

جدوى ريت السعودية
Jadwa REIT Saudi



2019

ANNUAL REPORT

جدوى للإستثمار
Jadwa Investment



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



His Majesty

King Salman Bin Abdulaziz Al Saud
Custodian Of The Two Holy Mosques



His Royal Highness Prince

Mohammed Bin Salman Bin Abdulaziz Al Saud
Crown Prince, First Deputy Prime Minister

Jadwa Investment Headquarters:

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Fund Manager's Message To Unit Holders

Dear Unit Holders

We are pleased to present 2019 annual report of Jadwa REIT Saudi Fund. As we continue our march forward into the new calendar year, we would like to thank unit holders for your continuous support of Jadwa REIT Saudi as it grows through strategized acquisitions and maintains to distribute stable quarterly dividends.

Since inception, the Fund distributed eight quarterly cash dividends with a total amount of SAR 1.37 per unit (SAR 216.46mn). The year 2019 was a robust year for the Fund as it grew from SAR 1.69bn in 2018 to SAR 1.84bn in 2019, taking the total number of properties to eight.

The Fund completed the acquisition of three properties in education, hospitality, retail, and office sectors at an accretive average yield of 9.7% and a weighted average unexpired lease term of 5.2 years. These bolt-on acquisitions have been funded through debt financing and will serve to further diversify the Fund's sectoral exposure and enhance its quarterly distributions to investors. As a result of the acquisition of three properties totaling SAR 127.7mn, rental revenues increased by 13.7% and NAV improved by 1.45%. Moreover, FFO is expected to increase by approximately 4%. Loan to Value (LTV) currently stands at 6.95%, providing substantial liquidity and purchasing power for future acquisitions.

With the government's continued stimulus being injected in the economy and various initiatives under "Vision 2030" umbrella are beginning to yield results, such economic transformation requires careful navigation and offers an abundance of opportunities for those organizations that have the insight and initiative to identify and capture emerging trends. We understand the challenges global and local markets are witnessing and continue to witness during the course of 2020 with the widespread of the pandemic Coronavirus (Covid-19). However, we remain confident that fundamentals are strong and this is a temporary shake that will be absorbed swiftly.

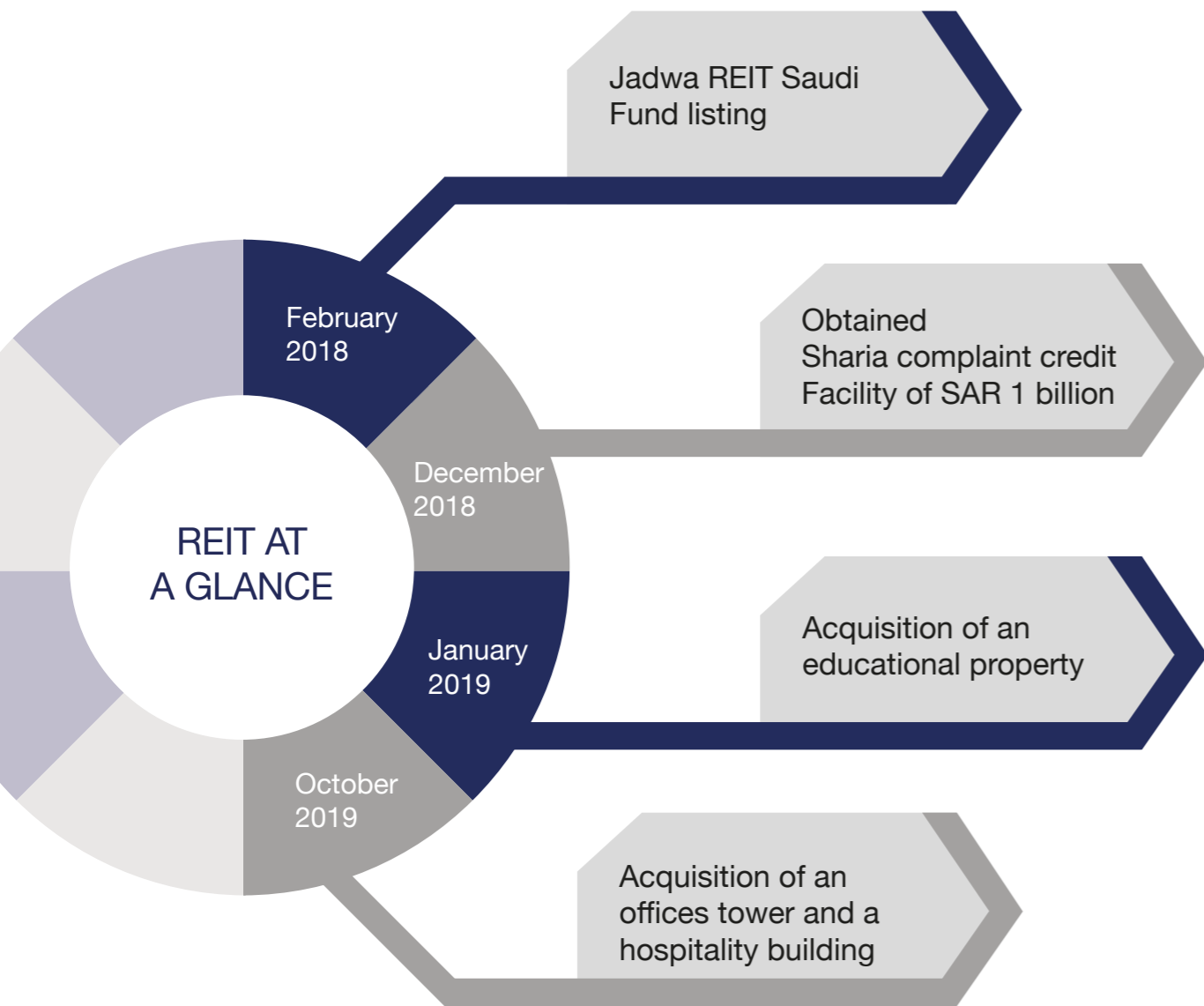
While our results for the year reflect positive trajectory, there is more work to be done. With a large credit line facility on hand and low leverage, the Fund is on track in 2020 to deploy capital and grow the portfolio through acquisitions of accretive quality assets.

With a strong balance sheet, available financial resources, and diverse deal channels, the growth momentum will continue to positively enhance our distributions whilst we maintain our disciplined approach in our high-quality and Shariah-compliant investments selection.

Section 1

REIT AT A GLANCE

REIT at a Glance



Financial Performance

Portfolio Characteristics

	2019	2018
Number of properties	8	5
Sectors	Residential, Logistics, Commercial, Retail, Education, Hospitality	Residential, Logistics, Commercial, Retail, Education, Hospitality
Total Land area (sq. meter)	387,442	377,502
Total BUA	452,014	428,200
Portfolio Occupancy	99.4%	100%
Number of Tenants	6	3
WAULT	5.2	6.20
Fair Market Value	1,839,735,000	1,692,800,000

Fund's Performance

	2019	2018
Net Asset Value (Cost)	1,537,698,355	1,574,808,862
Net Asset Value (Fair Value)	1,765,571,631	1,743,213,645
Fair Value NAV per unit	11.17	11.03
Highest Fair Value NAV per unit	11.17	11.03
Lowest Fair Value NAV per unit	11.06	10.94
Number of issued units	158,000,000	158,000,000
Distributed Dividends Per Unit	0.73	0.64
Expense Ratio	0.92%	0.90%
Annual return	7.89%	16.70%

Fund's Returns Profile

1-Year return	Since inception returns
7.89%	25.40%

Annual Fund Expenses

	2019
Management Fee	13,185,722
Registrar Fee	400,000
Listing Fee	300,000
Custodian Fee	320,000
Administrator Fee	132,870
Auditor Fee	40,000
Board Oversight Fee	20,000
Other Fund Fees	1,011,894
Grand Total	15,410,486
Expense Ratio	0.90%

Special commission

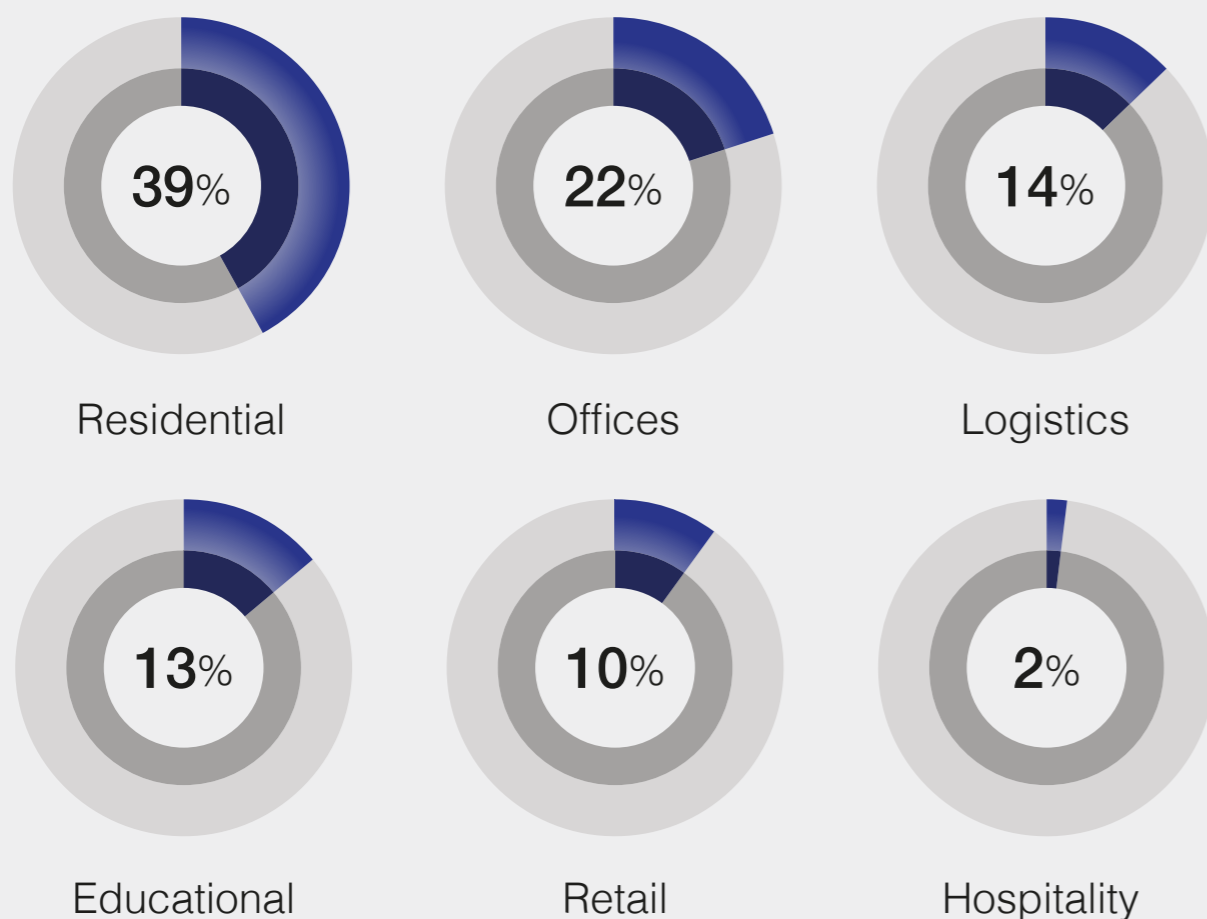
No special commission has been received by the Fund manager during 2019

Section 2

PORTFOLIO DESCRIPTION

Portfolio Description

Portfolio Allocation by Sector



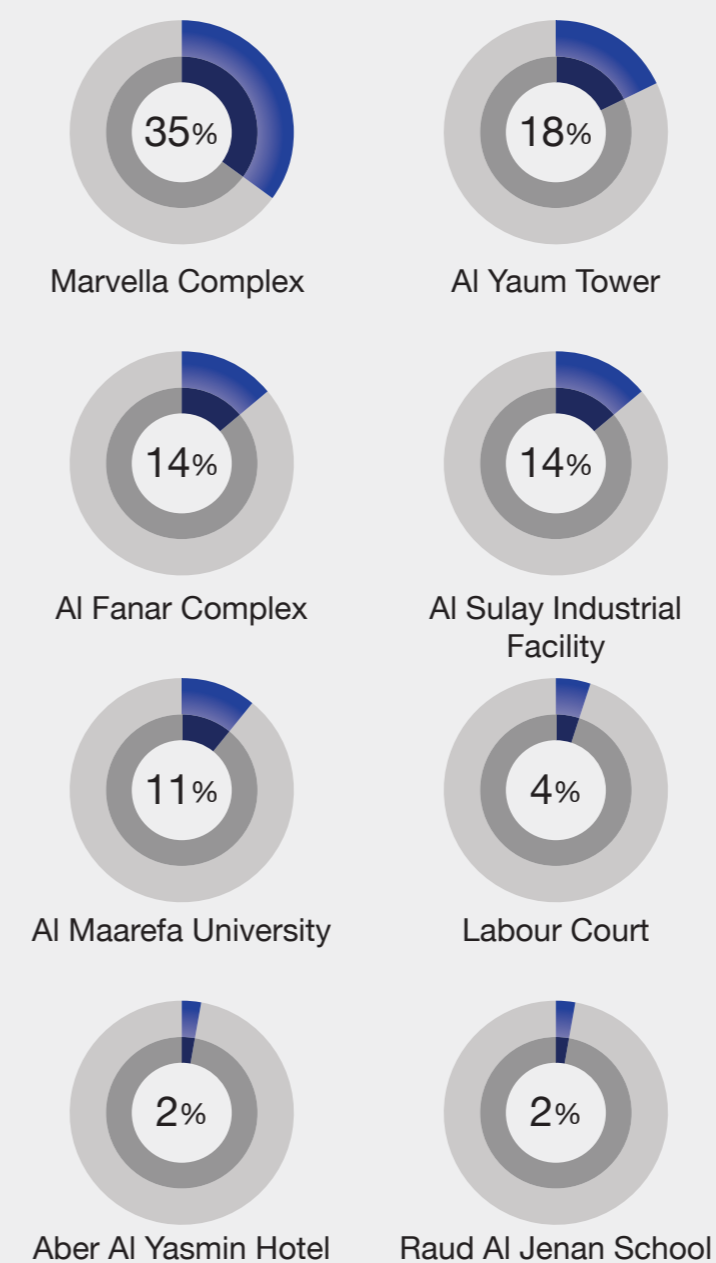
Targeted Assets by the Fund Manager

Currently there are no active transactions, however the fund manager is constantly screening for new investments.

Portfolio Occupancy

Percentage of leased assets to the total portfolio of assets	99%
Percentage of unleased assets to the total portfolio of assets	1%

Portfolio Allocation by Asset



Eastern Province

Al Yaum Tower
Al Fanar Complex



Eastern Province

Riyadh

Riyadh

Marvella Complex
Al Maarefa University
Al Sulay Industrial Facility
Labour Court
Aber Al Yasmin Hotel
Raud Al Jenan School

Al Maarefa University

- Al Maarefa University is a four-story school building with a two-level basement, mezzanine and roof floor built mainly of concrete, with a BUA of approximately 41,830 sq.m.

Location	Al Dereyah, Riyadh
Acquisition Price	200,000,000
Net Acquisition Yield	8.0%
Number of tenants	1
Fair Value Estimation*	224,600,000
Occupancy Rate	100%
Remaining Lease Term	18.1 years
% of Portfolio Rental Value	11%

**as of 31st Dec 2019*



Marvella Complex

- Marvella complex is a mixed-use development compound comprising of 594 residential apartments and 21 retail shops. It consists of several five-story buildings, each with basement parking and built mainly of concrete.
- The compound consists of three types of residential buildings (A, B and C), a commercial building and a mosque, with a total built-up area of 154,282.52 sq.m.

Location	Al Hamra District, Riyadh
Acquisition Price	606,000,000
Net Acquisition Yield	8.3%
Number of tenants	1
Fair Value Estimation*	645,100,000
Occupancy Rate	100%
Remaining Lease Term	3.1 years
% of Portfolio Rental Value	35%

**as of 31st Dec 2019*



Al Sulay Industrial Facility

- This property is an industrial complex with 42 warehouses, office & accommodation buildings, guardhouses, a concrete perimeter wall and an asphalted open area. The total built-up area is 143,400 sq.m.
- The Office & Accommodation Building is a two-story. The ground floor is used for offices, while the first floor is for labor accommodation. The industrial compound is equipped with a firefighting system.

Location	Al Sulay District, Riyadh
Acquisition Price	221,680,000
Net Acquisition Yield	9.0%
Number of tenants	1
Fair Value Estimation*	255,650,000
Occupancy Rate	100%
Remaining Lease Term	3.1 years
% of Portfolio Rental Value	14%

**as of 31st Dec 2019*



Al Yaum Tower

- Al Yaum Tower is a 16-story office building with a three-level basement built mainly of concrete.
- It is newly constructed with the net-leasable area covering 19,861 sq.m.

Location	Al Dammam
Acquisition Price	275,000,000
Net Acquisition Yield	8.7%
Number of tenants	1
Fair Value Estimation*	303,450,000
Occupancy Rate	100%
Remaining Lease Term	5.6 years
% of Portfolio Rental Value	18%

**as of 31st Dec 2019*



Al Fanar Complex

- Al Fanar Complex is a mixed-use commercial, office and residential complex development, which includes the Al Fanar Mall and six residential apartment buildings.
- The ground floor is mainly used as a mall with a total built-up area of 30,651 sq. m.
- The residential apartment complex has six identical six-story buildings, with a total of 162 apartment units. The buildings have a total built-up area of 32,523 sq.m.

Location	Al Khobar
Acquisition Price	243,940,000
Net Acquisition Yield	8.3%
Number of tenants	1
Fair Value Estimation*	264,000,000
Occupancy Rate	100%
Remaining Lease Term	4.2 years
% of Portfolio Rental Value	14%

**as of 31st Dec 2019*



Raud Al Jenan School

- Raud AlJenan school building consist of three floors, roof floor and parking basement. It is mainly built with reinforced concrete structure with glass, aluminum cladding, painted walls and partly marble façades.
- The building is equipped with firefighting system, elevator and stair, and air-conditioning system. The building was built on a rectangular land with a land area of 3,000 square meters. constructed circa 1430 with a total built-up area of 9,700 square meters.

Location	Riyadh
Acquisition Price	25,650,000
Net Acquisition Yield	9.8%
Number of tenants	1
Fair Value Estimation*	31,125,000
Occupancy Rate	100%
Remaining Lease Term	8.4 years
% of Portfolio Rental Value	2%

*as of 31st Dec 2019



Labour Court

- Labor Court Olaya building is an eight-story with two level basement parking, mainly built of reinforced concrete structure with glass and aluminum cladding façade exterior wall.
- The office building was built on a land with an area of 3,300 square meters. It was reportedly constructed circa 1438 hijri with a total built-up area of 8,312 square meters.

Location	Riyadh
Acquisition Price	59,000,000
Net Acquisition Yield	10.2%
Number of tenants	1
Fair Value Estimation*	73,710,000
Occupancy Rate	100%
Remaining Lease Term	1.5 years
% of Portfolio Rental Value	4%

*as of 31st Dec 2019



Aber Al Yasmin Hotel

- Aber Al Yasmin Hotel is a two-story with mezzanine and basement parking, mainly built of reinforced concrete structure with glass panel and concrete exterior wall.
- The building was built on a land with an area of 3,640 square meters. It was reportedly constructed circa 1438H hijri with a total built-up area including the basement of 6,405 square meters. The hotel occupied 4,172 square meters of the GLA and the retail GLA vacancy is 2,007 square meters that includes mezzanine.

Location	Riyadh
Acquisition Price	34,000,000
Net Acquisition Yield	9.1%
Number of tenants	1
Fair Value Estimation*	42,100,000
Occupancy Rate	71%
Remaining Lease Term	10.5 years
% of Portfolio Rental Value	2%

*as of 31st Dec 2019



Section 3

RISK REPORT

Jadwa REIT Saudi Fund Risk Report

Fund Details

Fund Name	Jadwa REIT Saudi Fund
Fund Manager	Jadwa Investment Company
Listing Exchange	Tadawul (Saudi) Stock Exchange in February 2018
Type of Fund	Closed-ended Shariah Compliant
Authorized Capital	SAR 1,580,000,000
Fair Value NAV per unit	SAR 11.17 (as of 31 Dec 2019)
No. of Properties	8

Key Risks

Risk Type	Risk Description	Risk Mitigation
Changes in economic conditions	Changes in economic conditions, including, for example, inflation, interest rate, wage rates and other factors can affect the Fund's prospects.	Regular monitoring of macroeconomic conditions and regulatory trends in laws is being carried out by the Fund Manager. Proactive steps are taken to mitigate or minimize the impact as much as possible.
Regulatory Risk	Failure to adhere to laws, rules and regulations as stipulated by CMA can result in suspension of trading or cancelation of the Fund's listing.	Inspection of Compliance Team confirmed that the Fund is clear of any breaches and has made a smooth progress. The Fund Manager has recruited qualified personnel to manage the Fund and monitor all regulatory requirements such as compliance and risk management. All these activities from the Fund Manager are aimed at establishing and confirming the controls to avoid any raise in non-complainant practices.
Occupancy Risk	Risk when expected occupancy rates are not achieved, which affects the profitability of the Fund.	All properties acquired by the Fund have strong economic fundamentals and cash-generation characteristics, and thus providing significant margins of safety on occupancy rates. The Fund normally engages in long term leases ranging between 3 and 20 years which also mitigates the risk of not achieving the expected occupancy rates.

Jadwa REIT Saudi Fund Risk Report

Key Risks

Risk Type	Risk Description	Risk Mitigation
Development Risk	Development risks associated with real estate projects under development include: Delay in construction, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project.	Currently, all the properties owned by the Fund are fully developed. Thereby there is no development risk exposure towards the Fund.
Default Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	The Fund Manager reviews the financial status of all current and prospective tenants and decides on the appropriate level of security required via promissory notes.
Financing Risk	Financing risk occurs when the Fund is unable to attain financing from market to continue/expand its operation.	The Fund has a committed SAR 1 billion credit line facility from Banque Saudi Fransi which assures that the financing risk is at a minimal.
Lease Renewal Risk	Lease renewal risk is the risk of non-renewal of existing leases or renewal at lower than current lease rate that might impact the rental income of the Fund.	The Fund enters into long-term operating lease contracts with tenants for space in its investment properties with lease terms ranging between 3 and 20 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent. Given the nature of the contractual agreement, increase in rental prices is monitored and linked to market conditions, therefore the Fund faces minimum lease renewal risk.

Risk Type	Risk Description	Risk Mitigation
Risk of neglecting the property	Any adverse event leading to structural damage to properties owned by the Fund thereby risking the income generating potential from such properties.	All properties are insured by the Fund which covers for all property damages and the cost for the insurance over the lease term is borne by the lessee. These responsibilities of the lessee ensure the mitigation of property negligence risk.
Counterparty Concentration Risk	This risk arises when a single counterparty has the most concentration of leased assets, this might lead to an adverse condition if the counterparty has troubles in future.	A major portion of the Fund's leasing income is derived from Al Muhaideb Group. If, this lessee was to serve the Fund notice in the next few years, it could expose the Fund to a high cash-flow risk. This risk is being mitigated by growing the portfolio over a range of tenants.
Sector Concentration Risk	This risk arises when all assets belong to the same sector, this might lead to an adverse condition if that location has troubles in future.	In the last year, the Fund has acquired 3 new properties from sectors other than residential to reduce the single sector concentration. The Fund continuously explores options of the diversification.
Increasing Interest Rate	Increasing interest rates would result in negative pressure on market prices of REIT and financing costs for the market-based borrowing.	The Fund Manager analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund.

Jadwa REIT Saudi Fund Risk Report

Key Risks

Risk Type	Risk Description	Risk Mitigation
Liquidity Risk	The risk of the Fund not being able to meet short term financial demands.	Liquidity risk is managed by regular monitoring and ensuring that sufficient funds are available to meet any future commitments. The Fund has a low amount of liabilities compared to its operating income which provides an adequate comfort on the ability to service the debt.
Asset Valuation Risk	Incorrect valuation of the properties resulting in notional and reputational losses.	The Fund Manager ensures clear communication of most up to date required information to the external professional valuers for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, valuations are carried out by two independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making.

Conclusion

The Jadwa REIT Saudi Fund is exposed to various risks as identified above which may impact the performance of the REIT. These risks have been mitigated by the actions taken by Fund Manager. With the global widespread of the COVID-19, precautionary measures such as suspension of international & domestic travels have been announced by Saudi government. The effect of widespread of COVID-19 is still unfolding and the Fund Manager is working closely with all counter parties to mitigate any risks. As the situation is variable and rapidly evolving and the potential impact on the Fund's results cannot be estimated. However, the Fund Manager is putting in place a rental review plan with major counterparties

who are negatively affected to ensure the continuation of revenue stream to unit holders.

The fund is exposed to a concentration risk since a major portion of the leasing income is derived from Al Muhaideb Group. However, Al Muhaideb portfolio is diversified between commercial, industrial and residential which lowers the concentration risk exposure of the Fund. Committed credit facility of a total of SAR 1 Billion helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

Based on the various identified risks and mitigations actions by the Fund Manager, the overall risk of the Fund is "Low/Below Average".

Section 4

FUND GOVERNANCE

Jadwa REIT Saudi Fund Governance

About the REIT

The Jadwa REIT Saudi Fund is a closed-ended Shariah-compliant real estate investment-traded Fund that is managed by Jadwa Investment Company. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued.

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com

About Jadwa Investment Company

Jadwa Investment is the premier investment management and advisory firm in Saudi Arabia and the wider region. Headquartered in Riyadh with three regional offices, the firm has over SAR 36.7 billion in client assets under management and advisement.

Its clients include government entities, local and international institutional investors, leading family offices, and high-net-worth individuals. Jadwa Investment is licensed by the Capital Market Authority (CMA) as an authorized person, with license number 06034-37

Delegation to Third Parties

As the Fund manager, Jadwa Investment Company is liable for the appointment of any third party (including its affiliates) and their responsibilities.

Jadwa Investment Company is also the Fund administrator. However, Jadwa has delegated certain administrative functions to Apex Fund Services (Dubai) Ltd to enhance the performance of the REIT.

Jadwa REIT Saudi Fund Governance

Custodian

Name	AlBilad Investment Company
Address	Smart Tower, First Floor, Intersection of King Fahad Road and Tahlia Road, P.O. Box 140, Kingdom of Saudi Arabia.
Website	www.albilad-capital.com
Tel	+966 11 290 6245

Auditor

Name	Alluhaid & Alyahya Chartered Accountants (ACA)
Address	6733 Abo Bakr Al Siddiq Road, Al Taawun District. P.O. Box 85453, Riyadh 11691 Kingdom of Saudi Arabia.
Tel	+966 11 269 3516

Administrator

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com
Tel	+966 11 279 1111

Legal Advisor

Name	Abuhimed Alsheikh Alhagbani Law Firm (in affiliation with Clifford Chance LLP)
Address	The Business Gate, 15th Floor King Khaled International Airport Road, Kingdom of Saudi Arabia
Tel	+966 11 481 9700
Website	www.ashlawksa.com

Third-Party Valuers

Name	White Cubes Company
Address	Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 810 1765
Website	www.white-cubes.com

Name	ValuStrat Company
Address	6th Floor, Southern Tower, King Khalid Foundation Al Faisaliah Complex, King Fahd Road, Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 293 5127
Website	www.valustrat.com

VAT Consultant

Name	PricewaterhouseCoopers (PWC)
Address	Kingdom Tower - 21st Floor, King Fahd Highway, Riyadh, 11414, Saudi Arabia
Tel	+966 11 211 0400
Website	www.pwc.com/m1

Jadwa REIT Saudi Fund Governance

Conflicts of Interest

As of December 31, 2019, there are no transactions involving material conflicts of interest between Jadwa REIT Saudi Fund, Jadwa Investment Company, its board or any third parties. To clarify, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

Conflicts of interest may exist or arise from time to time between the REIT, and the Jadwa Investment Company or its affiliates, subsidiaries, directors, officers, employees and agents thereof, and other Funds sponsored or managed by them. Where Jadwa Investment Company has a material conflict of interest with the Fund, Jadwa Investment Company will make full disclosure to the Fund Board as soon as practicable. Jadwa Investment Company will attempt to resolve any conflicts of interest by exercising its good faith judgment considering the interests of all affected investors and parties taken as a whole.

Material Changes

During the reporting period and up to 30th April 2020, the Fund announced the following material changes:

- The completion of an acquisition of an educational facility, a hospitality building and an office tower in Riyadh.
- The Fund announced an occurrence of an unfortunate incident to one of the Fund's assets "Al Maarefa University building" on Tuesday 20/4/1441H corresponding to 17/12/2019G, where the southern outer wall and the roof of the external parking suffered structural damage.
- The Fund announced a change in the board of directors of the Fund due to the resignation of the Board Member Mr. Zaheeruddin Khalid (Chairman) and the resignation of the Board Member Dr. Fahad Al Turki (Dependent board member) and appointing Mr. Ghannam Al Ghannam (Chairman) and appointing Mr. Asad Khan (Dependent Board Member) and Dr. Nouf Al Sharif (Dependent Board Member) on 06/11/1440H corresponding to 09/07/2019G.
- On 21 April 2020, the fund announced that it has received a number of requests from some tenants to temporarily reduce due rents until the end of precautionary measures that were implemented to contain the spread of the Coronavirus outbreak (COVID-19) aiming to protect citizens and residents by closing of commercial complexes until further notice in addition to a full curfew. The total value of requests under review represents 8% of the fund's total annual revenue as of the latest audited financial statements.

Jadwa REIT Saudi Fund Governance

Fund's Board

The Fund Board oversees the resolution of conflicts of interests. As at December 31, 2019, the Fund Board is composed of appointees of the Fund manager.

The members of the Fund Board have fiduciary duties to the investors under the Real Estate Investment Fund Regulations and will use their best efforts to resolve all conflicts by exercising their good faith judgment.

The Fund Board is composed of five members appointed by the Fund manager, of whom two are independent. Any amendment to the composition of the Fund Board shall be notified to the Unitholders by an announcement on the Fund manager's and Tadawul's websites.

Fund Board Meeting

The Fund manager held Two Fund Board meetings during 2019

The first meeting was held in August 2019.

The following topics have been discussed:

- A brief on the general performance of Saudi Arabia's real estate market during the first half of 2019
- The status and performance of the Fund during the first half of 2019
- The Fund manager's plans to utilize the debt facility in order to facilitate the Fund's growth plans, and the deal flow and opportunities that are being assessed and targeted
- The compliance of the Fund with all rules and regulations

The second meeting was held in December 2019.

The following topics have been discussed:

- A brief on the general performance of Saudi Arabia's real estate market during the second half of 2019
- The status and performance of the Fund during the second half of 2019
- The recent acquisitions made by the fund and its positive effect on the fund's returns
- The Fund manager's plans to utilize the debt facility in order to facilitate the Fund's growth plans, and the deal flow and opportunities that are being assessed and targeted
- The compliance of the Fund with all rules and regulations

Jadwa REIT Saudi Fund Governance

The Fund Board consists of the following members:

Ghannam Al Ghannam

(Chairman)

Mr. Al Ghannam is the Director, Private & Institutional Client Investments at Jadwa Investment Company. Prior to joining Jadwa, he was a Senior Investment Advisor for private clients at HSBC Saudi Arabia. Mr. Al Ghannam has over 14 years of experience in business development and wealth management. He is a certified financial planner and holds a BS degree in Business Administration from Toledo University.

Asad Khan

(Board Member)

Asad Khan is the Head of Economic Research at Jadwa Investment, where he covers economic and energy-related developments in Saudi Arabia and the Middle East. Prior to this, he worked at The Bank of Tokyo-Mitsubishi UFJ, in London, as an Associate Director in the Oil & Gas team, covering the EMEA region. Asad holds a BSc in Economics from the School of Oriental & African Studies (University of London) and has extensive experience in economic-related research positions within Investment Banking, Retail Banking and Real Estate sectors, in addition to working within the UK Civil Service.

Dr. Nouf Al Sharif

(Board Member)

Dr. Nouf is a senior economist part of the Jadwa research team. Prior to joining Jadwa Dr. Nouf was an economics lecturer at Prince Sultan University specializing and teaching Business, Micro and Macroeconomics and monetary banking. From 2009 to 2011, she worked at Riyadh Bank quickly being promoted from senior planning analyst to the bank acting chief economist from December 2007 to November 2008. Dr. Nouf holds a PHD from Sussex University department of economics from Falmer, United Kingdom, in addition to a master and bachelors from King Saud University from the college of Business Administration, Riyadh, Saudi Arabia.

Dr. Waleed Addas

(Independent Director)

Dr. Addas is the Chief of Programs and Portfolio Monitoring Division at Islamic Development Bank. Prior to this he was Director of Finance and Administration at International Energy Forum, Riyadh. Dr. Addas holds a Doctorate in Economics from International Islamic University, Malaysia.

Dr. Waleed Alnumay

(Independent Director)

Dr. Alnumay is a Faculty Member at King Saud University and Chairman of the Saudi Association of Community Colleges. Over the years, he has held many administrative and supervisory positions - most notably in the field of information technology projects, such as the establishment and management of large data centers and smart schools. Dr. Waleed holds a Master's degree from Atlanta University and a Doctorate degree from Oklahoma University.

Jadwa REIT Saudi Fund Governance

Sharia Board

Fund manager has appointed a Shariah Board as the Fund Shariah Advisor (the "Shariah Board"). The Shariah Board is a panel consisting of four scholars who are experts in the field of Islamic Shariah. It monitors the business, operations, investments and financings of the Fund to ensure compliance with the Islamic principles of Shariah.

The Fund manager carries out the Shariah monitoring tasks for the Fund's investments, which include the following:

- Achieve the Fund's commitment to Shariah monitoring through periodic reviews.
- Review agreements and contracts regarding the Fund's transactions.
- Follow-up with the Fund's operations, review its activities in terms of their legality, and consider the extent of its compliance with the Shariah Guidelines and the Shariah Board's directions.
- Submit the matter to the Shariah Board in case of any potential Shariah violations.
- Prepare and follow-up with the necessary endorsements for the purification amounts approved by the Shariah Board.

The Shariah Board oversees the compliance of the Fund's activities with the Shariah Guidelines and provides relevant advice.

H.E. Sheikh Dr. Abdulla Al Mutlaq

H.E. Sheikh Dr. Abdulla Al Mutlaq is a member of the Senior Ulema Board, Advisor to the Royal Court, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University, and a member of the Shariah Board for several financial institutions in the Kingdom of Saudi Arabia.

Sheikh Dr. Muhammad Ali bin Ibrahim Al Qari bin Eid

Sheikh Dr. Muhammad Ali Al Qari bin Eid is a professor of Islamic Economics at King Abdulaziz University in Jeddah, and an expert at the Fiqh Academy of the Organization of Islamic Conference in Jeddah.

Sheikh Bader Abdulaziz Al Omar

Sheikh Bader Abdulaziz Al Omar has 18 years of experience in Islamic banking. Currently, he is the Head of the Shariah Group at Jadwa Investment, having worked earlier in several positions at the Shariah group within Al Rajhi bank. He is a former member of the Islamic banking committee at the Saudi Arabian Monetary Agency.

Sheikh Ahmed Abdulrahman Al Gaidy

Sheikh Ahmed Abdulrahman Al Gaidy is our head of Shariah research and has 14 years of experience in investment banking. He has issued several pieces of Shariah research and previously worked as Shariah consultant to the Al Rajhi Bank's investment department. He was also a Shariah consultant to the Al-Jazira Bank's treasury department.

Jadwa REIT Saudi Fund Governance

Shariah guidelines for the Fund's investment in real estate assets

The Shariah Board believes that investments in real estate assets are permissible subject to the following guidelines:

1. The purchase-and-sale agreement for the real estate assets must be in the Shariah Board's approved form.
2. The invested real-estate asset must be accurately known with due diligence.
3. The price must be known.
4. The Fund manager must not execute any lease contracts on a real estate asset until completion of the purchase of the real estate asset;
5. The property cannot be rented from the owner for a deferred payment, and then re-leased to the owner for an amount that is less than the deferred amount.

The property must not be rented from the owner with a current payment, then re-leased to the owner for more than that price for a deferred payment.

In Addition:

1. The Fund can only invest directly in the shares of listed real estate companies.
2. The Fund can only purchase units in other real estate Funds traded on the Saudi Stock Market 'Tadawul' if these are Shariah-compliant and are approved by the Shariah Board.
3. All Murabaha transactions must be in SAR.

The Fund manager is responsible for the expenses of the Shariah Board, including those related to monitoring the business, operations, investments and financings of the Fund. The Fund is not responsible for Shariah Board's expenses.

The Shariah Board has reviewed the Terms and Conditions and approved the structure of the Fund and the offering of units at the Fund's inception. The Fund shall also comply with the approved Shariah Guidelines.

If any investment proceeds or other amounts received by the Fund are not Shariah-compliant, the fund shall arrange for such Funds to be 'purified' in accordance with a procedure to be determined by the Shariah Board from time to time. The Shariah Board shall specify the relevant purification percentage or amount.

The preceding does not support to be a complete or exhaustive explanation and summary of all the potential conflicts of interest involved in an investment in units in the Fund. It is strongly recommended that all potential investors seek independent advice from their professional advisors.

Section 5

REIT Fund Financials



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**INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company)**

Opinion

We have audited the accompanying financial statements of Jadwa REIT Saudi Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the 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 its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Unqualified Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") as 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, as endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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.



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**INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)**

Key Audit Matters (continued)

Key Audit Matter	How the key matter was addressed in the audit
<p>The Fund owns a portfolio of investment properties comprising of commercial buildings being located in the Kingdom of Saudi Arabia.</p> <p>Investment properties, being 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 management 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 management and the potential impact of impairment 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 reviewed the methodology applied by the external valuers to ensure it is appropriate; - We obtained two valuation reports from two different / independent real estate valuers for all 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; - Based on the average fair value of the related investment properties as per the above-mentioned valuation reports, we have determined that the average fair value is higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 7 to the external valuers' reports.



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**INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)**

Other Information

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

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

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

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

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

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with 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, 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Board of directors is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA as 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.



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**INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Saudi Fund
(Managed by Jadwa Investment Company) (continued)**

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

As part of an audit in accordance with ISA as 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 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

for Alluhaid & Alyahya Chartered Accountants


Saleh A. Al-Yahya
Certified Public Accountant
License No. 473

Riyadh: 2 Shaban 1441 H
(26 March 2020)



STATEMENT OF FINANCIAL POSITION

	Notes	2019 SR	2018 SR
ASSETS			
NON-CURRENT ASSETS			
Investment properties	6	1,611,861,724	1,524,395,217
Deferred charges	11	7,100,977	-
TOTAL NON-CURRENT ASSETS		1,618,962,701	1,524,395,217
CURRENT ASSETS			
Rent receivables	8	25,479,039	26,582,690
Prepayments and other assets	9	7,135,159	10,346,116
Cash and cash equivalents	10	29,412,753	20,459,428
TOTAL CURRENT ASSETS		62,026,951	57,388,234
TOTAL ASSETS		1,680,989,652	1,581,783,451
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term loan	11	127,772,500	-
CURRENT LIABILITIES			
Due to related parties	14	2,342,815	59,441
Unearned rental income		2,267,943	-
Accrued management fee	14	6,664,092	6,619,153
Accruals and other liabilities	12	1,243,947	295,995
Provision for legal claim	13	3,000,000	-
TOTAL CURRENT LIABILITIES		15,518,797	6,974,589
TOTAL LIABILITIES		143,291,297	6,974,589
NET ASSETS		1,537,698,355	1,574,808,862
Units in issue	16	158,000,000	158,000,000
Per unit value		9.73	9.97
Per unit fair value	7	11.17	11.03

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the year ended 31 December 2019 SR	For the period from 11 February 2018 to 31 December 2018 SR
INCOME			
Rental income from investment properties	18	133,733,888	117,561,752
EXPENSES			
Depreciation	6	(36,869,430)	(35,824,433)
Management fees	14	(13,185,722)	(12,301,877)
Amortisation of deferred charges	11	(2,899,023)	-
General and administrative expenses	15	(2,224,764)	(1,946,580)
		(55,178,939)	(50,072,890)
OPERATING PROFIT		78,554,949	67,488,862
Finance charges	11, 14	(1,905,456)	-
NET INCOME FOR THE YEAR/PERIOD		76,649,493	67,488,862
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		76,649,493	67,488,862

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	For the year ended	For the period
		31 December 2019	from 11 February 2018 to 31 December 2018
		SR	SR
OPERATING ACTIVITIES			
Net income for the year/period		76,649,493	67,488,862
Adjustments for non-cash and other items:			
Depreciation	6	36,869,430	35,824,433
Amortisation of deferred charges	11	2,899,023	-
Finance charges	11, 14	1,905,456	-
		118,323,402	103,313,295
Changes in operating assets and liabilities:			
Rent receivables		1,103,651	(26,582,690)
Prepayments and other assets		3,210,957	(10,346,116)
Due to related parties		1,069,306	59,441
Unearned rental income		2,267,943	-
Accrued management fee		44,939	6,619,153
Accrued expenses		947,952	295,995
		126,968,150	73,359,078
Finance charges paid		(691,388)	-
Net cash from operating activities		126,276,762	73,359,078
INVESTING ACTIVITY			
Purchase of investment properties	6	(121,335,937)	(543,666,650)
Net cash used in investing activity		(121,335,937)	(543,666,650)

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS - (continued)

	Notes	For the year ended	For the period
		31 December 2019	from 11 February 2018 to 31 December 2018
		SR	SR
FINANCING ACTIVITIES			
Loan proceeds	11	127,772,500	-
Dividends distributed	21	(113,760,000)	(72,680,000)
Deferred charges	11	(10,000,000)	-
Proceeds from units sold		-	563,447,000
Net cash from financing activities		4,012,500	490,767,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		8,953,325	20,459,428
Cash and cash equivalents at beginning of the year/period		20,459,428	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		29,412,753	20,459,428
NON-CASH TRANSACTIONS			
Provision for legal claim on investment properties	6, 13	3,000,000	-
Investment properties (compensated against sale of units)	6	-	1,016,553,000

The attached notes 1 to 24 form an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Notes	For the year ended 31 December 2019	For the period from 11 February 2018 to 31 December 2018
		SR	SR
Net asset value attributed to the unitholders at beginning of the year/period		1,574,808,862	-
Issuance of units			
for cash		-	563,447,000
for consideration other than cash		-	1,016,553,000
		-	1,580,000,000
Comprehensive income			
Net income for the year/period		76,649,493	67,488,862
Other comprehensive income for the year/period		-	-
Total comprehensive income for the year/period		76,649,493	67,488,862
Dividend distribution	21	(113,760,000)	(72,680,000)
Net asset value attributed to the unitholders at end of the year/period		1,537,698,355	1,574,808,862

The attached notes 1 to 24 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

Jadwa REIT Saudi Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investment Traded Funds ("REITF") Instructions issued by the Capital Market Authority ("CMA"). The Fund is listed on Saudi Stock Exchange ("Tadawul") and the units of the Fund started to be traded on Tadawul in accordance with its rules and regulations. The Capital of the Fund is SR 1,580,000,000 divided into 158,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the CMA.

The Fund is being managed by Jadwa Investment Company, a Saudi Arabian closed joint stock company with commercial registration number 1010228782, and an Authorized Person licensed by the CMA under license number 06034-37 (the "Fund Manager").

The following entities have been established and approved by the CMA as special purpose vehicles (the "SPVs") for the beneficial interest of the Fund:

1. Real Estate Development Areas Company, a Limited Liability Company with commercial registration number 1010385322.
2. Jadwa Al Masha'ar Real Estate Company, a Limited Liability Company with commercial registration number 1010495554.

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, excluding the Holy Cities of Makkah and Medina.

While the Fund will primarily invest in developed real estate assets which are ready for use, it may also opportunistically invest in real estate development projects in a value not exceeding 25% of the Fund's total asset value with the aim of achieving an increase in value per unit; provided that (i) at least 75% of the Fund's total assets are invested in developed real estate assets which generate periodic income and (ii) the Fund shall not invest in White Land.

2. REGULATING AUTHORITY

The Fund is governed by the REIFR published by the CMA in the Kingdom of Saudi Arabia on 19 Jumada II 1427 H (corresponding to 15 July 2006) and REITF instructions published by CMA on 23 Muharram 1438 H (corresponding to 24 October 2016), detailing requirements for all real estate funds operating within the Kingdom of Saudi Arabia.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

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 the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting and the going concern concept.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR"), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

4.1 Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.

4.2 Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS - (continued)

4.3 Impairment of financial assets held at amortised cost

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial 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.

5. SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Investment properties

Investment properties comprise completed properties that are held to earn rentals or for capital appreciation or both. Investment property is stated at cost including transaction costs net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The cost less estimated residual value, if any, of investment property is depreciated on a straight-line basis over the estimated useful lives of the assets. Land, on the other hand, is reported at cost.

The fair value of investment properties is disclosed in note 7.

5.2 Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value 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 asset 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.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Cash and cash equivalents

For the purposes of cash flows statement, cash and cash equivalents consists of bank balances.

5.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

5.4.1 Initial recognition and measurement of financial instruments

The Fund initially recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Initial measurement of the financial instrument is at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets carried at FVTPL are expensed in the statement of comprehensive income.

5.4.2 Financial assets – subsequent classification and measurement

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or FVTPL. There are two criteria used to determine how financial assets should be classified and measured:

- a. The Fund's business model for managing the financial assets; and
- b. The contractual cash flow characteristics of the financial asset

A financial asset is measured at amortised cost if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, a financial asset is measured at FVTPL.

The Fund has no financial assets measured at FVTPL and FVOCI.

The Fund derecognises a financial asset when the rights to the cash flows from the financial asset have expired or where the Fund has transferred substantially all risks and rewards associated with the financial asset and does not retain control of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Financial instruments (continued)

5.4.3 Impairment of financial assets

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. Where there is no significant financing component in the financial instruments recognised at amortised cost or FVOCI, then the Fund can use simplified approach and assess allowance on lifetime ECL using a forward-looking provision matrix.

As at period end, the Fund has bank balances, rent receivables and due from a related party as financial assets carried at amortised cost.

The bank balances are demand deposits with reputable financial institutions with investment grade credit rating. These financial institutions are highly capitalised and sufficiently liquid. They adhere to strict requirements of their regulator with respect to capital adequacy and liquidity requirements. Further, based on the economic review in general and assessment of the forecast of the Saudi Arabian Financial Institutions specifically by the reputable financial analyst and other agencies, the management believes that the financial institutions will continue their positive capital of liquidity requirements. Accordingly, the management believes no provision is required at this stage.

With respect to rent receivables, these are short-term receivables which are current and are settled within a very short period of time. No provision has been booked on the rent receivables as the management expects the receivable to be fully recoverable.

5.4.4 Financial liabilities – subsequent classification and measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate ("EIR") method. The EIR is the rate that discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Fund derecognises a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Fund's financial liabilities include due to related parties, accrued management fee and accrued expenses.

5.4.5 Offsetting of financial instruments

Financial assets and liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Provision

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.6 Revenue recognition

Revenue includes rental income from investment properties.

Rental income from operating leases is recognised on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of the incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

The contracts include fixed price and the customer pays the fixed amount based on a payment schedule. If the services rendered by the Fund exceed the payment, accrued rental income is recognised. If the payments exceed the services rendered, unearned rental income is recognised.

Revenue is measured at the transaction price agreed under the contract. Amounts disclosed as revenue are net of variable consideration and payments to customers, which are not for distinct services, this consideration may include discounts, trade allowances, rebates and amounts collected on behalf of third parties. The Fund does not have contracts where the period between the performance of the service to the customer and the payment by the customer exceeds one year, and as a result, the Fund does not adjust transaction price for the time value of money.

A receivable is recognised when services are provided as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

5.7 Management fees

Management fees are charged by the Fund Manager at the rate of 0.75% per annum of the Fund's net asset market value. Management fee is calculated and payable semi-annually in arrears.

5.8 Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under IFRS.

5.9 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.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 Zakat

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

5.11 Dividend distribution

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

5.12 Standards effective 1 January 2019

The Fund has adopted the following new standards which have been issued and effective from 1 January 2019:

5.12.1 IFRS 16, Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard IAS 17 – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 'IAS 17 *Leases*', 'IFRIC 4 *Determining whether an Arrangement contains a Lease*', 'SIC 15 *Operating Leases – Incentives*' and 'SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*'.

The application of this standard did not have an impact on the amounts presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

5.13.1 IFRS 17, Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The standard is effective for annual periods beginning on or after 1 January 2021 and earlier adoption is permitted.

The Fund is still assessing the potential impact of adopting the new standard on the financial statements.

5.13.2 Other Amendments

- The following amendments to standards are not yet effective and neither expected to have a significant impact on the Fund's financial statements:
- Amendments to IFRS 3 – Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IAS 1 and IAS 8 – Definition of Material
- Amendments to IFRS 9 and IAS 7 – Interest Rate Benchmark Reform
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current

NOTES TO THE FINANCIAL STATEMENTS - (continued)

6. INVESTMENT PROPERTIES

The composition of the investment properties as of the reporting date is summarized below:

Description	31 December 2019		
	Cost	Accumulated depreciation	Net book value
	SR	SR	SR
Land	499,871,870	-	499,871,870
Alyaum Newspaper Tower	160,173,955	6,406,590	153,767,365
Almaarefa College	98,817,662	5,613,850	93,203,812
Al-Sulay Warehouse	147,534,425	11,043,177	136,491,248
Marvela Residential Compound	492,696,838	35,550,428	457,146,410
Al Fanar Residential & Commercial Compound	205,902,564	13,258,229	192,644,335
Rawd Aljinan School	19,016,563	556,964	18,459,599
Aber Al Yasmin Hotel	19,870,771	86,855	19,783,916
Olaya Court Tower	40,670,939	177,770	40,493,169
	1,684,555,587	72,693,863	1,611,861,724

Description	31 December 2018		
	Cost	Accumulated depreciation	Net book value
	SR	SR	SR
Land	456,472,011	-	456,472,011
Alyaum Newspaper Tower	160,173,955	3,046,812	157,127,143
Almaarefa College	97,439,857	2,810,765	94,629,092
Al-Sulay Warehouse	147,534,425	5,529,142	142,005,283
Marvela Residential Compound	492,696,838	17,799,530	474,897,308
Al Fanar Residential & Commercial Compound	205,902,564	6,638,184	199,264,380
	1,560,219,650	35,824,433	1,524,395,217

NOTES TO THE FINANCIAL STATEMENTS - (continued)

6. INVESTMENT PROPERTIES (continued)

The movement in the account during the year/period is as follows:

	2019 SR	2018 SR
Cost		
Balance at beginning of the year/period	1,560,219,650	-
Additions during the year/period	124,335,937	1,560,219,650
Balance at end of the year/period	1,684,555,587	1,560,219,650
Accumulated depreciation		
Balance at beginning of the year/period	35,824,433	-
Depreciation charge for the year/period	36,869,430	35,824,433
Balance at end of the year/period	72,693,863	35,824,433
Net book value	1,611,861,724	1,524,395,217

- 6.1 The useful lives of the investment properties as estimated by an independent valuator range from 30 to 50 years.
- 6.2 Freehold land comprises of the lands acquired on which the buildings are built. The Fund acquired properties in Riyadh, Al Khobar and Dammam with an aggregate area of 387,442.39 square meters of land (2018: 377,502.39 square meters).
- 6.3 The consideration for the properties acquired in 2018 was partly paid in cash and partly settled through issuance of 101,655,300 units of the Fund.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

6. INVESTMENT PROPERTIES (continued)

6.4 Brief details of the investment properties follow:

6.4.1 Alyaum Newspaper Tower

This property is a 16-storey with 3-level basement, office building located in Al Hussam District, Dammam City.

6.4.2 Almaarefa College

This property is a fully constructed educational facility located in Al Diriah District, Riyadh.

6.4.3 Al-Sulay Warehouse

This property is an industrial compound located at the east corner of Haroon Al Rashid Road and Alsafa Street, within Al Sulay District, Riyadh.

6.4.4 Marvela Residential Compound

This property is a residential compound located along the southeast side of King Abdullah Road, within King Faisal District, Riyadh.

6.4.5 Al Fanar Residential & Commercial Compound

This property is a mixed-use project composed of residential and retail units located at the southwest corner of King Faisal Road and 1 Street, within Ar Rawabi District, Al Khobar.

6.4.6 Rawd Aljinan School

This property is a fully constructed educational facility located in An-Nakheel District, Riyadh.

6.4.7 Aber Al Yasmin Hotel

This property is a hospitality and retail project located in Al Yasmin District, Riyadh.

6.4.8 Olaya Court Tower

This property is an office project occupied by the labor court and located in Al Sahafa District, Riyadh.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

7. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED

In accordance with Article 21 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with the requirement in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less depreciation and impairment, if any, in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The fair value of the investment properties is determined by two selected appraisers, i.e. ValuStrat and White Cubes. As at reporting date, the valuation of investment properties are as follows:

	Appraiser 1	Appraiser 2	Average
31 December 2019	SR	SR	SR
Alyaum Newspaper Tower	318,000,000	288,900,000	303,450,000
Almaarefa College	228,500,000	220,700,000	224,600,000
Al-Sulay Warehouse	276,000,000	235,300,000	255,650,000
Marvela Residential Compound	645,000,000	645,200,000	645,100,000
Al Fanar Residential & Commercial Compound	268,300,000	259,700,000	264,000,000
Rawd Aljinan School	31,250,000	31,000,000	31,125,000
Aber Al Yasmin Hotel	44,200,000	40,000,000	42,100,000
Olaya Court Tower	77,420,000	70,000,000	73,710,000
	1,888,670,000	1,790,800,000	1,839,735,000

	Appraiser 1	Appraiser 2	Average
31 December 2018	SR	SR	SR
Alyaum Newspaper Tower	318,000,000	288,900,000	303,450,000
Almaarefa College	228,500,000	220,700,000	224,600,000
Al-Sulay Warehouse	276,000,000	235,300,000	255,650,000
Marvela Residential Compound	645,000,000	645,200,000	645,100,000
Al Fanar Residential & Commercial Compound	268,300,000	259,700,000	264,000,000
	1,735,800,000	1,649,800,000	1,692,800,000

NOTES TO THE FINANCIAL STATEMENTS - (continued)

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

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration number of factors, including the area and type of property. Below is an analysis of the investment properties' fair value against cost:

i. The unrealised gain on investment properties based on fair value evaluation is set out below:

	2019	2018
	SR	SR
Fair value of investments in real estate properties	1,839,735,000	1,692,800,000
Less: Carrying value of investments in real estate properties (note 6)	1,611,861,724	1,524,395,217
Unrealised gain based on fair value evaluation	227,873,276	168,404,783
Units in issue	158,000,000	158,000,000
Per unit share in unrealised gain based on fair value evaluation	1.44	1.06

ii. The net asset value using the fair values of the real estate properties is set out below:

	2019	2018
	SR	SR
Net asset value at cost, as presented in these financial statements	1,537,698,355	1,574,808,862
Unrealised gain based on real estate evaluations (note 7.i.)	227,873,276	168,404,783
Net asset based on fair value	1,765,571,631	1,743,213,645

iii. The net asset value per unit, using the fair values of the real estate properties is set out below:

	2019	2018
	SR	SR
Net asset value per unit, at cost as presented in these financial statements	9.73	9.97
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.i.)	1.44	1.06
Net asset value per unit at fair value	11.17	11.03

NOTES TO THE FINANCIAL STATEMENTS - (continued)

8. RENT RECEIVABLES

This account represents the rent receivable from the operating leases (see note 18).

Following is the ageing analysis of the receivable:

	2019	2018
	SR	SR
Less than 30 days	23,344,043	25,963,238
Between 31 to 60 days	-	-
Between 61 to 90 days	-	-
Between 91 to 120 days	-	619,452
More than 120 days	2,134,996	-
	25,479,039	26,582,690

Impairment and risk exposure

Information about the impairment of rent receivables and the Fund's exposure to credit risk can be found in note 19.

9. PREPAYMENTS AND VALUE-ADDED TAX

	2019	2018
	SR	SR
Input value-added tax ("VAT")	7,113,511	10,240,609
Prepaid expenses	21,648	105,507
	7,135,159	10,346,116

10. CASH AND CASH EQUIVALENTS

As of 31 December 2019, four of the eight bank accounts are maintained with Banque Saudi Fransi under the name of the SPVs with a total balance of SR 22,408,786 (2018: four of the six bank accounts with a total balance of SR 14,284,521).

NOTES TO THE FINANCIAL STATEMENTS - (continued)

11. LONG-TERM LOAN

On 1 October 2018, BSF has extended an Islamic finance facility to one of the SPVs, Real Estate Development Areas Company, amounting to SR 1,000,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the facility to the Fund on terms and conditions same as that of the facility.

The facility and correspondingly the loan is available until 1 October 2021 and is repayable in full on 31 July 2023. As at 31 December 2019, the Fund has drawn SR 127,772,500 (2018: SR nil) from the facility.

The facility is secured by promissory notes and pledge over the current and future rights and interests in the investment properties of the Fund.

Finance charges for the period ended 31 December 2019 amounted to SR 1,905,456 (2018: SR nil) which are reflected under the statement of comprehensive income.

Fees charged by the Bank for loan servicing amounting to 1.0% of the loan facility has been capitalised as 'Deferred charges' in the statement of financial position and is amortised over the period of the loan facility. Amortisation of deferred charges for the period ended 31 December 2019 amounted to SR 2,899,023 (2018: SR nil) which are reflected under the statement of comprehensive income.

12. ACCRUALS AND OTHER LIABILITIES

	2019	2018
	SR	SR
Output VAT	979,109	-
Custody fee	80,658	80,658
Professional fees	68,001	166,403
Property valuation fees	49,059	48,934
Administration fee	29,664	-
Legal fees	21,000	-
Independent board member fee	10,000	-
Others	6,456	-
	1,243,947	295,995

NOTES TO THE FINANCIAL STATEMENTS - (continued)

13. PROVISION FOR LEGAL CLAIM

	2019	2018
	SR	SR
At beginning of the year/period	-	-
Arising during the year	3,000,000	-
At end of the year/period	3,000,000	-

During 2019, provision amounting to SR 3,000,000 is recognised for legal claim filed against the Fund relating to a dispute in one of its investment properties. The Fund is currently pleading it but the final outcome of such case is not certain yet.

14. RELATED PARTY TRANSACTIONS AND BALANCES

14.1 Related party transactions

The following are the details of the significant transactions with related parties during the year/period:

Related party	Nature of relationship	Nature of transaction	For the year ended 31 December 2019	For the period from 11 February 2018 to 31 December 2018
			SR	SR
Jadwa Investment Company	Fund manager	Management fee (i)	13,185,722	12,301,877
		Transaction fee for acquisition of properties	885,938	11,599,650
		Paid on behalf of the Fund	-	34,021
AbdulKadir Al Muhaidib & Sons Co.	Unitholder	Rental revenue from investment properties	90,125,000	81,482,877
Almareefa University for Science & Technology	Unitholder	Rental revenue from investment properties	14,666,667	14,465,754
Real Estate Development Areas Company	SPV	Finance charges	1,905,456	-

On December 2019, Almareefa University for Science & Technology no longer holds units in the Fund.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

14. RELATED PARTY TRANSACTIONS AND BALANCES - (continued)

14.1 Related party transactions - (continued)

i. Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the Fund charges the Fund a management fee equal to 0.75% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

For the dividends distributed to the unitholders, please refer to note 21.

14.2 Related party balances

The following are the details of related party balances at the year/period end:

Amounts due to related parties

	2019	2018
	SR	SR
Real Estate Development Areas Company	1,214,068	-
Unitholders - Unpaid dividends	208,789	25,420
Jadwa Investment Company	919,958	34,021
	2,342,815	59,441

Accrued management fee

	2019	2018
	SR	SR
Jadwa Investment Company	6,664,092	6,619,153

NOTES TO THE FINANCIAL STATEMENTS - (continued)

15. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2019	For the period from 11 February 2018 to 31 December 2018
	SR	SR
Registration fee	400,000	450,382
Custody fee	320,000	323,946
Professional fees	312,975	439,472
Indirect tax	309,063	-
Tadawul listing fee	300,000	320,822
Insurance	170,925	94,257
Administration fee	132,870	121,225
Property valuation fees	112,345	97,994
Legal fee	53,801	78,442
Independent board member fee (i)	20,000	20,000
Others	92,785	40
	2,224,764	1,946,580

(i) This pertains to remuneration paid to independent directors of the Fund's board.

16. UNIT TRANSACTIONS

Transaction in units of the Fund is summarized as follows:

	2019 In numbers	2018 In numbers
Units at the beginning of the year/period	158,000,000	-
Units issued during the period for consideration in cash	-	56,344,700
Units issued during the period for consideration other than cash	-	101,655,300
Units at the end of the year/period	158,000,000	158,000,000

NOTES TO THE FINANCIAL STATEMENTS - (continued)

17. FAIR VALUE MEASUREMENT

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

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

All financial instruments for which fair value is recognised or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

17.1 Financial instruments

Financial assets consist of cash and cash equivalents and rent receivables. Financial liabilities consist of due to related parties, accrued management fees, other accrued expenses and long-term loan. The fair values of financial assets and financial liabilities are not materially different from their carrying values.

17.2 Non-financial assets

The following table shows the fair value of investment properties disclosed:

	Level 1	Level 2	Level 3	Total
31 December 2019	SR	SR	SR	SR
Alyaum Newspaper Tower	-	303,450,000	-	303,450,000
Almaarefa College	-	224,600,000	-	224,600,000
Al-Sulay Warehouse	-	255,650,000	-	255,650,000
Marvela Residential Compound	-	645,100,000	-	645,100,000
Al Fanar Residential & Commercial Compound	-	264,000,000	-	264,000,000
Rawd Aljinan School	-	31,125,000	-	31,125,000
Aber Al Yasmin Hotel	-	42,100,000	-	42,100,000
Olaya Court Tower	-	73,710,000	-	73,710,000
	-	1,839,735,000	-	1,839,735,000

NOTES TO THE FINANCIAL STATEMENTS - (continued)

17 FAIR VALUE MEASUREMENT (continued)

17.2 Non-financial assets (continued)

	Level 1	Level 2	Level 3	Total
31 December 2018	SR	SR	SR	SR
Alyaum Newspaper Tower	-	303,450,000	-	303,450,000
Almaarefa College	-	224,600,000	-	224,600,000
Al-Sulay Warehouse	-	255,650,000	-	255,650,000
Marvela Residential Compound	-	645,100,000	-	645,100,000
Al Fanar Residential & Commercial Compound	-	264,000,000	-	264,000,000
	-	1,692,800,000	-	1,692,800,000

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk, correlation and volatility.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by ValuStrat and White Cubes as disclosed in note 7. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (IVSC) and applied by Saudi Authority for Accredited Valuers (TAQEEM). These models comprise both the income capitalisation approach and depreciated replacement cost (DRC).

NOTES TO THE FINANCIAL STATEMENTS - (continued)

18. OPERATING LEASES

Future rental commitments under the operating leases are as follows:

	2019 SR	2018 SR
Not later than one year	51,963,192	127,255,674
Later than one year and not later than five years	191,379,543	414,246,569
Later than five years	263,904,384	262,025,744
	507,247,119	803,527,987

The Fund enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 20 years. Leases generally provide for the tenant to pay the base rent, with provisions for contractual increases in base rent over the term of the lease. Rental income recognised by the Fund during the year is SR 133,733,888 (2018: SR 117,561,752).

NOTES TO THE FINANCIAL STATEMENTS - (continued)

19. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and property risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its Terms and Conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

19.1 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 is not significant to the Fund.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk arises from the long-term loan. This is benchmarked to SAIBOR which expose the Fund to cash flow interest rate risk.

The Fund analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund.

An increase/decrease in interest rate of 1%, with all other variables held constant, would have resulted in a net increase/decrease in the Fund's total comprehensive income of SR 409,212 for the year ended 31 December 2019 (2018: SR nil).

19.2 Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Bank balances are placed with banks having sound credit ratings. The Fund seeks to limit its credit risk with respect to counterparties by setting credit limits for individual counterparties and by monitoring outstanding receivables.

The maximum exposure to credit risk applicable to the Fund approximates to the carrying value of the financial assets as disclosed in these financial statements.

The Fund applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for rent receivables.

As at 31 December 2019 and 2018, management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised as any such impairment would be wholly insignificant to the Fund.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

19.3 Liquidity risk

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

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted payments:

	On demand	Less than 3 months	More than 12 months	Total
31 December 2019	SR	SR	SR	SR
Long-term loan	-	-	127,772,500	127,772,500
Due to related parties	1,128,747	1,214,068	-	2,342,815
Accrued management fees	-	6,664,092	-	6,664,092
Accrued expenses	-	1,243,947	-	1,243,947
	1,128,747	9,122,107	127,772,500	138,023,354

	On demand	Less than 3 months	More than 12 months	Total
31 December 2018	SR	SR	SR	SR
Due to related parties	59,441	-	-	59,441
Accrued management fees	-	6,619,153	-	6,619,153
Accrued expenses	-	295,995	-	295,995
	59,441	6,915,148	-	6,974,589

19.4 Property risk

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the risk that a tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associate property. To reduce this risk, the Fund reviews the financial status of all prospective tenants and decides on the appropriate level of security required via promissory notes.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

20. OPERATING SEGMENT

The Fund is organised into one operating segment. All of the Fund's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the fund as one segment.

21. DIVIDENDS DISTRIBUTION

On 12 February 2019, the Fund manager approved to distribute dividends to the unitholders for the period from 1 October 2018 to 31 December 2018 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 10 April 2019, the Fund manager approved to distribute dividends to the unitholders for the period from 1 January 2019 to 31 March 2019 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 8 July 2019, the Fund manager approved to distribute dividends to the unit holders for the period from 1 April 2019 to 30 June 2019 amounting to SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 09 October 2019, the Fund manager approved to distribute dividends to the unitholders for the period from 1 July 2019 to 30 September 2019 for an amount of SR 28,440,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

NOTES TO THE FINANCIAL STATEMENTS - (continued)

22. SUBSEQUENT EVENTS

On 13 January 2020, the Fund manager approved to distribute dividends to the unitholders for the period from 1 October 2019 to 31 December 2019 for an amount of SR 30,020,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

At the beginning of the year 2020, the presence of COVID 19 virus was confirmed, which spread all over the world causing disturbance of commercial and economic activities. The management considers this event to be an event that does not require adjustments after the financial reporting period, as the situation is variable and rapidly evolving and the potential impact on the Fund's results cannot be estimated.

For subsequent reporting periods, this will affect the measurement and recognition of assets and liabilities in the Fund's financial statements. The management is still working on the impact assessment for the year 2020.

23. LAST VALUATION DAY

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

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 2 Shaban 1441 H (corresponding to 26 March 2020).



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