



جدوى ريت الحرمين  
Jadwa REIT Al Haramain

# 2020

## ANNUAL REPORT

جدوى للإستثمار  
Jadwa Investment





# بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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**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



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# Fund Manager's Message To Unit Holders

## Dear Unit Holders

We are pleased to present to you the annual report of Jadwa REIT Al Haramain Fund for year 2020 and would like to thank you for your continued support, trust, and belief in the Fund during the unusual year. 2020 was the year of COVID-19 that saw unprecedented events and measures in the recent history. As the Virus spread globally at an enormous pace, governments around the world have reacted quickly to contain the spread of this outbreak and preserve the well-being of its citizens by enforcing strict sanitary guidelines and through imposing partial, and even full lockdown at sometimes. The economic impact of the COVID-19 outbreak was devastating as panic is starting to dominate the scene, new working from home policies is being introduced, simultaneous supply and demand shocks, supply chain disruptions. All in all, causing global capital markets dropping from all-time highs at an unprecedented pace. More in-depth look into Saudi Arabia's holy cities and especially the religious tourism business (given the Fund's initial focus and strategy), the COVID-19 outbreak and precautionary measures taken by the wise government of Saudi Arabia's has resulted in a complete halt and shutdown of religious tourism in both Makkah and Madinah period of 7 months, during which was the 1441 AH Hajj season, one of central pillars of religious tourism and Makkah hospitality sector in general. Towards the end of 2020 and specifically in October, the government has eased up the lockdown in Makkah and Madinah and allowed visitors into the holy mosques. Albeit in extremely limited capacity and numbers.

Within this challenging environment in the holy cities, and the paralysis of tourism which had and extreme impact on the underlying tenants' business, Jadwa REIT Al Haramain Fund performance during the year has been sub-optimal compared to previous years. However, the Fund took advantage of the current situation in expediting the previously

announced redevelopment project, which at completion, will result in an exponential enhancement in the Fund's performance and FFO generation. Furthermore, and to further diversify and mitigate similar risks and crises, we as a Fund manager, and after obtaining the approvals of both the Fund board and unitholders, has made significant changes to the Fund strategy, allowing it to invest and acquire properties outside of the holy cities and the Kingdom of Saudi Arabia, resulting in expanding the Fund's investment pool and accretive acquisition pipeline.

Because of the shift in strategy, Jadwa REIT Al Haramain was able to grow its portfolio during unhealthy economic environment by making an accretive investment of SAR 50mn in Real Estate Investment Fund ("REIF"), a private shariah-compliant real estate investment fund with an objective of providing investors with a stable stream of income in addition to the potential of capital growth in the medium and long terms, which is line with Jadwa REIT Al Haramain Fund strategy. This investment in REIF is expected to yield for Jadwa REIT Al Haramain Fund an average return of 10% for the next five years and was funded through further drawdown of the debt facility available to the Fund. Moreover, and as the pool of available investment has expanded, we are strongly present in the market and actively looking for accretive opportunities to be acquired by Jadwa REIT Al Haramain.

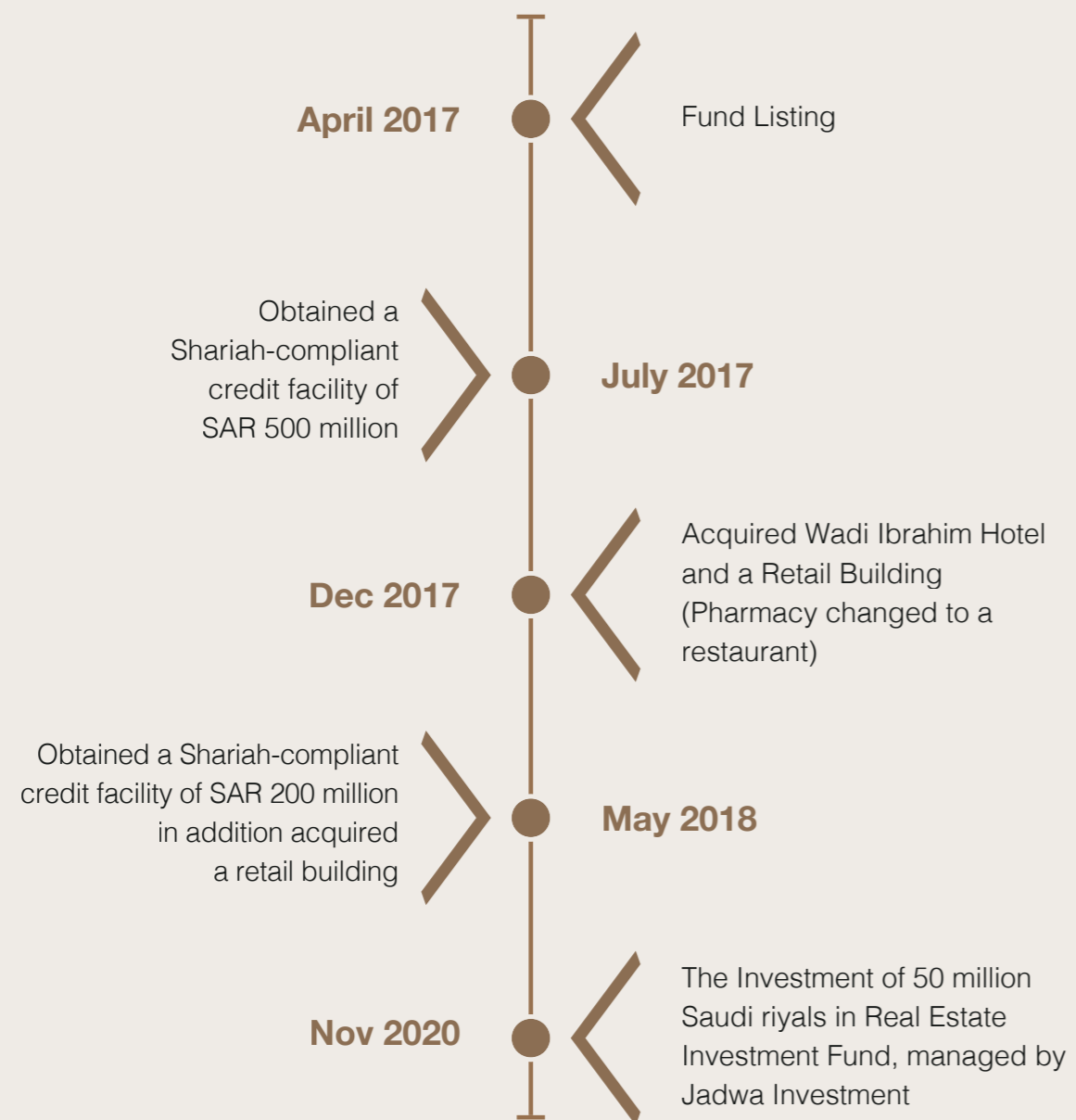
Jadwa REIT Al Haramain is marching into 2021 with a strong conviction and positive outlook into the market as the outbreak impact beginning to fade and global markets are starting to recover with the vaccine being rolled out globally at an impressive rate. The next twelve months will surely present new challenges and exciting opportunities, in which the Fund is in an optimal position to benefit from. With its available credit line facility on hand and low leverage, the Fund is on track to deploy more capital and grow the portfolio through more acquisitions of accretive high-quality assets.



Section 1

# **REIT AT A GLANCE**

# REIT At A Glance



# Financial Performance

## Portfolio Characteristics

	2020	2019	2018
Number of properties	4	5	5
Sectors	Hospitality, Retail	Hospitality, Retail	Hospitality, Retail
Total Land area (sq. meter)	3,227	3,227	3,227
Total BUA	40,690	43,201	43,201
Portfolio Occupancy	100%	100%	100%
Number of Tenants	2	2	2
WAULT	0.54	10.28	10.34
Fair Market Value	787,730,275	862,000,000	861,950,000

## Fund's Performance

	2018	2019	2020
Net Asset Value (Cost)	646,324,682	629,658,424	548,413,619
Net Asset Value (Fair Value)	716,957,233	712,144,366	631,453,402
Fair Value NAV per unit	10.86	10.79	9.57
Highest Fair Value NAV per unit	10.87	10.81	10.13
Lowest Fair Value NAV per unit	10.72	10.68	9.52
Number of issued units	66,000,000	66,000,000	66,000,000
Distributed Dividends Per Unit	0.56	0.46	-
Expense Ratio	1.06%	1.07%	0.32%
Annual return	5.25%	3.59%	-11.31%

## Fund's Returns profile

1-Year return	3-Years return	Return Since Inception
-11.31%	-2.4%	9.5%

## Annual Fund Expenses

	2020
Management Fee	1,035,377
Registrar Fee	400,000
Listing Fee	144,320
Custodian Fee	161,899
Administrator Fee	136,856
Auditor Fee	35,000
Board Oversight Fee	20,000
Other Fund Fees	582,254
Grand Total	2,515,706
Expense Ratio	0.32%

## Special Commission

No special commission has been received by the Fund manager during 2020



Section 2

# **PORTFOLIO DESCRIPTION**



# Portfolio Description

## Fund's Assets

The Fund's assets consists of 4 properties and units in private real estate investment fund. The assets are:

1. Tharawat Al Andalooseya Hotel
2. Tharawat Al Taqwa Hotel
3. Properties Under Development
4. Pharmacy Building
5. Units in Real Estate Investment Fund

## Targeted Assets by the Fund Manager

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

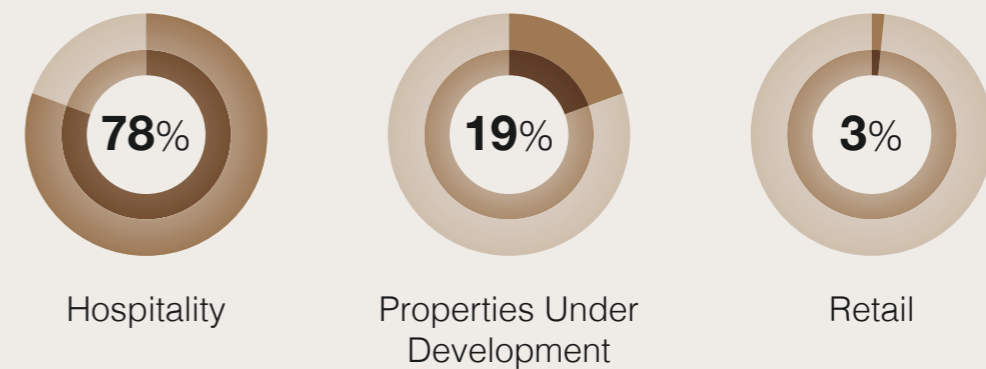
## Portfolio Occupancy as of December 31 2020 \*

**100%** | Percentage of leased assets to the total portfolio of income generating assets

**0%** | Percentage of unleased assets to the total portfolio of income generating assets

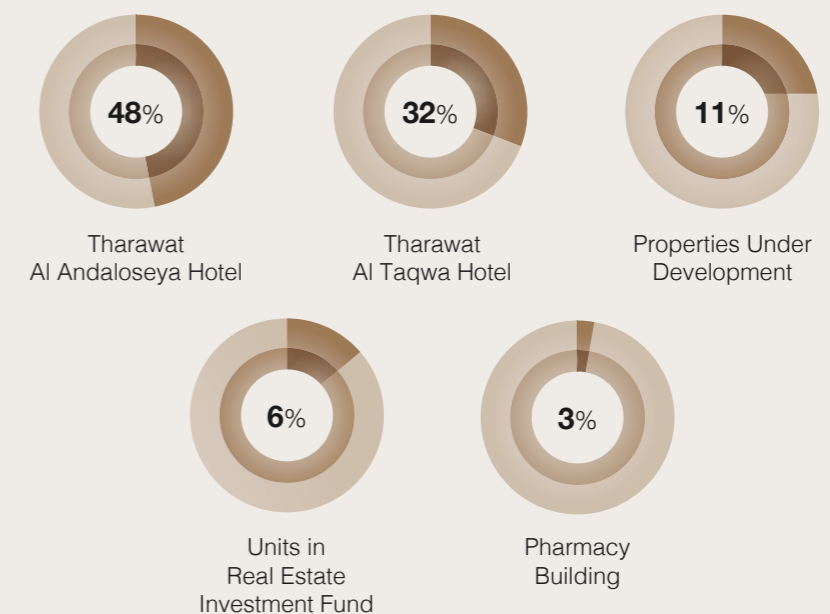
\* The portfolio occupancy only includes the direct investment in real estate income generating assets

## Portfolio Allocation by Sector



\*The portfolio allocation by sector only includes the direct investment in real estate income generating assets

## Portfolio Allocation by Asset



# Tharawat Al Andalosiya

- The property is currently utilized as a four-star hotel, under the brand of 'Tharawat Al Andaloseya Hotel'.
- 294 rooms to accommodate visitors to Makkah's holy sites throughout the year. Located within 500 meters of the Masjid Al-Haram.
- The property consists of a basement, ground level, mezzanine floor, service level, 12 upper levels and a roof.
- The ground level is internally configured to accommodate ten shops.

Location	<b>Al Mesfalah District, Makkah</b>
Acquisition Price	<b>379,000,000</b>
Net Acquisition Yield	<b>6.7%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>404,165,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term**	<b>0.16 Years</b>
% of Total Fund Portfolio	<b>48%</b>

\*as of 31st Dec 2020

\*\*The contract ended on 2-26-2021 according to the tenant notification on 03-09-2020



# Tharawat Al Taqwa

- The property is currently utilized for the accommodation of Hajj and Umrah visitors, under the brand of 'Tharawat Al Taqwa Hotel'.
- 690 rooms to accommodate visitors to Makkah's holy sites during the Hajj season and month of Ramadan. Located approximately 900 meters from Mina, the hotel can host 3,506 pilgrims.
- The property is arranged over three basement levels, a ground floor, mezzanine level, service level, restaurant level, 14 upper levels and a roof.

Location	<b>Al Shishah District, Makkah</b>
Acquisition Price	<b>250,000,000</b>
Net Acquisition Yield	<b>6.8%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>262,000,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term**	<b>0.93 Years</b>
% of Total Fund Portfolio	<b>32%</b>

\*as of 31st Dec 2020

\*\*The tenant requested in 18-08-2020 to terminate the current contract at the date of 06-12-2021



# Properties Under Development

- There is a plan to redevelop the Tharawat Wadi Ibrahim Hotel building and the commercial restaurant building by merging the two properties and developing them into a hotel tower.
- The merging and redevelopment of the two properties will result in the full utilization of the permitted building areas for the buildings located in the central area of the Grand Mosque on Ibrahim al-Khalil Street, and the redevelopment will result in an increase in the leasable areas and the number of hotel rooms.

Location	<b>Al Mesfalah District, Makkah</b>
Acquisition Price	<b>160,000,000</b>
Net Acquisition Yield**	<b>N/A</b>
Number of tenants**	<b>N/A</b>
Fair Value Estimation*	<b>96,570,000</b>
Occupancy Rate**	<b>N/A</b>
Remaining Lease Term**	<b>Terminated</b>
% of Total Fund Portfolio	<b>11%</b>

\*as of 31st Dec 2020

\*\* The fund terminated the lease contract to start the re-development.



# Pharmacy Building

- The property is configured to allow for two retail shops and ancillary residential.
- The building consists of a ground level, two upper levels and a roof.

Location	<b>Al Mesyal Road, Makkah</b>
Acquisition Price	<b>23,000,000</b>
Net Acquisition Yield	<b>6.7%</b>
Number of tenants	<b>1</b>
Fair Value Estimation*	<b>25,000,000</b>
Occupancy Rate	<b>100%</b>
Remaining Lease Term	<b>2.55 Years</b>
% of Total Fund Portfolio	<b>3%</b>

\*as of 31st Dec 2020



# Units in Real Estate Investment Fund

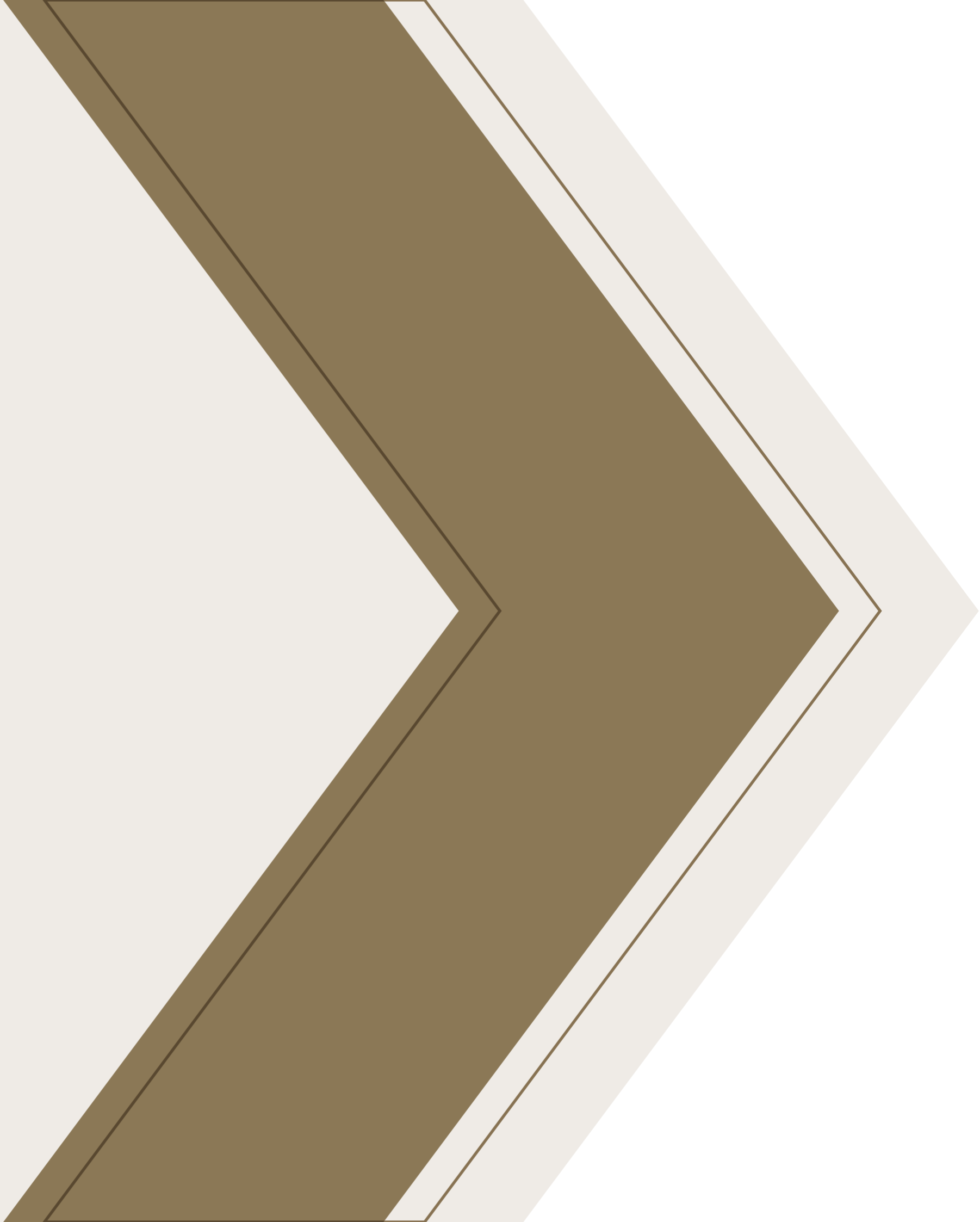
- Real Estate Investment Fund, a closed-ended Shariah-compliant real estate investment fund. The objective of Real Estate Investment Fund is to provide investors with a stable stream of income and capital appreciation in the medium and long term through the acquisition of income-generating real estate assets in the Kingdom of Saudi Arabia.
- Real Estate Investment Fund has a term of 10 years, which can be extended for two additional periods of five years each.
- Real Estate Investment Fund acquisitions were funded by accepting in-kind and cash subscriptions in the amount of 1.5 billion Saudi riyals, and the remainder was funded by obtaining bank loans amounting to 1.3 billion Saudi Riyals from Saudi banks for a period of five years, provided that the full amount of the financing is to be paid at the end of the fifth year.
- The initial portfolio of assets for Real Estate Investment Fund comprises of 3 income-generating properties which are: Al Nakhla Residential Compound, REIF Flats, Seven commercial, office and service towers in the "Laysen Valley" project.
- Real Estate Investment Fund targets a fund size of 10 billion Saudi Riyals, while the initial closing successfully raised the amount of 2.8 billion Saudi riyals.

Value of Investment	<b>50,000,000</b>
Expected Five Years Average Annual Return	<b>10%</b>
Number of Underlying Properties	<b>3</b>
% of Total Fund Portfolio	<b>6%</b>



Section 3

# **RISK REPORT**



# Jadwa REIT Al Haramain Fund Risk Report

## Fund Description

Fund Name	Jadwa REIT Al Haramain Fund
Fund Manager	Jadwa Investment Company
Listing Exchange	Tadawul (Saudi) Stock Exchange in April 2017
Type of Fund	Closed-ended Shariah Compliant
Authorized Capital	SAR 660,000,000
Fair Value NAV per unit	SAR 9.57 (as of 31st Dec 2020)
No. of Properties	4 (3 Developed + 1 Under Development)
Risk Level	Above Average / High

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends 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. COVID-19 restrictions by government to suspend Hajj & Umrah have impacted the hospitality sector adversely in Makkah and Medina. The Fund Manager has availed all the relevant economic stimulus provided by the government such as delaying the VAT return filing and suspended the management fees to mitigate the negative impact on the Fund.
Legal and 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.	No observations raised in the last CMA audit remains open which confirms 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. These qualified personals take all necessary steps to avoid any non-compliant practices under the supervision of the Fund Manager.
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, thus providing significant margins of safety on occupancy rates. However, suspension of Hajj & Umrah due to COVID-19 has resulted in lease suspension for all three properties and termination notice for two properties. The Fund Manager is currently evaluating the new tenants for the properties where termination notices have been received. Any new leasing would depend on lifting of COVID-19 restrictions and future performance of the hospitality market in Makkah. If the restrictions will continue to be implemented by the government, then this will increase the risk of not achieving the expected occupancy rates across the whole hospitality sector in Makkah.



# Jadwa REIT Al Haramain 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.	The Fund has initiated redevelopment of Tharawat Wadi Ibrahim Hotel and the restaurant building through merging these properties and redeveloping them into a hotel tower during the year ended on Dec 31, 2020. This redevelopment project is projected to be completed by the end of 2022. However, extension of COVID-19 restrictions in the kingdom may delay the construction and increase the development risk faced by the whole hospitality sector in Makkah and Medina.
Credit Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	Credit analysis/ assessment is conducted by the Fund Manager before onboarding new tenants. For the existing tenants, regular monitoring of outstanding dues towards the fund and follow up for payments is done by the Fund Manager.
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 500 million credit line facility from Banque Saudi Fransi out of which 267 million is unutilised, which assures that the financing risk is at a minimal.
Lease Renewal Risk	Lease renewal risk is the risk of nonrenewal 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 16 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent. Given the suspension of Umrah due to global pandemic, the Fund faces a significant risk related to lease renewal.
Risk of neglecting the property	Any adverse event leading to structural damage to the properties owned by the Fund thereby risking the income generating potential from such properties.	All the properties are insured by the Fund which covers for all property damages. The Fund Manager ensures that the insurance coverage is adequate under public liability and property all risks insurance.

Risk Type	Risk Description	Risk Mitigation
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.	The Fund has received termination notice from Tharawat Al Mashaer Property Development and Investment Company. This lessee was contributing the major portion of the Fund's income from initiation. This has exposed the Fund to a high cash-flow risk. The Fund Manager is mitigating this risk by evaluating other tenants for these properties and would look to lease 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 sector has troubles in future.	Majority of the Fund's assets are hotels, which subjects the Fund to the risks inherent in the hospitality sector. The Fund continuously explores various options for diversification. The Fund has amended its terms and conditions to allow investment in Buy-back and Leasehold agreements, Cash and money market funds and Units in Real Estate investment funds up to 25% of the Fund's total asset value subject to certain conditions. The Fund has invested 50 Mn SAR in closed ended Shariah compliant private real estate investment fund for diversification.
Geographical Concentration Risk	The risk arises when all the assets belong to same geographical area, this might lead to an adverse condition if that location has troubles in future.	As per initial terms and conditions of the Fund, investments can be made only in properties situated in Makkah and Medina. The Fund Manager has reduced the geographical concentration by revising the Fund's terms and conditions to include minimum 60% asset allocation in the holy cities of Makkah and Medina instead of 100%. Remaining can be invested in income generating and development real estate projects in rest of the cities inside or outside the kingdom with restrictions on concentration limits of 40% and 25% respectively.
Interest Rate Risk	The risk arises due to increase in interest rate impacting the Fund's net income.	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. In addition to this, the Fund has revolving credit line with profit rates reset every 6 months at SIBOR + 200 bps. During last year, the base rate has dropped from 225 bps to 100 bps resulting in reduction of the borrowing cost substantially.

# Jadwa REIT Al Haramain 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 or unable to meet any payment obligations for exiting property.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund general and administrative expenses. Therefore, the Fund Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. The Fund has an unutilised line of credit of SAR 267 million with bank which partly mitigates the liquidity risk.
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 Saudi Authority for Accredited Valuers (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making.
Force Majeure Risk	Risk arising due to some emergency conditions such as global pandemic or war or any other adverse conditions can affect the Fund's prospects.	The Fund Manager has amended terms & conditions of the Fund to include "Force Majeure risks & emergency conditions". The Fund Manager periodically evaluates the COVID-19 related restrictions on Hajj & Umrah in the kingdom and informs the investors on the financial impact of the same. This risk has resulted in a suspension of the rental income for 3 quarters in the year ended on Dec 31,2020.
Environmental, Social and Governance (ESG) Risk	Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment.	As part of the traditional financial analysis and due diligence, the risks arising due to environmental issues of properties and environmental regulation are accounted for the valuation processes by the independent valuers. The increased awareness of the Fund Manager about ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.

## Conclusion

The Jadwa REIT Al Haramain Fund is exposed to various risks as identified above which may impact the performance of the Fund. These risks have been mitigated through the actions taken by the Fund Manager to some extent. The global spread of the COVID-19 virus in 2020 led to complete lockdown imposed by governments across the globe resulting in suspension of international and domestic travels for major part of the year. COVID-19 has impacted all segments of the economy with the largest impact on the travel and hospitality segment. The Fund Manager has worked closely with all parties and regulatory bodies to minimize the impact of the pandemic on their businesses. Due to pandemic, leases have been suspended on all 3 properties and termination request has been received for 2 properties. This has negatively impacted the Fund's rental income and exposed the Fund to occupancy and lease renewal risk. The Fund has announced the redevelopment of one of the properties which exposes the Fund to development risk. With the start of vaccination against the Covid-19 across the country during 2021, the situation starts to head back to normality which would improve the Fund's long

term financial health. The Fund Manager is continuously exploring new investments and diversification opportunities to provide a stable stream of income to the investors. The Fund has invested SAR 50 Mn in a closed ended shariahcompliant private real estate investment fund to achieve diversification benefits. The Fund is exposed to a sector concentration risk as significant portion of leasing income is derived from hotel properties. This subjects the Fund to the risks inherent in the hospitality sector. Unutilized credit facility of SAR 267 Mn helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

The changes in macroeconomic conditions brought by COVID-19 had a negative impact on businesses in the holy cities and the Fund's performance in 2020 and this negative impact would continue in 2021 until the restrictions imposed by government on Hajj & Umrah are lifted. This has increased the Fund's risk from Average / Moderate to "Above Average / High".

Section 4

**FUND  
GOVERNANCE**



# Jadwa REIT Al Haramain Fund Governance

## About the REIT

The Jadwa REIT Al Haramain 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

<b>Name</b>	Jadwa Investment Company
<b>Address</b>	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
<b>Website</b>	<a href="http://www.jadwa.com">www.jadwa.com</a>

## 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 48.6 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 Al Haramain Fund Governance

## Custodian

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

## Auditor

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

## Administrator

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

## Legal Advisor

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

## Third-Party Valuers

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

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

## VAT Consultant

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

# Jadwa REIT Al Haramain Fund Governance

## Conflicts of Interest

As of December 31, 2020, there are no transactions involving material conflicts of interest between Jadwa REIT Al Haramain 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.

# Jadwa REIT Al Haramain Fund Governance

## Material Changes

- On 3rd February 2020, a redevelopment plan was approved to merge Tharawat Wadi Ibrahim hotel and restaurant building into a hotel tower. As a result, the lease contracts were terminated.
- On 9 March 2020, the Fund received a notice to suspend the lease contract for Tharawat Al Andalusia Hotel due to the temporary suspension of Umrah due the Corona virus outbreak.
- The Fund received another notice from the tenant of Tharawat Al Andalusia Hotel that the lease contract shall be terminated due to changing conditions in the hospitality sector in Makkah Al-Mukarramah, the end of the contract term will be on 24 February 2021.
- On 29 March 2020, the Fund has received a notice from the tenants of Tharawat Al Taqwa Hotel and the Pharmacy Building to suspend the lease contracts temporarily for these two properties until the authorities lift the suspension
- On 20 April 2020 Jadwa Investment Company announced the temporary suspension of management fees for Jadwa REIT Al Haramain Fund, which equals to 1% of the net asset value of the Fund, due to the direct impact of the coronavirus (COVID-19) outbreak on the Fund's assets. Specifically, the precautionary COVID-19 measures included the suspension of Umrah, which led to the suspension of the Fund's rents. The suspension of management fees will be effective from the date of rent suspension for tenants, corresponding to March 1, 2020, and until the Fund resumes the collection of any rents.
- The fund manager has received a notification on 28/12/1441H corresponding to 18/08/2020 G from Tharwat Al-Mashaer Real Estate Development and Investment Company in its capacity as the tenant of Tharawat Al-Taqwa Hotel owned by Jadwa REIT Al-Haramain Fund to terminate the lease contract in accordance with the lease contract terms and conditions. The lease contract stated that the lessee has the right to terminate the contract after a period of four Hijri years from the date of the beginning of the lease term "1 Jumada Al-Awwal 1439 AH" (the mandatory lease period) by notifying the lessor in writing of the termination request in a period of no less than 12 Hijri months prior to the date of termination. Therefore, the end of the contract period will be on 01/05/1443 AH, equivalent to sixteen months from the date of notification.
- On 12 August 2020, Jadwa Investment Company has announced significant changes on the terms and conditions of Jadwa REIT Al Haramain Fund. The changes are to take effect on 22/09/2020G corresponding to 05/02/1442H. Details of the significant changes include updating the cover page in compliance with the Real Estate Investment Traded Funds

Instructions, important notice section has been updated in compliance with the Real Estate Investment Traded Funds Instructions, updates to the definitions list, updates to the administrator fees, updates to the voting rights section, updates to the description of the initial assets section, updates on the summary of the Fund's strategy, updates in the risk of investing in the Fund section, updates on " member suitability" point under Fund board section, updates on the material conflicts of interest under Fund manager section, updates on financial statement section, updates on conflict of interest section, update on reporting to unitholders section and other information section has been updated to include " unitholders meetings" in compliance with the Real Estate Investment Traded Funds Instructions

- 20 October 2020, Jadwa Investment Company has announced the material changes on the terms and conditions of the Jadwa REIT Al-Haramain Fund according to the approval of the unit holders in the first meeting that was held on 28 Safar 1442H corresponding to 15 October 2020G. The change took effect on 17/03/1442H corresponding to 11/03/2020G. Details of the material changes include adjusting the percentage of asset allocation in Makkah and Madina to be 60% at least of total fund asset value, instead of at least 100% of the total asset value, geographical expansion for the fund's investments in addition to

Makkah and Madina in order to include the rest of the cities in the Kingdom, with a percentage that does not exceed 40% of fund total asset value, allowing the fund to invest in real estate assets outside the Kingdom with a percentage that does not exceed 25% of fund total asset value, updating the fund's other investments and maintaining allocation the same, with a percentage that does not exceed 25% of fund total asset value, and adding buy-back and leasehold agreements, cash and money market funds, units in Real Estate investment funds, whether it was private or publicly listed, and whether it was managed by the fund manager or any fund manager, as long as it is Shariah compliant and CMA regulated fund.

- On 30 November 2020, Jadwa Investment has announced that Jadwa REIT Al Haramain Fund has invested an amount of 50 million Saudi riyals in a closed-ended Shariah-compliant private real estate investment fund which is managed by Jadwa Investment. Due to the Private Fund being managed by the Fund Manager, and stemming from the responsibility to follow the governance standards to ensure achieving transparency and protect the interests of investors, and to avoid conflicts of interest, the members representing the Fund Manager in the Fund board abstained from voting on the Fund Manager's recommendation to invest in The Private Fund.

# Jadwa REIT Al Haramain Fund Governance

## Subsequent Events:

- On 22 March 2021, details of the fund mentioned above have been announced: Real Estate Investment Fund, a closed-ended Shariah-compliant real estate investment fund. The objective of Real Estate Investment Fund is to provide investors with a stable stream of income and capital appreciation in the medium and long term through the acquisition of income-generating real estate assets in the Kingdom of Saudi Arabia.

## Fund's Board

The Fund Board oversees the resolution of conflicts of interests. As at December 31, 2020, 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 2020

### The first meeting was held in June 2020.

The following topics have been discussed:

- A brief on the performance of Makkah real estate sector during the first half of 2020
- The status and performance of the Fund during the first half of 2020
- The Fund deployment of the debt facility for acquiring new asset and future growth plans for the Fund
- The compliance of the Fund with all rules and regulations.

### The second meeting was held in December 2020.

The following topics have been discussed:

- A brief on the performance of Makkah real estate sector during the second half of 2020
- The status and performance of the Fund during the second half of 2020
- The Fund manager's plans to utilize the remaining debt facility in order to facilitate the Fund's growth plans
- The compliance of the Fund with all rules and regulations



# Jadwa REIT Al Haramain 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 Al Haramain 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 Al Haramain 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.

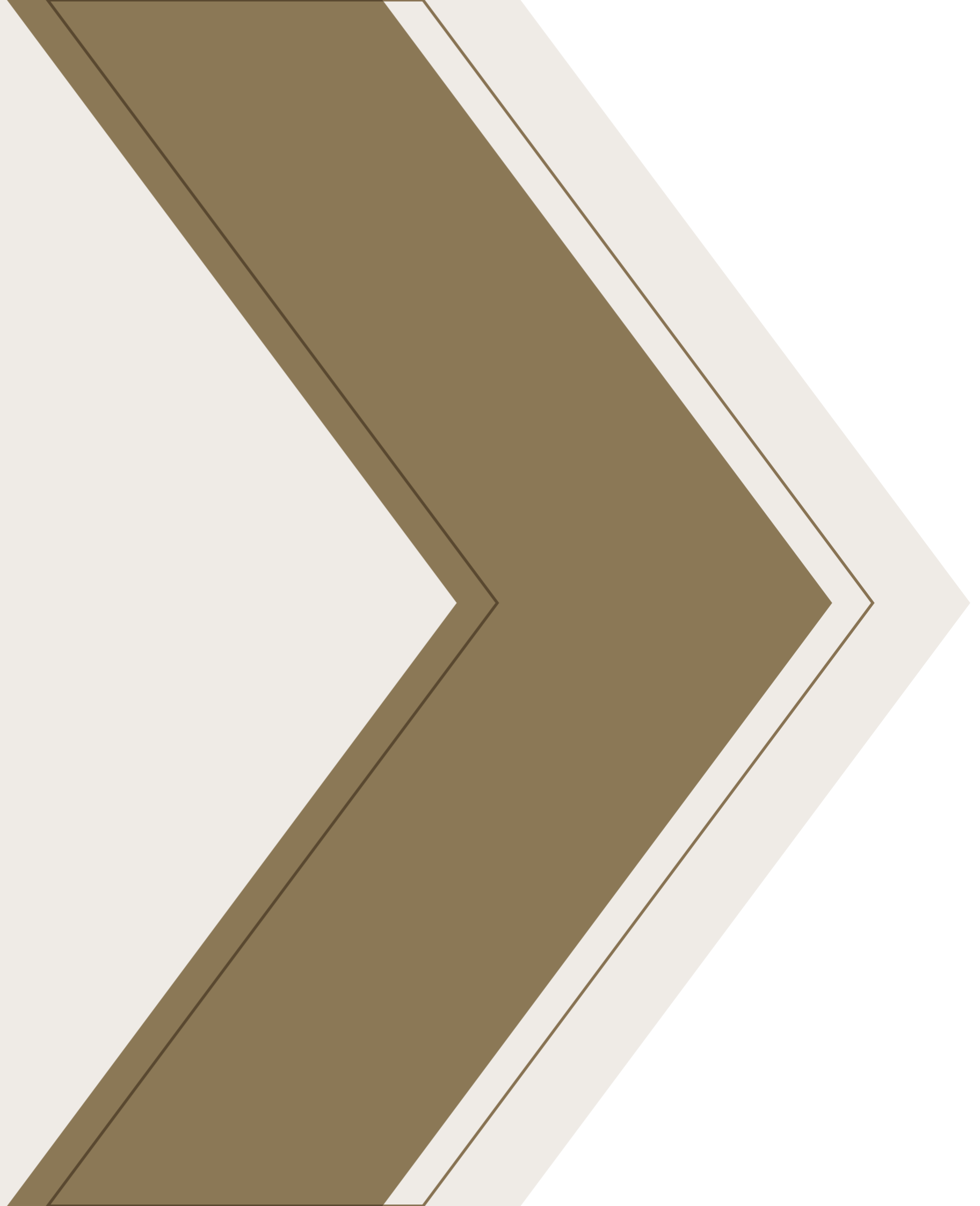
The Shariah Board has reviewed the Terms and Conditions and approved the structure of the Fund and the offering of units at the Fund's inception. The Fund shall also comply with the approved Shariah Guidelines.

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**



**Jadwa REIT Al Haramain Fund**  
(Managed by Jadwa Investment Company)

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

**31 DECEMBER 2020**

**Jadwa REIT Al Haramain Fund**  
(Managed by Jadwa Investment Company)

**FINANCIAL STATEMENTS**  
31 December 2020

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

**Opinion**

We have audited the accompanying financial statements of Jadwa REIT Al Haramain Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the statement of financial position as at 31 December 2020, 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 2020, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements and issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA) (collectively referred to as "IFRSs as endorsed in KSA").

**Basis for Opinion**

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other 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. For the key audit matter below, a description of how our audit addressed the matter is provided in that context.

Key Audit Matter	How the key matter was addressed in the audit
<p><b>Valuation of investment properties</b></p> <p>The Fund owns a portfolio of investment properties comprising of land and commercial buildings being located in the Kingdom of Saudi Arabia.</p> <p>As at 31 December 2020, the carrying value of Fund's investment properties aggregated to SR 704,690,492 (2019: SR 779,514,058) and the fair value of these properties amounted to SR 787,730,275 (2019: SR 862,000,000).</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>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> <li>- We assessed the credentials, independence, professional qualification, competence and experience of the Fund's valuers, and also assessed that they are certified by the Saudi Authority for Accredited Valuers (TAQEEM);</li> <li>- We involved our specialist and assessed the reasonableness of valuation methodology, approach and assumptions of the Fund's independent valuers;</li> </ul>

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

**Key Audit Matters (continued)**

Key Audit Matter	How the key matter was addressed in the audit
<p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund Manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the Fund's investment properties on semiannual basis.</p> <p>We considered this a key audit matter since the assessment of impairment requires significant judgment by the management and assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties based on the independent valuation reports. The Fund Manager have determined that the recoverable amount of two investment properties at the end of the year was lower than the carrying value of the related investment properties and an impairment of SR 59,826,225 (2019: Nil) was recognized in the statement of comprehensive income during the year.</p> <p><i>The Fund's policies for investment properties are disclosed in note 5.1 and related disclosures about the above-mentioned key audit matter are included in notes 6 and 7 of the accompanying financial statements.</i></p>	<ul style="list-style-type: none"> <li>- We reconciled the average fair value of the investment properties as presented in the accompanying financial statements to the external valuers' reports;</li> <li>- We assessed the recoverable amount which is higher of fair value and value in use of the related investment properties as per the above-mentioned valuation reports and assessed that appropriate impairment was recognized in the statement of comprehensive income during the year; and</li> <li>- We have also reviewed the adequacy of the investment properties disclosures included in the accompanying financial statements.</li> </ul>

**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.

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

**Other Information (continued)**

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 Fund Manager 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 IFRSs as endorsed in KSA and for such internal control as the Fund Manager 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 Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Fund's Board 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.

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 period 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 communication.

for Alluhaid & Alyahya Chartered Accountants



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

Riyadh: 16 Sha'ban 1442 H  
(29 March 2021)



Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF FINANCIAL POSITION  
As at 31 December 2020

	Notes	2020 SR	2019 SR
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investment properties	6	704,690,492	779,514,058
Financial assets at fair value through profit or loss	8	58,932,224	-
Deferred charges	12	337,925	1,236,783
<b>TOTAL NON-CURRENT ASSETS</b>		<b>763,960,641</b>	<b>780,750,841</b>
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	8	17,711,157	-
Deferred charges – current portion	12	898,858	901,321
Prepayments and other assets	9	37,103	53,516
Rent receivables	10	6,106,058	21,556,267
Accrued rental income		-	2,824,883
Cash and cash equivalents	11	644,157	11,425,236
<b>TOTAL CURRENT ASSETS</b>		<b>25,397,333</b>	<b>36,761,223</b>
<b>TOTAL ASSETS</b>		<b>789,357,974</b>	<b>817,512,064</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Long-term loan	12	232,010,613	181,422,611
<b>CURRENT LIABILITIES</b>			
Due to related parties	14	7,531,365	1,746,698
Accrued management fee	14	1,035,377	3,588,469
Accrued expenses and other liabilities	13	367,000	1,095,862
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,933,742</b>	<b>6,431,029</b>
<b>TOTAL LIABILITIES</b>		<b>240,944,355</b>	<b>187,853,640</b>
<b>NET ASSETS</b>		<b>548,413,619</b>	<b>629,658,424</b>
Units in issue		66,000,000	66,000,000
Per unit value		8.31	9.54
Per unit fair value	7	9.57	10.79

The attached notes 1 to 25 form an integral part of these financial statements.

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
<b>INCOME</b>			
Rental income from investment properties	17	8,067,772	52,565,599
Unrealised gain on financial assets at fair value through profit or loss	8	8,984,790	-
Return on bank deposits		-	107,829
		<b>17,052,562</b>	<b>52,673,428</b>
<b>EXPENSES</b>			
Depreciation	6	(11,923,575)	(12,055,176)
General and administrative expenses	15	(1,480,329)	(2,436,304)
Management fees	14	(1,035,377)	(7,144,785)
Amortisation of deferred charges	12	(901,321)	(1,048,493)
Amortisation of transaction costs	12	(588,002)	(586,103)
		<b>(15,928,604)</b>	<b>(23,270,861)</b>
<b>OPERATING PROFIT</b>		<b>1,123,958</b>	<b>29,402,567</b>
Finance charges	12	(5,778,581)	(10,428,825)
Loss on disposal of investment properties	6	(3,563,957)	-
<b>(LOSS) PROFIT FOR THE YEAR</b>		<b>(8,218,580)</b>	<b>18,973,742</b>
Impairment loss on investment properties	6	(59,826,225)	-
<b>NET (LOSS) PROFIT FOR THE YEAR AFTER IMPAIRMENT</b>		<b>(68,044,805)</b>	<b>18,973,742</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR</b>		<b>(68,044,805)</b>	<b>18,973,742</b>

The attached notes 1 to 25 form an integral part of these financial statements.

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF CASH FLOWS  
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
<b>OPERATING ACTIVITIES</b>			
Net (loss) income for the year		(68,044,805)	18,973,742
Adjustments for non-cash and other items:			
Depreciation	6	11,923,575	12,055,176
Impairment loss on Investment properties	6	59,826,225	-
Unrealised gain on financial assets at fair value through profit or loss	8	(8,984,790)	-
Finance charges	12	5,778,581	10,428,825
Loss on disposal of investment properties	6	3,563,957	-
Amortisation of deferred charges	12	901,321	1,048,493
Amortisation of transaction costs	12	588,002	586,103
Return on bank deposits		-	(107,829)
		<u>5,552,066</u>	<u>42,984,510</u>
Changes in operating assets and liabilities:			
Rent receivables		15,450,209	(20,147,313)
Accrued rental income		2,824,883	19,225,445
Prepayments and other assets		16,413	282,900
Due to related parties		117,441	64,155
Accrued management fee		(2,553,091)	(24,252)
Accrued expenses and other liabilities		(728,863)	813,658
		<u>20,679,058</u>	<u>43,199,103</u>
Finance charges paid		(111,355)	(10,595,945)
Return on bank deposits received		-	143,677
		<u>20,567,703</u>	<u>32,746,835</u>
<b>INVESTING ACTIVITIES</b>			
Payments for financial assets at fair value through profit or loss	8	(67,658,591)	-
Addition to investment properties	6	(156,000)	-
Demolition cost	6	(334,191)	-
Proceeds from short-term deposits		-	7,000,000
		<u>(68,148,782)</u>	<u>7,000,000</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from long-term loan	12	50,000,000	-
Dividends distributed	20	(13,200,000)	(35,640,000)
Deferred charges	12	-	(500,000)
		<u>36,800,000</u>	<u>(36,140,000)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>			
		<u>(10,781,079)</u>	<u>3,606,835</u>
Cash and cash equivalents at beginning of the year	11	11,425,236	7,818,401
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>			
	11	<u>644,157</u>	<u>11,425,236</u>

The attached notes 1 to 25 form an integral part of these financial statements.

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

STATEMENT OF CHANGES IN NET ASSETS  
For the year ended 31 December 2020

	Notes	2020 SR	2019 SR
<b>Net asset value attributed to the unitholders at beginning of the year</b>			
		629,658,424	646,324,682
<b>Comprehensive (loss) income</b>			
Net (loss) income for the year		(68,044,805)	18,973,742
Other comprehensive income for the year		-	-
		<u>(68,044,805)</u>	<u>18,973,742</u>
<b>Comprehensive (loss) income for the year</b>			
		<u>(68,044,805)</u>	<u>18,973,742</u>
Dividend distribution	20	(13,200,000)	(35,640,000)
		<u>(13,200,000)</u>	<u>(35,640,000)</u>
<b>Net asset value attributed to the unitholders at end of the year</b>			
		<u>548,413,619</u>	<u>629,658,424</u>

The attached notes 1 to 25 form an integral part of these financial statements.

8

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2020

**1 GENERAL**

Jadwa REIT Al Haramain 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 660,000,000 divided into 66,000,000 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 a Capital Market Institution licensed by the CMA under license number 06034-37 (the "Fund Manager").

Jadwa Al Khalil Real Estate Company, a Limited Liability Company with commercial registration number 1010495553, has been established and approved by the CMA as a special purpose vehicle (the "SPV") for the beneficial interest of the Fund. The SPV owns all the assets of the Fund and its contractual obligations. The SPV has not been consolidated in these financial statements as the same is being consolidated with the ultimate parent in which the unitholders of the Fund are the owners.

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, with a focus on 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) and amended by Resolution Number 2-115-2018 dated 13 Safar 1440H (corresponding to 22 October 2018), detailing requirements for all real estate funds operating within the Kingdom of Saudi Arabia.

**3 BASIS OF PREPARATION**

**3.1 Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional 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, except for financial assets at fair value through profit or loss ("FVTPL") which are recorded at fair value.

**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.

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2020

**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:

**Judgments**

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

**Assumptions and estimation uncertainties**

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.

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. The impairment of the investment properties are disclosed in note 6.

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 estimated useful lives of the buildings range from 3 to 32 years.

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

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 or cash generating unit ("CGU") exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets of Funds 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 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. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognised in the statement of comprehensive income.

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.

**5.3 Cash and cash equivalents**

Cash and cash equivalents consist of bank balances and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

**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 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:

- The Fund's business model for managing the financial assets; and
- 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's financial assets measured at amortised cost include cash and cash equivalents and rent receivables.

The Fund has measured its investments in mutual fund and private real estate investment fund at FVTPL.

The Fund has no financial assets measured at 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.

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**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.

**Expected credit loss assessment for rent receivables**

The Fund applies IFRS 9 simplified approach for measuring ECL, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against financial assets measured at amortised cost.

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical rates are adjusted to reflect the current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified inflation rate to be the most relevant factor and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

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

**Loss Given Default (LGD):** 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. It is usually expressed as a percentage of the EAD.

**Exposure at Default (EAD):** 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.

**Presentation of impairment**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to rent receivables are presented separately in the statement of comprehensive income.

**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 long-term loan, due to related parties, accrued management fee and accrued expenses.

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**  
**5.4 Financial instruments (continued)**

**5.4.5 Modification of financial assets and financial liabilities**

Financial assets

If the terms of the financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of comprehensive income.

Financial liabilities

The Fund derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised in the statement of comprehensive income.

**5.4.6 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.

**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.

The Fund recognises lease payments as rental income on a straight-line basis. After lease commencement, the Fund recognises variable lease payments that do not depend on an index or rate (e.g. performance- or usage-based payments) as they are earned. When the Fund provides incentives to its tenants, the cost of the incentives is recognised 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 1.0% per annum of the Fund's net asset market value. Management fee is calculated and payable semi-annually in arrears.

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**5 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.8 Expenses**

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under International Financial Reporting Standards.

**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 year-end.

**5.10 Units in issue**

The Funds has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank parri passu in all respects and have identical terms and conditions. The units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets in the event of the Fund's liquidation.

**5.11 Zakat**

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

**5.12 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 and unrealised gain on financial assets at FVTPL.

**5.13 Amendments to existing standards effective 1 January 2020**

The Fund has adopted the following amendments to existing standards which have been issued and effective from 1 January 2020:

<u>Amendments to standards</u>	<u>Effective date</u>
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020

The application of the amendments to existing standards did not have an impact on the amounts presented in these financial statements.

**5.14 New standards, amendments and interpretations effective after 1 January 2020 and have not been early adopted**

The following standards, amendments to standards and interpretations are not yet effective and neither expected to have a significant impact on the Fund's financial statements:

<u>Standards / amendments to standards</u>	<u>Effective date</u>
IFRS 17 Insurance Contracts	1 January 2023
Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018 — 2020	1 January 2022
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023

In the opinion of the Fund Manager, these standards, amendments to standards and interpretations will clearly not impact the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**6 INVESTMENT PROPERTIES**

The composition of the investment properties as of year-end is summarized below:

**31 December 2020**

Description	Cost SR	Accumulated depreciation SR	Impairment Loss (note 6.6) SR	Net book value SR
Land	498,291,500	-	59,826,225	438,465,275
Tharawat Al Andalusia Hotel	152,000,000	25,636,046	-	126,363,954
Tharawat Al Taqwa Hotel	158,000,000	18,294,737	-	139,705,263
Retail Building	100,000	100,000	-	-
3-Star Hotel, Makkah	156,000	-	-	156,000
	<u>808,547,500</u>	<u>44,030,783</u>	<u>59,826,225</u>	<u>704,690,492</u>

31 December 2019

Description	Cost SR	Accumulated depreciation SR	Net book value SR
Land	498,291,500	-	498,291,500
Tharawat Al Andalusia Hotel	152,000,000	18,711,476	133,288,524
Tharawat Al Taqwa Hotel	158,000,000	13,345,828	144,654,172
Ibrahim Al-Khalil I	3,408,500	344,543	3,063,957
Retail Building	100,000	67,245	32,755
Ibrahim Al-Khalil II	200,000	16,850	183,150
	<u>812,000,000</u>	<u>32,485,942</u>	<u>779,514,058</u>

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

	2020 SR	2019 SR
<b>Cost</b>		
Balance at beginning of the year	812,000,000	812,000,000
Additions during the year	156,000	-
Disposals during the year	(3,608,500)	-
Balance at end of the year	<u>808,547,500</u>	<u>812,000,000</u>
<b>Accumulated depreciation</b>		
Balance at beginning of the year	32,485,942	20,430,766
Depreciation charge for the year	11,923,575	12,055,176
Related to disposals	(378,734)	-
Balance at end of the year	<u>44,030,783</u>	<u>32,485,942</u>
<b>Accumulated impairment</b>		
Balance at beginning of the year	-	-
Impairment loss of Investment properties	59,826,225	-
Balance at end of the year	<u>59,826,225</u>	<u>-</u>
<b>Net book value</b>	<u>704,690,492</u>	<u>779,514,058</u>

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**6 INVESTMENT PROPERTIES (continued)**

6.1 The useful lives of the investment properties as estimated by an independent valuator range from 3 to 32 years.

6.2 Freehold land comprises of the lands acquired on which the buildings are built. Freehold land along with the properties are kept in the custody of Albilad Capital. The Fund acquired properties in Makkah in different locations with an aggregate area of 3,227.2 square meter of land. The consideration for the two hotels was partly paid in cash and partly settled through issuance of 30,000,000 units of the Fund. The consideration for the other properties were fully paid in cash.

6.3 Brief details of the investment properties follow:

**6.3.1 Tharawat Al Andalusia Hotel**

This property is a fully constructed and operated hotel located in Al Misfalah District, being situated approximately 0.5 km away from Al Haram, benefitting from a direct view over Ibrahim Al-Khalil Road.

**6.3.2 Tharawat Al Taqwa Hotel**

This property is a fully constructed pilgrim accommodation hotel located in Shisha District north of the intersection between the major Al Hajj Road and King Fahad Road.

**6.3.3 Retail Building**

The property was acquired as a retail property. It is located in Al Misfalah District, with a direct view on Misyal Road, and is 500m away from the Holy Mosque. The property in its current state is fully leased.

**6.3.4 Ibrahim Al-Khalil I**

This property is located in Al Misfalah District, with a direct view on Ibrahim Al-Khalil Road, and is 350m away from the Holy Mosque. The building was demolished in 2020 and the land was merged with Ibrahim Al-Khalil II (see note 6.5).

**6.3.5 Ibrahim Al-Khalil II**

The property is located in Al Misfalah District, with a direct view on Ibrahim Al-Khalil Road, and is 350 m away from the Holy Mosque. The building was demolished in 2020 and the land was merged with Ibrahim Al-Khalil I (see note 6.5).

**6.3.6 3-Star Hotel, Makkah**

A proposed hotel tower which will be built in the merged Ibrahim Al-Khalil I and Ibrahim Al-Khalil II lands after the demolition of the buildings (see note 6.5).

6.4 These investment properties have been pledged with Banque Saudi Fransi ("BSF") in order to secure a debt facility obtained by the SPV for the purposes of the Fund.

6.5 On 4 February 2020, the Fund Board approved the redevelopment plan to merge Ibrahim Al-Khalil I and Ibrahim Al-Khalil II and redevelop them into a hotel tower. Accordingly, the buildings in these properties with carrying amounts of SR 3,047,595 and SR 182,171, respectively, were disposed of and demolished. The demolition costs amounting to SR 334,191 were recorded under 'Loss on disposal of investment properties' in the statement of comprehensive income.

**6.6 Impairment of investment properties**

The investment properties were tested for impairment and the management noted the carrying amounts of two properties not to be recoverable. During the year ended 31 December 2020, the management recognised an impairment of SR 59,826,225 (2019: Nil) to adjust the value of its investment properties to their recoverable amounts based on the average fair values as of the reporting period determined by the independent evaluators as shown in note 7.

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

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

In accordance with Article 22 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 of CMA 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 Consulting and White Cubes. As at reporting date, the valuation of investment properties are as follows:

	Appraiser 1 SR	Appraiser 2 SR	Average SR
<b>31 December 2020</b>			
Tharawat Al Andalusia Hotel	400,000,000	408,330,000	404,165,000
Tharawat Al Taqwa Hotel	260,000,000	264,000,000	262,000,000
Ibrahim Al-Khalil I	73,080,000	79,179,101	76,129,551
Retail Building	25,000,000	25,000,000	25,000,000
Ibrahim Al-Khalil II	18,260,550	22,610,899	20,435,724
	<u>776,340,550</u>	<u>799,120,000</u>	<u>787,730,275</u>
	Appraiser 1 SR	Appraiser 2 SR	Average SR
<b>31 December 2019</b>			
Tharawat Al Andalusia Hotel	400,000,000	408,330,000	404,165,000
Tharawat Al Taqwa Hotel	270,000,000	264,000,000	267,000,000
Ibrahim Al-Khalil I	133,000,000	125,000,000	129,000,000
Retail Building	25,000,000	25,000,000	25,000,000
Ibrahim Al-Khalil II	37,000,000	36,670,000	36,835,000
	<u>865,000,000</u>	<u>859,000,000</u>	<u>862,000,000</u>

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:

	2020 SR	2019 SR
Fair value of investments in real estate properties	787,730,275	862,000,000
Less: Carrying value of investments in real estate properties (note 6)	<u>704,690,492</u>	<u>779,514,058</u>
Unrealised gain based on fair value evaluation	<u>83,039,783</u>	<u>82,485,942</u>
Units in issue	<u>66,000,000</u>	<u>66,000,000</u>
Per unit share in unrealised gain based on fair value evaluation	<u>1.26</u>	<u>1.25</u>

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Jadwa REIT Al Haramain Fund  
(Managed by Jadwa Investment Company)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

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

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

	2020 SR	2019 SR
Net asset value at cost, as presented in these financial statements	548,413,619	629,658,424
Unrealised gain based on real estate evaluations (note 7.i.)	<u>83,039,783</u>	<u>82,485,942</u>
Net asset based on fair value	<u>631,453,402</u>	<u>712,144,366</u>

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

	2020 SR	2019 SR
Net asset value per unit, at cost as presented in these financial statements	8.31	9.54
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.i.)	<u>1.26</u>	<u>1.25</u>
Net asset value per unit at fair value	<u>9.57</u>	<u>10.79</u>

**8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2020 SR	2019 SR
<b>Current</b>		
Investment in mutual fund (note 8.1)	<u>17,711,157</u>	-
<b>Non-current</b>		
Investment in private real estate fund (note 8.2)	<u>58,932,224</u>	-

**8.1 Investment in mutual fund**

This represents the Fund's investment in 174,721.72 units (2019: Nil) of Jadwa Saudi Riyal Murabaha Fund managed by Jadwa Investment Company, the cost of which is SR 17,658,591 (2019: Nil) and is current in nature.

The unrealised gain on this investment amounted to SR 52,566 for the year ended 31 December 2020 (2019: Nil).

**8.2 Investment in real estate fund**

This represents investment in 5,000,000 units (2019: Nil) in Real Estate Investment Fund, a closed-ended Shariah-compliant private real estate investment fund managed by Jadwa Investment Company, the cost of which is SR 50,000,000 (2019: Nil).

The unrealised gain on this investment amounted to SR 8,932,224 for the year ended 31 December 2020 (2019: Nil).

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**9 PREPAYMENTS AND OTHER ASSETS**

	2020 SR	2019 SR
Input value-added tax ("VAT")	37,103	-
Prepaid insurance	-	53,516
	<u>37,103</u>	<u>53,516</u>

**10 RENT RECEIVABLES**

This account represents the rent receivables from the operating leases (see note 17).

Following is the ageing analysis of the receivables:

	2020 SR	2019 SR
Less than 30 days	-	21,525,000
Between 31 to 60 days	-	-
Between 61 to 90 days	-	-
Between 91 to 120 days	-	-
More than 120 days	6,106,058	31,267
	<u>6,106,058</u>	<u>21,556,267</u>

The rent receivables are secured by promissory notes.

**Impairment and risk exposure**

Information about the impairment of rent receivables and the Fund's exposure to credit risk can be found in note 18.

**11 CASH AND CASH EQUIVALENTS**

As at 31 December 2020, four of the nine bank accounts are maintained with Banque Saudi Fransi ("BSF") and Riyad Bank under the name of the SPV with a total balance of SR 22,400 (2019: four of the eight bank accounts with a total balance of SR 10,756,887).

**12 LONG-TERM LOAN AND DEFERRED CHARGES**

	2020 SR	2019 SR
Long-term loan	233,000,000	183,000,000
Less:		
Transaction cost	2,771,250	2,771,250
Amortisation of transaction costs	(1,781,863)	(1,193,861)
	<u>989,387</u>	<u>1,577,389</u>
Long-term loan	<u>232,010,613</u>	<u>181,422,611</u>

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**12 LONG-TERM LOAN AND DEFERRED CHARGES (continued)**

The Fund has obtained the following Shariah-compliant facilities through the SPV:

- i. On 20 July 2017, BSF has extended an Islamic finance facility (Tawaruq) to the SPV amounting to SR 500,000,000 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 till 20 July 2020 and is repayable in full on 31 August 2022.

On 23 August 2020, BSF has increased the limit of the Tawaruq facility from SR 500,000,000 to SR 550,000,000. Also, BSF has extended the availability of the loan until 31 July 2021.

The loan carries mark-up at the rate of Saudi Inter-Bank Offered Rate ("SAIBOR") plus 2% per annum, payable on semi-annual basis. As at 31 December 2020, SR 233,000,000 (2019: SR 183,000,000) have been drawn from the available facility.

Transaction costs related to the loan amounting to SR 2,771,250 as of 31 December 2020 (2019: SR 2,771,250) have been capitalized in the carrying amount of the loan and are being amortized over the period of the loan.

The facility is secured by promissory notes and pledge of certain coverage ratio over the current and future rights and interests in the investment properties of the Fund (see note 6).

Finance charges for the year ended 31 December 2020 amounted to SR 5,778,581 (2019: SR 10,428,825) which are reflected under the statement of comprehensive income.

Fees charged by BSF for loan servicing amounting to SR 3,750,000 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 year ended 31 December 2020 amounted to SR 734,350 (2019: SR 732,343) which are reflected under the statement of comprehensive income.

- ii. On 8 May 2018, Riyad Bank has extended an Islamic finance facility to the SPV amounting to SR 200,000,000 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 7 February 2021 and is repayable in full on 7 February 2021. As at 31 December 2020 and 2019, the Fund has not drawn any amount from the facility.

Fees charged by Riyad Bank for loan servicing amounting to 0.25% 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 year ended 31 December 2020 amounted to SR 166,971 (2019: SR 316,150).

The movement in the long-term loan is as follows:

	2020 SR	2019 SR
At beginning of the year	183,000,000	183,000,000
Proceeds from loans	50,000,000	-
At end of the year	<u>233,000,000</u>	<u>183,000,000</u>

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

12 LONG-TERM LOAN AND DEFERRED CHARGES (continued)

The movement in the deferred charges is as follows:

	2020 SR	2019 SR
At beginning of the year	2,138,104	2,686,597
Additions during the year	-	500,000
Amortisation during the year	(901,321)	(1,048,493)
At end of the year	1,236,783	2,138,104

Deferred charges are presented in the statement of financial position as follows:

	2020 SR	2019 SR
Non-current portion	337,925	1,236,783
Current portion	898,858	901,321
	1,236,783	2,138,104

13 ACCRUED EXPENSES AND OTHER LIABILITIES

	2020 SR	2019 SR
Custody fee	160,000	78,376
Insurance fee	126,438	-
Property valuation fee	44,810	46,314
Professional fee	30,719	91,281
Output VAT	-	839,337
Administrator fee	-	30,554
Independent board member fee	-	10,000
Others	5,033	-
	367,000	1,095,862

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:

Related party	Nature of relationship	Nature of transaction	2020 SR	2019 SR
Jadwa Investment Company	Fund Manager	Management fee (i) Expenses paid on behalf of the Fund	1,035,377 20,342	7,144,785 -
Jadwa Al-Khalil Real Estate Company	SPV	Finance charges	5,778,581	10,428,825
Jadwa Saudi Riyal Murabaha Fund	Affiliate	Investment in mutual fund Unrealised gain	17,711,157 52,566	- -
Real Estate Investment Fund	Affiliate	Investment in private real estate investment fund Unrealised gain	58,932,224 8,932,224	- -

Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

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 1.0% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

The Fund Manager announced temporary suspension of management fees for the Fund from 1 March 2020 until the Fund resumes the collection of any rents, due to the direct impact of the COVID-19 outbreak on the Fund's assets.

For the dividends distributed to the unitholders, please refer to note 20.

14.2 Related party balances

The following are the details of major related party balances at yearend:

Due to related parties

	2020 SR	2019 SR
Jadwa Al-Khalil Real Estate Company	7,337,300	1,580,074
Unitholders - Unpaid dividends	171,723	164,624
Jadwa Investment Company	22,342	2,000
	7,531,365	1,746,698

Accrued management fee

	2020 SR	2019 SR
Jadwa Investment Company	1,035,377	3,588,469

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2020 SR	2019 SR
Registration fee	400,000	400,000
Professional fee	182,895	399,369
Legal fee	163,610	69,907
Custody fee	161,899	159,857
Tadawul listing fee	144,320	156,245
Administrator fee	136,856	108,786
Insurance	126,442	126,630
Property valuation fee	100,117	106,810
Independent board member fee (i)	20,000	20,000
Breakup fee	-	835,983
Others	44,190	52,717
	1,480,329	2,436,304

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



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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**16 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

Assets and liabilities 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

**16.1 Financial instruments**

Financial assets consist of cash and cash equivalents, rent receivables and financial assets at fair value through profit or loss. Financial liabilities consist of due to related parties, accrued management fees, accrued expenses and long-term loan.

Due to the short-term nature of most of the financial instruments, their carrying amount is considered to be the same as their fair values. For the long-term loan, the fair value is not materially different from its carrying amount since the interest payable on this loan is close to current market.

The following table shows the fair values of financial assets, including their levels in the fair value hierarchy:

	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<b>31 December 2020</b>				
Financial assets at fair value through profit or loss (note 8)	17,711,157	58,932,224	-	<b>76,643,381</b>

The financial asset at FVTPL which is an investment in private real estate investment fund is determined using unadjusted net asset value (Level 2 valuation).

There were no transfers between levels 1, 2 and 3 during the reporting period.

**16.2 Non-financial assets**

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

	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<b>31 December 2020</b>				
Tharawat Al Andalusia Hotel	-	-	404,165,000	404,165,000
Tharawat Al Taqwa Hotel	-	-	262,000,000	262,000,000
Retail Building	-	-	25,000,000	25,000,000
Ibrahim Al-Khalil I (Land)	-	76,129,551	-	76,129,551
Ibrahim Al-Khalil II (Land)	-	20,435,724	-	20,435,724
	-	<b>96,565,275</b>	<b>691,165,000</b>	<b>787,730,275</b>

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

**16 FAIR VALUE MEASUREMENT (continued)**

**16.2 Non-financial assets (continued)**

	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
<b>31 December 2019</b>				
Tharawat Al Andalusia Hotel	-	-	404,165,000	404,165,000
Tharawat Al Taqwa Hotel	-	-	267,000,000	267,000,000
Retail Building	-	-	25,000,000	25,000,000
Ibrahim Al-Khalil I	-	-	129,000,000	129,000,000
Ibrahim Al-Khalil II	-	-	36,835,000	36,835,000
	-	-	<b>862,000,000</b>	<b>862,000,000</b>

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 Consulting 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 the International Valuation Standards issued by International Valuation Standards Council (IVSC) and applied by Saudi Authority for Accredited Valuers (TAQEEM).

The assumptions used in determining the fair values of the investment properties as at 31 December are as follows:

Description	Valuation approach	Key assumptions
<b>Evaluator: ValuStrat</b>		
Tharawat Al Andalusia Hotel	Discounted cash flow	Discount rate, exit yield rate, growth rate
Tharawat Al Taqwa Hotel	Discounted cash flow	Discount rate, exit yield rate, growth rate
Retail Building	Income capitalisation	Capitalisation rate
Ibrahim Al-Khalil I (Land)	Market comparative (2019: Income capitalisation)	Price per square meter from current year sales of comparable lots of land in the area (2019: Capitalisation rate)
Ibrahim Al-Khalil II (Land)	Market comparative (2019: Income capitalisation)	Price per square meter from current year sales of comparable lots of land in the area (2019: Capitalisation rate)

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
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16 FAIR VALUE MEASUREMENT (continued)  
16.2 Non-financial assets (continued)

Description	Valuation approach	Key assumptions
<b>Evaluator: White Cubes</b>		
Tharawat Al Andalusia Hotel	Income capitalisation	Capitalisation rate
Tharawat Al Taqwa Hotel	Income capitalisation	Capitalisation rate
Retail Building	Income capitalisation	Capitalisation rate
Ibrahim Al-Khalil I	Market comparative (2019: Income capitalisation)	Price per square meter from current year sales of comparable lots of land in the area (2019: Capitalisation rate)
Ibrahim Al-Khalil II	Market comparative (2019: Income capitalisation)	Price per square meter from current year sales of comparable lots of land in the area (2019: Capitalisation rate)

Transfers between levels 2 and 3

In 2020, the Fund transferred Ibrahim Al-Khalil I and Ibrahim Al-Khalil II from level 3 into level 2 as the buildings in these investment properties were disposed of and demolished for the Fund's plan to merge the remaining parcels of land and redeveloped them into a hotel tower. Accordingly, the remaining properties' valuations were derived using market comparative approach and presented under level 2 fair value hierarchy.

17 OPERATING LEASES

Future minimum rental commitments under the operating leases are as follows:

	2020 SR	2019 SR
Not later than one year	20,608,757	43,906,780
Later than one year and not later than five years	-	145,449,153
Later than five years	-	405,903,955
	<u>20,608,757</u>	<u>595,259,888</u>

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 16 years. During the year, the Fund received notices from the tenant of Tharawat Al Andalusia and Tharawat Al Taqwa Hotel to terminate the respective lease contracts in accordance with the lease contract terms and conditions. Accordingly, the contracts will end in 2021 (see note 22).

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. Responsibility for repair and maintenance of the property, and its insurance over the lease term lies with the lessee. Rental income recognised by the Fund during the year amounted to SR 8,067,772 (2019: SR 52,565,599).

18 FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including interest rate 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.

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
31 December 2020

18 FINANCIAL RISK MANAGEMENT (continued)

18.1 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 short-term deposits and 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 1,904,944 for the year ended 31 December 2020 (2019: SR 2,061,139).

18.2 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.

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.

As at year end, the Fund has cash and cash equivalents and rent receivables 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 assessed 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. Considering that there are no historical losses and accordingly very low probability of default, the management assessed the loss allowance to be negligible to the Fund.

18.3 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.

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Jadwa REIT Al Haramain Fund  
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NOTES TO THE FINANCIAL STATEMENTS (continued)  
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**18 FINANCIAL RISK MANAGEMENT (continued)**

**18.3 Liquidity risk (continued)**

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

	On demand SR	Less than 3 months SR	3 to 12 months SR	More than 12 months SR	Total SR
<b>31 December 2020</b>					
Due to related parties	194,065	6,372,457	964,843	-	7,531,365
Accrued management fees	-	1,035,377	-	-	1,035,377
Accrued expenses and other liabilities	-	367,000	-	-	367,000
Long-term loan	-	-	-	233,000,000	233,000,000
	<u>194,065</u>	<u>7,774,834</u>	<u>964,843</u>	<u>233,000,000</u>	<u>241,933,742</u>
<b>31 December 2019</b>					
Due to related parties	166,624	-	1,580,074	-	1,746,698
Accrued management fees	-	3,588,469	-	-	3,588,469
Accrued expenses and other liabilities	-	1,095,862	-	-	1,095,862
Long-term loan	-	-	-	183,000,000	183,000,000
	<u>166,624</u>	<u>4,684,331</u>	<u>1,580,074</u>	<u>183,000,000</u>	<u>189,431,029</u>

**18.4 Property risk**

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the following risks related to its investment properties:

- 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.
- Concentration risk as all the investment properties of the Fund are located in the vicinity of the Holy Mosque in Makkah. This causes changes in economic, political or other conditions to similarly affect all the properties at the same time. The Fund's management regularly assess the changes in the market indicators and diversifies its investment in different areas within the macro location, as this is a premium location with high level of demand for hospitality units.

**19 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.

**20 DIVIDENDS DISTRIBUTION**

On 10 March 2020, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2019 to 31 December 2019 amounting to SR 13,200,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

Jadwa REIT Al Haramain Fund  
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31 December 2020

**21 CHANGES IN THE FUND'S TERMS AND CONDITIONS**

During the year ended 31 December 2020, the Fund Manager has made certain changes to the terms and conditions of the Fund. These changes include the following:

- Adjustment of percentage of asset allocation in Makkah and Madina to be at least 60% of the Fund's total asset value, instead of 100% of the total asset value.
- Geographical expansion for the Fund's investments in addition to Makkah and Madina in order to include the rest of the cities in the Kingdom, with a percentage that does not exceed 40% of Fund's total asset value.
- Allowing the Fund to invest in real estate assets outside the Kingdom with a percentage that does not exceed 25% of Fund's total asset value.
- Updating the Fund's other investments and maintaining the same allocation, with a percentage that does not exceed 25% of Fund's total asset value, and adding buy-back and leasehold agreements, cash and money market funds, units in real estate investment funds, whether private or publicly listed, and whether managed by the Fund Manager or any other fund manager, as long as it is a Shariah-compliant and a CMA-regulated fund.

**22 IMPACT OF COVID-19**

At the beginning of the year 2020, the presence of Coronavirus disease ("COVID-19") was confirmed, which spread all over the world causing disturbance of commercial and economic activities. The impact of COVID-19 in the Fund are as follows:

On 9 March 2020, the Fund received a notice to suspend the lease contract for Tharawat Al Andalusia Hotel due to temporary suspension of Umrah due to the COVID-19 outbreak. The Fund received another notice from the tenant of Tharawat Al Andalusia Hotel that the lease contract shall be terminated due to changing conditions in the hospitality sector in Makkah Al-Mukarramah. Accordingly, the end of the contract term will be on 13 Rajab 1442H (corresponding to 25 February 2021) which is equivalent to a period of Hijri twelve months from the date of notice.

On 29 March 2020, the Fund received a notice from the tenants of Tharawat Al Taqwa Hotel and the Retail Building to suspend the lease contracts temporarily for these two properties until the authorities lift the suspension.

On 28 Dhu al-Hijjah 1441H (corresponding to 18 August 2020), the Fund Manager has received a notice from the tenant of Tharawat Al Taqwa Hotel to terminate the lease contract in accordance with the lease contract terms and conditions. Accordingly, the end of the contract period will be on 1 Jumada Al-Awwal 1443 H (corresponding to 5 December 2021), which is four Hijri years from the beginning of the lease term.

The Fund Manager has successfully addressed most of the requests and suspended the lease contracts until the authorities lift the suspension of Umrah. The effective date of the rent suspension for Tharawat Al Andalusia Hotel and Tharawat Al Taqwa Hotel is 1 March 2020 as per the tenants' requests while the effective date for the Retail Building is 23 March 2020, which is the start date of the curfew in the Kingdom.

The Fund Manager announced temporary suspension of management fees for the Fund, due to the direct impact of the COVID-19 outbreak on the Fund's assets. Specifically, the precautionary COVID-19 measures included the suspension of Umrah, which led to the suspension of the Fund's rents. The suspension of management fees will be effective from the date of rent suspension for tenants, corresponding to 1 March 2020, and until the Fund resumes the collection of any rents.

The impact of the suspension of lease contracts on rental income and management fees for the year ended 31 December 2020 amounted to approximately SR 36,644,068 and SR 5,288,021, respectively.

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**22 IMPACT OF COVID-19 (continued)**

The Fund continues to determine net asset values with the frequency as set out in the offering documents, consistently applying valuation policies and reflective of prevailing market conditions. In determining the investment property valuations as of 31 December 2020, the Fund has considered the potential impact (based on the best available information) of the uncertainties caused by the COVID-19 pandemic and has taken into account the economic and relief measures it has to extend to its tenants.

Any changes made to valuations to estimate the overall impact of COVID-19 is subject to very high levels of uncertainty, as little reasonable and supportable forward-looking information is currently available on which to base those changes.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Management will continue to monitor the situation and any changes required will be reflected in future reporting periods.

**23 COMPARATIVE FIGURES AND DISCLOSURES**

Certain of the prior year figures and disclosures have been reclassified to conform with the 2020 presentation. The major reclassification is as follows:

<i>Reclassified from</i>	<i>Reclassified to</i>	<i>Amount SR</i>
Deferred charges – non-current portion	Deferred charges – current portion	901,321

**24 LAST VALUATION DAY**

The last valuation day of the year was 31 December 2020.

**25 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Fund's Board on 16 Sha'ban 1442H (corresponding to 29 March 2021).



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