

TALEEM REIT FUND

**A Closed End Real Estate Investment Traded Fund
(Managed by Saudi Fransi Capital Company)**

**FINANCIAL STATEMENTS
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022**

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Taleem REIT Fund (the "Fund") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Fund's financial statements comprise:

1. the statement of financial position as at 31 December 2022;
2. the statement of comprehensive income for the year then ended;
3. the statement of changes in equity attributable to the Unitholders for the year then ended;
4. the statement of cash flows for the year then ended; and
5. the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund and Fund Manager in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), endorsed in the Kingdom of Saudi Arabia (the "Code"), that is relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code's requirements.

Our audit approach

Overview

Key Audit Matters

Valuation of investment properties

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where Fund Manager made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.



Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<p>Valuation of investment properties</p> <p>As at 31 December 2022, the carrying value of the Fund's investment properties were SR 741.5 million.</p> <p>The investment properties are stated at cost less accumulated depreciation and accumulated impairment, if any. The fair value of the investment properties is provided as a disclosure.</p> <p>For assessing the impairment of investment properties and to provide fair values for the required disclosure, the Fund manager engages two independent external certified property valuers to perform a valuation of the Fund's investment properties on a semi-annual basis.</p> <p>We considered this as a key audit matter as the external valuation used for the impairment assessment and disclosure requires significant assumptions and judgments and the potential impact of impairment if any, could be material to the financial statements.</p> <p>Refer to Note 4 and Note 5 to the accompanying financial statements for accounting policy of investment properties and accounting judgments and Notes 9 and 19 for related disclosure of investment properties.</p>	<p>We have carried out the following audit procedures:</p> <ul style="list-style-type: none">• We obtained the valuation reports prepared by the two external valuers as at 31 December 2022 and assessed the recoverable amount of investment properties;• We assessed the qualification and expertise of external valuers appointed by the Fund for the valuation of the investment properties;• We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work;• We carried out procedures to consider the accuracy of information supplied to the external valuers by the Fund Manager;• We involved our experts to assist us in assessing the reasonableness of the valuation methodology, assumptions and estimates used in deriving the valuation, on a sample basis;• We reconciled the average fair value of the investment properties as appearing in Note 19 of the accompanying financial statements to the external valuers' report; and• We assessed the adequacy of disclosures included in the financial statements.

Other information

Fund Manager is responsible for the other information. The other information comprises of the information included in the Fund's 2022 annual report but does not include financial statements and our auditor's report thereon, which is expected to be made available to us after the date of this auditor's report.



Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Other information (continued)

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, if we conclude that there is material misstatement therein, we are required to communicate the matter to the Fund Board.

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 International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's terms and conditions, and for such internal control as 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, 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 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 International Standards on Auditing, 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.



Independent auditor's report to the Unitholders and Fund Manager of Taleem REIT Fund (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 Fund Manager's internal control.
- 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 the Fund Board 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Fund Board, 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.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Bader I. Benmohareb', written over a blue circular stamp or seal.

Bader I. Benmohareb
License Number 471

March 30, 20

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

STATEMENT OF FINANCIAL POSITION

		<i>As at</i> 31 December 2022	<i>As at</i> 31 December 2021
	<i>Notes</i>	SR	SR
ASSETS			
Cash and bank balances	6	17,747,743	4,511,655
Net investment in finance lease	7	34,597,061	34,955,983
Prepayments, receivables and other assets	8	60,168,796	48,312,342
Investment properties, net	9	741,524,490	559,190,000
TOTAL ASSETS		854,038,090	646,969,980
LIABILITIES			
Management fee payable	12	2,053,139	1,108,712
Accrued expenses and other liabilities	10	5,568,028	2,784,774
Provision for zakat	17	2,659,944	2,130,071
Borrowings from a bank	14	297,607,224	94,300,000
TOTAL LIABILITIES		307,888,335	100,323,557
Equity attributable to the Unitholders		546,149,755	546,646,423
Units in issue - Numbers	13	51,000,000	51,000,000
Equity per unit in Saudi Riyals – Book value	19	10.7088	10.7186

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

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	<i>For the year ended 31 December 2022 SR</i>	<i>For the year ended 31 December 2021 SR</i>
<u>INCOME</u>			
Income from investment properties	15	60,097,281	48,287,290
Finance lease income	15	2,348,973	2,346,258
TOTAL INCOME		62,446,254	50,633,548
<u>EXPENSES</u>			
Management fees	12	(3,825,000)	(3,825,000)
Custodian fees		(271,277)	(231,975)
Other expenses		(1,485,802)	(1,146,622)
Finance cost	12	(11,336,578)	(2,190,014)
TOTAL EXPENSES		(16,918,657)	(7,393,611)
Depreciation expense on investment properties	9	(5,858,903)	(3,836,722)
(Impairment loss) / reversal of impairment on investment properties	9	(3,779,534)	2,187,062
NET INCOME BEFORE ZAKAT FOR THE YEAR		35,889,160	41,590,277
Zakat charge for the year	17	(2,730,537)	(2,132,036)
NET INCOME AFTER ZAKAT FOR THE YEAR		33,158,623	39,458,241
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		33,158,623	39,458,241
Earnings per unit			
Weighted average units in issue	13	51,000,000	51,000,000
Earnings per unit (Basic and diluted)		0.6501	0.7737

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

TALEEM REIT FUND
 (Managed by Saudi Fransi Capital Company)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS

	<i>For the year ended 31 December 2022 SR</i>	<i>For the year ended 31 December 2021 SR</i>
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE YEAR	546,646,423	533,708,182
CHANGES FROM OPERATIONS		
Total comprehensive income	33,158,623	39,458,241
Income distributions during the year (note 16)	(33,655,291)	(26,520,000)
EQUITY ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE YEAR	546,149,755	546,646,423
Transactions in units during the years are summarised as follows:		
	<i>For the year ended 31 December 2022 Units</i>	<i>For the year ended 31 December 2021 Units</i>
UNITS AT THE BEGINNING AND END OF THE YEAR	51,000,000	51,000,000

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

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

STATEMENT OF CASH FLOWS

		<i>For the year ended 31 December 2022 SR</i>	<i>For the year ended 31 December 2021 SR</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before zakat for the year		35,889,160	41,590,277
<i>Adjustment to reconcile net income to net cash generated from operating activities:</i>			
Depreciation expense on investment properties	9	5,858,903	3,836,722
Impairment loss / (reversal of impairment) on investment properties	9	3,779,534	(2,187,062)
Finance cost		<u>11,336,578</u>	<u>2,190,014</u>
Operating cash flows before working capital changes		56,864,175	45,429,951
Changes in operating assets and liabilities:			
Prepayments, receivables and other assets		(11,856,454)	(15,421,076)
Management fee payable		944,427	3,010
Accrued expenses and other liabilities		2,783,254	(391,592)
Zakat paid	17	<u>(2,200,664)</u>	<u>(1,750,476)</u>
Net cash generated from operating activities		<u>46,534,738</u>	<u>27,869,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Recovery of net investment in finance lease, net		358,922	(276,920)
Purchase of investment property	9	<u>(191,972,927)</u>	<u>-</u>
Net cash used in investing activities		<u>(191,614,005)</u>	<u>(276,920)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid, net off unclaimed dividends	16	(33,655,291)	(26,505,687)
Proceeds from borrowings	14	200,500,001	-
Finance cost paid		<u>(9,431,461)</u>	<u>(2,208,638)</u>
Net cash generated from / (used in) financing activities		<u>157,413,249</u>	<u>(28,714,325)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		12,333,982	(1,121,428)
Cash and cash equivalents at the beginning of the year		4,511,655	5,633,083
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	<u>16,845,637</u>	<u>4,511,655</u>

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

TALEEM REIT FUND

(Managed by Saudi Fransi Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

All amounts are presented in Saudi Riyals unless otherwise stated

1. THE FUND AND ITS ACTIVITIES

Taleem REIT Fund (the “REIT” or the “Fund”) is a closed-ended Shariah compliant real estate investment traded fund denominated in Saudi Riyals established based on an agreement between Saudi Fransi Capital Company (the “Fund Manager”) and investors (the “Unitholders”). The Fund commenced its operations on 4 Ramadan 1438H (corresponding to 30 May 2017) (“Commencement Date”), which is the first day of the listing of Taleem REIT Fund on the Saudi Exchange (“Tadawul”). The address of the Fund Manager is as follows:

Saudi Fransi Capital Company
P.O. Box 23454
Riyadh 11426
Kingdom of Saudi Arabia

The duration of the Fund is ninety-nine years from the date of commencement of operations and can be extended at the sole discretion of the Fund Manager after the approval of the Fund Board and the Capital Market Authority (“CMA”).

The Fund’s primary investment objective is to invest in constructed and developed real estate which is qualified to generate periodic return and rental income and to distribute ninety percent of the Fund’s net profit as dividends to the Unitholders at least annually. The Fund can borrow Shariah compliant funds up to 50% of the value of its total assets.

The terms and conditions of the Fund have been approved by the CMA on 12 Sha’aban 1438H (corresponding to 8 May 2017). During the period, the terms and conditions have been updated on 27 Rajab 1443H (corresponding to 28 February 2022).

The Fund Manager of the Fund is Saudi Fransi Capital Company and KASB Capital is the Custodian of the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) (the “Regulations”) issued by the Board of the Capital Market Authority Dated 19/6/1427 Corresponding to 15/7/2006 Amended by the Board of the Capital Market Authority Dated 12/7/1442H Corresponding to 24/2/2021G effective from 19/9/1442H (corresponding to 1/5/2021) the New Regulations (“Amended Regulations”) published by the Capital Market Authority on 19/7/1442H (corresponding to 1/3/2021) 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”).

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

3.2 *Basis of measurement*

These financial statements have been prepared on a historical cost basis, using the accruals basis of accounting.

3.3 *Functional and presentation currency*

These financial statements have been presented in Saudi Arabian Riyal (“SR”), which is also the functional currency of the Fund. All financial information presented has been rounded to the nearest Saudi Riyal (“SR”).

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

All amounts are presented in Saudi Riyals unless otherwise stated

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are consistent with those used and disclosed in the financial statements for the year ended 31 December 2021.

Cash and cash equivalents

Cash and cash equivalents include balances maintained with Banque Saudi Fransi (Parent of the Fund Manager) and overdraft.

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.

Initial recognition

The Fund records financial asset or a financial liability in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets or financial liabilities are measured at their fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability is the initial recognition amount.

Classification

The Fund classifies its financial assets under the following categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); and
- Amortised cost.

These classifications are on the basis of business model of the Fund for managing the financial assets, and contractual cash flow characteristics.

The Fund measures financial asset at amortised cost when it is within the business model to hold assets in order to collect contractual cash flows, and contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in either profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Fund classifies all financial liabilities as subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss.

The undiscounted amount of the financial liabilities appearing in statement of financial position approximates their carrying values at the reporting date due to short duration except for borrowings from bank, which have been measured at amortised cost.

Currently cash and cash equivalent, net investment in finance lease, other assets, management fee payable, accrued expenses and other liabilities, borrowing from a bank are carried at amortised cost.

Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

All amounts are presented in Saudi Riyals unless otherwise stated

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition of financial instruments (continued)

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

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

Offsetting of financial instruments

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

Impairment of financial assets

The Fund assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its financial assets, carried at amortised cost, 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.

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.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

All amounts are presented in Saudi Riyals unless otherwise stated

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies.

The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Investment properties

Real estate that is held for capital appreciation or/and rental yields is classified as an investment property.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over its estimated useful life. Any capital expenditure incurred post acquisition on investment properties is depreciated on straight line basis over its estimated useful life.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Net investment in finance lease

Net investment in finance lease includes gross investment in finance lease and unearned income.

Gross investments in finance lease include the total of future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross investment in finance leases.

Impairment of non-financial asset

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

TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2022

All amounts are presented in Saudi Riyals unless otherwise stated

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial asset (continued)

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

Fund management fee

A fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager charges a management fee of 0.75% of the net book value per annum accrued monthly and deducted semi-annually. During the year 2018, the Fund Board resolved to charge the management fee based on the capital base of SR 510 million of the Fund instead of net assets of the Fund as long as the NAV is above the capital base.

Custody fee

As per the Terms and Conditions of the Fund, the Custodian charges custody fees calculated at an annual rate up to 0.0375% on the Fund's net assets, 0.03% on all future assets that is paid once at acquisition and SR 30,000 per annum for the Zakat certificate and financial statements. This is accrued monthly and paid on semi-annual basis.

Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

Equity value per unit

The equity value per unit as disclosed in the statement of financial position is calculated by dividing the total equity value of the Fund by the number of units in issue at year-end.

Zakat

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Zakat is accrued on a quarterly basis and charged to statement of comprehensive income.

Revenue recognition

Investment properties

Rental income from operating leases are recognised on a straight-line basis.

Finance lease income

At the inception of the lease, the total unearned finance income i.e. the excess aggregate minimum lease payments plus residual value (guaranteed and unguaranteed), if any, over the cost of the leased assets, is amortised over the term of the lease, and finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding with respect to the lease.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital

Units in the Fund are classified as equity instruments when:

- The units entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- The units are in the class of instruments that is subordinate to all other classes of instruments;
- All units in the class of instruments that is subordinate to all other classes of instruments have identical features;
- The units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets; and
- The total expected cash flows attributable to the units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

In addition to the units having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund; and
- The effect of substantially restricting or fixing the residual return to the Unitholders in the Fund.

The Funds unit meet the definition of puttable instruments under IAS 32.16A-B and accordingly are classified as equity instruments.

The Fund continuously assesses the classification of the units. If the units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of the Fund's units are accounted for as equity transactions.

Upon the issuance of units, the consideration received is included in equity. Transaction costs incurred by the Fund in issuing or acquiring its own equity instruments are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Earnings per unit

Earnings per unit is calculated by dividing the net income for the year by the weighted average number of units outstanding during the year.

Dividend distribution

As per the Regulations, the distributed profits to Unitholders must not be less than (90%) of the Fund's annual net profits. Accordingly, the Fund distributes dividends on a quarterly basis.

Capital gains from the sale of real estate assets is invested in money market instruments until suitable real estate assets are identified for acquisition by the Fund. If no new investment opportunities are identified within one year of receipt of proceeds from the sale of an asset, the Fund manager will distribute such amounts with the upcoming dividend.

Unclaimed dividends are disclosed under other liabilities in the statement of financial position.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in statement of income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New standards, amendments and interpretations issued and effective from 1 January 2022

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after 1 January 2022. The Fund Manager has assessed that the amendments have no significant impact on the Fund's financial statements.

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions Extension of the practical expedient
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

New standards, amendments and interpretations issued but not yet effective

The listing of standards and interpretations issued which the Fund reasonably expects to be applicable at a future date are as follows. The Fund intends to adopt these standards when they become effective.

Standard / interpretation	Description	Effective from periods beginning on or after
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	Disclosure of Accounting Policies	1 January 2023
Amendment to IAS 1	Definition of Accounting Estimate	1 January 2023
IFRS 17, 'Insurance contracts'	New Insurance standard	1 January 2023
Amendments to IAS12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Fund's financial statements in conformity with the IFRS that are endorsed in the Kingdom of Saudi Arabia and other statements and pronouncements issued by SOCPA, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where the Fund Manager has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Net investment in finance lease

The following are the critical assumptions that have been made in the process of applying the Fund's accounting policies for the net investment in finance lease that have a significant effect on the amounts recognised in the financial statements:

- the present value of the finance lease receivable amounts to substantially all of the fair value of the leased asset at the inception of the lease; and
- the lease term of the assets covers the major part of the economic life of the leased asset.

Valuation of investment properties

The valuation of the investment properties is carried out by Olat Properties Management and ValuStrat Consulting. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM").

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on the valuation methods applicable to each type of investment property in the light of the international valuation standards and the requirements of IFRS 13.

Residual value and useful lives of investment properties

The Fund Manager 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. Fund Manager will review the residual value and useful lives annually and future depreciation charge would be adjusted where the Fund Manager believes the useful lives differ from previous estimates.

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5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Residual value and useful lives of investment properties (continued)

The estimated useful life for investment properties, excluding land (infinite useful life), range from 40 to 55 years. Moreover, the estimated residual value for investments properties (building) is estimated to be Nil at the end of the useful life.

6. CASH AND BANK BALANCES

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Bank balances with Bank Saudi Fransi	<u>17,747,743</u>	<u>4,511,655</u>
	<u>17,747,743</u>	<u>4,511,655</u>

No special commission is receivable on this balance (see Note 12).

The Fund Manager has conducted a review as required under IFRS 9 and based on such an assessment, the effect of expected credit loss ("ECL") allowance against the carrying value of cash and cash equivalents is insignificant as the balances are held with an investment grade credit rated financial institutions and therefore no ECL has been recognised in these financial statements.

7. NET INVESTMENT IN FINANCE LEASE

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
<i>a) Net investment in finance lease consists of:</i>		
Gross investment in finance lease (see (b) below)	<u>66,775,376</u>	69,483,270
Less: Unearned finance income (see (c) below)	<u>(32,178,315)</u>	(34,527,287)
	<u>34,597,061</u>	<u>34,955,983</u>
<i>b) The future minimum lease payments to be received consist of:</i>		
Within one year	<u>2,707,895</u>	2,707,895
After one year but not more than five years	<u>11,515,322</u>	11,237,763
Five years onwards	<u>52,552,159</u>	55,537,612
	<u>66,775,376</u>	<u>69,483,270</u>
<i>c) The maturity of unearned finance income is as follows:</i>		
Within one year	<u>(2,324,141)</u>	(2,348,976)
After one year but not more than five years	<u>(8,942,263)</u>	(9,097,502)
Five years onwards	<u>(20,911,911)</u>	(23,080,809)
	<u>(32,178,315)</u>	<u>(34,527,287)</u>

The finance lease represents the building of the Tarbiah Islamiah School (see Note 9(d)).

The Fund Manager has conducted a review as required under IFRS 9. Based on the assessment, the Fund Manager believes that there is no need for any significant impairment loss against the carrying value of net investment in finance lease at the reporting date.

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8. PREPAYMENTS, RECEIVABLES AND OTHER ASSETS

	<i>31 December 2022</i>	<i>31 December 2021</i>
	<u>SR</u>	<u>SR</u>
Rent receivable, net (<i>refer note 8.1 below</i>)	34,455,600	26,149,080
Rent receivable from related party [<i>refer note a below & note 12(a)</i>]	23,824,726	21,240,593
VAT receivable – input tax	385,978	272,227
Prepaid expenses	1,160,132	387,942
Other assets (<i>refer note b below</i>)	342,361	262,500
	<u>60,168,797</u>	<u>48,312,342</u>

(a) This represents the difference between the accumulated rental income at the reporting date (after taking into account contractually agreed future rent escalations) and the accumulated amount of rent due under the contract as at the reporting date.

(b) During the year 2020, the Fund was subject to VAT audit for the years 2018 and 2019. Zakat, Tax and Customs Authority (ZATCA) raised an assesment of SR 262,500. The Fund paid the said amount of assesment during the month of December 2020. During the current year, the Fund Manager filed an appeal in this regard. The appeal was rejected by ZATCA. The Fund Manager escalated the case to the initial committees in General Secretariat of Tax Committee (GSTC). During the year ended 31 December 2022, the case was decided in favour of the Fund but the decision has been appealed by ZATCA to the Appeal committees in General Secretariat of Tax Committee (GSTC) and is yet to be determined.

9. INVESTMENT PROPERTIES

	<i>31 December 2022</i>			<i>31 December 2021</i>
	<i>Land and Buildings SR</i>	<i>Capital work in progress SR</i>	<i>Total SR</i>	<i>Land & Buildings SR</i>
Cost:				
At the beginning of the year	569,340,476	-	569,340,476	569,340,476
Additions	159,637,500	32,335,427	191,972,927	-
At the end of the year	<u>728,977,976</u>	<u>32,335,427</u>	<u>761,313,403</u>	<u>569,340,476</u>
Accumulated depreciation:				
At the beginning of the year	(10,145,556)	-	(10,145,556)	(6,308,834)
Charged during the year	(5,858,903)	-	(5,858,903)	(3,836,722)
At the end of the year	<u>(16,004,459)</u>	<u>-</u>	<u>(16,004,459)</u>	<u>(10,145,556)</u>
Accumulated impairment:				
At the beginning of the year	(4,920)	-	(4,920)	(2,191,982)
(Impairment) / Reversal of impairment during the year	(3,779,534)	-	(3,779,534)	2,187,062
At the end of the year	<u>(3,784,454)</u>	<u>-</u>	<u>(3,784,454)</u>	<u>(4,920)</u>
Net book value	<u>709,189,063</u>	<u>32,335,428</u>	<u>741,524,490</u>	<u>559,190,000</u>

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9. INVESTMENT PROPERTIES (CONTINUED)

The impairment is determined based on the valuation by two independent valuers (see Note 19).

During the year the Fund has entered into an agreement with the management of Al Tarbiya School to expand the student capacity by developing a new ‘boys section building’ with a built-up area of 12,900 square meters. The expansion is funded by financing facility from Banque Saudi Fransi (Related Party). The Capital work in progress related to the expansion amounting to SAR 32.3 million for the year ended 31 December 2022.

The investment properties represent following acquired properties:

- (a) During the year ended 31 December 2022, the Fund acquired the land and building relating to Four Schools (Hitteen Branch Riyadh, Al Malqa Branch Riyadh, Al Narjis Branch Riyadh and Aleshraq Branch Dammam) leased out to “Al Khaleej Education and Training Co” for a total consideration of SR 148.5 million (excluding transaction cost) on 13 February 2022 corresponding to 12 Rajab 1443. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. The property covers a total land area of 19,423 square meters. The Fund has classified land and building as an Investment Property. The acquisition is funded by financing facility from Banque Saudi Fransi (Related Party).
- (b) During 2020, the Fund acquired the land and building leased out to “Al Ghad National School” for a consideration of SR 92 million (excluding transaction cost) on 29 June 2020 corresponding to 08 Dhu’l-Qi’dah 1441. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Ghad National School is located in King Abdullah District in Riyadh City on Al-Uruba Street on a total land size spanning 11,282.58 square meters, with a total built-up area of 17,908.28 square meters. The Fund has classified land and building as investment property. The acquisition is funded by financing facility from Banque Saudi Fransi (Related Party).
- (c) During 2018, the Fund acquired the land and building leased out to “Al Rwad International School” for a consideration of SR 225 million worth of Fund units at SR 10 per unit on 26 September 2018 corresponding to 16 Muharram 1440. The said property is held in the name of “Raj Three Company Limited” which is owned by the KASB Capital (“Custodian of the Fund”). Raj Three Company Limited is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Rwad International School is located in the Alnuzha district in Riyadh City and covers an area of 30,000 square meters. The Fund has classified land and building as investment property.
- (d) During 2017, the Fund acquired the land and building leased out to “Tarbiah Islamiah School” for a consideration of SR 285 million worth of Fund units at SR 10 per unit on 29 Shabaan 1438 corresponding to 25 May 2017. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Tarbiah Islamiah School is located in the Umm-al-Hamam district in Riyadh City and covers an area of 45,666.94 square meters on Al-Takhassusi Street. The previous owner (Ahmed Al Rasheed and Sons Holding Company) holds 39.12% (2021: 36.22%) of the total units in the Fund. The Fund has classified land as investment property.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>31 December</i>	<i>31 December</i>
	<i>2022</i>	<i>2021</i>
	<i>SR</i>	<i>SR</i>
	<u> </u>	<u> </u>
Accrued expenses and others	190,000	113,332
Advanced lease payments	5,147,953	2,507,278
Custody fees payable	184,398	130,988
Professional fees payable	45,677	33,176
	<u>5,568,028</u>	<u>2,784,774</u>

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11. CASH AND CASH EQUIVALENT

Cash and cash equivalents included in the statement of cash flows comprise the following:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Bank balances with Bank Saudi Fransi	17,747,743	4,511,655
Overdraft	(902,106)	-
	16,845,637	4,511,655

12. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include Saudi Fransi Capital Company (“the Fund Manager”), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), the Fund Board Directors, affiliates of the Fund Manager, the Funds managed by the Fund Manager and the Unitholders of the Fund.

In the ordinary course of its activities, the Fund transacts business with related parties.

Transactions with related parties during the years and balances at the end of the years are as follows:

<i>Related Party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balances Receivables/(Payables)</i>	
		<i>For the year ended 31 December 2022 SR</i>	<i>For the year ended 31 December 2021 SR</i>	<i>As at 31 December 2022 SR</i>	<i>As at 31 December 2021 SR</i>
Fund Manager	Asset management fees	(3,825,000)	(3,825,000)	(2,053,139)	(1,108,712)
Board of Directors	Board fees to independent board members	(40,000)	(40,000)	-	-
Unitholders (note a below)	Rental income	21,926,239	21,303,607	23,824,726	21,240,593
	Finance lease income	2,348,973	2,346,258	-	-
Banque Saudi Fransi	Borrowings from a Bank	(201,402,107)	-	(297,607,224)	(94,300,000)
	Repayment of borrowings	-	-	-	-
	Management fee on loan facility	230,310	(70,588)	1,160,132	387,942
	Borrowing fee/roll over charges on loan facility	56,109	(18,860)	-	-
	Dividend distribution charges	26,235	(10,908)	-	-
	Finance cost	(11,336,578)	(2,190,014)	-	-

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12. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

- a) The sponsor unitholder of the Fund namely; Ahmed Al Rasheed and Sons Holding Company is also a shareholder of the company that owns Tarbiah Islamiah School. Accordingly, the income and related assets in lieu of the lease agreement with Tarbiah Islamiah School has been disclosed under related party transactions.

At the end of the year, cash balance with the Banque Saudi Fransi is SR 17,747,743 (2021: SR 4,511,655) and an overdraft of SR 902,106 (2021: Nil).

13. CAPITAL

The capital of the Fund is SR 510 million divided into 51 million participating units of SR 10 par value, with each carrying one vote. All issued participating units are fully paid and are listed on the Saudi Exchange (Tadawul). The Fund's capital is represented by these participating units and are classified as equity instruments. The units are entitled to dividends when declared and to payment of a proportionate share of the Fund's net asset value upon winding up of the Fund. A reconciliation of the number of units outstanding at the beginning and end of each reporting period is presented in the statement of changes in equity attributable to the Unitholders.

14. BORROWINGS FROM A BANK

This represents Islamic mode of financing obtained from a local bank (Banque Saudi Fransi) utilised to finance the acquisition of the property "Al Ghad National School". The Islamic financing involves the sale and purchase of commodities with the bank as per mutually agreed terms. The Fund obtained financing at an average rate of return of Saudi Interbank Offer Rate (SIBOR) plus agreed spread. The Fund is to repay the principal in one bullet payment on 30 June 2027. The loan has been obtained in the name of Rabwa Taleem Real Estate Company (SPV of the fund).

The title deed of Rowad International School has been mortgaged and is being held as a collateral against the bank borrowings.

During the year the Fund utilised the financing facility of Banque Saudi Fransi to fund the acquisition of land and building relating to Four Schools (Hitteen Branch Riyadh, Al Malqa Branch Riyadh, Al Narjis Branch Riyadh and Aleshraq Branch Dammam) leased out to "Al Khaleej Education and Training Company" (Refer to Note 9).

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Balance at the beginning the year	94,300,000	94,318,624
Loan received	201,402,107	-
Accrued profit	11,336,578	2,190,014
Profit paid	(9,431,461)	(2,208,638)
Balance at the end the year	<u>297,607,224</u>	<u>94,300,000</u>

15. INCOME FROM INVESTMENT PROPERTIES

	<i>For the</i> <i>year ended</i> <i>31 December</i> <i>2022</i> <i>SR</i>	<i>For the</i> <i>year ended</i> <i>31 December</i> <i>2021</i> <i>SR</i>
Lease rental income on investment properties	<u>60,097,281</u>	<u>48,287,290</u>

The operating lease relates to land of Tarbiah Islamiah School, land and building of Al Rwad International School, land and building of Al Ghad National School and land and building of Al Khaleej Education and Training Co. Hitteen Branch, Al Khaleej Education and Training Co. Al Malqa Branch, Al Khaleej Education and Training Co. Al Narjis Branch, Al Khaleej Education and Training Co. Al Eshraq Branch, which is leased out for a remaining lease term of 21.2 years (2021: 22.2 years), 19.25 years (2021: 20.25 years), 7.5 years (2021: 8.5 years) respectively. The leases provide for tenants to pay the base rent, with provisions for contractual increases in base rent over the term of the leases.

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15. INCOME FROM INVESTMENT PROPERTIES (CONTINUED)

Future rental commitments (to be received) at year end, under the operating leases is as follows:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Not later than one year	39,556,402	41,264,105
Later than one year and less than five years	168,499,122	174,534,337
Later than five years	661,850,660	770,950,443
	<u>869,906,184</u>	<u>986,748,885</u>

16. DIVIDEND/DISTRIBUTION

During the year, the Fund has paid dividends amounting to SR 33.66 million (2021: SR 26.52 million). The dividend per unit amounted to SR 0.66 per unit (2021: SR 0.52 per unit).

Subsequent to the year end, the Fund's Board has approved, declared and paid dividends amounting to SR 8.16 million (SR 0.16 per unit) (2021: SR 6.12 million (SR 0.12 per unit)).

17. PROVISION OF ZAKAT

a) Basis for Zakat:

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi Unitholders. The Fund has computed the provision for zakat based on the zakat base.

b) Movement of provision for zakat:

	<i>31 December 2022 SR</i>	<i>31 December 2021 SR</i>
Balance at the beginning of the year	2,130,071	1,748,511
Provision for the year	2,730,537	2,132,036
Payments during the year	(2,200,664)	(1,750,476)
Balance at the end of the year	<u>2,659,944</u>	<u>2,130,071</u>

c) Status of annual return and assessments:

The Fund would file the annual return for the year ended 31 December 2022 within the stipulated timelines as specified under the Zakat regulations issued by Zakat, Tax and Custom Authority ("ZATCA").

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the principal or the most advantageous market must be accessible to the Fund.

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted market price: financial instruments with quoted unadjusted prices for identical instruments in active markets.

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: valuation techniques for which any significant input is not based on observable market data.

The Fund's financial assets consist of bank balances, net investment in finance lease, other assets and its financial liabilities consist of management fees payable, borrowing from bank and other liabilities.

The Fund believes that the fair value of all financial assets and liabilities approximately equal their carrying value.

The fair value of investment properties, excluding capital work in progress, is SAR 765 million (2021: SAR 574 million) carried at Level 3.

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

In accordance with Article 22 of the Real Estate Investment 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 valuers. As set out in the terms and conditions of the Fund, the net asset values declared are based on the market value obtained. However, in accordance with International Accounting Standards 40 ("IAS 40") the Fund opted to use the cost method wherein 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 except in case of impairment.

The valuation of the investment properties is carried out by Olaat Properties Management and ValuStrat Consulting. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager 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 of a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost method, residual value method and the discounted cash flow method.

Below is an analysis of the investment properties fair value versus cost:

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Estimated fair value of investment properties	737,213,938	573,567,291
Book value of investment properties (excluding capital work in progress)*	(709,189,063)	(559,190,000)
Estimated fair value in excess of book value	28,024,875	14,377,291
Units in issue (numbers)	51,000,000	51,000,000
Value per unit relating to excess of estimated fair value over book value of investment properties	0.5495	0.2819
	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Equity value		
Equity value as per the financial statements	546,149,755	546,646,423
Estimated fair value in excess of book value of investment properties	28,024,875	14,377,291
Equity value based on fair valuation of investment properties	574,174,630	561,023,714
Equity value per unit		
Equity value per unit as per the financial statements	10.7088	10.7186
Estimated fair value in excess of book value of investment properties	0.5495	0.2819
Equity value per unit based on fair valuation of investment properties	11.2583	11.0005

The Fund's investment in the building of Tarbiah Islamiah School has been classified as a finance lease in accordance with IFRS as endorsed in KSA. The fair value of the net investment in finance lease has been determined based on the market special commission rates. As of the reporting date, the carrying value of the net investment in finance lease approximates its fair value.

* The value of capital work in progress approximate the fair value.

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20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>31 December 2022</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and bank balances	17,747,743	-	17,747,743
Net investment in finance lease	383,753	34,213,308	34,597,061
Prepayments and other assets	60,168,796	-	60,168,796
Investment properties	-	741,524,490	741,524,490
TOTAL ASSETS	78,300,292	775,737,798	854,038,090
LIABILITIES			
Management fees payable	2,053,139	-	2,053,139
Accrued expenses and other liabilities	5,568,028	-	5,568,028
Provision of zakat	2,659,944	-	2,659,944
Borrowings from bank	-	297,607,224	297,607,224
TOTAL LIABILITIES	10,281,111	297,607,224	307,888,335
<i>31 December 2021</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	4,511,655	-	4,511,655
Net investment in finance lease	358,919	34,597,064	34,955,983
Prepayments and other assets	5,767,136	42,545,210	48,312,346
Investment properties	-	559,190,000	559,190,000
TOTAL ASSETS	10,637,710	636,332,274	646,969,984
LIABILITIES			
Management fees payable	1,108,712	-	1,108,712
Accrued expenses and other liabilities	2,784,774	-	2,784,774
Provision of zakat	2,130,071	-	2,130,071
Borrowings from bank	-	94,300,000	94,300,000
TOTAL LIABILITIES	6,023,557	94,300,000	100,323,557

21. SEGMENT INFORMATION

The Fund is organised into one operating segment (“Educational Institutions”). Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment.

22. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management

The Fund Manager is primarily responsible for identifying and controlling risks.

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22. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Risk measurement and reporting system

Monitoring and controlling risks is primarily set up to be performed based on limits as specified in the regulations. In addition, the compliance department of the Fund Manager monitors the exposures against the limits as specified in the regulations.

Risk mitigation

The Fund's investment guidelines as specified in Terms and Conditions and fact sheet set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

Concentration risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location.

Concentrations risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As the Fund has invested in real estate in Kingdom of Saudi Arabia, there is a concentration risk of geographical location.

Credit risk

Credit risk is the possibility of non-payment by counterparties and financial institutions through which the Fund transacts. The Fund is exposed to credit risk on its cash and cash equivalents, rental income receivable and net investment in finance lease. Cash and cash equivalent is maintained with Banque Saudi Fransi. The net investment in finance lease is made with the Unitholder of the Fund for whom no credit rating is available. Cash flows from the lessees are being received in accordance with the lease with no issues of default. The maximum exposure to the credit risk for the financial assets is their carrying value.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	<i>31 December</i> <i>2022</i> <i>SR</i>	<i>31 December</i> <i>2021</i> <i>SR</i>
Cash and cash equivalents	17,747,743	4,511,655
Net investment in finance lease	34,597,062	34,955,983
Other assets	57,462,555	47,264,231
	<u>109,807,360</u>	<u>86,731,869</u>

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities, which comprise of management fees payable, bank borrowings, accrued finance cost and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted, unless specifically approved by the CMA.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities, except for borrowings from bank (see note 14), consisting of management fee payable and other liabilities are all due within 12 months. The undiscounted amount of these financial liabilities approximates their carrying values at the reporting date.

Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates, equity prices and interest rates, will affect the Fund's income or cash flows. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

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22. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e. bank balances, net investment in finance lease, rental income receivable, management fee payable and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Special commission rate risk

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market special commission rates. The Fund is subject to special commission rate risk on its special commission bearing assets including net investment in finance lease.

The Fund does not account for any fixed rate special commission bearing financial assets at fair value and therefore, a change in special commission rates at the reporting date would not have any affect on the financial statements.

23. LAST VALUATION DAY

The last valuation day for the preparation of these financial statements was 31 December 2022 (2021: 31 December 2021).

24. EVENTS AFTER THE END OF REPORTING PERIOD

Subsequent to the year end, the Fund Board has approved, declared and paid dividends as detailed in note 16.

25. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Fund Board on 7 Ramadan 1444H (corresponding to 29 March 2023).