent valuations, the Fund has reversed an impairment loss amounting to Saudi Riyals 14.99 million on the investment properties recognized in earlier periods.

Fair value hierarchy

The fair value of investment properties is classified in the level - 3 of fair value hierarchy, as the valuation is carried out with reference to the observable market data, among other factors. Key assumptions used for the valuation of investment properties include the following:

Discount rates reflecting current market assessments of the uncertainty in the amount and timing of cash flows range used by the two evaluators is 8.5% to 11% (31 December 2022: 8% to 11%).

Capitalisation rates based on actual location, size and quality of the properties and considering market data at the valuation date range used by the two evaluators is 7% -9 % (31 December 2022: 8% to 11%).

Future rental cash inflows based on the actual location, type, and quality of the properties and supported by the terms of any existing lease, other contracts, or external evidence such as current market rents for similar properties.

Estimated vacancy rates based on current and expected future market conditions after expiry of any current lease.

Maintenance costs including necessary investments to maintain functionality of the property for its expected useful life.

Terminal value considering assumptions regarding maintenance costs, vacancy rates and market rents.

There were no changes to the valuation techniques during the year.

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

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

11 INVESTMENT PROPERTIES (continued)**11.2 Right of use assets**

| | Land | Buildings | Total |
|---|-------------------|-------------------|--------------------|
| <u>2023</u> | | | |
| <u>Cost</u> | | | |
| At 1 January | 61,310,273 | 58,430,976 | 119,741,249 |
| Additions during the year | 1,263,023 | - | 1,263,023 |
| At 31 December | 62,573,296 | 58,430,976 | 121,004,272 |
| <u>Accumulated depreciation</u> | | | |
| At 1 January | 16,465,045 | 15,671,191 | 32,136,236 |
| Charge for the year | 4,621,495 | 3,537,172 | 8,158,667 |
| At 31 December | 21,086,540 | 19,208,363 | 40,294,903 |
| Net book value at 31 December | 41,486,756 | 39,222,613 | 80,709,369 |
| <u>2022</u> | | | |
| <u>Cost</u> | | | |
| At 1 January | 58,403,266 | 58,430,976 | 116,834,242 |
| Additions during the year | 2,907,007 | - | 2,907,007 |
| At 31 December | 61,310,273 | 58,430,976 | 119,741,249 |
| <u>Accumulated depreciation</u> | | | |
| At 1 January | 12,709,490 | 12,133,771 | 24,843,261 |
| Charge for the year | 3,755,555 | 3,537,420 | 7,292,975 |
| At 31 December | 16,465,045 | 15,671,191 | 32,136,236 |
| Net book value at 31 December | 44,845,228 | 42,759,785 | 87,605,013 |
| Depreciation charge for the year is attributable to: | | | |
| | 2023 | 2022 | |
| Owned investment properties | 22,847,660 | 21,396,728 | |
| Right of use assets | 8,158,667 | 7,292,975 | |
| | 31,006,327 | 28,689,703 | |

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

The fair values of the ROU assets are based on valuations performed by Qiam Valuation Company and Abaad Real Estate Valuation (31 December 2022: Olat Valuation Company and Abaad Real Estate Valuation,) all are independent valuers accredited by the Saudi Authority for Accredited Valuers.

As at 31 December 2023, the average valuation of the buildings amounted to Saudi Riyals 67.4 million (31 December 2022: Saudi Riyals 62.3 million) calculated by allocating the overall average valuation of the acquired right-of-use for buildings amounting to Saudi Riyals 136.1 million (31 December 2022: Saudi Riyals 126.1 million) to the remaining area after the derecognition of the portion of buildings that was derecognised for finance lease arrangements.

MUSHARAKA REIT FUND

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Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

11 INVESTMENT PROPERTIES (continued)

11.2 Right of use assets (continued)

Fair value hierarchy

The fair value of investment properties is classified in the level-3 of fair value hierarchy.

The fair value of investment properties is classified in the level - 3 of fair value hierarchy, as the valuation is carried out with reference to the observable market data, among other factors. Key assumptions used for the valuation of investment properties include the following:

Discount rates reflecting current market assessments of the uncertainty in the amount and timing of cash flows range used by the two evaluators is 10% to 11% (31 December 2022: 9.5% to 12%).

Future rental cash inflows based on the actual location, type, and quality of the properties and supported by the terms of any existing lease, other contracts, or external evidence such as current market rents for similar properties.

Estimated vacancy rates based on current and expected future market conditions after expiry of any current lease.

Maintenance costs including necessary investments to maintain functionality of the property for its expected useful life.

Terminal value considering assumptions regarding maintenance costs, vacancy rates and market rents.

There were no changes to the valuation techniques during the year.

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

11.3 Effect on net assets (equity) attributable per unit if inventory property is fair valued

| | 2023 | 2022 |
|---|---------------|---------------|
| Estimated fair value of investment properties based on the average of the two valuers | 1,371,705,297 | 1,413,488,233 |
| Less: the carrying value of investment property | 1,322,642,938 | 1,334,991,726 |
| Estimated fair value in excess of book value | 49,062,359 | 78,496,507 |
| Change in net assets (equity) attributable per unit based on fair value | 0.56 | 0.89 |
| Net assets (equity) attributable to unit holders before fair value adjustment | 784,760,569 | 816,870,039 |
| Estimated fair value in excess of book value | 49,062,359 | 78,496,507 |
| Net assets (equity) attributable to unit holders after fair value adjustment | 833,822,928 | 895,366,546 |
| Net asset (equity) attributable to each unit: | | |
| Net assets (equity) attributable per unit (Saudi Riyals) before fair value adjustment | 8.92 | 9.28 |
| Net assets (equity) attributable per unit (Saudi Riyals) after fair value adjustment | 9.48 | 10.17 |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

12 NET INVESTMENT IN FINANCE LEASES

The Company has entered into finance lease agreements for certain investment properties across the Kingdom of Saudi Arabia. The lease tenure ranges from ten to twenty years, and the average rate applied for computation net investment in finance lease was 4.95%. Lease terms are negotiated on aggregate basis and contain the same terms and conditions. The lease agreements do not impose any covenants.

Net investment in finance leases consists of:

| | 2023 | 2022 |
|------------------------------------|----------------------|----------------------|
| Gross investment in finance leases | 314,294,229 | 334,727,768 |
| Less: Unearned finance income | <u>(103,617,169)</u> | <u>(114,782,370)</u> |
| | <u>210,677,060</u> | <u>219,945,398</u> |

The maturity analysis of investment in finance leases as at 31 December 2023 is as follows:

| | Less than one year | Two to five years | More than five years | Total |
|-------------------------|-----------------------|----------------------|-------------------------|----------------------|
| Gross lease receivables | 21,674,326 | 111,983,728 | 180,636,175 | 314,294,229 |
| Finance income | <u>(11,070,471)</u> | <u>(44,921,714)</u> | <u>(47,624,984)</u> | <u>(103,617,169)</u> |
| | <u>10,603,855</u> | <u>67,062,014</u> | <u>133,011,191</u> | <u>210,677,060</u> |

The maturity analysis of investment in finance lease as at 31 December 2022 is as follows:

| | Less than one year | Two to five years | More than five years | Total |
|-------------------------|-----------------------|----------------------|-------------------------|----------------------|
| Gross lease receivables | 20,822,533 | 101,396,000 | 212,509,235 | 334,727,768 |
| Finance income | <u>(11,048,135)</u> | <u>(43,473,230)</u> | <u>(60,261,005)</u> | <u>(114,782,370)</u> |
| | <u>9,774,398</u> | <u>57,922,770</u> | <u>152,248,230</u> | <u>219,945,398</u> |

Net investment in finance lease does not include any receivable balances which are either past due or impaired.

13 LEASE RENTAL RECEIVABLES

| | | 2023 | 2022 |
|--|------|---------------------|---------------------|
| Lease receivables: | Note | | |
| - Billed | | 45,931,944 | 35,273,665 |
| - Unbilled | | <u>7,274,521</u> | <u>3,757,566</u> |
| Total receivables | 13.1 | <u>53,206,465</u> | 39,031,231 |
| Less: allowance for expected credit losses | 13.2 | <u>(14,210,936)</u> | <u>(12,325,508)</u> |
| | | <u>38,995,529</u> | <u>26,705,723</u> |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

13 LEASE RENTAL RECEIVABLES

13.1 An aged analysis of lease receivables as at 31 December 2023 and 31 December 2022 is as follows:

| <u>2023</u> | <u>Neither past due nor impaired</u> | <u>< 180 days</u> | <u>181-270 days</u> | <u>270-365 days</u> | <u>> 365 days</u> | <u>Total</u> |
|---------------------|--|----------------------|---------------------|---------------------|----------------------|--------------|
| At 31 December 2023 | 7,274,521 | 12,101,695 | 5,937,670 | 7,737,104 | 20,155,475 | 53,206,465 |
| At 31 December 2022 | 3,757,566 | 12,700,930 | 2,526,684 | 12,958,236 | 7,087,815 | 39,031,231 |

In determination of the default risk and resulting expected credit loss allowance, the management has considered risk adjusting factors such as presence of guarantees and promissory notes issued by the counterparties in name of the Fund.

13.2 Movement in allowance for expected credit losses is as follows:

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|-------------------|-------------------|
| At the beginning of the year | 12,325,508 | 8,109,586 |
| Provision charged during the year | 1,885,428 | 5,050,770 |
| Written - off during the year | - | (834,848) |
| At the end of year | <u>14,210,936</u> | <u>12,325,508</u> |

Lease rental receivables include certain amounts that are past due but not impaired. Based on historical experience, it is expected that all receivables for lease contracts that have not been fully impaired will be collected. Further, the Fund also has other guarantees in the form of promissory notes issued by such parties.

14 INVESTMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2020, the Fund made an investment in Musharaka Murabahat and Sukuk Fund which is an open-ended investment fund, managed by Musharaka Capital Company. The Fund recognised this investment at fair value through profit or loss ("FVTPL"). For 2023, unrealized gain on such investment amounted to Saudi Riyals 0.15 million (31 December 2022: Saudi Riyals 0.03 million).

15 SHORT TERM MURABAHA DEPOSITS

Short-term Murabaha deposits represent amounts invested by the Fund in Murabaha deposits held with a local commercial bank, and have an original maturity of more than 3 months from the placement date with a profit rates ranging from 4.5% to 5.7% (31 December 2022: 4.5%) per annum. As at year end, accrued finance income on such deposits amounted to Saudi Riyals Nil, as all of the income was received, (31 December 2022: 0.3 million).

16 CASH AT BANKS

This represents cash held in current accounts at local commercial banks in the Kingdom of Saudi Arabia.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

17 BORROWINGS

| | <u>2023</u> | <u>2022</u> |
|-------------------------|---------------------------|--------------------|
| Long-term loans | 668,556,977 | 668,556,977 |
| Less: transaction costs | (6,836,188) | (11,118,552) |
| | <u>661,720,789</u> | <u>657,438,425</u> |

During the year 2018, the Fund entered into a Sharia-compliant bank facility, with Al Rajhi bank in the form of long-term loans to finance the acquisition of income generating assets. During 2021, the Fund negotiated an increase in the facility limit from Saudi Riyals 400 million to Saudi Riyals 1 billion. Such facility carries financial cost at SIBOR (6 months) plus a margin, which is commensurate with the market rate, and is repayable in a single lumpsum payment after seven years from the date of initial withdrawal. Financial cost is payable on a semi-annual basis.

During the year 2023, the Fund entered into another Sharia-compliant bank facility, with Bank Al Jazira, for a long-term loan with an overall limit of Saudi Riyals 1 billion to finance the acquisition of income generating assets and ongoing operations. This facility carries financial cost at SIBOR (6 months) plus a margin, which is commensurate with the market rate, and is repayable on a single lumpsum payment after seven years from the date of withdrawal. Financial cost is payable on a semi-annual basis.

Further, during the year the Fund has repaid Saudi Riyals 320.7 million to Al Rajhi bank from the total loan balance of Saudi Riyals 668.5 million. The unamortised transaction cost amounting to Saudi Riyals 1.9 million was written off as a result of such a repayment to Al Rajhi bank.

The above described loans are secured by a mortgage on certain investment properties. Also see Note 11.

18 LEASE LIABILITIES

| | <u>2023</u> | <u>2022</u> |
|-----------------------------------|---------------------------|--------------------|
| Gross lease liabilities | 170,261,283 | 183,026,283 |
| Less: finance charges not yet due | (37,672,163) | (43,607,177) |
| | <u>132,589,120</u> | <u>139,419,106</u> |
| | <u>2023</u> | <u>2022</u> |
| At 1 January | 139,419,106 | 142,220,187 |
| Addition | 1,263,023 | 2,907,007 |
| Finance cost for the year | 6,046,991 | 6,131,912 |
| Rent concession | (520,000) | (320,000) |
| Payments | (13,620,000) | (11,520,000) |
| At 31 December | <u>132,589,120</u> | <u>139,419,106</u> |

Lease liabilities represents present value of minimum lease payments for land lease. During the year ended 31 December 2023, the Fund received concession on one of the land parcels carried under lease arrangements for an amount of Saudi Riyals 520,000 (2022: Saudi Riyals 320,000) and has recognized this as other income.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

18 LEASE LIABILITIES (Continued)

The maturity analysis of lease liabilities as at 31 December 2023 is as follows:

| | Less than one year | Two to five years | More than five years | Total |
|--------------------------|-------------------------------|------------------------------|---------------------------------|---------------------|
| Gross lease liabilities | 20,367,000 | 55,952,703 | 93,941,580 | 170,261,283 |
| Finance cost not yet due | (5,665,555) | (18,494,990) | (13,511,618) | (37,672,163) |
| | 14,701,445 | 37,457,713 | 80,429,962 | 132,589,120 |

The maturity analysis of lease liabilities as at 31 December 2022 is as follows:

| | Less than one year | Two to five years | More than five years | Total |
|--------------------------|-------------------------------|------------------------------|---------------------------------|--------------|
| Gross lease liabilities | 14,986,735 | 52,888,000 | 115,151,548 | 183,026,283 |
| Finance cost not yet due | (6,334,077) | (19,949,074) | (17,324,026) | (43,607,177) |
| | 8,652,658 | 32,938,926 | 97,827,522 | 139,419,106 |

19 UNEARNED RENTAL REVENUE

This represent rental income received in advance or receivables in respect of operating leases of investment properties.

20 ACCRUED EXPENSES AND OTHER LIABILITIES

| | 2023 | 2022 |
|-------------------------------|-------------------|-------------|
| Accrued finance costs | 15,090,373 | 11,169,956 |
| Property operating expenses | 5,927,888 | 4,694,914 |
| Security deposits | 3,357,314 | 3,253,136 |
| Accrued expenses | 473,138 | 432,469 |
| Value added tax (VAT) payable | 206,198 | - |
| Other | 1,008,999 | 820,101 |
| | 26,063,910 | 20,370,576 |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

21 RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent the Fund Manager, Al-Inma Investment Company (Custodian), the unitholders, the Fund's Board and the Fund Sharia Committee. Related parties also include business entities in which Fund manager, or certain members of the senior management have an interest.

The following table represents details of transactions that have been entered into with the related parties:

a) Related parties transactions

| Related party | Nature of transaction with related party | 2023 | 2022 |
|----------------------|---|-------------------|-------------|
| Fund Manager | Management fees | 18,971,287 | 15,780,449 |
| | Commission on purchase of investment property | - | 2,350,000 |
| Fund Board | Board of Directors remunerations | 50,000 | 30,000 |
| Sharia Committee | Sharia Committee remunerations | 33,000 | 33,000 |
| Custodian | Custody fee | 100,000 | 100,000 |
| Units holder | Rental revenue | - | 8,580,822 |

The Fund Manager's investment in the Fund at 31 December 2023 is 4.64 million units (31 December 2022 is 4.64 million units)

b) Due to related parties

| Related party | 2023 | 2022 |
|--|-------------------|-------------|
| Fund Manager (accrued management fee) | 11,239,508 | 7,466,719 |
| Custodian (Accrued custody fee presented under accrued expenses) | 241,667 | 141,667 |
| | 11,481,175 | 7,608,386 |

The basis and term of payment as per terms and conditions of the Fund approved by CMA as follows:

| Type of fee | Basis and rate | Payment term |
|---------------------------------|--|---|
| Management fees | 1.2% of the total assets after deducting accrued fees and expenses | Every six (6) months |
| Board of Directors remuneration | Saudi Riyals 5,000 per meeting only payable to the independent members, maximum up to Saudi Riyals 80,000 per annum for all members. | After the meeting of the Board of Directors |
| Sharia Committee remuneration | Saudi Riyals 33,000 per annum | Every six (6) months |
| Custody fees | Saudi Riyals 100,000 per annum | Annually |
| Debt arrangement fees | Up to 1.5% of the arranged facility | Upon arrangement |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

22 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value and cash flow interest rate risks and price 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 Fund's financial performance.

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and controls financial risks in close co-operation with the Fund's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow interest rate risks.

The Board of Directors has overall responsibility for establishment and oversight of the Fund's risk management framework. The executive management team is responsible for developing and monitoring the Fund's risk management policies. The team regularly meets and any changes and compliance issues are reported to the Board of Directors.

Risk management systems are reviewed regularly by the executive management team to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees compliance by management with the Fund's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

Financial instruments carried on the statement of financial position include cash and cash equivalents, trade and other receivables, investments, borrowings, accounts payable and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial asset and liability are offset and net amounts reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Fair value and cash flow Interest rate risk

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flows. The Fund's interest rate risks arise mainly from its borrowings, which are at floating rate of interest and are subject to re-pricing on a regular basis. Management monitors the changes in interest rates. The interest rate profile of the Fund's interest-bearing financial instruments as reported to the management of the Fund is as follows:

If Saudi Interbank Offered Rate ("SIBOR") had been 1% higher or lower with all other variables held constant, the impact on the equity and profit before zakat for the year ended 31 December 2023 would have been Saudi Riyals 2.1 million (2022: Saudi Riyals 2.1 million).

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. The Fund is not exposed to currency risk as there are no transactions in currency other than Saudi Riyals during the year or balances as at reporting date.

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

22 FINANCIAL RISK MANAGEMENT (continued)**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund has no significant concentration of credit risk. To reduce exposure to credit risk the Fund has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Fund has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history. Outstanding customer receivables are regularly monitored.

The Fund's gross maximum exposure to credit risk at the reporting date is as follows:

| | 2023 | 2022 |
|--|--------------------|--------------------|
| Financial assets | | |
| Investments carried at fair value through profit or loss | 5,459,650 | 5,312,150 |
| Net investment in finance leases | 210,677,060 | 219,945,398 |
| Lease receivables | 38,995,529 | 26,705,723 |
| Short-term Murabaha deposits | 45,274,633 | 35,000,000 |
| Cash at banks | 8,377,682 | 31,486,197 |
| | 308,784,554 | 318,449,468 |

Provisioning policy

The Fund allocates each exposure to a credit risk grade-based credit risk characteristic and the days past due. The expected loss rates are based on the payment profiles of the customers on due dates. The loss allowances is measured on lifetime ECLs: ECLs result from all possible default events over the expected life of a financial instrument.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from 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.

| 2023 | Carrying amount | Total | Contractual cash flows | | |
|---|--------------------|--------------------|------------------------|--------------------|--------------------|
| | | | Less than 1 year | 1 year to 5 years | More than 5 years |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Borrowings | 661,720,789 | 668,556,977 | - | 93,114,500 | 575,442,477 |
| Lease liabilities | 132,589,120 | 170,149,306 | 20,367,000 | 55,952,703 | 93,829,603 |
| Unearned rental revenue | 17,575,536 | 17,575,536 | 17,575,536 | - | - |
| Accrued fund management fees | 11,239,508 | 11,239,508 | 11,239,508 | - | - |
| Accrued expenses and other liabilities | 26,063,910 | 26,063,910 | 26,063,910 | - | - |
| | 849,188,863 | 893,585,237 | 75,245,954 | 149,067,203 | 669,272,080 |

MUSHARAKA REIT FUND

(Managed by Musharaka Capital Company)

Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

22 FINANCIAL RISK MANAGEMENT (continued)

| 2022 | Carrying amount | Total | Contractual cash flows | | |
|---|--------------------|--------------------|------------------------|--------------------|--------------------|
| | | | Less than 1 year | 1 year to 5 years | More than 5 years |
| <i>Non-derivative financial liabilities</i> | | | | | |
| Borrowings | 657,438,425 | 668,556,977 | - | 311,472,230 | 357,084,747 |
| Lease liabilities | 139,419,106 | 183,026,283 | 14,986,735 | 52,888,000 | 115,151,548 |
| Unearned rental revenue | 15,595,152 | 15,595,152 | 15,595,152 | - | - |
| Accrued fund management fees | 7,466,719 | 7,466,719 | 7,466,719 | - | - |
| Accrued expenses and other liabilities | 20,370,576 | 20,370,576 | 20,370,576 | - | - |
| | <u>840,289,978</u> | <u>895,015,707</u> | <u>58,419,182</u> | <u>364,360,230</u> | <u>472,236,295</u> |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount. Non-financial assets such as investment properties have expected maturity of more than one year.

Capital risk management

The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

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

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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

- Level 1 – quoted (unadjusted) market price in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

MUSHARAKA REIT FUND

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Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

22 FINANCIAL RISK MANAGEMENT (continued)**Fair value of assets and liabilities (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.

| | As at 31 December 2023 | | | | | | |
|--|------------------------|-----------------------|--------------------|-------------------|----------------|----------------|------------------|
| | Carrying Amount | | | Fair value | | | |
| | Fair value | Amortized cost | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | | | |
| Investments at fair value through profit or loss | 5,459,650 | - | 5,459,650 | 5,459,650 | - | - | 5,459,650 |
| Lease rental receivables | - | 38,995,529 | 38,995,529 | - | - | - | - |
| Prepayments and other assets | - | 2,521,940 | 2,521,940 | - | - | - | - |
| Short-term Murabaha deposits | - | 45,274,633 | 45,274,633 | - | - | - | - |
| Cash at banks | - | 8,377,682 | 8,377,682 | - | - | - | - |
| | 5,459,650 | 95,169,784 | 100,629,434 | 5,459,650 | - | - | 5,459,650 |
| Financial liabilities | | | | | | | |
| Borrowings | - | 661,720,789 | 661,720,789 | - | - | - | - |
| Lease liabilities | - | 132,589,120 | 132,589,120 | - | - | - | - |
| Unearned rental revenue | - | 17,575,536 | 17,575,536 | - | - | - | - |
| Accrued fund management fees | - | 11,239,508 | 11,239,508 | - | - | - | - |
| Accrued expenses and other liabilities | - | 26,063,910 | 26,063,910 | - | - | - | - |
| | - | 849,188,863 | 849,188,863 | - | - | - | - |
| As at 31 December 2022 | | | | | | | |
| | Carrying Amount | | | Fair value | | | |
| | Fair value | Amortized cost | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | | | |
| Investments at fair value through profit or loss | 5,312,150 | - | 5,312,150 | 5,312,150 | - | - | 5,312,150 |
| Net investment in finance leases | - | 219,945,398 | 219,945,398 | - | - | - | - |
| Lease rental receivables | - | 26,705,723 | 26,705,723 | - | - | - | - |
| Prepayments and other assets | - | 3,718,823 | 3,718,823 | - | - | - | - |
| Short-term Murabaha deposit | - | 35,000,000 | 35,000,000 | - | - | - | - |
| Cash at banks | - | 31,486,197 | 31,486,197 | - | - | - | - |
| | 5,312,150 | 316,856,141 | 322,168,291 | 5,312,150 | - | - | 5,312,150 |

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Notes to the financial statements for the year ended 31 December 2023 (continued)

(All amounts in Saudi Riyals unless otherwise stated)

22 FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities (continued)

| | As at 31 December 2022 | | | | | | |
|--|------------------------|----------------|-------------|------------|---------|---------|-------|
| | Carrying Amount | | | Fair value | | | |
| | Fair value | Amortized cost | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial liabilities | | | | | | | |
| Borrowings | - | 657,438,425 | 657,438,425 | - | - | - | - |
| Lease liabilities | - | 139,419,106 | 139,419,106 | - | - | - | - |
| Unearned rental revenue | - | 15,595,152 | 15,595,152 | - | - | - | - |
| Accrued fund management fees | - | 7,466,719 | 7,466,719 | - | - | - | - |
| Accrued expenses and other liabilities | - | 20,370,576 | 20,370,576 | - | - | - | - |
| | - | 840,289,978 | 840,289,978 | - | - | - | - |

Measurement of fair values

The valuation of public traded investment classified under level 1 is based upon the closing market price of that security as of the valuation date, less a discount if the security is restricted. The fair value of level 2 fixed-income investment and funds are taken from reliable and third-party sources. Fair values of other investments classified in Level 3 are, where applicable, determined based on discounted cash flows.

23 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

Non-current portion of net investment in finance leases (Note 12), long term loan and non-current portion of lease liabilities (Note 17 and 18) are expected to be realized after twelve (12) months from the reporting date. All other financial assets and liabilities are of a current nature.

24 DIVIDENDS

During 2023, the Fund paid dividends of Saudi Riyals 23.7 million (2022: Saudi Riyals 52.8 million). As per the terms and conditions of the Fund, it aims to distribute cash dividend, at least once annually, not less than 90% of the net profit.

25 SUPPLEMENTAL NON-CASH ACTIVITIES

| | | 2023 | 2022 |
|--|-------------|------------------|-----------|
| | Note | | |
| Amortization of loan arrangement fee | 9 | 2,377,900 | 2,633,765 |
| Loan arrangement fee written off | 9 | 1,904,464 | - |
| Additions to right-of-use assets and lease liabilities | 11, 18 | 1,263,023 | 2,907,007 |

26 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 27 March 2023 (corresponding to 17 Ramadan, 1445H).