

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

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2019
TOGETHER WITH THE INDEPENDENT AUDITOR'S
REPORT



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 comprises the statement of financial position as at 31 December 2019 and the related statements of comprehensive income, changes in net assets and cash flows for the year then ended 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 financial position of the Fund as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization of Certified Public accountants ("SOCPA").

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How the key matter was addressed in our audit
Al Rajhi REIT Fund owns a portfolio of investment properties comprising of commercial building located in the Kingdom of Saudi Arabia. Investment properties, held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any impairment losses.	For impairment of investment properties, we have carried out the following audit procedures: - We Obtained two valuation reports from different/ independent real estate evaluators for each investment properties as at 31 December 2019 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;



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>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>	<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;- 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 10 to the external valuers' reports.

Other information

Other information consists of the information included in the Fund's 2019 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

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

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

Those charged with governance 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

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)

- 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 the a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

For and on behalf of
Al-Bassam & Co.

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



22 Rajab 1441
17 March 2020

AL RAJHI REIT FUND
A Real Estate Investments Traded Fund
(MANAGED BY AL RAJHI CAPITAL)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Amounts in Saudi Riyals)

	<u>Notes</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
<u>ASSETS</u>			
Cash and cash equivalents	12	125,000	5,711
Rental income receivable, net	6	5,196,685	7,237,812
Investment measured at FVTPL	7,12	-	59,390,460
Advance for investment measured at fair value through profit and loss (FVTPL)	9,12	40,041,193	-
Due from related parties	12	-	5,472,714
Prepayment and other assets		38,990,418	1,655,108
Investment properties, net	8	2,301,847,933	1,666,610,053
TOTAL ASSETS		<u>2,386,201,229</u>	<u>1,740,371,858</u>
<u>LIABILITIES</u>			
Accrued management fee	12	431,015	2,956,760
Deferred rental income		9,036,161	15,092,349
Accrued expenses and other liabilities	12	7,041,390	11,530,298
Due to related parties	12	-	3,467,405
Borrowings	12	791,253,536	456,913,600
TOTAL LIABILITIES		<u>807,762,102</u>	<u>489,960,412</u>
NET ASSETS VALUE		<u>1,578,439,127</u>	<u>1,250,411,446</u>
UNITS IN ISSUE (Number)	11	<u>161,856,857</u>	<u>122,200,609</u>
PER UNIT VALUE		<u>9.75</u>	<u>10.23</u>
PER UNIT FAIR VALUE	10	<u>9.91</u>	<u>10.09</u>

The accompanying notes 1 to 19 form an integral part of these financial statements.

AL RAJHI REIT FUND
A Real Estate Investments Traded Fund
(MANAGED BY AL RAJHI CAPITAL)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Amounts in Saudi Riyals)

		For the year ended	For the period from
	Notes	31 December 2019	20 March
			2018(listing date) to
			31 December 2018
<u>INCOME</u>			
Rentals from investment properties		115,934,466	91,842,207
Realized gain from investment measured at FVTPL	7,12	1,178,227	232,389
Unrealized gain from investment measured at FVTPL		-	18,227
Other income		117,082	6,886
Total operating income		117,229,775	92,099,709
<u>EXPENSES</u>			
Management fee	12	(13,450,101)	(9,809,233)
Finance cost	12	(19,374,717)	(13,883,005)
Pre-operating expenses		-	(579,025)
Provision for doubtful rent receivables	6	(3,965,312)	-
Other expenses		(6,400,905)	(4,433,141)
Total Expenses from operation		(43,191,035)	(28,704,404)
Funds from operations during the year/period		74,038,740	63,395,305
Depreciation expense on investment properties	8	(17,934,707)	(13,747,800)
Net income for the year/period		56,104,033	49,647,505
Other comprehensive income		-	-
Total comprehensive income for the year/period		56,104,033	49,647,505

The accompanying notes 1 to 19 form an integral part of these financial statements.

AL RAJHI REIT FUND
A Real Estate Investments Traded Fund
(MANAGED BY AL RAJHI CAPITAL)
STATEMENT OF CHANGES IN NET ASSETS
For year ended 31 December 2019
(Amounts in Saudi Riyals)

	Note	For the year ended 31 December 2019	For the period from 20 March 2018 (listing date) to 31 December 2018
Net asset value attributable to the Unitholders at beginning of the year/period		1,250,411,446	-
Changes from Capital transaction:			
Capital Contributions – Through public offering – At par value of SAR 10 per unit		132,517,540	426,701,300
Discount on issue of units subscribed through public offering		(15,902,105)	-
Capital Contribution – Through public offering	11.1	116,615,435	426,701,300
Capital Contributions –Through in kind contribution–At par value of SAR 10 per unit		264,044,940	795,304,790
Discount on issue of units subscribed through public offering		(31,685,393)	-
Capital Contribution – Through public offering	11.2	232,359,547	795,304,790
Net Increase in capital contributions		348,974,982	1,222,006,090
Dividends paid during the year/period	14	(77,051,334)	(21,242,149)
Total comprehensive income for the year/period		56,104,033	49,647,505
Net asset value attributable to the unitholders at end of the year/period.		1,578,439,127	1,250,411,446

Transactions in units for the year/period ended are summarised as follows:

	Note	For the year ended 31 December 2019	For the period from 20 March 2018 (listing date) to 31 December 2018
Number of units at the beginning of the year/period		122,200,609	-
- Subscription of units- Cash	11.1	13,251,754	42,670,130
- Subscription of units -In kind contribution	11.2	26,404,494	79,530,479
Number of units at the end of the year/period	11	161,856,857	122,200,609

The accompanying notes 1 to 19 form an integral part of these financial statements.

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Amounts in Saudi Riyals)

	Note	For the year ended 31 December 2019	For the period from 20 March 2018 (listing date) to 31 December 2018
Net income for the year/period		56,104,033	49,647,505
<i>Adjustment to reconcile net income to net cash from operating activities:</i>			
Realized gain from investment measured at FVTPL	7	(1,178,227)	(232,389)
Unrealized gain from investment measured at FVTPL	7	-	(18,227)
Provision for doubtful rent receivables	6	3,965,312	-
Depreciation expense on Investment properties	8	17,934,707	13,747,800
		<u>76,825,825</u>	<u>63,144,689</u>
Changes in operating assets:			
Rental income receivable		(1,924,185)	(7,237,812)
Prepayment and other assets		(37,335,310)	(1,890,173)
Due from related parties		5,472,714	(5,237,649)
Changes in operating liabilities:			
Deferred rental income		(6,056,188)	15,092,349
Accrued management fee		(2,525,745)	2,956,760
Due to related parties		(3,496,035)	3,467,405
Accrued expenses and other liabilities		(4,460,278)	11,530,298
Net cash from operating activity		<u>26,500,798</u>	<u>81,825,867</u>
INVESTING ACTIVITY			
Purchase of investment properties		(420,813,040)	(485,146,463)
Purchase of investment measured at FVTPL		60,568,687	(59,139,844)
Advance for Investments in commodity Fund		(40,041,193)	-
Net cash used in investing activity		<u>(400,285,546)</u>	<u>(544,286,307)</u>
FINANCING ACTIVITY			
Subscription of units		116,615,435	426,701,300
Dividend paid		(77,051,334)	(21,242,149)
Borrowings		334,339,936	57,007,000
Net cash from financing activity		<u>373,904,037</u>	<u>462,466,151</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		119,289	5,711
Cash and cash equivalents at the beginning of the year/period		5,711	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD		<u>125,000</u>	<u>5,711</u>
Supplemental non-cash transactions			
Purchase of investment properties through subscription of units in Fund		232,359,547	1,195,211,390
Borrowings	11.1	-	(399,906,600)

The accompanying notes 1 to 19 form an integral part of these financial statements.

AL RAJHI REIT FUND

A Real Estate Investments Traded Fund

(MANAGED BY AL RAJHI CAPITAL)

1. THE FUND AND ITS ACTIVITIES

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

The Fund 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 Capital Market Authority ("CMA") under license no. 07068-37 dated 25 June 2007.

The Fund currently has a diversified portfolio of 18 properties (31 December 2018:14) across various sectors such as Retail, Education, Commercial Offices, Logistics and Healthcare. Out of these 18 properties, 4 properties were acquired during 2019 as part of Fund's total assets increase process.

The Fund is listed on Tadawul and the units of the Fund are traded on Tadawul in accordance with its rules and regulations. The initial subscribed units of the Fund were 122,200,609 units at par value of SAR 10 per unit resulting in capital of SAR 1,222,006,090. However, during the year 2019, as a part of increasing its total assets, the Fund issued 39,656,248 new units of par value SAR 10 per unit at an issue price of SAR 8.8 per unit. Thus at the end of the year i.e. 31st December 2019, the total subscribed units of the Fund stands at 161,856,857 units. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of Fund Board and followed by CMA.

In 2018, Investment properties amounting to SAR 1,195,211,390 and 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 Fund upon its commencement date. The consideration of the above transaction was executed by the Fund 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.

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

The initial terms and conditions of the Fund were approved by CMA on 30 Rabi Al Awal 1439H (Corresponding to 18 December 2017). The revised terms and conditions of the Fund for increasing the total assets of the Fund were approved by CMA on 3 Safar 1441H (Corresponding to 02 October 2019).

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) as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization of Certified Public accountants.

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

3. BASIS OF PREPARATION (Continued)

3.2 *Basis of measurement and functional and presentation currency*

These financial statements have been prepared under the historical cost convention as modified by the revaluation of Investment measured at Fair Value Through Profit and Loss (“FVTPL”), using accrual basis of accounting and are expressed in Saudi Arabian Riyals (SAR), which is Funds 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.

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. Fund 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 Fund. Such changes are reflected in the assumptions when they occur.

Going Concern

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

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

3. BASIS OF PREPARATION (Continued)

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.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 *New standards, amendments and interpretations*

(i) New standards, amendments and interpretations adopted by the Fund

- IFRS 16 Leases (effective 1 January 2019)
- IFRIC 23, 'Uncertainty over Income Tax Treatments'

The impact of the adoption of these standards and the new accounting policies are analysed and disclosed below in note 4.2.

There are no other IFRSs or IFRIC interpretations that are effective and would be expected to have a material impact on the Fund.

4.2 *Changes in accounting policies and disclosure*

This note explains the impact of the adoption of IFRS 16 Lease on the Fund's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior period.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 Changes in accounting policies and disclosure (Continued)

Impact on the financial statements

(i) IFRS 16 Leases

IFRS 16 affects primarily the accounting by lessees and results in the recognition of almost all leases on statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short term and low value leases. IFRS 16 is effective for annual periods starting on or after 1 January 2019.

An assessment has been performed on the effects of applying the new standard on the Fund's financial statements and given the Fund does not transact in leases, no material impacts have been identified.

(ii) IFRIC 23, 'Uncertainty over Income Tax Treatments'

The Fund is tax-exempt and is only subject to withholding tax on certain dividend and interest income in some countries. If a fund is subject to income tax, including withholding taxes, then it is required to provide specific disclosures under IAS 12 and IAS 1. Additionally, if the fund is subject to income taxes in the scope of IAS 12, including withholding taxes, then the fund should consider if there are any uncertain tax treatments. IFRIC 23 Uncertainty over Income Tax Treatments is effective from 1 January 2019; earlier application is permitted.

The Fund Board does not expect that IFRIC 23 will have a material impact on the financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the financial year beginning on 1 January 2019 that would have a material impact on the Fund.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies

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 financial position.

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 Real estate that are held for capital appreciation and/or rental yields. 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 properties is depreciated over the shorter of its useful life at 33 years or the term of the Fund.

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 comprehensive income.

Impairment of non-current assets

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

Accrued expenses and other liabilities

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method. A provision is recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognised for future operating loss.

Revenue recognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies (Continued)

Investment transactions

Investments transactions are accounted for as of the trade date.

Management fees and other expenses

Management fees and other expenses are charged at rates within limits mentioned in terms and conditions of the Fund. 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 Fund by the number of units in issue at the period-end.

Dividend distribution

The Fund 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.

Financial instruments

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.

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 comprehensive 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:

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies (Continued)

Impairment of financial assets (Continued)

- 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 based on the last evaluation 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.

- **CUSTODIAN FEE**

Furthermore, the Fund pays a custodian a fee of 185,000 riyals annually, which is calculated on a daily basis and paid quarterly to the Custodian of the Fund.

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

6. RENTAL INCOME RECEIVABLE, NET

	Note	<u>31 December 2019</u>	<u>31 December 2018</u>
Gross rental income receivable		9,161,997	7,237,812
Provision of doubtful rent receivables	6.1	<u>(3,965,312)</u>	<u>-</u>
		<u>5,196,685</u>	<u>7,237,812</u>

6.1 The movement in impairment allowance for doubtful receivables is as follow:

	<u>31 December 2019</u>	<u>31 December 2018</u>
At the beginning of the year / period	-	-
Provided during the year / period	<u>(3,965,312)</u>	<u>-</u>
At the end of the Year / period	<u>(3,965,312)</u>	<u>-</u>

7. INVESTMENT MEASURED AT FVTPL

The Fund does not hold any investments as at 31 December 2019.

<u>As at 31 December 2018</u>	<u>Fund manager</u>	<u>Number of Units</u>	<u>Cost</u>	<u>Market value</u>
Al Rajhi commodity SAR Fund	Al Rajhi Capital	384,265	59,157,721	59,390,460

The following is the movement in investments during the year:

	<u>31 December 2019</u>	<u>31 December 2018</u>
At the beginning of the year/period	59,390,460	-
Additions during the year/period	95,809,666	63,951,094
Sold during the year/period	(156,378,353)	(4,811,250)
Unrealized gain	-	18,227
Realized gain	1,178,227	232,389
At the end of the year/period	<u>-</u>	<u>59,390,460</u>

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

8. INVESTMENT PROPERTIES, NET

As at 31 December 2019

	Note	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>Cost</u>				
Balance as of 1 January 2019		1,087,778,260	592,579,593	1,680,357,853
Additions	11	220,921,958	432,250,629	653,172,587
Balance as at 31 December 2019		<u>1,308,700,218</u>	<u>1,024,830,222</u>	<u>2,333,530,440</u>
<u>Accumulated Depreciation</u>				
Balance as at 1 January 2019		-	(13,747,800)	(13,747,800)
Charge for the year		-	(17,934,707)	(17,934,707)
Balance as at 31 December 2019		-	(31,682,507)	(31,682,507)
Book Value:				
as at 31 December 2019		<u>1,308,700,218</u>	<u>993,147,715</u>	<u>2,301,847,933</u>

As at 31 December 2018

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

These investment properties represents eighteen properties; namely:

Existing assets:

- 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 5.1 million.
- 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 10 million.
- 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 15.3 million.

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

8. INVESTMENT PROPERTIES (Continued)

- The Anwar Plaza 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 4.4 million.
- The Narjes Plaza 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 4.3 million.
- The Rama Plaza 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 4.7 million.
- The Panda 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 11.3 million.
- The Panda 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 2.5 million.
- The Panda 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 2.6 million.
- The Panda 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 3.0 million.
- 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 14.3 million.
- 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 18.3 million.
- 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 13.6 million.
- 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 3.8 million.

Newly acquired assets in year 2019

- The Al Salam NMC Hospital investment is located in Riyadh and is classified as in the Healthcare sector. This asset is a triple net lease with an annual rental of SAR 11.7 million.
- The Rowad Al Khaleej 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 16.3 million.
- The Rowad Al Khaleej International School investment is located in Dammam and is classified as in the Education sector. This asset is a triple net lease with an annual rental of SAR 18.9 million.
- The Baream Rowad Al Khaleej Kindergarten 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 1.6 million.

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

8. INVESTMENT PROPERTIES (Continued)

- 8.1 The Fund has the policy of charging depreciation on buildings over 33 years. The depreciation is charged on depreciable amount i.e. cost less residual value.
- 8.2 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 (collectively the "SPVS"). The SPVS are holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.
- 8.3 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 individual investment property's 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, see note 10.

9. ADVANCE FOR INVESTMENT MEASURED AT FVTPL

As at 31 December 2019, SAR 40,041,193 was paid for subscription of units in Al Rajhi Commodity Fund-SAR. These units were issued on 1 January 2020.

10. EFFECT ON NET ASSET VALUE IF INVESTMENT IN REAL ESTATE 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.

The fair value of the investment properties is determined by two selected appraisers for each of the 18 properties. The appraisers that evaluated these properties are Olat Valuation Company, ValuStrat Consulting Company, White Cubes Real Estate Company, Jones Lang Lassale (JLL) and Knight Frank which are accredited valuers from the Saudi Authority of Accredited valuers ("Taqem"). As at 31 December 2019, the valuation of the investment, properties are as follows:

<u>31 December 2019</u>	<u>Appraiser 1</u>	<u>Appraiser 2</u>	<u>Average</u>
Investment properties	<u>2,383,876,683</u>	<u>2,270,266,068</u>	<u>2,327,071,376</u>
<u>31 December 2018</u>	<u>Appraiser 1</u>	<u>Appraiser 2</u>	<u>Average</u>
Investment properties	<u>1,659,873,376</u>	<u>1,637,800,000</u>	<u>1,648,836,688</u>

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

10. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED (Continued)

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 and fragmentation plot analysis, the income method, and residual value method. Below is the fair value versus cost analysis of the investment properties:

	31 December 2019	31 December 2018
Estimated fair value of investment properties based on the average of the two valuations	2,327,071,376	1,648,836,688
Less: the carrying value of investment properties	(2,301,847,933)	(1,666,610,053)
Estimated fair value in surplus/(deficit) of book value	25,223,443	(17,773,365)
Number of units in issue (Note 11)	161,856,857	122,200,609
Increase/(decrease) in value per unit based on fair value	0.16	(0.14)

Net assets attributable to unitholders:

	31 December 2019	31 December 2018
Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,578,439,127	1,250,411,446
Estimated fair value in surplus/(deficit) of book value	25,223,443	(17,773,365)
Net assets attributable to unitholders based on fair valuation of investment properties	1,603,662,570	1,232,638,081

Net assets attributable to each unit:

	31 December 2019	31 December 2018
Book value per unit as per the financial statements before fair value adjustment	9.75	10.23
Increase/(decrease) in value per unit based on fair value	0.16	(0.14)
Net assets attributable to each unit based on fair Valuation	9.91	10.09

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

12. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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

<u>Related Party</u>	<u>Nature of transaction</u>	<u>Amount of transactions</u>		<u>Balance receivable / (payable)</u>	
		<u>For the year ended 31 December 2019</u>	<u>For the period ended 31 December 2018</u>	<u>As at 31 December 2019</u>	<u>As at 31 December 2018</u>
Al Rajhi Capital	Management fee	13,450,101	9,809,233	(431,015)	(2,956,760)
	Expenses Paid on behalf of the Fund	-	1,467,405	-	(1,467,405)
	Financial support	(2,000,000)	2,000,000	-	(2,000,000)
Al Rajhi Bank	Finance cost*	19,374,717	13,883,005	(3,317,843)	(9,947,760)
	Loan Facility	334,339,936	57,007,000	(791,253,536)	(456,913,600)
	Cash at the bank	-	-	125,000	5,711
Al Rajhi Real Estate Income Fund	Expenses Paid by the Fund	-	5,074,932	-	5,074,932
	Income received on behalf of the Fund	-	162,717	-	162,717
KASB Capital	Custodian fee*	150,209	94,075	(96,755)	(28,630)
Al Rajhi GCC Real Estate Fund	Expenses Paid by Fund on behalf	-	18,000	-	(18,000)
	Income received by Fund on behalf	-	253,065	-	253,065
Al Rajhi commodity SAR Fund	Advance for investment measured at FVTPL	40,041,193	-	40,041,193	-
	Investment measured at FVTPL	-	59,390,460	-	59,390,460
	Realized gain	1,178,227	232,389	-	-
	Unrealized gain	-	18,227	-	-

*Accrued finance cost and custodian fee are included in the statement of financial position under accrued expenses and other liabilities.

The Fund 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 Fund and continues to service the liability of this loan. Tranche 1 of the loan is secured by pledge of Jarir Book Store Building, Al Mutlaq Building, Anwar Mall, Narjes 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 Aziza Panda Marwah. The maturity date of the principal will be on 23 March 2021.

Both tranches carry fixed finance cost of 3.78%. The finance cost is being paid over five years on a semi-annual basis.

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.

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

12. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

On 19 August 2019, the Fund has obtained a Shariah facility of SR 57,550,995 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.

On 6 November 2019, the Fund has obtained a Shariah facility of SR 118,602,000 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.

On 18 December 2019, the Fund has obtained a Shariah facility of SR 92,302,508 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.

On 22 December 2019, the Fund has obtained a Shariah facility of SR 65,884,433 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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market 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.

Financial instruments carried in these financial statements principally include cash and cash equivalents, rental income receivable, Investment measured at FVTPL, due to and from related parties, accrued management fee, accrued expenses and Borrowings. 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 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

The Fund 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 Fund management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes are not significant to the Fund.

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 income receivables, due from related parties and cash placed with a bank.

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (continued)

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

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

	<u>Note</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Cash and cash equivalents	12	125,000	5,711
Rental income receivable, net	6	5,196,685	7,237,812

The management has conducted a review as required under IFRS 9 and based on assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents Rental income receivable are carried at net of impermeant.

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.

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

13. 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 2019		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	125,000	-	125,000
Rental income receivable, net	5,196,685	-	5,196,685
Investment measured at FVTPL	-	-	-
Advance for Investments in commodity Fund	40,041,193	-	40,041,193
Prepayment and other assets	38,990,418	-	38,990,418
Investment properties	-	2,301,847,933	2,301,847,933
TOTAL ASSETS	84,353,296	2,301,847,933	2,386,201,229
Accrued Management fee	431,015	-	431,015
Deferred rental income	9,036,161	-	9,036,161
Accrued expenses and other liabilities	7,041,390	-	7,041,390
Borrowing	254,500,000	536,753,536	791,253,536
TOTAL LIABILITIES	271,008,566	536,753,536	807,762,102
	31 December 2018		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	5,711	-	5,711
Rental income receivable	7,237,812	-	7,237,812
Investment measured at FVTPL	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

As of 31 December 2019, the Fund's current liabilities exceeds its current assets by SAR 186.7 million, mainly on account of repayments of borrowings amounting to SAR 254.5 million. However, subsequent to the year end, the Fund will sign an Islamic Finance Agreement with Al Rajhi Bank, which will correct the assets liabilities mismatch existing as of 31 December 2019.

Currency risk

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

Fair value estimation

The Fund financial assets consist of cash and cash equivalents, rental income receivable, advance for investments measured at FVTPL due from related party and other assets.

The fair value for financial instruments traded in active markets is based on quoted market prices at the close of trading on the financial reporting date. Instruments for which no sales was reported on the valuation day are valued at the most recent bid price.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The carrying value less impairment provision of financial instruments carried at amortised cost are assumed to approximate their fair values.

The fair value hierarchy has the following levels:

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

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equity and debt instruments. The Fund does not adjust the quoted price for these instruments.

Fund classifies all of its financial assets except for those carried at amortised cost, at fair value as level 1.

14. DIVIDENDS DISTRIBUTION

- In accordance with the approved terms and conditions of the Fund dated 14 August 2019, the Fund's board of directors has approved to distribute a dividend with regards to the six month period ended 30 June 2019 for an amount of SAR 0.32 per unit totalling SAR 39,104,195 to its unit holders. The same was paid on 21 August 2019.
- Earlier in accordance with the approved terms and conditions of the Fund on 11 February 2019, the Fund's Board approved to distribute dividends with regards to the six month period ended 31 December 2018 amounting to SAR 0.311 per unit totalling SAR 37,947,139 to its unit holders. The same was paid on 25 February 2019.

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

14. DIVIDENDS DISTRIBUTION (Continued)

- 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.

15. SEGMENT REPORTING

The Fund has invested in eighteen real estate investment properties in the Kingdom of Saudi Arabia. As it has invested in a single industry and in a single country, no segment information has been presented.

16. CHANGES IN FUND'S TERMS AND CONDITIONS

During the year ended 31 December 2019, the Fund Manager has made certain changes to the terms and conditions of the Fund that were required for capital increase of the fund. Other other changes in the terms and condition included the increase in custodian fee from SAR 100,000 to SAR 185,000, increase in audit fee from SAR 30,000 to SAR 35,000, and introducing the remuneration to independent board members of SAR 5,000 per meeting with maximum cap of SAR 20,000 per year per member.

17. EVENTS AFTER THE REPORTING DATE

On 9th February 2020, the Fund's board of directors has approved to distribute a dividend to its unit holders with regards to the six month period ended 31 December 2019 for an amount of SAR 0.21 per unit totalling to SAR 33,989,939.97 to its unit holders.

18. LAST VALUATION DAY

The last valuation day of the Fund was 31 December 2019.

19. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's board of directors on 15 Rajab 1441 H (Corresponding to 10th March 2020).