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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2018

Al-Bassam & Co.
Allied Accountants

PKF

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
Al Rajhi REIT Fund owns a portfolio of investment properties comprising of commercial building located in the Kingdom of Saudi Arabia. Investment properties, held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any impairment losses. Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the fund's investment properties on semiannual basis. We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.	For impairment of investment properties, we have carried out the following audit procedures: - We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - We Obtained two valuation reports from different/ independent real estate evaluators for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be higher than the carrying amount of the same except for certain properties, which had an immaterial impairment impact and thus not recorded by the Fund`s management. - We reconciled the average fair value of the investment properties as per note 9 to the external valuers' reports.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

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

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

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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Allied Accountants
Certified Public Accountants

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

12 February 2019
7 Jumada al Alkhir 1440

AL RAJHI REIT FUND

STATEMENT OF ASSETS AND LIABILITIES
As at 31 December 2018
(Amounts in Saudi Riyals)

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

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

AL RAJHI REIT FUND

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

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

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

AL RAJHI REIT FUND

STATEMENT OF CHANGES IN NET ASSETS

For the period from 20 March 2018 (listing date) to 31 December 2018
(Amounts in Saudi Riyals)

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

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

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

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

AL RAJHI REIT FUND

STATEMENT OF CASH FLOWS

For the period from 20 March 2018 (listing date) to 31 December 2018
(Amounts in Saudi Riyals)

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

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

1. THE FUND AND ITS ACTIVITIES

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

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

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

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

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

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

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

2. REGULATING AUTHORITY

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

3. BASIS OF PREPARATION

3.1 *Statement of compliance*

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

3.2 *Basis of measurement and functional and presentation currency*

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

3.3 *Critical accounting judgments, estimates and assumption*

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

3. BASIS OF PREPARATION (Continued)

3.3 Critical accounting judgments, estimates and assumption (Continued)

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

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

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

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

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

3.4 Expected credit loss

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Receivables

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

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

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

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

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

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

Investment transactions
Investments transactions are accounted for as of the trade date.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Financial instruments

Classification and measurement of financial instruments

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

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

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

Equity instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

Equity instruments (Continued)

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

Impairment of financial assets

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

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

Derecognition

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

Financial liabilities

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

Offsetting

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

5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

- **MANAGEMENT FEE, OTHER EXPENSES**
  On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 0.8 percent per annum of the Fund's total assets value net of Fund expenses and is paid on quarterly basis.
- **TRANSACTION FEE**
  Further, the Fund Manager charges the Fund, one-time acquisition fee at the rate of 1 percent on the acquisition or sale price of the real estate assets.

(Amounts in Saudi Riyals)

6. INVESTMENT MEASURED AT FVPL

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

7. INVESTMENT PROPERTIES

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

These investment properties represents thirteen properties; namely:

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

(Amounts in Saudi Riyals)

7. INVESTMENT PROPERTIES (Continued)

- The Marwah Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 9.9m

- The Madain Fahad Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.5m

- The Rawda Jeddah investment is located in Jeddah and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.4m.

- The Khamis Mushait investment is located in Khamis Mushait and is classified as in the Retail sector. This asset is a triple net lease with an annual rental of SAR 2.7m

- The Al Andalus investment is located in Jeddah and is classified as in the Commercial sector. This asset is multi-tenanted with an annual rental of SAR 13.5m

- The Blue Tower investment is located in Al Khobar and is classified as in the Commercial sector. This asset is a triple net lease with an annual rental of SAR 18.3m

- The Luluah Warehouse investment is located in Riyadh and is classified as in the Logistics sector. This asset is a triple net lease with an annual rental of SAR 13.6m

- The Lulu Central Logistics Warehouse investment is located in Riyadh and is classified as in the Logistics sector. This asset is a triple net lease with an annual rental of SAR 3.8m

7.1 The Fund has the policy of charging depreciation on building over 33 years. The depreciation is charged on depreciable amount i.e. cost less residual value.

7.2 All properties are held in the name of Al-Rajhi Development Company, Privileged Warehouse Company 2 and Gulf Fund Company for development and real estate investment (the "SPV"). The SPV are holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

7.3 The Fund manager on a periodic basis reviews its investment properties for impairment. An impairment loss is considered by the amount of which the carrying value exceeds the investment properties recoverable amount, which is the higher of an assets fair value less cost to sell and the value in use. In accordance with the periodic evaluation reports furnished by the Fund's independent appraisers, the impairment loss on investment properties was not recognized in the financial statements as the amount was not material.

8. INCOME FROM INVESTMENT MEASURED AT FVPL

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

(Amounts in Saudi Riyals)

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

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

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

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

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

	31 December 2018
Estimated fair value of investment properties based on the average of the two valuators used	**1,648,836,688**
Less: the carrying value of investment property	**(1,666,610,053)**
Estimated fair value in deficit of book value	**(17,773,365)**
Units in issue (numbers)	**122,200,609**
Decrease value per unit based on fair value	**(0.14)**

Net asset to unitholders:

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

Net asset attributable to each unit:

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

(Amounts in Saudi Riyals)

10. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

10. TRANSACTIONS WITH RELATED PARTIES (Continued)

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

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

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Market risk

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

Credit risk

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

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

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through increase the fund size or by taking short term loans from the Fund Manager.

(Amounts in Saudi Riyals)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Maturity Profiles

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

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

Operational risk

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

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

12. DIVIDENDS DISTRIBUTION

- In accordance with the approved terms and conditions of the Fund on 12 July 2018, the Fund's Board approved to distribute dividends with regards to the period ended 30 June 2018 amounting to SAR 0.174 per unit totalling SAR 21,242,149 to its unit holders.

- Subsequently, on 11 February 2019, the Fund's board of directors has approved to distribute a dividend with regards to the six month period ended 31 December 2018 for an amount of SR 0.311 per unit totalling SR 37,947,139 to its unit holders.

13. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 16 Leases

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

14. LAST VALUATION DAY

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

15. APPROVAL OF FINANCIAL STATEMENTS

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