DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)
Financial Statements
For the year ended 31 December 2022
Together with the
Independent Auditor's Report

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Index

INDEPENDENT AUDITOR'S REPORT

TO TO THE UNITHOLDERS DERAYA REIT FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Deraya REIT Fund ("the Fund"), being managed by Deraya Capital (the "Fund Manager"), as at 31 December 2022, 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, including a summary of significant accounting policies and other explanatory information.

We have audited the financial statements of the fund, which comprise of the following:

- The statement of financial position as at 31 December 2022;
- The statement of comprehensive income for the year then ended;
- The statement of changes in equity for the year then ended;
- The statement of cash flows for the year then ended, and;
- The notes to the financial statements, including a summary of significant accounting policies.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other 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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

TO TO THE UNITHOLDERS DERAYA REIT FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

KEY AUDIT MATTERS

Key Audit Matters	How our audit addressed the key audit matter
Deraya REIT Fund owns a portfolio of investment properties comprising of commercial and residential buildings located in the Kingdom of Saudi Arabia. Investment properties are held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any accumulated impairment losses.	For impairment of investment properties, we have carried out the following audit procedures: -We obtained two valuation reports from independent real estate evaluators Taqeem certified for each investment properties as at 31 December ٢٠٢٢ and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;
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. 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 semi-annual basis. 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. Refer to the summary of significant accounting policies in note 5 relating to investment properties, note 4-2 which contains the significant accounting judgment, estimates and assumptions relating to impairment and note 11 relating to investment properties	-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; -Involved our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties. -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; Accordingly, the provision for impairment has been reversed.and -We reconciled the average fair value of the investment properties as per note 14 to the external valuers' reports. - Assessing the adequacy of the disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT

TO TO THE UNITHOLDERS DERAYA REIT FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OTHER INFORMATION

Other information consists of the information included in the Fund's 2022 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in the Fund's 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 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 other information, 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 CONSILDATED 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, the applicable provisions of the Real Estate Investment funds regulations issued by the Capital Market Authority and the fund's terms and conditions, and for such internal control as 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, i.e. the fund's Board, are responsible for overseeing the Fund's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing "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 the International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify 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.
- 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 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.

INDEPENDENT AUDITOR'S REPORT

TO TO THE UNITHOLDERS DERAYA REIT FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

For Al-Bassam & Co.

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
License 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ahmad Mohandis
Certified Public Accountant
License No. 477
Riyadh: 08 Ramadan 1444
Corresponding to: 30 March 2023

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(Amounts in SAR)

	Note	As at 31 December 2022	As at 31 December 2021
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**2,225,214**	24,072,849
Rent receivables, net	8	**65,602,113**	52,231,844
Investments carried at FVTPL	9	**5,739,905**	15,715,268
Prepaid expenses and other current assets	10	**948,322**	1,712,110
TOTAL CURRENT ASSETS		**74,515,554**	93,732,071
NON-CURRENT ASSETS			
Investment properties, net	11	**1,552,756,261**	1,567,926,588
Benefit contracts, net	12	**31,104,552**	33,065,108
TOTAL NON-CURRENT ASSETS		**1,583,860,813**	1,600,991,696
TOTAL ASSETS		**1,658,376,367**	1,694,723,767
LIABILITIES			
CURRENT LIABILITIES			
Unearned rental income		**10,685,233**	16,657,842
Accrued management fees	15	**4,427,609**	3,911,055
Accrued finance expenses	18	**2,399,565**	5,249,168
Accrued expenses and other liabilities		**4,880,217**	6,731,286
Zakat provision	16	**5,964,130**	4,084,149
TOTAL CURRENT LIABILITIES		**28,356,754**	36,633,500
NON-CURRENT LIABILITIES			
Long-term borrowings	18	**747,982,834**	747,982,834
TOTAL NON-CURRENT LIABILITIES		**747,982,834**	747,982,834
TOTAL LIABILITIES		**776,339,588**	784,616,334
Net assets attributable to the Unitholders		**882,036,779**	910,107,433
Units in issue *(numbers)*		**107,507,035**	107,507,035
Book value attributable to each unit		**8.204**	8.466
Fair value attributable to each unit	14	**8.376**	8.472

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

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022
(Amounts in SAR)

	Note	**For the year ended 31 December 2022**	For the year ended 31 December 2021
Rental income from real estate investments	17	**123,127,631**	130,200,628
Gain from Investments carried at FVTPL, net	13	**324,637**	169,318
Gross Profit		**123,452,268**	130,369,946
Fund management fees	15	**(7,648,386)**	(7,862,383)
Finance expenses	18	**(37,517,869)**	(21,791,879)
Professional and advisory expenses		**(1,254,756)**	(927,110)
Properties management fees		**(3,969,844)**	(4,886,367)
Amortization benefit contracts	12	**(1,960,556)**	(2,577,912)
Other expenses		**(1,310,478)**	(3,214,752)
Depreciation expense on investment properties	11	**(21,183,319)**	(21,726,481)
Reverse of impairment on investment properties	11	**4,526,604**	2,357,061
Expected credit loss expense	8	**(4,069,413)**	(22,383,416)
Total expenses		**(74,388,017)**	(83,013,239)
Net income before zakat		**49,064,251**	47,356,707
Zakat charged during the year	16	**(1,879,981)**	(1,796,954)
Net income for the year		**47,184,270**	45,559,753
Other comprehensive income		**-**	-
Total comprehensive income for the year		**47,184,270**	45,559,753

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS
For the year ended 31 December 2022
(Amounts in SAR)

	Note	**For the year ended 31 December 2022**	For the year ended 31 December 2021
Net assets value attributable to the Unitholders at the beginning of the year		**910,107,433**	944,532,914
Changes from unit transaction:			
- Subscription of units – Cash		**-**	-
- Subscription of units – In kind contribution		**-**	-
Assets value attributable to the Unitholders at the end of the year		**910,107,433**	944,532,914
Dividends	20	**(75,254,924)**	(79,985,234)
Total comprehensive income for the year		**47,184,270**	45,559,753
Net assets value attributable to the Unitholders at the end of the year		**882,036,779**	910,107,433

Transactions in units for the year are summarized as follows:

	31 December 2022	31 December 2021
Number of units at the beginning of the year	**107,507,035**	107,507,035
Subscription of units – Cash	**-**	-
Subscription of units – In kind contribution	**-**	-
Number of units at the end of the year	**107,507,035**	107,507,035

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

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2022
(Amounts in SAR)

	NOTE	For the year ended 31 December 2022	For the year ended 31 December 2021
OPERATING ACTIVITIES			
Net income for the year before zakat		**49,064,251**	47,356,707
Adjustments to reconcile net income to net cash from operating activities:			
Unrealized gains on investments carried at FVTPL	13	**(87,580)**	(169,318)
Realized gain from investments carried at FVTPL	13	**(237,057)**	-
Financing expenses	18	**37,517,869**	21,791,879
Provision for expected credit losses	8	**4,069,413**	22,383,416
Depreciation on investment properties	11	**21,183,319**	21,726,481
Impairment on investment properties	11	**(4,526,604)**	(2,357,061)
Amortization benefit contracts	12	**1,960,556**	2,577,912
		108,944,167	113,310,016
Changes in operating assets:			
Rent receivable	8	**(17,439,682)**	(19,754,785)
Prepaid expenses and other current assets	10	**763,788**	198,661
Changes in operating Liabilities:			
Unearned rental income		**(5,972,609)**	(1,152,636)
Accrued management fees	15	**516,554**	(218,117)
Accrued expenses and other liabilities		**(1,851,069)**	3,072,585
Net cash generated from operating activities		**84,918,517**	95,455,724
INVESTING ACTIVITIES			
Purchase investment properties	11	**(1,486,388)**	-
Purchase investment carried at FVTPL	9	**(12,000,000)**	(12,500,000)
Proceeds from sale of investment carried at FVTPL	9	**22,300,000**	-
Net cash generated from / (used in) investing activities		**8,813,612**	(12,500,000)
FINANCING ACTIVITIES			
Dividends	20	**(75,254,924)**	(79,985,234)
Long-term borrowings drawn	18	**642,407,145**	-
Long-term borrowings repayments	18	**(642,407,145)**	-
Paid from financing expenses	18	**(40,367,472)**	(21,625,290)
Net cash used in financing activities		**(115,579,764)**	(101,610,524)
Change in cash and cash equivalents during the year		**(21,847,635)**	(18,654,800)
Cash and cash equivalents at the beginning of the year	7	**24,072,849**	42,727,649
Cash and cash equivalents at the end of the year	7	**2,225,214**	24,072,849

Non-cash transactions	**31 December 2022**	31 December 2021
The unpaid portion of the dividend	**42,632**	-

Notes to the financial statements
For the year ended 31 December 2022
(Amounts in SAR)

1) THE FUND AND ITS ACTIVITIES

Derayah REIT Fund (the "Fund") is a closed-ended Sharia compliant real estate investment traded fund. The fund began operations on 26 March 2018.
Derayah Financial Company ("Fund Manager"), a Saudi closed joint stock company, under the Commercial Registration No. 1010266977 dated 04/05/1430 H corresponding to 29/4/2009, and licensed as a "Capital Market Institution" under the Capital Market Authority License No. 27-08109 to practice an activity Dealing as principal and agent, management and custody in securities business.
The Fund is listed on the Saudi Stock Exchange ("Tadawul") and its units are traded in accordance with the relevant laws and regulations. The capital of the fund is 1,075,070,350 Saudi riyals, and the term of the fund is 99 years starting from the date of listing units in Tadawul, renewable for a similar period according to the fund manager's discretion and after obtaining the approval of the Capital Market Authority.
The fund aims to invest in real estate assets capable of achieving periodic rental income within the Kingdom of Saudi Arabia and in line with the fund's investment strategy, and to distribute quarterly profits of at least 90% of the fund's net profits in accordance with Real Estate Investment Funds Regulations.

2) REGULATING AUTHORITY

The Fund is subject to the Real Estate Investment Funds Regulations ("Regulations") published by the Capital Market Authority, which all real estate funds traded in the Kingdom of Saudi Arabia are required to follow.

3) BASES OF PREPARATION

A. Statement of compliance

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

B. Basis of measurement functional and Presentation Currency

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting except for the investments carried at fair value through profit or loss. These financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Fund.

4) CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTION

In the ordinary course of business, the preparation of financial statements requires management to make judgements, 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 recognised in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgements and estimates applied in the preparation of these financial statements are as follows:

4-1 A judgments

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

4) CRITICAL ACCOUNTING JUDGMENTS, STIMATES AND ASSUMPTION (CONTINUED)

4-1 A judgments (Continued)

4-1-1 Going Concern

The Fund Manager of the Fund has made an assessment of the 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 the Fund's ability to continue as a going concern.

4-2 Assumptions and Estimation Uncertainties

4-2-1 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 note11.

4-2-2 Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of assets or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using the appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

For investment properties, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the REIT estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income .

4-2-3 significant increase in credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the REIT takes into account qualitative and quantitative reasonable and supportable forward-looking information.

4) CRITICAL ACCOUNTING JUDGMENTS, STIMATES AND ASSUMPTION (CONTINUED)

4-2 Assumptions and Estimation Uncertainties (Continued)

4-2-4 Impairment of financial assets held at amortised cost

The Fund recognises an allowance for expected credit loss ("ECL") for all debt instruments not held at fair value through profit or loss. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate ("EIR"). The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECL are recognised in three stages. The expected credit loss rates are estimated using a provision matrix based on the payment profile of receivables before each reported period and corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified GDP to be the most relevant factor and accordingly adjusts the historical loss rates based on the expected changes in these factors.

The Fund recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected loss rates are based on receivables settlement information over a period of 12 months prior to each reporting period and the corresponding historical credit losses experienced during this period. Historical loss rates are adjusted to reflect current and forward-looking information regarding macroeconomic factors affecting customers' ability to settle receivables. The Fund decided that the GDP of the Kingdom of Saudi Arabia (the country in which it provides services), the rate of inflation and government spending to be the most appropriate factors, and therefore adjusts the historical loss rates based on the expected changes in these factors.

The expected credit loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). These are briefly described below:

Loss Given Default: represents an estimate of the loss given default. It is based on the difference between the contractual cash flows due and those that the lender expects to collect, including from any collateral. It is usually expressed as a percentage of exposure at default.

Probability of Default (PD): The likelihood of a default over a particular time horizon.

Loss Given Default: It is defined as the percentage risk of exposure that is not expected to be recovered in the event of default. It is usually expressed as a percentage of the EAD. This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

Exposure at Default (EAD): It is defined as the outstanding debt at the time of default. This is an estimate of the exposure at a future default rate, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

4) CRITICAL ACCOUNTING JUDGMENTS, STIMATES AND ASSUMPTION (CONTINUED)

4-2 Assumptions and Estimation Uncertainties (Continued)

4-2-4 Impairment of financial assets held at amortised cost (Continued)

Specific provision:

A specific provision is recognized on the basis of one customer to another customer at the date of each report. The fund establishes a specific provision against receivables due from some clients. Provisions are reversed only when outstanding amounts are recovered from customers.

Write-Off

The total carrying amount of financial assets is written off (either partially or completely) to the extent that there is no realistic prospect of recovery. This is generally the case when the fund determines that the debtor does not have assets or sources of income that can generate sufficient cash flows to repay the amounts subject to write-offs.

5) SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flows represent cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less (if any) which are available to the Fund without any restrictions. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

Rent receivable

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

Investment properties

Investment properties are non-current assets held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses if any.
Investment properties are derecognized when they are sold, owner-occupied or in case of not holding it for an increase in its value.
Any gain or loss on disposal of the investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.
Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs

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

Categories	**Useful Life**
Building	40

5) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Benefit contracts

Benefit contracts are recorded at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method over the year of the contract.

Impairment of non-current assets

The carrying value of non-financial assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and present value. If an impairment loss subsequently reverses, then the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset. or cash-generating unit in previous years. A reversal of an impairment loss is recognized as income directly in the statement of comprehensive income.

Accrued expenses and other liabilities

Accrued expenses and other payables are recognised initially at fair value and subsequently recognized 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.

Contract liabilities

Liabilities advanced in excess of the amount of revenue recognized, if any, are included in current liabilities as deferred rental income and recognized as revenue in the subsequent period when the related rental service is provided**.**

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 / amounts within limits mentioned in terms and conditions of the fund. Management fees are charged and paid on a semi-annual basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of Funds.

Expenses

Expenses including Property management expenses, Fund management fees, custodial fees and other fees are recorded on accrual basis.

5) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat
Zakat is calculated according to the regulations of the General Authority for Zakat and Income in the Kingdom of Saudi Arabia (the Authority), zakat provision for the year is included in the list of comprehensive income, and any differences between the component provision and the final assessment are recorded in the year in which the final assessment is approved.

Net assets value per unit

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 year- end.

Dividend distribution

The Fund's policy is to distribute and pay at least 90% of net income as annual distributions on a quarterly basis. Does not include the profit from the sale of any real estate investment, depreciation period and impairment.

Financial instruments

Recognition and initial measurement

Receivables from operating leases issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Fund becomes a party to the contractual provisions of the instrument.
A financial asset (unless it is a receivable from operating leases without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue, for an item not at Fair Value Through Profit or Loss (FVTPL). Receivable from operating leases without a significant financing component is initially measured at the transaction price.

Classification of financial assets

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

A financial asset is measured at amortized cost if it meets both of the following conditions:

a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTOCI if both of the following conditions are met:

a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

5) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (continued)

Subsequent measurement

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

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Derecognition

A financial asset is derecognised when:

• The rights to receive cash flows from the asset have expired, or

• the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

(a) The Fund has transferred substantially all the risks and rewards of the asset, or

(b) The Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

Financial liabilities

Initial recognition and measurement

The Fund's financial liabilities include amounts due to related parties, accrued expenses and other liabilities. Financial liabilities are measured at amortised cost.

Subsequent measurement

Financial liabilities at amortised cost

This is the category most relevant to the Fund. After initial recognition, financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

5) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as finance cost over the period of the borrowings using the EIR method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

Revenue recognition

The Fund recognises revenue from contracts with customers based on a five-step model*:*

Step l. Identify the contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Fund satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Fund's performance as the Fund performs; or
- The Fund's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Fund's performance does not create an asset with an alternative use to the Fund and the Fund has an enforceable right to payment for performance completed to date.

5) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

For performance obligations, where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. When the Fund satisfies a performance obligation by delivering the promised services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognised, this gives rise to a contract liability. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

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

Management fees and other expenses and transaction fees

Management fees and other expenses

On a semi-annual basis, the Fund Manager charges the Fund a management fee of 0.85% per annum of the Fund's NAV. The fund manager shall also recover from the fund any other expenses incurred on behalf of the fund such as audit fees, legal fees, board compensation and other similar fees.

Transaction fees

Moreover, the fund manager charges a one-time transaction fee of 1% maximum on the purchase or sale price of real estate assets.

6) NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Company's Financial Statements, except for were referenced below.

New amendments to standards issued and applied effective in the year 2022

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 37	Onerous Contracts Cost of Fulfilling a Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.

6) NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS (CONTINUED)

New amendments to standards issued and applied effective in the year 2022 (continued)

Amendments to standard	**Description**	**Effective for annual years beginning on or after**	**Summary of the amendment**
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of ‘testing whether an asset is functioning properly’.
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.

6) NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS (CONTINUED)

New standards, amendments and revised IFRS issued but not yet effective

The Company has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 17	Insurance Contracts	January 1, 2023	This is comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 (along with its subsequent amendments) will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification.
IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	January 1, 2023	This amendment deals with assisting entities to decide which accounting policies to disclose in their financial statements
IAS 8	Amendment to definition of accounting estimate	January 1, 2023	This amendments regarding the definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.
IAS 12	Income taxes	January 1, 2023	This amendment deals with clarification regarding accounting of deferred tax on transactions such as leases and decommissioning obligations
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards interpretations and amendments will be adopted in the company’s financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the company in the period of initial application.

7) CASH AND CASH EQUIVALENTS

	31 December 2022	31 December 2021
Cash at bank	**2,225,214**	24,072,849
	2,225,214	24,072,849

Cash in current accounts are held with local banks. The Fund does not earn profit on these current accounts.

8) RENT RECEIVABLES

	31 December 2022	31 December 2021
Rent receivables	**92,054,942**	74,615,260
Expected credit loss expense	**(26,452,829)**	(22,383,416)
	65,602,113	52,231,844

The movement in expected credit loss provision is summarized as follows:

	31 December 2022	31 December 2021
1 January	**(22,383,416)**	-
Charge of the year	**(4,069,413)**	(22,383,416)
31 December	**(26,452,829)**	(22,383,416)

9) INVESTMENTS CARRIED AT FVTPL

31 December 2022	Fund manager	Number of units	Cost	Market Value
Al Rajhi Commodity Fund	Al Rajhi Capital	**34,477**	**5,607,409**	**5,739,905**

31 December 2021	Fund manager	Number of units	Cost	Market Value
Al Rajhi Commodity Fund	Al Rajhi Capital	96,404.64	15,545,950	15,715,268

9-1 Movement in investments carried at fair value through profit or loss

	31 December 2022	31 December 2021
Cost		
As at the beginning of the year	**15,715,268**	3,035,846
Additions during the year	**12,000,000**	12,500,000
Disposals during the year	**(22,300,000)**	-
As at the end of the year	**5,415,268**	15,535,846
Change in fair value	**324,637**	179,422
Net investment as at the end of the year	**5,739,905**	15,715,268

10) PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2022	31 December 2021
Prepaid Expenses	**263,333**	641,742
VAT Receivable	**-**	726,806
Prepaid Rent	**366,667**	343,562
Other Current Assets	**318,322**	-
	948,322	1,712,110

11) INVESTMENT PROPERTIES, NET

	Note	**Land**	**Building**	**Total**
Cost				
Balance the beginning of the year		**843,638,767**	**869,059,259**	**1,712,698,026**
Additions during the year		**-**	**1,486,388**	**1,486,388**
Balance at the end of year		**843,638,767**	**870,545,647**	**1,714,184,414**
Accumulated Depreciation				
Balance the beginning of the year		**-**	**(76,317,535)**	**(76,317,535)**
Charge for the year	11-1	**-**	**(21,183,319)**	**(21,183,319)**
Balance at the end of year		**-**	**(97,500,854)**	**(97,500,854)**
Impairment				
Balance the beginning of the year		**-**	**(68,453,903)**	**(68,453,903)**
Reversal of provision of impairment during the year	11-3	**-**	**4,526,604**	**4,526,604**
Balance at the end of year		**-**	**(63,927,299)**	**(63,927,299)**
Book Value:				
as of 31 December,2022		**843,638,767**	**709,117,494**	**1,552,756,261**

	Note	Land	Building	Total
Cost				
Balance the beginning of the year		843,638,767	869,059,259	1,712,698,026
Additions during the year		-	-	-
Balance at the end of year		843,638,767	869,059,259	1,712,698,026
Accumulated Depreciation				
Balance the beginning of the year		-	54,591,054	54,591,054
Charge for the year	11-1	-	21,726,481	21,726,481
Balance at the end of year		-	76,317,535	76,317,535
Impairment				
Balance the beginning of the year		-	70,810,964	70,810,964
Reversal of provision during the year	11-3	-	(2,357,061)	(2,357,061)
Balance at the end of year		-	68,453,903	68,453,903
Book Value:				
as of 31 December,2021		843,638,767	724,287,821	1,567,926,588

11) INVESTMENT PROPERTIES, NET (CONTINUED)

- Smart Tower: Office & Retail in Al-Olaya District, Riyadh - Jubail Views Residential Compound: A residential compound closed in Rawdah Al Khalidiya in Jubail. - Mena Warehouses Complex: Three warehouses (administrative and service offices) in Al-Mina area in Dammam - The Grand (A) Residential Building: An integrated residential property located in the Anwar of Dammam - Education & Skills School: An educational building located in Al-Deraiya governorate in Riyadh - Rasil Medical Center: A medical center building located in Al- Mansourah district in Riyadh - City Life Plaza: A commercial property in the Monceya in Riyadh. - Al-Wadi District Warehouses: represents a warehouse and a residential building and is located in the valley district in Jeddah - Jeddah Khumarh Warehouses: a warehouse located in the Sarawat district in Jeddah - Riyadh Al-Azizia Warehouses (1): A warehouse located in Al-Aziziya district in Riyadh - Motoon Towers: A hotel property located in Al- Olaya in Riyadh. - Al-Fanar Commercial Complex: Commercial real estate in Al-Raka in Al-Khobar - AlSitteen Commercial Center: Commercial-Office Property in Al-Zubat district in Riyadh.	- The Grand (B) Commercial Building: An educational property located in the Anwar of Dammam - Dammam Labor Housing: Two residential buildings for workers located in the port area of Dammam - Jubail Employees Residential Buildings: Four residential buildings located in three close areas in the north of Jubail - Khobar Labor Housing: A residential building for workers in Al-Thaqbah in Al-Khobar - Jeddah Office Tower: An administrative and office building located in the Zahra of Jeddah. - Sulay Warehouses Complex: A collection of walled warehouses located in Al-Sulay in Riyadh. - Khalidiya District Warehouses(1): Two warehouses located in the northern Khalidiya district of Dammam - Dammam Labor Housing (2): Three residential buildings in Al-Mina district in Dammam - Al-Khalidiyyah District Warehouses (2): A warehouse located in the Khalidiya district in Dammam. - Riyadh Al-Azizia Warehouses (2): A warehouse located in Al-Aziziya district in Riyadh. - AlSharq Logistics Complex: Warehouses located in Al- Sulay in Riyadh.

11-1 The Fund charge depreciation on building over 40 years. The depreciation is charged on depreciable amount i.e., cost less residual value.

11-2 All properties are registered in the name of the company "Derayah Real Estate Custody" ("the SPV"), except for the real estate secured by obtaining loans (see note 18). The SPV are holding these properties for beneficial ownership of the Fund and does not process any controlling interests or any stake in the real estate

11-3 The Fund manager periodically reviews its investment properties to determine if there is any indication of impairment in assets value. An impairment loss is considered as the amount that exceeds the carrying value of the investment properties its recoverable value, which is higher than the fair value of the assets less the cost of sale and the value of its use. As of 31 December2022, Impairment provision has been reversed in amount of SR 4.5 million, and as of December 31, 2021, Part of the impairment recorded in previous years, amounting to 2.3 million Saudi riyals, was reversed.

The average fair value of the investment properties has been rated as Level 3 fair value based on the inputs to the valuation techniques used.

12) BENEFIT CONTRACTS, NET

The usufruct contracts consist of the real estate of The Valley Commercial Complex: a shopping center in Al-Ahsa.

	31 December 2022	31 December 2021
Cost		
Balance at the beginning of the year	**41,274,864**	51,779,858
Disposals*	**-**	(10,504,994)
Balance at end of the year	**41,274,864**	41,274,864
Accumulated Amortization		
Balance at the beginning of the year	**(8,209,756)**	(16,136,838)
Charge for the year	**(1,960,556)**	(2,577,912)
Disposals*	**-**	10,504,994
Balance at end of the year	**(10,170,312)**	(8,209,756)
Book Value:		
Balance as of 31 December	**31,104,552**	33,065,108

- City Walk Commercial Complex: a commercial complex in the Gulf district in Riyadh. The benefit contract of the complex expired during February 2021

13) GAIN FROM INVESTMENTS CARRIED AT FVTPL

	2022	**2021**
Realized gain from investments carried at FVTPL	**237,057**	-
Unrealized gain from investments carried at FVTPL	**87,580**	169,318
	324,637	169,318

14) EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Real Estate Investment Funds Regulations issued by the Capital Market Authority 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, investment property is stated at cost less accumulated depreciation and impairment, if any, in these financial statements. Accordingly, fair value is disclosed below for the purpose of obtaining information and is not accounted for in the books of the Fund.

The fair value of real estate investments and benefit contracts is determined by valuators of each asset, namely Value Expert, Century 21 Saudi Arabia, and Esnad (2 valuators for each property). The following is an assessment of real estate investments and benefit contracts as at 31 December:

31 December 2022	**First Appraiser**	**Second Appraiser**	**Average**
Investment properties	**1,559,353,358**	**1,576,585,394**	**1,567,969,376**
Benefit contracts	**33,200,330**	**35,508,000**	**34,354,165**
Total	**1,592,553,688**	**1,612,093,394**	**1,602,323,541**

31 December 2021	**First Appraiser**	**Second Appraiser**	**Average**
Investment properties	1,584,617,900	1,547,045,921	1,565,831,911
Benefit contracts	36,403,100	35,200,000	35,801,550
Total	1,621,021,000	1,582,245,921	1,601,633,461

The management used the average valuations for the purpose of disclosing the fair value of investment properties and benefit contracts.

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

	31 December 2022	31 December 2021
Estimated fair value of investment properties and benefit contracts based on the average of the two valuators used	**1,602,323,541**	1,601,633,461
Less book value:		
Investment properties	**(1,552,756,261)**	(1,567,926,588)
Benefit contracts	**(31,104,552)**	(33,065,108)
Increase in estimated fair value of carrying value	**18,462,728**	641,765
Units in issue (numbers)	**107,507,035**	107,507,035
The additional share of the unit of estimated fair value	**0.172**	0.006

14) EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (CONTINUED)

Net asset attributable to unitholders:

	31 December 2022	31 December 2021
Net assets attributable to unitholders as per the financial statements before fair value adjustment	**882,036,779**	910,107,433
Increase in estimated fair value of carrying value	**18,462,728**	641,765
Net value of assets attributable to unit holders on the basis of fair value of investment property and benefit contracts	**900,499,507**	910,749,198

Net asset attributable to each unit:

	31 December 2022	31 December 2021
Carrying value per unit as per the financial statements before fair value adjustment	**8.204**	8.466
The unit value is based on fair value	**0.172**	0.006
Net assets attributable to each unit	**8.376**	8.472

15) TRANSACTIONS AND BALANCE WITH RELATED PARTY

Related parties to the Fund include Derayah Financial (Fund Manager) , Al- Inma Investment Company (Custodian) and BOD members. In the ordinary course of its activities, the Fund transacts business with related parties. And any party that has the ability to control another party or exercise a material influence over it in making financial or operational decisions.
The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

Related Party	**Nature of Transactions**	**Amount of transactions 31 December 2022**	**Balance 31 December 2022**
Deraya Financial	Management fees	**7,648,386**	**(4,427,609)**
Al- Inma Investment Company	*Custodial fees	**120,000**	**(120,000)**
BOD members	Attendance allowances and bonuses	**8,000**	**(8,000)**

Related Party	**Nature of Transactions**	**Amount of transactions** 31 December 2021	**Balance** 31 December 2021
Deraya Financial	Management fees	7,862,383	(3,911,055)
Al- Inma Investment Company	Custodial fees	120,000	(198,000)
BOD members	Attendance allowances and bonuses	8,000	(16,000)

The following is the number of units held by the fund manager as of December 31:

Related Party	**Nature of Related Party**	**31 December 2022**	31 December 2021
Derayah Financial	Fund Manager	**2,596,559**	2,596,559

The Fund, during its normal business cycle, conducts transactions with related parties. Transactions with related parties are subject to restrictions set by the Terms and Conditions. All transactions with related parties are disclosed to the fund's board of directors.

* The fund pays the custodian fees in the amount of 120,000 Saudi riyals annually, which are due on a daily basis and paid on a Semiannual basis to the custodian.

16) ZAKAT

A) Zakat base for the Fund

	31 December 2022	31 December 2021
Net profit for the year	**49,064,251**	59,970,966
ECL	**4,069,413**	-
Additions:		
The net value of the units	**910,107,433**	944,532,914
Borrowings	**747,982,834**	747,982,834
ECL	**22,383,416**	-
Deductions:		
Benefit contracts	**31,104,552**	33,065,108
Investment properties	**1,552,756,261**	1,567,926,588
Other deductions	**75,212,292**	79,975,697
Zakat base	**74,534,242**	71,519,321
Zakat	**1,879,981**	1,796,954

B) Zakat Provision

	31 December 2022	31 December 2021
Balance at the beginning of the year	**4,084,149**	2,287,195
Charged during the year	**1,879,981**	1,796,954
Paid during the year	**-**	-
Balance at end of the year	**5,964,130**	4,084,149

C) Zakat Position

Although the Fund's terms and conditions indicate that the Fund manager does not pay zakat for investment units from investors and it is the responsibility of the unit's owner to pay zakat on what he owns of investment units, but on September 6, 2020, the Fund's board of directors decided to start the procedures for registering the fund with the General Assembly Zakat and income for the purpose of zakat and the Fund has been registered. As a result, the zakat provision for the year ended December 31, 2022,2021 and 2020 was calculated and recognized in these financial statements.

17) RENTAL INCOME

	31 December 2022	31 December 2022
Rental income	**123,127,631**	130,200,628
	123,127,631	130,200,628

Rental income from investment properties is recognized on a time proportion basis.

18) LONG-TERM BORROWINGS

During the year ending 31 December 2020, the Fund obtained a long-term loan of SAR 168 million from Riyad Bank for a period of seven years. The loan bears a variable commission and the commission is paid over the life of the loan on a semi-annual basis. The loans are secured by mortgaging the following properties (Al-Jubail Views Residential Complex, Al-Mina Warehouses Complex, City Life Plaza Commercial Complex, Motoon Towers, Al-Fanar Commercial Complex, Grand (A) Residential Complex, Al-Wadi District Warehouses, Al-Sittin Commercial Center, Grand (B) Commercial Complex Staff accommodation buildings in Jubail, labor accommodation buildings in Dammam, labor accommodation buildings in Khobar, Khaleejia Business Building, Russell Medical Center, Education and International Skills School, Jeddah Office Tower, Al Sulay Warehouses Complex, Al Khalidiya Warehouses (1), labor accommodation buildings in Dammam (2), Al-Khamra warehouses in Jeddah, G-Azizia warehouses (1), Al-Azizia district warehouses (2), Al-Sharq warehouse complex).

The Fund also obtained a loan of 105.5 million Saudi riyals from Al-Rajhi Bank for a period of seven years. The loan carries a variable commission and the commission is paid over the term of the loan on a semi-annual basis. The loan is secured by a mortgage over the Smart Tower property.

During the year 2022, Derayah REIT Fund restructured the existing loan, as it obtained a long-term loan in the amount of 642 million Saudi riyals from Al-Rajhi Bank for a period of seven years, The loan bears a variable commission that is paid over the loan on a semi-annual basis, and the amount was used to pay off the loan from Riyad Bank in full, amounting to 642 million Saudi riyals. Accordingly, cumulative balance with Al-Rajhi Bank amount to 747 million Saudi riyals, guaranteed by mortgaging all the real estate of Derayah REIT Fund to Al-Rajhi Bank as a guarantee for the financing granted to the Fund, provided that those Title deeds are released after the full value of the loans for Al-Rajhi Bank is paid.

		Balance as of		**Commission expense**	
Type of the loan	**Nature of the loan**	**31 December 2022**	31 December 2021	**31 December 2022**	31 December 2021
Tawaruq	Long term	**747,982,834**	747,982,834	**37,517,869**	21,791,879
		747,982,834	747,982,834	**37,517,869**	21,791,879

	31 December 2022		
	Riyad Bank	**Al Rajhi Bank**	**Total**
Balance at the beginning of the year	**642,407,145**	**105,575,689**	**747,982,834**
Drawn during the year	**-**	**642,407,145**	**642,407,145**
Repayment during the year	**(642,407,145)**	**-**	**(642,407,145)**
Balance at end of the year	**-**	**747,982,834**	**747,982,834**

<u>**Accrued Finance Fees**</u>

	31 December 2022	31 December 2021
Balance at the beginning of the year	**5,249,168**	5,082,579
Charged during the year	**37,517,869**	21,791,879
Paid during the year	**(40,367,472)**	(21,625,290)
Balance at end of the year	**2,399,565**	5,249,168

19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund 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, rent receivables, Investment carried at FVTPL, accrued management fees, Accrued finance expenses, Due to related parties, Accrued expenses and other liabilities and Long-term borrowing. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the 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 is not significant to the fund.

(i) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.
The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund Manager diversifies the investment portfolio and closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, Fund has equity investments.

The effect on the net assets value (as a result of the change in the fair value of investments as at 31 December 2022 and 31 December 2021) due to a reasonably possible change in equity indices based on the industry concentration, with all other variables held constants is as follows:

	31 December 2022		31 December 2021	
	Potential reasonable change %	**Effect on NAV**	Potential reasonable change %	Effect on NAV
Al Rajhi Commodity Fund	**%1**	**57,399**	%1	157,153

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.
Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

When calculating the expected credit loss allowance for lease receivables, a provision matrix is used based on historical loss rates over the expected life of the receivable adjusted for future estimates.
The following table shows the maximum exposure to credit risk for the contents of the statement of financial position:

	31 December 2022		31 December 2021	
	exposure	**Expected credit losses**	**exposure**	**Expected credit losses**
Cash and cash equivalents	**2,225,214**	**-**	24,072,849	-
Rent receivables	**92,054,942**	**(26,452,829)**	74,615,260	(22,383,416)

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 new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

	31 December 2022		
	Less than 1 year	**More than 1 year**	**Total**
Cash and cash equivalents	**10,685,233**	**-**	**10,685,233**
Management fee payable	**4,427,609**	**-**	**4,427,609**
Accrued financing expenses	**2,399,565**	**-**	**2,399,565**
Accrued expenses and other liabilities	**4,880,217**	**-**	**4,880,217**
Zakat provision	**5,964,130**	**-**	**5,964,130**
long term loans	**-**	**747,982,834**	**747,982,834**
TOTAL LIABILITIES	**28,356,754**	**747,982,834**	**776,339,588**

	31 December 2021		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	16,657,842	-	16,657,842
Management fee payable	3,911,055	-	3,911,055
Accrued financing expenses	5,249,168	-	5,249,168
Accrued expenses and other liabilities	6,731,286	-	6,731,286
Zakat provision	4,084,149	-	4,084,149
long term loans	-	747,982,834	747,982,834
TOTAL ASSETS	36,633,500	747,982,834	784,616,334

19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk
Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flow.
The Fund's interest rate risks arise mainly from its borrowings and short-term deposits, which are at fixed rate of interest and are not subject to re-pricing on a regular basis.
Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund 's financial positions and cash flow.
The Fund 's interest rate risks arise mainly from its borrowings, which are at variable of interest rate and the sensitivity analysis as follows: -

	31 December 2022			
	Income Statement		**Statement of NAV**	
	Increase 100 points	**Reduce 100 points**	**Increase 100 points**	**Reduce 100 points**
Interest rate fluctuations	**%1**	**%1**	**%1**	**%1**
Cash-flow sensitivity (net)	**7,479,828**	**(7,479,828)**	**7,479,828**	**(7,479,828)**

	31 December 2021			
	Income Statement		Statement of NAV	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Interest rate fluctuations	%1	%1	%1	%1
Cash-flow sensitivity (net)	7,479,828	(7,479,828)	7,479,828	(7,479,828)

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.

19) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value estimation
The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. 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.

The table below presents the financial instruments at their fair value as at 31 December, based on the fair value hierarchy:

	31 December 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments carried at FVTPL	**-**	**5,739,905**	**-**	**5,739,905**
Investment property	-	-	**1,567,969,376**	**1,567,969,376**
Benefit contract	-	-	**34,354,165**	**34,354,165**
Total	**-**	**5,739,905**	**1,602,323,541**	**1,608,063,446**

As at 31 December 2022, the Fund's financial instruments include cash and cash equivalents, rentals receivable, management fees payable, financing expenses payable, amounts due to related parties, payable expenses and other liabilities, and long-term loans. Except for investments carried at fair value through profit or loss, all financial instruments are measured at amortized cost and their carrying values approximate their fair value.

The fair value of financial instruments that are not quoted in an active market is determined using valuation methods. These valuation methods maximize the use of observable market data and rely as little as possible on the entity's own estimates. If all significant inputs required to measure the fair value of an instrument are observable, then the instrument is classified within Level 2. If one or more significant inputs are not based on observable market data, then the instrument classified within Level 3. Changes in assumptions of These inputs can affect the reported fair value of items in these financial statements and the level within which items are disclosed in the fair value hierarchy.

Financial assets at fair value through profit or loss that are classified under level 2 include investments in open-ended public funds, whose fair values are determined based on the last recorded net asset value as of the reporting date.

There were no transfers between the different levels of the fair value hierarchy during the current or previous year.

For assets not carried at fair value but for which fair value has been disclosed, valuation of investment properties and benefit contract has been disclosed in note 14, and accordingly it is classified within Level 3 of the fair value hierarchy. The principal inputs include:

Discount Rates are that reflect current market assessments of uncertainty in the amount and timing of cash flows (the rate used by valuers is 9% - 10. %)

Capitalization Rates are based on the actual location, size and quality of the properties and taking into account market data on the date of the valuation (the rate used by valuers is 8% - 10%)

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

20) Dividends

- 1 April, 2021, the fund manager agreed to distribute dividends to shareholders for the period ending on 31March 2021 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 1 July, 2021, the fund manager agreed to distribute profits to shareholders for the period ending on 30 June 2021 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 3 October, 2022, the fund manager agreed to distribute profits to shareholders for the period ending on 30 September, 2021 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 2 January, 2022, the fund manager agreed to distribute profits to shareholders for the period ending on 31 December 2021 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 3 April, 2022, the fund manager agreed to distribute dividends to shareholders for the period ending on 31 March, 2022 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 3 July, 2022, the fund manager agreed to distribute dividends to shareholders for the period ending on 30 June 2022 in the amount of 0.180 Saudi riyals per unit, with a total amount of 19,351,266 Saudi riyals to its unit holders.
- On 2 October, 2022, the fund manager agreed to distribute profits to shareholders for the period ending on 30 September, 2022 in the amount of 0.160 Saudi riyals per unit, with a total amount of 17,201,126 Saudi riyals to its unit holders

	31 December 2022	31 December 2021
The paid portion of the dividend	**75,212,292**	79,985,234
The unpaid portion of the dividend	**42,632**	-
The total dividend	**75,254,924**	79,985,234

According to the terms and conditions of the fund (note 1), the fund aims to distribute quarterly profits of not less than 90٪ of the net profits of the fund. The fund manager distributes profits on the basis of the cash generated from operations, where the cash generated from operations is calculated by adding the cost of depreciation and the decline in the value of real estate investments to the net profits as mentioned in the statement of comprehensive income during the year ending on 31 December, 2022.

21) SUBSEQUENT EVENTS

On 1 January 2023, the fund manager agreed to distribute profits to shareholders for the period ending on 31 December, 2022 in the amount of 0.140 Saudi riyals per unit, with a total amount of 15,000,000 Saudi riyals to its unit holders.

22) SEGMENT INFORMATION

The Fund invested in 25 real estate investments in the Kingdom of Saudi Arabia. As they are invested in a single industry sector and one country, no segment information has been presented.

23) LAST VALUATION DAY

The last valuation day of the period was 31 December 2022.

24) APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Fund Manager on 30 March 2023 (corresponding to 08 Ramadan 1444 H).