

AL Rajhi REIT Fund Annual Report 2018



Al Rajhi Capital

King Fahad Road

PO Box 5561

Riyadh 11432

Kingdom of Saudi Arabia

T: (+966) 11 211 9292

F: (+966) 11 211 9299

www.alrajhi-capital.com

Al Rajhi Capital is a Saudi Closed Joint Stock Company (Commercial Registration: 1010241681) with a paid-up capital of SAR 500 million, and regulated by Saudi Arabia's Capital Market Authority (License number: 37-07068). The Company provides asset management, brokerage and investment banking services under the CMA-licensed activities of: Dealing as a Principal, Agent and Underwriter, and Managing Investment Funds and Discretionary Portfolios, in addition to Arranging, Advising and Custody.

Name & Address of Fund Manager

Al Rajhi Capital Company
King Fahad Road
P.O. Box 5561, Riyadh 11432
Telephone: +966 (11) 211 9292
Fax: +966 (11) 211 9299
Kingdom of Saudi Arabia
Website: www.alrajhi-capital.com
Commercial Registration No. 1010241681
CMA License Number 07068/37

Name & Address of Custodian

KASB Capital
P.O. Box 395737, Riyadh 11375
Telephone: +966(11) 279 5222
Kingdom of Saudi Arabia

Name & Address of Auditor

PKF Al-Bassam & Al-Nemer Allied Accountants
P.O. Box 696587, Riyadh 11557
Telephone: +966(11) 206 5333
Kingdom of Saudi Arabia

About Al Rajhi REIT Fund

Al Rajhi REIT Fund (the 'REIT') is a closed-ended Shariah-compliant real estate investment traded fund. The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Instructions issued by the CMA. The primary investment objective of the REIT is to provide Unitholders with current income by investing in income producing real estate assets in Saudi Arabia. The Fund Manager is targeting to distribute to Unitholders an annual cash dividend of no less than 90% of the REIT's Net Profits. It is expected that the amount of such annual dividend will increase over the REIT's term as the number of income-producing properties in the REIT's portfolio increases. For more information on the investment risks involved in the fund, please read the Fund Terms & Conditions

A Review of the Investment Activities During the Year 2018

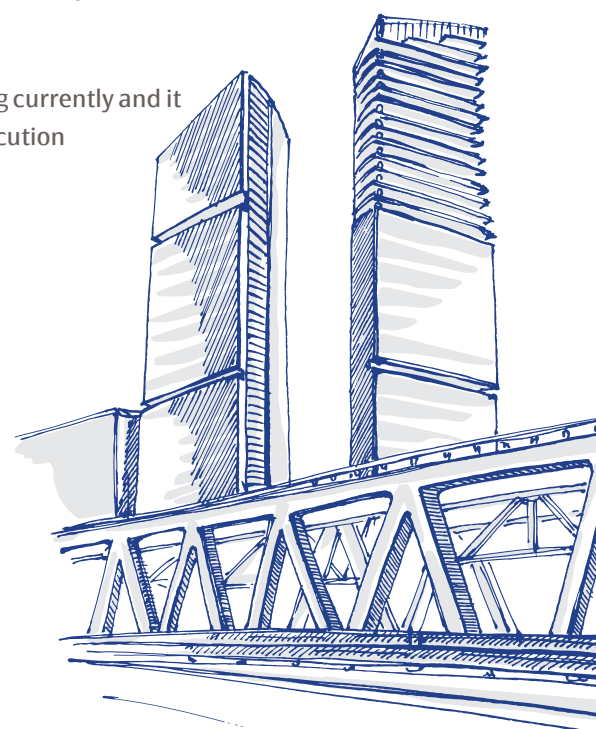
The REIT was listed on 20th March 2018. At the time of listing, the size of REIT was SAR 1.62 billion and it had 13 income generating assets spread across 4 cities in the Kingdom of Saudi Arabia i.e. Riyadh, Jeddah, Al Khobar and Khamis Mushait. The property portfolio is well diversified across various sectors like Retail, Education, Logistics and Commercial offices.

The REIT paid a dividend of SAR 0.174 per unit amounting to SAR 21,242,149 for the period of 20th March 2018 to 30th June 2018. The payout was done on 31st July 2018. The dividend was in line with its targeted annual yield projection of 6.16% per annum.

During the year, the REIT secured a SAR 500 million shariah-compliant financing facility from Al Rajhi Bank. The facility agreement was signed on 1st Oct 2018. The term of the facility is for 7 years with quarterly payment of profit and bullet principal repayment at the end of the contract. This financing shall be used to fund the acquisition of various income generating real estate assets by the REIT. The financing is secured by way of mortgage on existing assets of the REIT.

The REIT acquired a new property called Lulu Central Logistics. The transaction was completed on 31/10/2018. The purchase price was SR 52.250 million, which was funded through the available shariah compliant debt facility for Al Rajhi REIT. Lulu Central Logistics is purpose built high specification warehouse facility and is located at Al Kharj Road, Industrial Gate City, Riyadh. It has a land area of 23,716.29 sq.mtrs and a built up area of 16,500 sq. mtrs. The property has a dry warehouse that is automated with state of the art fittings and fixture and also has a cold storage facility and repacking unit within it. The Property is fully leased to Lulu Saudi Hypermarkets LLC, with an annual rent payment of SAR 3.795 million. The annual rent will be increased by 12 % (twelve percent) every five years. The current lease with Lulu Saudi Hypermarkets LLC is for a term of 15 years starting from 16th Dec 2016. This acquisition is expected to have a positive impact on Al Rajhi REIT's financial performance going forward.

The Fund Manager has a robust pipeline of deals that it is evaluating currently and it is expected that 2019 would see robust activity in terms of deal execution and enhancement in distributions from the REIT.



Name & Address of Fund Manager

(Figures in SAR)

Particulars	FY 2018*	H1 2018**
Total Assets	1,740,371,858	1,687,901,358
Net asset value	1,250,411,446	1,242,377,680
Issued units	122,200,609	122,200,609
Net asset value per unit (At cost)	10.23	10.17
Net asset value per unit(Fair Market Value)	10.09	9.39
Distribution of income per unit	0.484***	0.174
Total operating income	92,099,709	37,244,205
Total net income	49,647,505	20,371,590
Funds from operations	63,395,305	25,871,682
Borrowing	456,913,600	399,906,600
Borrowing as a percentage of total assets	26.25 %	23.69%
Total expense ratio	0.85%	0.34%
Net income per unit	0.46	0.16
Highest NAV per unit	10.23	10.17
Lowest NAV per unit	10.17	-

*since date of listing 20/03/2018 to 31/12/2018; 1st year of operation

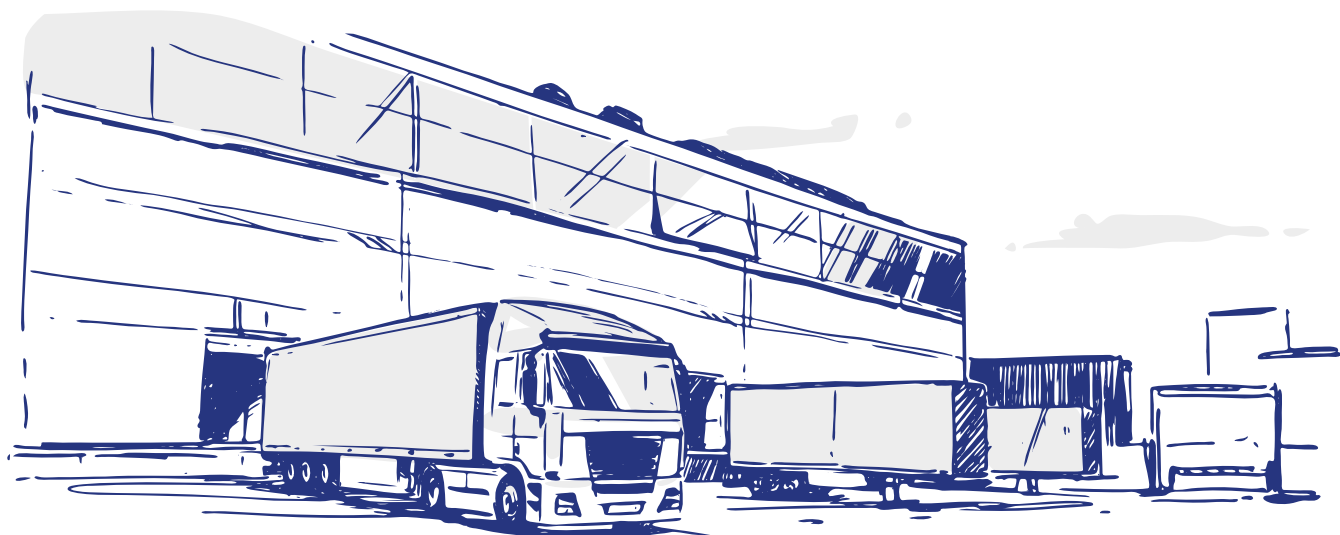
** since date of listing 20/03/2018 to 30/06/2018

*** Dividend of 0.311 per unit declared on 12th Feb 2019 for period 1st July 2018 to 31st Dec 2018

Fund Performance

Particulars	1 year	3 years	5 years	Since inception*
Based on Net asset value per unit	N.A	N.A	N.A	2.3%
Based on Market value per unit	N.A	N.A	N.A	0.9%

*since date of listing 20/03/2018 to 31/12/2018; 1st year of operation



Annual Returns

Particulars	2018*	2017	Since inception*
Based on Net asset value per unit	2.3%	N.A	2.3%
Based on Market value per unit	0.9%	N.A	0.9%

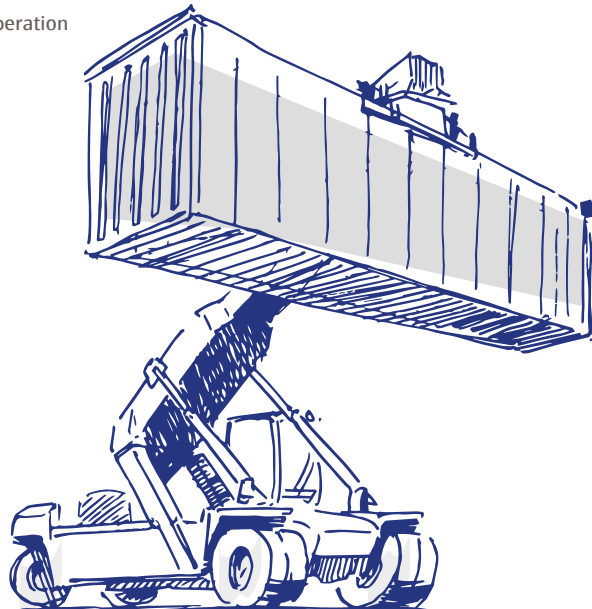
*since date of listing 20.03.2018 to 31.12.2018; 1st year of operation

Details of fees and expenses paid to third parties

Particulars	FY 2018*	H1 2018**
Fund management fee	9,809,233	3,639,571
Custodian fee	90,959	40,548
Audit fee	30,000	15,000
Property related expense	3,211,359	1,034,689
Establishment fee	579,025	560,689
Other fee	1,100,823	366,239
Total expenses excluding profit payment and depreciation charges	14,821,399	5,656,736
Profit payment against the borrowing	13,883,005	5,715,787
Depreciation charges	13,747,800	5,500,092
Total expenses including profit payment and depreciation charges	42,452,204	16,872,615
Total expenses excluding profit payment and depreciation charges as a percentage of total assets	0.85%	0.34%
Total expenses including profit payment and depreciation charges as a percentage of total assets	2.43%	1.00%

*since date of listing 20/03/2018 to 31/12/2018; 1st year of operation

** since date of listing 20/03/2018 to 30/06/2018



Summary of Fund Board Meetings and Resolutions Approved During the Year 2018

The Fund Board met 2 times during the year and discussed the following topics:-

- Update on real estate market
- Discussion on REIT's performance
- Discussion on deal pipeline and various matter related to deal due-diligence
- Appointment of new director
- Update on compliance disclosures
- Update on periodic valuations of the properties
- Disclosures about conflict of interest, if any

Following is the list of resolutions that were approved by Fund Board during the year 2018:

Resolution Date	Particulars
18 th January 2018	Approval of terms & conditions of the REIT, appointment of auditor, legal advisor and custodian of the REIT. Acceptance of in-kind subscriptions into REIT from Al Rajhi Real Estate Income Fund and Al Rajhi GCC Real Estate Fund. Acceptance of debt obligations of Al Rajhi Real Estate Income Fund. Approval for Acquisition of Blue Tower and Luluah warehouse
28 th March 2018	Disclosures of conflict of interest. Appointment of Al Rajhi Capital personnel as authorized persons to access Tadawul reporting systems. Approval to reimburse the related party loan from ARC to REIT. Approval to recognize Gulf Fund Company for Development and Real Estate Investment as an SPV of REIT. Ratification of appointment of OPM as property manager for Al Andalus building. Disclosure related to discrepancy in the land area of Luluah Warehouse and follow up action of notifying CMA and amendment of terms and conditions to reflect the correct land area of the property. Adoption of policy & procedures of real estate department of the Fund Manager. Appointment of Mr. Ahmed Al Mohsen as Director of Al Rajhi REIT Fund.
16 th April 2018	Appointment of evaluators for valuation of properties held by Al Rajhi REIT Fund for period ending 30 th June 2018.
2 nd May 2018	Appointment of sub-administrator – Apex Fund Services
10 th June 2018	Development of bus station in front of Lulu Hypermarket, Khurais Road
11 th July 2018	Approval of distribution of cash dividends for period ending 30 th June 2018
11 th July 2018	Amendment of terms and condition to remove the name of Abdulkareem Bawardy, who resigned as Director. Appointment of Olat Development Compay as property manager for Jarir Building, Al Ahsa Street, Riyadh. Change of timeline for payment of semi-annual distribution (from every January and July to February and August in each year).
19 th July 2018	Approval of interim unaudited financial statement for period ending 30 th June 2018
16 th September 2018	Appointment of Mr. Tarik Al Sugair as non-independent Director
20 th September 2018	Appointment of various service providers in connection with acquisition of warehouse located in industrial city (al Musfah district), Riyadh
20 th September 2018	Approval to avail debt facility from Al Rajhi Bank
20 th September 2018	Approval to acquire warehouse located in industrial city (al Musfah district), Riyadh
11 th November 2018	Mr. Meshel Alshenaifi was approved to be appointed as an independent director on 11 th November 2018
5 th December 2018	Appointment of Olat, Barcode & Valustrat for valuation of properties held by Al Rajhi REIT Fund for period ending 31 st December 2018.
17 th December 2018	Approval of resignation of Mr. Khaled Al Bassam. Approval to conduct valuation and technical DD on one of the asset.
27 th December 2018	Appointment of White Cubes for valuation of two properties held by Al Rajhi REIT Fund for period ending 31 st December 2018.

Material Changes

- Mr. Ahmed Mohsen was approved to be appointed as non-independent director on 22th April 2018
- Mr. Abdulkareem Bawardy resigned as non-independent director on 7th June 2018
- Mr. Tarik Al Sugair was approved to be appointed as non-independent director on 31st October 2018
- The debt facility agreement signed with Al Rajhi Bank on 01st October 2018
- Acquisition of new property i.e. Lulu Central Logistics Warehouse on 31st October 2018
- Mr. Meshel Alshenaifi was approved to be appointed as an independent director on 4th December 2018
- Mr. Khaled Al Bassam resigned as independent director on 17th December 2018

Soft Commissions (if any)

Fund Manager did not receive any soft commissions during financial year 2018.

Portfolio Highlights

The weighted average occupancy of REIT's property portfolio is 98.42%

Location	No. of Properties
Khamis Mushait	1
Al Khobar	1
Jeddah	4
Riyadh	8
Grand Total	14

Location	% of Market Value
Khamis Mushait	2.6
Al Khobar	14.4
Jeddah	30.3
Riyadh	52.6
Grand Total	100

Sector	% of Gross Income
Retail	49.1
Office	28.5
Logistic	12.9
Education	9.5
Grand Total	100

Sector	% of Market Value
Retail	51.1
Office	25.6
Logistic	14.7
Education	8.5
Grand Total	100



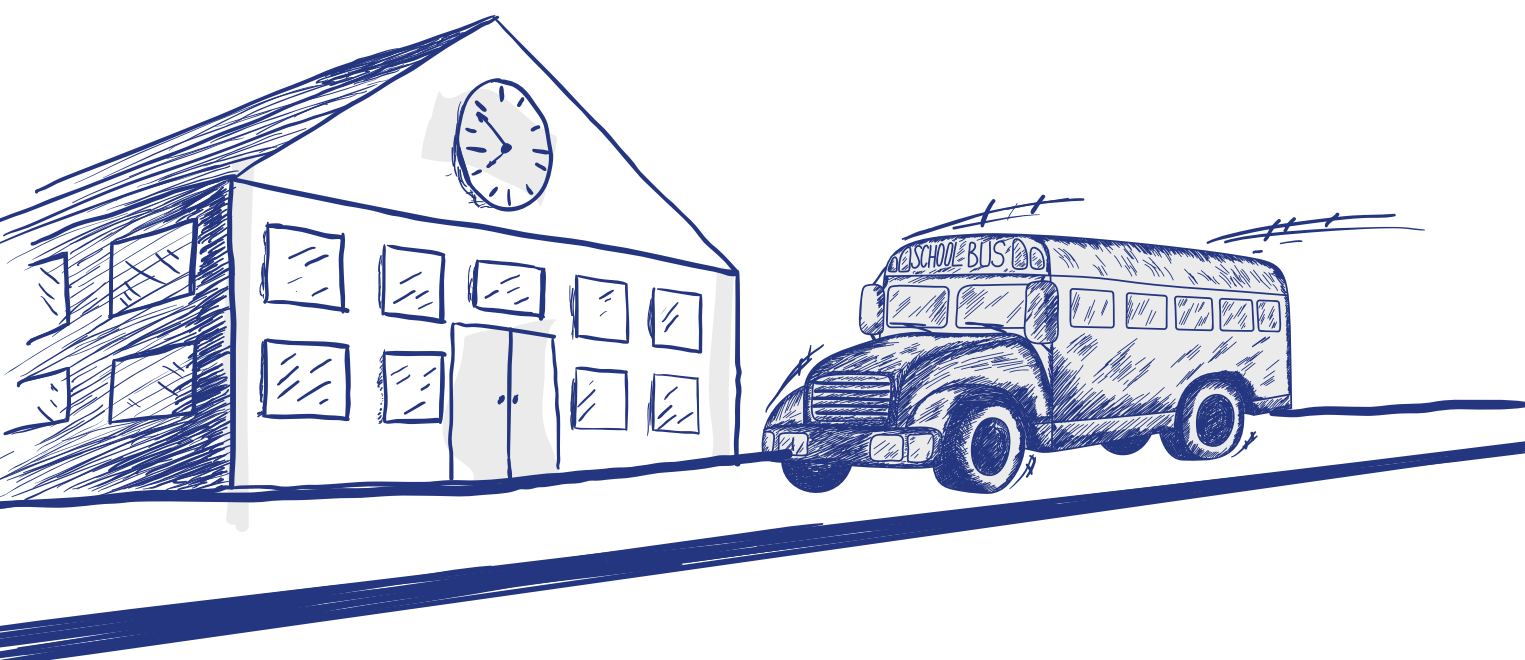
Property Portfolio

Name	Lulu Hypermarket
Asset Class	Retail
City	Riyadh
Land Size (Sqm)	19,428
Built up area (Sqm)	37,539.36
Acquisition Cost (SAR)	225,634,585
Master Lessee	AL Mutlaq
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	25-Apr-29

Name	Anwar Plaza
Asset Class	Retail
City	Riyadh
Land Size (Sqm)	9,981.76
Built up area (Sqm)	4,812.42
Acquisition Cost (SAR)	62,245,967
Master Lessee	Fouzan Trading Co.
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	3-Mar-25

Name	Narjees Plaza
Asset Class	Retail
City	Riyadh
Land Size (Sqm)	9,000
Built up area (Sqm)	5,697.6
Acquisition Cost (SAR)	61,289,083
Master Lessee	Fouzan Trading Co.
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	3-Mar-25

Name	Rama Plaza
Asset Class	Retail
City	Riyadh
Land Size (Sqm)	15,600
Built up area (Sqm)	9,822.42
Acquisition Cost (SAR)	69,403,268
Master Lessee	Fouzan Trading Co.
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	3-Mar-25



Property Portfolio

Name	Jarir Building
Asset Class	Retail
City	Riyadh
Land Size (Sqm)	4,953
Built up area (Sqm)	9,162
Acquisition Cost (SAR)	72,178,814
Master Lessee	N.A
Lease Type	Multi-tenancy
Occupancy	100%
Lease Expiry	N.A

Name	Panda – Khamis Mushait
Asset Class	Retail
City	Khamis Mushait
Land Size (Sqm)	19,000
Built up area (Sqm)	5,456.27
Acquisition Cost (SAR)	47,993,565
Master Lessee	Panda
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	22-Mar-29

Name	Faris International School
Asset Class	Education
City	Riyadh
Land Size (Sqm)	16,500
Built up area (Sqm)	36,835
Acquisition Cost (SAR)	132,826,263
Master Lessee	Faris International School
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	27-Jun-26

Name	Panda – Marwa
Asset Class	Retail
City	Jeddah
Land Size (Sqm)	38,641
Built up area (Sqm)	15,247.72
Acquisition Cost (SAR)	217,604,099
Master Lessee	Panda
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	10-Nov-28

Property Portfolio

Name	Panda – Al Rowda
Asset Class	Retail
City	Jeddah
Land Size (Sqm)	9,929.79
Built up area (Sqm)	3,300.4
Acquisition Cost (SAR)	67,443,000
Master Lessee	Panda
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	25-Feb-29

Name	Al Andalus Tower
Asset Class	Office+Showrooms
City	Jeddah
Land Size (Sqm)	9,565.85
Built up area (Sqm)	33,426.34
Acquisition Cost (SAR)	190,000,000.00
Master Lessee	N.A
Lease Type	Multi-tenancy
Occupancy	82%
Lease Expiry	N.A

Name	Lulu'ah Warehouse
Asset Class	Logistics
City	Riyadh
Land Size (Sqm)	94,908.60
Built up area (Sqm)	80,359.08
Acquisition Cost (SAR)	198,701,300
Master Lessee	Rawaj Real Estate Company
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	5-Mar-23

Name	Panda – Madein Al Fahd
Asset Class	Retail
City	Jeddah
Land Size (Sqm)	11,873.92
Built up area (Sqm)	3,838
Acquisition Cost (SAR)	48,592,750
Master Lessee	Panda
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	2-Sep-29

Name	Blue Tower
Asset Class	Office+Showrooms
City	Al Khobhar
Land Size (Sqm)	5,464.00
Built up area (Sqm)	33,591.91
Acquisition Cost (SAR)	227,000,000.00
Master Lessee	Rawaj Real Estate Company
Lease Type	Triple Net Lease (100%)
Occupancy	100%
Lease Expiry	10-Mar-23

Name	Lulu Central Logistics Warehouse
Asset Class	Logistics
City	Riyadh
Land Size (Sqm)	23,716.29
Built up area (Sqm)	16,500
Acquisition Cost (SAR)	52,250,000
Master Lessee	Lulu Hypermarkets LLC
Lease Type	Triple Net Lease
Occupancy	100%
Lease Expiry	16-Dec-31

Risk Assessment Report

Name of the Fund	Al Rajhi REIT Fund
Type	Close ended – REIT Fund listed on Tadawul Stock Exchange
Objective	Provide investors with regular income that is distributed semi-annually and a strong potential for capital growth through investment in income-generating real estate assets.
Tenure	99 years
Risk Level	Medium to High

Key Risk	Description	Mitigation
Market Risk	Risk of adverse changes in the economic conditions like demand supply imbalance, poor liquidity, insufficient credit availability etc. that may have a negative impact on property values	Evaluating properties on semi-annual basis to understand the market conditions and take necessary actions to protect the value of property.
Credit Risk	The failure of tenants to pay any contractual dues to the fund on time may result in a lower income of the fund and ultimately affect the earnings of the unitholders.	For new tenants: Credit analysis/ assessment by property manager of tenants before they are on-boarded. For existing tenants, regular monitoring of outstanding dues and follow up with tenants for payments.
Liquidity Risk	<ol style="list-style-type: none"> 1. Inability to convert assets into cash without a loss of capital or income in the process. 2. Inability to service the debts of the fund 	<ol style="list-style-type: none"> 1. Any sale of asset shall be planned through a proper sale process keeping market conditions in mind. Currently there are no plans to sell any assets 2. Debt Service Coverage Ratio of more than 6.00 provides adequate comfort on ability to service debt
Interest Rate Risk	Risk of increase in profit payments due to increase in interest rate volatility impacting the fund's net income	87.5% of total loan amount has fixed profit rate. Thereby significantly reducing the interest rate risk. Balance 12.5% amount has variable profit rate is exposed to interest rate volatility.
Regulatory Risk	Risk of not fulfilling legal and regulatory risks as applicable to the fund	The fund follows all governance and regulatory regulations. The company's governance and compliance department has an oversight on the fund Management activity.

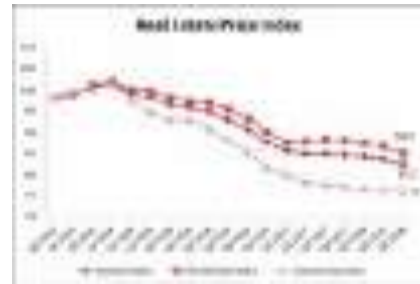
Risk Assessment Report

Concentration Risk	Excessive concentration of real estate type or sector or geographic location	The fund has a well-diversified portfolio in terms of sector and location. The Fund Manager shall strive to achieve further diversification by adding diverse properties in the portfolio
Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends, tax laws and other factors can affect the fund's prospects	Regular monitoring of macro-economic conditions and regulatory trends in laws is carried out. Proactive steps to be taken to mitigate or minimize the impact as much as possible
Financing Risk	Inability to get the financing for the fund and thereby not able to achieve the desired leverage levels (subject to maximum cap of 50% of total asset value)	The fund has track record of securing the financing and is current on its debt service thereby maintaining good track record. The financing will be availed by mortgage of assets. The current LTV is 26.3% of total asset value and the fund has further scope to add leverage up to maximum cap permitted under the regulation
Occupancy Risk	Risk of fall in occupancy levels of the properties and thereby impacting the rental income of the fund	Out of 14 properties, 12 are leased on triple net basis (except the cost of insurance for Al Fares international school property will be borne by the fund) therefore occupancy is 100%. Remaining 2 properties that are multi-tenanted are managed through property manager who is entrusted with leasing the vacant premises as soon as possible ensuring maximum occupancy levels in these properties. There is provision of advance notice of 3 months by either party before terminating the contract. During this period alternative arrangement can be made

Risk Assessment Report

Property Manager Risk	Risk of early termination of the property manager contract may impact the operations of the properties that it manages	Provision of advance notice of 3 months by either party before terminating the services. During this period alternative arrangement can be made.
Lease Renewal Risk	Risk of non-renewal of existing leases or renewal at lower than current lease rate may impact the rental income of the fund	Provision of advance notice by tenants before terminating the services. During notice period alternative tenant can be searched. In some cases, the Fund Manager may accept the renewal of lease as per prevailing market conditions. Any significant impact arising due to such renewals shall be disclosed to the market.
Increase in cost of managing properties	Risk of escalations in cost of managing properties on account of various reasons for example, increase in utilities charges, un-anticipated expenses, municipality regulations, natural calamities etc.	Out of 14 properties, 12 are leased on triple net basis (except the cost of insurance for Al Fares international school property will be borne by the fund) therefore master lessee is responsible for operating expenses of properties. For 2 assets that are multi-tenanted, property manager shall strive to maintain the current run rate of operating expense by efficient management.
Structural Damage Risk	Any adverse event leading to structural damage to properties owned by the fund thereby risking the income generating potential from such properties may have negative impact on income profile of the fund	<ol style="list-style-type: none"> 1. For Triple Net Leased properties: Annual inspection by Fund Manager / disclosure from master lessee 2. For Multi tenanted properties: Preventative maintenance on regular intervals

Saudi Arabia's real estate sector has been under pressure since 2014. The Real Estate Price Index, as published by the General Authority of Statistics, dropped 17.7% from the beginning of the 2014 to a level of 82.3 as of Q3 2018. Meanwhile, residential price index dropped 15.1% to level of 84.9, while commercial price index registered a decline of 24% since the start of 2014.



The total real estate transaction value during the Hijri year 1439 was SAR 172.01 Billion*, 15% lower than transaction value of SAR 203.1 Billion during Hijri year 1438. However a close look at the index movement reveals that pace of decline in index levels has moderated since Q1 2017. The Kingdom, which is going through a massive economic overhaul, is planning to double the contribution of the real estate sector to national Gross Domestic Product to 10% under its 2020 National Transformation Program. In order to achieve this target, the Government has introduced a series of reforms to boost the real estate sector. These are:

- Imposition of white land tax and announcement of large housing schemes that are targeted at addressing the shortage of residential units in the Kingdom and spurring growth in residential real estate.
- Increase in loan to value ratio to 90% for first time home owners; aimed at bolstering the residential property market.
- Promoting religious tourism: Under Vision 2030, the Kingdom aims to more than double its foreign Umrah visitors from 8mn in 2015 to more than 15mn per year in 2022** by increasing its capacity. Ongoing major projects will act as catalyst and will continue with the construction of the North Haram Development in Makkah and the Dar Al Hijrah City in Madinah, set for completion in Q3 2020 and Q2 2019 respectively.
- Announcement of smart cities like NEOM and King Abdullah Economic City would drive demand for high-quality commercial spaces, while Red Sea Project would increase tourist flow, positively impacting hospitality real estate.
- Launch of Sakani program for affordable housing
- Government has introduced broader reforms in entertainment activities. This could help an increase in entertainment offerings and will revive footfalls in shopping malls, which would drive demand for retail real estate.
- Setting up of 11 billion-riyal sukuk program by Saudi Real Estate Refinance Company, a fully owned subsidiary of Saudi Arabia's sovereign wealth fund PIF aimed at increasing liquidity in the kingdom's mortgage market.



Coupled with above reforms, the government announced a progressive and expansionary budget for 2019, intended at boosting economic growth and diversifying the country from an oil-based economy. Saudi Arabia's 2019 Preliminary Budget Report indicates a continued focus on fiscal stimulus driven by an increase in budgeted government expenditure to SAR 1.1 trillion, which together with new plans to support the private sector, should help accelerate future economic growth and diversification.

As the reforms begin to materialize and oil prices remain healthy, the economy is anticipated to expand 2.2% in 2018 and 2.4 % in 2019, according to the IMF's estimates. We believe much of the real estate sector woes are behind, and we remain largely positive on KSA's real estate.

Source: * <https://www.argaam.com/en/article/articledetail/id/569999>

**<http://english.alarabiya.net/en/News/gulf/2018/09/03/Hajj-ministry-begins-planning-for-2030-season-to-target-30-million-pilgrims.html>

Al Rajhi REIT's Investment Strategy:

Al Rajhi REIT's core investment strategy going forward would be to:

1. Increase REIT's rental income and net yield by acquiring quality assets at reasonable price.
2. Minimizing income risk by dealing with good quality counterparties, long term contracts, and securing rental guarantees. Al Rajhi REIT has a shariah compliant facility of SAR 500 mn available for funding new acquisitions and enhance the property portfolio.

The sectoral strategy is described below:

Sector	Strategy
Development	Engage in Built to Suit development along with a partner who is sector operating leader and provides a guaranteed offtake of completed asset for long term. The Preferable sectors would be Education, Logistics sectors for such development assets
Residential	Acquire good quality custom built compounds with long term anchor tenants. We prefer triple net lease structure with master lessee
Office	Acquire newly built Grade A & B and Boutique office buildings We prefer triple net lease with a master lessee or key tenant contribution to be significant. Average rental contribution of an anchor blue chip tenant should be at least 50% of total rental income from the asset
Retail Malls	We will target selective attractive opportunities
Logistics	Acquire custom built high specification facility leased to reputed companies on long term basis.

Apart from new acquisition, the Fund Manager shall also focus on efficient management of the REIT's existing portfolio. We recognize the importance of productive tenant relationships, viewing our counterparties as partners. Our approach shall be to have a win-win proposition with our tenants and maintain the properties with help of professional property managers by conducting timely upkeep and maintenance. This not only optimizes rental rates but also increases tenant retention. As the portfolio grows, efficient asset management will be the prime focus of the REIT's strategy.

AL RAJHI REIT FUND
A Real Estate Investments Traded Fund
(MANAGED BY AL RAJHI CAPITAL)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S
REPORT**

FOR THE PERIOD ENDED 31 DECEMBER 2018

INDEPENDENT AUDITOR'S REPORT

**TO THE UNITHOLDERS
AL RAJHI REIT FUND
MANAGED BY AL RAJHI CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

Opinion

We have audited the accompanying financial statements of Al Rajhi REIT Fund ("the Fund"), being managed by Al Rajhi Capital (the "Fund Manager"), which comprise of the statement of assets and liabilities as at 31 December 2018 and the related statements of comprehensive income, changes in net assets attributable to the unitholders and cash flows for the period from 20 March 2018 to 31 December 2018 and the notes to the financial statements, comprising of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements taken as a whole, present fairly, in all material respects, the position of asset and liabilities of the Fund as at 31 December 2018 and its financial performance and cash flows for the period from 20 March 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia.

Basis for Opinion

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

Key Audit Matters

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

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 59658 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Al Khobar
Tel: +966 13 893 3378
Fax: +966 13 893 3349
P.O. Box 4836 Al Khobar 31952

Buraydah
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 59658 Al Riyadh 11557

Madinah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Info: info.sa@pkf.com

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS
AL RAJHI REIT FUND
MANAGED BY AL RAJHI CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>Al Rajhi REIT Fund owns a portfolio of investment properties comprising of commercial building located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any impairment losses.</p> <p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the fund's investment properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.</p>	<p>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> - We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - We Obtained two valuation reports from different/ independent real estate evaluators for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be higher than the carrying amount of the same except for certain properties, which had an immaterial impairment impact and thus not recorded by the Fund's management. - We reconciled the average fair value of the investment properties as per note 9 to the external valuers' reports.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**TO THE UNITHOLDERS
AL RAJHI REIT FUND
MANAGED BY AL RAJHI CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA**

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

Funds' Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing "ISA" that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

Al Khobar
Tel: +966 13 893 3378
Fax: +966 13 893 3349
P.O. Box 4636 Al Khobar 31952

Buraydah
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69658 Al Riyadh 11557

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Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

info.sai@pkf.com

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE UNITHOLDERS
AL RAJHI REIT FUND
MANAGED BY AL RAJHI CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA

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

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

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

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

For and on behalf of
Al-Bassam & Co.
Allied Accountants


Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337



12 February 2019
7 Jumada al Alakhir 1440

Al Riyadh
Tel: +966 11 206 5333
Fax: +966 11 206 5444
P.O. Box 69556 Al Riyadh 11557

Jeddah
Tel: +966 12 652 5333
Fax: +966 12 652 2894
P.O. Box 15651 Jeddah 21454

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AL RAJHI REIT FUND**STATEMENT OF ASSETS AND LIABILITIES**

As at 31 December 2018

(Amounts in Saudi Riyals)

	Note	31 December 2018
ASSETS		
Cash and cash equivalents	10	5,711
Rental income receivable		7,237,812
Investment measured at FVPL	6	59,390,460
Due from related parties	10	5,472,714
Prepayment and other assets		1,655,108
Investment properties	7	1,666,610,053
TOTAL ASSETS		1,740,371,858
LIABILITIES		
Accrued management fee	10	2,956,760
Deferred rental income		15,092,349
Accrued expenses and other liabilities		11,501,668
Due to related parties	10	3,496,035
Borrowings	10	456,913,600
TOTAL LIABILITIES		489,960,412
NET ASSETS VALUE		1,250,411,446
UNITS IN ISSUE (Number)		122,200,609
PER UNIT VALUE		10.23
PER UNIT FAIR VALUE	9	10.09



The accompanying notes 1 to 15 form an integral part of these financial statements.

AL RAJHI REIT FUND**STATEMENT OF COMPREHENSIVE INCOME****For the period from 20 March 2018 (listing date) to 31 December 2018****(Amounts in Saudi Riyals)**

	Note	For the period from 20 March 2018 (listing date) to 31 December 2018
<u>INCOME</u>		
Rentals from investment properties		91,842,207
Income from investment measured at FVPL	8	250,616
Other income		6,886
Total operating income		92,099,709
<u>EXPENSES</u>		
Management fee	10	(9,809,233)
Finance cost	10	(13,883,005)
Pre operating expenses	10	(579,025)
Other expenses		(4,433,141)
Total Expenses from operation		(28,704,404)
Funds from operations during the period		63,395,305
Depreciation expense on investment properties	7	(13,747,800)
Net income for the period		49,647,505
Other comprehensive income		-
Total comprehensive income for the period		49,647,505



The accompanying notes 1 to 15 form an integral part of these financial statements

AL RAJHI REIT FUND**STATEMENT OF CHANGES IN NET ASSETS****For the period from 20 March 2018 (listing date) to 31 December 2018****(Amounts in Saudi Riyals)**

	Note	For the period from 20 March 2018 (listing date) to 31 December 2018
Net asset value attributable to the Unitholder at beginning of the period		-
Changes from unit transaction:		
- Subscription of units – Cash		426,701,300
- Subscription of units – In kind contribution	1	795,304,790
		1,222,006,090
Dividends paid during the period	12	(21,242,149)
Total comprehensive income for the period		49,647,505
Net asset value attributable to the unitholder at end of the period		1,250,411,446

Transactions in units for the period ended are summarized as follows:

	For the period from 20 March 2018 (listing date) to 31 December 2018
Number of units at the beginning of the period	-
Subscription of units – Cash	42,670,130
Subscription of units – In kind contribution	79,530,479
Number of units at the end of the period	122,200,609



The accompanying notes 1 to 15 form an integral part of these financial statements

AL RAJHI REIT FUND**STATEMENT OF CASH FLOWS**

For the period from 20 March 2018 (listing date) to 31 December 2018

(Amounts in Saudi Riyals)

	Notes	For the period from 20 March 2018 (listing date) to 31 December 2018
Net income for the period		49,647,505
<i>Adjustment to reconcile net income to net cash from operating activities:</i>		
Depreciation expense on Investment properties	7	13,747,800
Unrealized gain from investments measured at FVPL	8	(232,389)
		63,162,916
Changes in operating assets:		
Rental income receivable		(7,237,812)
Prepayment and other assets		(1,890,173)
Due from related parties		(5,237,649)
Changes in operating liabilities:		
Deferred rental income		15,092,349
Accrued Management fee		2,956,760
Due to related parties		3,467,405
Accrued expenses and other liabilities		11,530,298
Net cash from operating activity		81,844,094
INVESTING ACTIVITY		
Purchase of investment properties	1,7	(485,146,463)
Purchase investment measured at FVPL		(59,158,071)
Net cash used in investing activity		(544,304,534)
FINANCING ACTIVITY		
Subscription of units		426,701,300
Dividends paid	12	(21,242,149)
Borrowings	10	57,007,000
Net cash from financing activity		462,466,151
NET INCREASE IN CASH AND CASH EQUIVALENTS		5,711
Cash and cash equivalents at the beginning of the period		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		5,711
Supplemental non-cash transactions		
Purchase of investment through subscription of units in REIT	1,7	1,195,211,390
Borrowings	1,10	(399,906,600)



The accompanying notes 1 to 13 form an integral part of these financial statements

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

Al Rajhi REIT Fund (the "REIT" or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The listing date of the Fund is 20 March 2018.

The REIT is managed by Al Rajhi Capital (the "Fund Manager"), a Saudi closed joint stock company with commercial registration no.1010241681, and an Authorized Person licensed by the CMA under license no. 07068-37 dated 25 June 2007.

The REIT is listed on Tadawul and the units of the REIT shall be traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT amounts to SAR 1,222,006,090. The REIT has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of CMA.

The primary investment objective of the REIT is to provide its investors with regular income by investing in income-generating real estate assets in Saudi Arabia.

The terms and conditions of the REIT were approved by CMA on 30 Rabi Al Awal 1439H (Corresponding to 18 December 2017).

In accordance with the approved terms and conditions of the REIT, Investment properties amounting to SAR 1,195,211,390 that included borrowings amounting to SAR 399,906,600 were transferred from Al Rajhi Real Estate Income Fund and Al Rajhi GCC Real Estate Fund to the REIT upon its commencement date. The consideration of the above transaction was executed by the REIT by way of subscription of its units to the original unit holders of Al Rajhi Real Estate Income Fund and Al Rajhi GCC Real Estate Fund amounting to SAR 605,304,790 and SAR 190,000,000, respectively.

Since these are the first financial statements of the Fund, accordingly no comparative information is included in these financial statements.

2. REGULATING AUTHORITY

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

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are endorsed in Kingdom of Saudi Arabia.

3.2 Basis of measurement and functional and presentation currency

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting except for investment measured at fair value through profit and loss ("FVPL") and are expressed in Saudi Arabian Riyals (SAR), which is REIT's functional and operational currency.

3.3 Critical accounting judgments, estimates and assumption

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

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

3. BASIS OF PREPARATION (Continued)

3.3 Critical accounting judgments, estimates and assumption (Continued)

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

Going Concern

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

Impairment of non-financial assets

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

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

Residual and useful lives of investment properties

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

3.4 Expected credit loss

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

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

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

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

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

Receivables

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

Investment properties

Investment properties is a Real estate that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund is 33 years.

Residual values and useful lives of investment property are subject to review and adjustment, as necessary, when an asset carrying exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from disposal, arises when selling value of an asset exceeds its carrying value, recorded in net basis in the statement of income.

Impairment of non-current assets

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

Accrued expenses and other liabilities

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

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

Revenue recognition

Rental income receivable from operating lease of property is recognized on a straight-line basis over the term of the lease.

Investment transactions

Investments transactions are accounted for as of the trade date.

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Management fees and other expenses

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

Zakat

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

Net assets value

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

Dividend distribution

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

Financial instruments

Classification and measurement of financial instruments

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

	IFRS 9	
	Measurement category	Carrying amount
Financial assets		
Cash and cash equivalents	Amortized cost	5,711
Rental income receivable	Amortized cost	7,237,812
Investment measured at FVTPL	Fair value	59,390,460
Due from related party	Amortized cost	5,237,649
Total financial assets		71,871,632

Rental income receivable is classified at amortised cost. An allowance for impairment over these receivables was not recognised in the financial statements as the amount was not material.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund classifies its financial assets at fair value through profit or loss (FVTPL). The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income.

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

Equity instruments (Continued)

The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of comprehensive income when the Fund's right to receive payments is established.

Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial instrument assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Fund transfers substantially all the risks and rewards of ownership, or (ii) the Fund neither transfers nor retains substantially all the risks and rewards of ownership and the Fund has not retained control.

Financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

MANAGEMENT FEE, OTHER EXPENSES

On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 0.8 percent per annum of the Fund's total assets value net of Fund expenses and is paid on quarterly basis.

TRANSACTION FEE

Further, the Fund Manager charges the Fund, one-time acquisition fee at the rate of 1 percent on the acquisition or sale price of the real estate assets.

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

6. INVESTMENT MEASURED AT FVPL

	Fund manager	Number of units	Cost	Market Value
Al Rajhi Commodity SAR Fund	Rajhi Capital	384,265	59,157,721.14	59,390,460

7. INVESTMENT PROPERTIES

	Note	Land	Building	Total
Cost				
Balance as of 20 March 2018		-	-	-
Additions	1	1,087,778,260	592,579,593	1,680,357,853
Balance as of 31 December 2018		1,087,778,260	592,579,593	1,680,357,853
Accumulated Depreciation				
Balance as of 20 March 2018		-	-	-
Charge for the year	7.1	-	(13,747,800)	(13,747,800)
Balance as of 31 December 2018		-	(13,747,800)	(13,747,800)
Book Value :				
as of 31 December 2018		1,087,778,260	578,831,793	1,666,610,053

These investment properties represents thirteen properties; namely:

- The Jarir Al Ahsa investment is located in Riyadh and is classified as in the Retail sector. This asset is now multi-tenanted since June 2018 with an unchanged annual rental of SAR 5.2m
- The Faris International School investment is located in Riyadh and is classified as in the Education sector. This asset is a triple net lease with an annual rental of SAR 10m
- The Mutlaq Lulu investment is located in Riyadh and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 15.3m
- The Anwar Mall investment is located in Riyadh and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 4.4m
- The Narjes Mall investment is located in Riyadh and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 4.3m
- The Rama Mall investment is located in Riyadh and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 4.7m

AL RAJHI REIT FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Amounts in Saudi Riyals)

7. INVESTMENT PROPERTIES (Continued)

- The Marwah Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 9.9m
 - The Madain Fahad Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.5m
 - The Rawda Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.4m.
 - The Khamis Mushait investment is located in Khamis Mushait and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.7m
 - The Al Andalus investment is located in Jeddah and is classified as in the Commercial sector. This asset is multi-tenanted with an annual rental of SAR 13.5m
 - The Blue Tower investment is located in Al Khobar and is classified as in the Commercial sector. This asset is a triple net lease with an annual rental of SAR 18.3m
 - The Luluah Warehouse investment is located in Riyadh and is classified as in the Logistics sector. This asset is a triple net lease with an annual rental of SAR 13.6m
 - The Lulu Central Logistics Warehouse investment is located in Riyadh and is classified as in the Logistics sector. This asset is a triple net lease with an annual rental of SAR 3.8m
- 7.1 The Fund has the policy of charging depreciation on building over 33 years. The depreciation is charged on depreciable amount i.e. cost less residual value.
- 7.2 All properties are held in the name of Al-Rajhi Development Company, Privileged Warehouse Company 2 and Gulf Fund Company for development and real estate investment (the "SPV"). The SPV are holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.
- 7.3 The Fund manager on a periodic basis reviews its investment properties for impairment. An impairment loss is considered by the amount of which the carrying value exceeds the investment properties recoverable amount, which is the higher of an assets fair value less cost to sell and the value in use. In accordance with the periodic evaluation reports furnished by the Fund's independent appraisers, the impairment loss on investment properties was not recognized in the financial statements as the amount was not material.

8. INCOME FROM INVESTMENT MEASURED AT FVPL

	31 December 2018
Unrealized gain from investments measured at FVPL	232,389
Realized gain from investments measured at FVPL	18,227
Total	250,616

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9. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, in accordance with accounting policy of the fund, investment properties are carried at cost less accumulated depreciation and impairment if any in these financial statements.

The fair value of the investment properties is determined by two selected appraisers for each of the 14 properties i.e. **Olaat Valuation Company, Barcode Company Limited, ValuStrat Consulting Company and White Cubes Company**, which are accredited valuers from Saudi Authority of Accredited valuers (Taqeen). As of 31 December 2018 the valuation of the investment properties are as follows:

<u>31 December 2018</u>	<u>First Appraiser</u>	<u>Second Appraiser</u>	<u>Average</u>
Investment properties	1,659,873,376	1,637,800,000	1,648,836,688
Total	1,659,873,376	1,637,800,000	1,648,836,688

The investment properties were valued taking into consideration number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, the income method, and residual value method. Below is an analysis of the investment properties fair value versus cost:

	<u>31 December 2018</u>
Estimated fair value of investment properties based on the average of the two valuers used	1,648,836,688
Less: the carrying value of investment property	(1,666,610,053)
Estimated fair value in deficit of book value	(17,773,365)
Units in issue (numbers)	122,200,669
Decrease value per unit based on fair value	(0.14)

Net asset to unitholders:

	<u>31 December 2018</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,250,411,446
Estimated fair value in deficit of book value	(17,773,365)
Net assets attributable to unitholders based on fair valuation of investment properties	1,232,638,081

Net asset attributable to each unit:

	<u>31 December 2018</u>
Book value per unit as per the financial statements before fair value adjustment	10.23
Decrease in value per unit based on fair value	(0.14)
Net assets attributable to each unit based on fair valuation	10.09

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10. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Fund include "Al Rajhi Capital" being the Fund Manager, Al Rajhi Bank (being the shareholder of Al Rajhi Capital), the Fund which is managed by the Fund Board of Director, KASB Capital (being the custodian of the Funds) and any party has the ability to control other party or exercise significant influence over the other party in making financial or operational decisions.

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

Al Rajhi Bank acts as a banker of the Fund and as at 31 December 2018 SAR 5,711 were held in current accounts of the Fund maintained therewith.

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

<u>Related Party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	<u>Balance Receivables / (payable)</u>
Al Rajhi Real Estate Income Fund	Expenses paid by the Fund	5,074,932	5,074,932
	Income received on behalf of the REIT	162,717	162,717
Al Rajhi Capital	Management fee	9,809,233	(2,956,760)
	Expenses paid on behalf of the fund	1,467,405	(1,467,405)
	Financial support	-	(2,000,000)
Al Rajhi Bank	Finance cost	13,883,005	(9,947,760)
	Loan facility	-	(456,913,600)
KASB Capital	Custodial fees	94,075	(28,630)
Al Rajhi GCC Real Estate Fund	Expenses paid on behalf of the Fund	18,000	(18,000)
	Income received on behalf of the REIT	253,065	253,065

The REIT has inherited the loan of SAR 399,906,600 from Al Rajhi Real Estate Income Fund, which was converted into REIT by way of in-kind contribution (see Note 1). The loan was drawn down in 2 tranches. Tranche 1 was of SAR 254,500,000 and Tranche 2 of SAR 145,406,600. This loan was assigned to Privileged Warehouse Company 2, a SPV acting on behalf of the Al Rajhi Real Estate Income Fund. Privileged Warehouse Company 2 is now an SPV of the REIT and continues to service the liability of this loan. Tranche 1 of the loan is secured by pledge of Jarir Book Store Building, Al Muttaiq Building, Anwar Mall, Najras Mall and Rama Mall. The maturity date of the principal of Tranche 1 will be on 20 December 2020. Tranche 2 of the loan is secured by pledge of Al Faris International School Building and Azizia Panda Marwah. The maturity date of the principal will be on 23 March 2021.

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10. TRANSACTIONS WITH RELATED PARTIES (Continued)

Both tranches carry fixed special commission rate of 3.78%. The special commission is paid over five years on a semi-annual basis. Special commission due for the period ended 31 December 2018 has been included on a pro-rata basis from the date of in kind contribution transfer to the REIT and is reflected in current liabilities.

On 30 October 2018, the Fund has obtained a Shariah facility of SR 57,007,000 from Al Rajhi Bank, an affiliate of the Fund Manager. The facility has a variable profit rate of 3M SAIBOR+1.5%, the term of the facility is 7 years.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Financial instruments carried in these financial statements principally include cash and cash equivalents, rental income receivable, Investment measured at FVPL, Due from related parties, accrued management fee, accrued expenses, Due to related parties and Borrowing. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

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

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Cash is placed with a reputable financial institution.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full 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, either through increase the fund size or by taking short term loans from the Fund Manager.

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)*Maturity Profiles*

The table below summarizes the maturity profile of significant assets and liabilities of the Fund based on expected maturities:

	31 December 2018		
	Less than 1 year	More than one year	Total
Cash and cash equivalents	5,711	-	5,711
Rental income receivable	7,237,812	-	7,237,812
Investment measured at FVPL	59,390,460	-	59,390,460
Due from related parties	5,472,714	-	5,472,714
Prepayment and other assets	1,655,108	-	1,655,108
Investment properties	-	1,666,610,053	1,666,610,053
TOTAL ASSETS	73,761,805	1,666,610,053	1,740,371,858
Accrued Management fee	2,956,760	-	2,956,760
Deferred rental income	15,092,349	-	15,092,349
Accrued expenses and other liabilities	11,501,668	-	11,501,668
Due to related parties	3,496,035	-	3,496,035
Borrowing	-	456,913,600	456,913,600
TOTAL LIABILITIES	33,046,812	456,913,600	489,960,412

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

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

12. DIVIDENDS DISTRIBUTION

- In accordance with the approved terms and conditions of the Fund on 12 July 2018, the Fund's Board approved to distribute dividends with regards to the period ended 30 June 2018 amounting to SAR 0.174 per unit totalling SAR 21,242,149 to its unit holders.
- Subsequently, on 11 February 2019, the Fund's board of directors has approved to distribute a dividend with regards to the six month period ended 31 December 2018 for an amount of SR 0.311 per unit totalling SR 37,947,139 to its unit holders.

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13. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

In January 2016, the IASB issued the final version of IFRS leases which sets out the principles of recognition, measurement, presentation and disclosure of lease for parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 is effective for annual periods beginning on or after 1 January 2019 which early application is permitted but only if it also applies IFRS 15 Revenue from Contracts with Customers. The adoption of IFRS 16 will have an effect on the classification and measurement on the Fund's leased assets. The Fund is currently assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.

14. LAST VALUATION DAY

The last valuation day of the period was 31 December 2018.

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the REIT's Board on 6 Jamada al Akhir 1440 H (Corresponding to 11 February 2019).

