

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

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018

**REPORT ON REVIEW OF INTERIM
CONDENSED FINANCIAL STATEMENTS**

**THE UNITHOLDERS
RAJHI REIT FUND
KINGDOM OF SAUDI ARABIA**

Introduction:

We have reviewed the accompanying interim statement of assets and liabilities of Rajhi REIT Fund ("the Fund") managed by Rajhi Capital (the "Fund Manager") as at 30 June 2018 and the related interim statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the period from 20 March 2018 (date of commencement) to 30 June 2018 and the accompanying notes which form an integral part of these interim condensed financial statements. The Fund's management is responsible for the preparation and presentation of these interim condensed financial in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of these interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) as endorsed in the Kingdom of Saudi Arabia.

**For and on behalf of
PKF Al Bassam & Co.
Allied Accountant**

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



**31 July 2018
18 Dhual Qadah 1439**

AL RAJHI REIT FUND

INTERIM STATEMENTS OF ASSETS AND LIABILITIES (UNAUDITED)

As at 30 June 2018

(Amounts in Saudi Riyals)

	Note	30 June 2018
ASSETS		
Cash and cash equivalents	8	37,458,039
Rental income receivable		6,313,484
Prepayment and other assets		19,049,501
Due from related parties	8	5,158,854
TOTAL CURRENT ASSETS		67,979,878
NON-CURRENT ASSETS		
Investment properties	6	1,619,921,480
TOTAL ASSETS		1,687,901,358
LIABILITIES		
CURRENT LIABILITIES		
Deferred rental income		11,945,660
Accrued Management fee	8	3,639,571
Due to related parties	8	25,939,077
Accrued expenses and other liabilities		4,092,770
TOTAL CURRENT LIABILITIES		45,617,078
NON CURRENT LIABILITIES		
Borrowing	8	399,906,600
TOTAL LIABILITIES		445,523,678
NET ASSETS VALUE		1,242,377,680
UNITS IN ISSUE (Number)		122,200,609
PER UNIT VALUE		10.17
PER UNIT FAIR VALUE	7	9.39

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

AL RAJHI REIT FUND

INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the period from 20 March 2018 (date of commencement) to 30 June 2018

(Amounts in Saudi Riyals)

	Note	For the period from 20 March 2018 (date of commencement) to 30 June 2018
Rentals from investment properties		37,244,205
Total operating income		37,244,205
Depreciation expense	6	(5,500,092)
Management fee	8	(3,639,571)
Finance cost	8	(5,715,787)
Pre operating expenses		(560,689)
Other expenses		(1,456,476)
Total operating expenses		(16,872,615)
Net income for the period		20,371,590
Other comprehensive income		-
Total comprehensive income for the period		20,371,590

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AL RAJHI REIT FUND

INTERIM STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

For the period from 20 March 2018 (date of commencement) to 30 June 2018
(Amounts in Saudi Riyals)

	Note	For the period from 20 March 2018 (date of commencement) to 30 June 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
Total comprehensive income for the period		20,371,590
Net asset value attributable to the unitholder at end of the period		<u>1,242,377,680</u>

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

	For the period from 20 March 2018 (date of commencement) to 30 June 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	<u>122,200,609</u>



ABDULAZIZ ALSABT

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements
INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

AL RAJHI REIT FUND

For the period from 20 March 2018 (date of commencement) to 30 June 2018
(Amounts in Saudi Riyals)

		For the period from 20 March 2018 (date of commencement) to 30 June 2018
	Notes	
OPERATING ACTIVITIES		
Net income for the period		20,371,590
<i>Adjustment to reconcile net income to net cash from operating activities:</i>		
Depreciation on investment properties	6	5,500,092
		<u>25,871,682</u>
Changes in operating assets:		
Rental income receivable		(6,313,484)
Prepayment and other assets		(19,049,501)
Due from related parties		(5,158,854)
Changes in operating liabilities:		
Deferred rental income		11,945,660
Accrued Management fee		3,639,571
Due to related parties		25,939,077
Accrued expenses and other liabilities		4,092,770
Net cash from operating activity		<u>40,966,921</u>
INVESTING ACTIVITY		
Purchase of investment properties	1,6	(430,210,182)
Net cash used in investing activity		<u>(430,210,182)</u>
FINANCING ACTIVITY		
Subscription of units		426,701,300
Net cash from financing activity		<u>426,701,300</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period		-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>37,458,039</u></u>
Supplemental non-cash transactions		
Purchase of investment through subscription of units in REIT	1,6	1,195,211,390
Borrowing	1,8	<u><u>(399,906,600)</u></u>


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

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

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 Fund commenced its operation on 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 and borrowings amounting to SAR 399,906,600 were transferred from Al Rajhi Real Estate Income Fund and Al Rajhi GCC Real Estate Fund to the 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.

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 all type of real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of compliance*

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia.

3.2 *Basis of measurement and functional and presentation currency*

These unaudited interim condensed financial statements have been prepared under the historical cost convention, using accrual basis of accounting 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 interim condensed 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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

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 interim condensed 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 behavior.

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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

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 interim 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 i.e 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 condensed interim 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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

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 interim condensed 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	37,458,039
Rental income receivable	Amortized cost	6,313,484
Prepayment and other assets	Amortized cost	19,049,501
Due from related party	Amortized cost	5,158,854
Total financial assets		67,979,878

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

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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (Continued)

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 quarterly 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. The Fund Manager also recovers from the Fund any other expenses incurred on behalf of the Fund such as audit and legal fees, board compensation and other similar charges.

- 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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

6. INVESTMENT PROPERTIES

	Note	Land	Building	Total
Cost				
Balance as of 20 March 2018		-	-	-
Additions	1	1,071,900,204	553,521,368	1,625,421,572
Balance as of 30 June 2018		<u>1,071,900,204</u>	<u>553,521,368</u>	<u>1,625,421,572</u>
Accumulated Depreciation				
Balance as of 20 March 2018		-	-	-
Charge for the year	6.1	-	(5,500,092)	(5,500,092)
Balance as of 30 June 2018		<u>-</u>	<u>(5,500,092)</u>	<u>(5,500,092)</u>
Book Value :				
as of 30 June 2018		<u>1,071,900,204</u>	<u>548,021,276</u>	<u>1,619,921,480</u>

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 as of 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
- 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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

6. INVESTMENT PROPERTIES (Continued)

- 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 14.1m
- 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

6.1 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.

6.2 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 "Trustees"). The Trustees 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. 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. 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 are determined by two selected appraisers for each of the 13 properties i.e. **Olaat Valuation Company, Barcode Company Limited and ValuStrat Consulting Company**. As of 30 June 2018 the valuation of the investment, properties are as follows:

<u>30 June 2018</u>	<u>First</u> <u>Appraiser</u>	<u>Second</u> <u>Appraisers</u>	<u>Average</u>
Investment properties	1,482,200,000	1,566,767,317	1,524,483,659
Total	1,482,200,000	1,566,767,317	1,524,483,659

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

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

7. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (Continued)

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

	<u>30 June 2018</u>
Estimated fair value of investment properties based on the average of the two valuers used	1,524,483,659
Less: the carrying value of investment property	<u>(1,619,921,480)</u>
Estimated fair value in deficit of book value	<u>(95,437,822)</u>
Units in issue (numbers)	122,200,609
Additional value per unit based on fair value	<u>(0.78)</u>

Net asset to unitholders:

	<u>30 June 2018</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	1,242,377,680
Estimated fair value in deficit of book value	<u>(95,437,822)</u>
Net assets attributable to unitholders based on fair valuation of investment properties	<u>1,146,939,858</u>

Net asset attributable to each unit:

	<u>30 June 2018</u>
Book value per unit as per the financial statements before fair value adjustment	10.17
Decrease in value per unit based on fair value	<u>(0.78)</u>
Net assets attributable to each unit based on fair valuation	<u>9.39</u>

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 "Trustees"). The Trustees are holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

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(Amounts in Saudi Riyals)

8. 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 are managed by the Fund Board of Director and KASB Capital (being the custodian of the Funds).

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

AL Rajhi Bank acts as a banker of the Fund and as at 30 June 2018 SAR 37,458,039 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:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	<u>Balance</u>
Al Rajhi Real Estate Income Fund	Income received on behalf of the REIT	5,158,854	5,158,854
Al Rajhi Capital	Management fee	(3,639,571)	(3,639,571)
	Transaction fee	(4,257,013)	(4,257,013)
	Expenses paid on behalf of the fund	(682,064)	(682,064)
	Financing	-	(21,000,000)
AL Rajhi Bank	Special commission expense	(5,715,787)	(1,779,849)
	Loan facility	-	399,906,600
KASB Capital	Custodial fees	(27,948)	(27,948)

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 145,406,500. 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.

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 30th June 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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

9. 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, other receivables, accrued liabilities and other current liabilities. 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 new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

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.

AL RAJHI REIT FUND

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2018

(Amounts in Saudi Riyals)

10. EVENTS AFTER THE REPORTING DATE

In accordance with the approved terms and conditions of the fund On 12 July 2018, the Fund's board of directors 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.

11. 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 customer ("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 Customers. The adoption of IFRS 16 will have an effect on the classification and measurement on the Company's leased assets. The Company is currently is assessing the impact of IFRS 16 and plan to adopt the new standard on the required effective date.

12. LAST VALUATION DAY

The last valuation day of the period was 30 June 2018.

13. APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

The financial statements were approved by the REIT's Board on 06 Dhul Qa'dah 1439 H (Corresponding to 19 July 2018).