

TALEEM REIT FUND

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

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**



Al Azem, Al Sudairy, Al Shaikh & Partners
CPA's & Consultants - Member Crowe Global

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INDEPENDENT AUDITOR'S REPORT

**TO: THE UNIT HOLDERS OF
TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)**

Opinion

We have audited the financial statements of **TALEEM REIT FUND** (the "Fund") managed by Saudi Fransi Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other Standards and pronouncement issued by Saudi Organization for Certificate Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the following matters described below to be the key audit matters to be communicated in our report:

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TALEEM REIT FUND
 (Managed by Saudi Fransi Capital Company)

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p> <p>As at 31 December 2019, the carrying value of the Fund's investment properties were SAR 471.871 million.</p> <p>The investment properties are stated at cost less impairment in value, if any (Refer to Note 5 for relevant accounting policies). The fair value of the investment properties is also disclosed along with its impact on Net Asset Value per unit is disclosed note 20.</p> <p>The Fund manager uses two independent valuers licensed by the Saudi Authority for Accredited Valuer's (Taqeem) to evaluate the value of the property at the reporting date.</p> <p>We consider it as key audit matter since the valuation requires significant judgement with respect to the valuation method adopted including the appropriateness of the various assumptions and projections used in the valuation.</p> <p>All assumptions and projections by their nature require significant judgement and there is a risk that changes to these may have significant impact on the valuation of these investment properties.</p> <p>This could result in a material misstatement of the financial statements either through a lack of recognition of impairment of the investment properties or through inaccurate disclosures of the fair value of the investment properties.</p>	<p>Our audit procedures in respect of valuation of investment properties comprised of the following,</p> <ul style="list-style-type: none"> • Assessed the qualification and expertise of third party valuers appointed by the Fund for the valuation of the properties • Assessed the recoverable amount based assessment prepared by the third party valuers and assessed the model, assumptions and estimates used in deriving the recoverable values • Carried out procedures to satisfy ourselves of the accuracy of information supplied to the valuers by Fund manager

Other information included in the Fund's 2019 Annual Report

The fund manager is responsible for the other information. Other information consists of the information included in the Fund's 2019 annual report, other than the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we 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 other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

Responsibilities of Fund Manager and Those Charged with Governance for the Financial Statements:

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other Standards and pronouncement issued by Saudi Organization for Certificate Public Accountants (SOCPA), 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 Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs 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 ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TALEEM REIT FUND
(Managed by Saudi Fransi Capital Company)

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

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

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

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



Al Azem, Al Sudairy, Al Shaikh & Partners
Certified Public Accountants



Abdullah M. Al Azem
License No. 335

2 Shaban 1441H (March 26, 2020)
Riyadh, Kingdom of Saudi Arabia

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	<i>31 December 2019 SR</i>	<i>31 December 2018 (Restated) SR</i>
ASSETS			
Cash and cash equivalents	8	14,622	8,995,466
Investments measured at fair value through profit or loss (FVTPL)	9	9,536,997	5,865,841
Net investment in finance lease	10	34,838,278	34,993,502
Other assets	11	19,242,894	8,845,968
Investment properties	12	471,871,480	474,374,296
TOTAL ASSETS		535,504,271	533,075,073
LIABILITIES			
Management fee payable	15	2,881,849	987,226
Other liabilities	13	245,526	5,473,383
Provision of zakat	18	1,529,806	-
TOTAL LIABILITIES		4,657,181	6,460,609
Net assets attributable to unitholders		530,847,090	526,614,464
Units in issue	14	51,000,000	51,000,000
Net asset value per unit – Book value		10.4088	10.3258
Net asset value per unit – Fair value	20	10.5654	10.4365

The accompanying notes 1 to 26 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

		<i>For the year ended 31 December 2019</i>	<i>For the year ended 31 December 2018 (Restated)</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
INCOME			
Income from investment properties	16	43,074,265	27,384,360
Finance lease income	10	2,423,724	2,434,049
Gain on investments measured at FVPL		221,156	65,841
Other income		5,000	-
TOTAL INCOME		45,724,145	29,884,250
EXPENSES			
Management fees	15	(3,824,999)	(2,585,958)
Custodian fees	15	(136,876)	(204,374)
Other expenses		(857,022)	(594,663)
TOTAL EXPENSES		(4,818,897)	(3,384,995)
Depreciation expense on investment properties	12	(2,502,816)	(625,704)
NET INCOME BEFORE ZAKAT FOR THE YEAR		38,402,432	25,873,551
Provision for zakat	18	(1,529,806)	-
NET INCOME AFTER ZAKAT FOR THE YEAR		36,872,626	25,873,551
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		36,872,626	25,873,551
Earnings per unit			
Weighted average units in issue		51,000,000	34,417,808
Earnings per unit		0.7230	0.7517

The accompanying notes 1 to 26 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2019

	<i>31 December 2019</i>	<i>31 December 2018 (Restated)</i>
	<i>SR</i>	<i>SR</i>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE YEAR	526,614,464	293,339,663
CHANGES FROM OPERATIONS		
Net income for the year	36,872,626	25,873,551
Other comprehensive income	-	-
Total comprehensive income	36,872,626	25,873,551
CHANGES FROM UNIT TRANSACTIONS		
Proceeds from units sold	-	225,000,000
Value of units redeemed	-	-
Net change from unit transactions	-	225,000,000
Income distributions during the year (note 17)	(32,640,000)	(17,598,750)
	(32,640,000)	(17,598,750)
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE YEAR	530,847,090	526,614,464

UNIT TRANSACTIONS

Transactions in units during the years are summarised as follows:

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>Units</i>	<i>Units</i>
UNITS AT THE BEGINNING OF THE YEAR	51,000,000	28,500,000
Units sold	-	22,500,000
Units redeemed	-	-
Net change in units	-	22,500,000
UNITS AT THE END OF THE YEAR	51,000,000	51,000,000

The accompanying notes 1 to 26 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	31 December 2019 SR	31 December 2018 (Restated) SR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		36,872,626	25,873,551
Adjustment for:			
Unrealised gain from investments measured at FVTPL		(166,310)	(65,841)
Provision for zakat		1,529,806	-
Depreciation expense on investment properties		2,502,816	625,704
Operating cash flows before working capital changes		40,738,938	26,433,414
Changes in operating assets and liabilities:			
Other Assets		(10,396,925)	(5,205,627)
Management fee payable		1,894,623	(265,992)
Other liabilities		(5,227,858)	114,800
Net cash generated from operating activities		27,008,778	21,076,595
CASH FLOWS FROM INVESTING ACTIVITIES			
Recovery of net investment in finance lease, net		155,224	144,897
Purchase of investments held at FVPL	9	(8,000,000)	(5,800,000)
Sale of investments held at FVPL, net	9	4,495,154	-
Net cash used in investing activities		(3,349,622)	(5,655,103)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid	17	(32,640,000)	(17,598,750)
Cash used in financing activity		(32,640,000)	(17,598,750)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,980,844)	(2,177,258)
Cash and cash equivalents at the beginning of the year		8,995,466	11,172,724
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	14,622	8,995,466
<u>Non-cash transaction:</u>			
Issue of units in exchange for properties	12	-	225,000,000

During the prior year, the Fund acquired land and buildings in exchange for units in the Fund (see note 12 for further details)

TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 based on an agreement between Saudi Fransi Capital (the "Fund Manager") and investors (the "Unitholders"). The Fund commenced its operations on 30 May 2017 ("Commencement Date"), which is the first day of the listing of Taleem REIT Fund on the Saudi Stock Exchange ("Tadawul"). The address of the Fund Manager is as follows:

Saudi Fransi Capital
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's Board and the Capital Market Authority ("CMA").

The Fund's primary investment objective is to invest in constructionally 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). The Subscription days of the Fund commenced on 14 Sha'aban 1438H (corresponding to 10 May 2017) and ended on 20 Sha'aban 1438H (corresponding to 16 May 2017). The Fund commenced its operations on 4 Ramadan 1438H (corresponding to 30 May 2017). The terms and conditions has been updated on 24 Dhul-Qidah 1439H (corresponding to 6 August 2018) upon CMA approval of the issuance of new units. The terms and conditions has further been updated on 10 Rabi ul Awal 1441H (corresponding to 07 November 2019).

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

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) and the Real Estate Investment Traded Funds Instructions (REITF) (the "Regulations") published by the Capital Market Authority (CMA), detailing the 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") as issued by the International Accounting Standards Board ("IASB"), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to "IFRS as endorsed in KSA").

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 21.

3.2 *Basis of measurement*

The financial statements have been prepared on a historical cost basis, using the accruals basis of accounting except for investments measured at fair value through profit or loss that are measured at fair value.

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)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

4. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

Effective 1 January 2019, the Fund has adopted IFRS 16 - Leases. Accounting policies for these new standards are disclosed in note 5 of these financial statements.

The impact of the adoption of this standard is explained below:

IFRS 16 - "Leases"

Before January 01, 2019, the Fund followed following accounting for leases:

When assets are transferred under a finance lease, the present value of the lease payments is recognised as a receivable and disclosed as "*Net investment in finance lease*". The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Leases in which the Fund does not transfer substantially all the risks and rewards and benefits of ownership of an asset are classified as "Operating leases". Minimum lease payments are recognised on a straight-line basis over the lease term and contingent rents are recognised as revenue in the period in which they are earned. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. When the Fund provides incentives to its customers, the cost of incentives is recognised over the lease term, on a straight-line basis, as reduction of rental income.

The Fund adopted IFRS 16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognize in the Fund's Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

However, Lessor accounting is substantially unchanged from today's accounting under IAS 17 and Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The standard requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Fund plans to adopt IFRS 16 using the modified retrospective approach. The Fund elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Fund therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

During the year, the Fund has performed an assessment of IFRS 16 and resolved that impact of difference as compared to leases accounted for applying IAS 17 & IFRIC 4 is not material to the Fund's financial statements as a whole, as Fund is a lessor.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting 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 2018, except for the policies explained below.

Based on the adoption of new standards explained in note 4, the following accounting policies are applicable effective 1 January 2019 replacing / amending or adding to the corresponding accounting policies set out in 2018 financial statements.

A. Policies effective from 01 January 2019

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of Use Assets

Company apply cost model, and measure right of use asset at cost;

- Less any accumulated depreciation and any accumulated impairment losses; and
- Adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor.

After the commencement date, Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability.
- Reducing the carrying amount to reflect the lease payments made and;
- Re-measuring the carrying amount to reflect any re-assessment or lease modification.

B. Policies effective from 01 January 2018

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include bank balances and deposits with bank with an original maturity of three months or less.

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.

a. Financial assets

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit or Loss (FVTPL).

Financial asset held at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI').

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

a. Financial assets (continued)

Financial assets held at FVTOCI

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as FVTPL:

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

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Special commission income and foreign exchange gains or losses are recognised in statement of comprehensive income.

Equity Instruments

On initial recognition, for an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets held at FVTPL

All other financial assets are classified as measured at FVTPL. This may include equity held for trading and debt securities not classified as either amortised cost or FVTOCI.

In addition, on initial recognition, the Fund may also irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at amortised cost or at FVTOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses ("ECL") on a financial asset that is measured at amortised cost or classified as FVOCI at each reporting date, at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. When making the assessment, the Fund uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of ECL. To make that assessment, the Fund compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if it is determined to have low credit risk at the reporting date.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. For receivables, the Fund always measure the loss allowance at an amount equal to lifetime ECL.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

a. Financial assets (continued)

Impairment of financial assets (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the Fund first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The Fund measures ECL of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and the 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Special commission income continues to be accrued on the gross carrying amount using the effective rate of interest unless the financial instrument is credit-impaired in which case the special commission income is recognised on reduced carrying amount. The special commission income is recorded as part of finance revenue in the statement of comprehensive income.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

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.

b. 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.

Investment properties

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

Investment properties are stated at cost less accumulated depreciation and impairment in value, if any.

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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

The Fund bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Fund's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Fund management fee

A fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager will charge a management fee of 0.75% of the net book value per annum accrued daily and deducted bi-annually. Net book value is the cost that the Fund pays through amounts raised from investors or through borrowing, in order to acquire or invest in projects or investments within the Fund.

Custody fee

As per the Terms and Conditions of the Fund, the Custodian charges custody fees calculated at an annual rate of 0.0375% of the net asset value of the Fund. This is accrued daily and paid on semi-annual basis.

Provisions

A provision is recognised if, as a result of past events, the Fund has present a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

Net asset value per unit

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the total equity 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 are accrued on a quarterly basis and charged to statement of comprehensive income.

Revenue recognition

Investment properties

Rental income from operating leases are recognized 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized 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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

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. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 19.

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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS(CONTINUED)

The preparation of the Fund's financial statements in conformity with the IFRS endorsed in the Kingdom of Saudi Arabia, 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 judgments 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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Significant areas where management 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

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 a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance each asset's performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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

The valuation models have been applied in accordance with the recommendations of the International Valuation Standards Committee. The Fund manager has concluded that the valuation models used by the Fund are consistent with the principles in IFRS 13. These models comprise land plus cost method, residual value method and the discounted cash flow ("DCF") method.

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows to which an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

7. STANDARDS ISSUED BUT NOT YET EFFECTIVE

New IFRS, amendments and interpretations issued not yet effective and not early adopted

There are several standards and interpretations that are issued, but not yet effective, up to the date of authorization of the Fund's financial statements. In the opinion of the Board, these standards will have no significant impact on the financial statements of the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

8. CASH AND CASH EQUIVALENTS

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Bank balances	<u>14,622</u>	<u>8,995,466</u>

The bank balances represents the cash maintained with the Fund Manager (Saudi Fransi Capital). The Fund Manager has deposited the cash in a current account maintained with Banque Saudi Fransi under the name of the Fund manager (Saudi Fransi Capital). No special commission is receivable on this balance.

The management has conducted a review as required under IFRS 9 and based on such an assessment, the management believes that there is no need for any significant impairment loss against the carrying value of bank balances.

9. INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments as at the reporting date comprise of investments in mutual funds.

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
<i>Financial assets held at fair value through profit or loss</i>		
Al Badr Murabaha Fund	<u>9,536,997</u>	<u>5,865,841</u>

The following is the movement in investments during the year:

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
<i>Carrying amount:</i>		
At beginning of the year	5,865,841	-
Additions during the year	8,000,000	5,800,000
Sold during the year	(4,495,154)	-
At end of the year	<u>9,370,687</u>	<u>5,800,000</u>
<i>Changes in fair value:</i>		
Changes in fair value during the year	<u>166,310</u>	<u>65,841</u>
Net investments at end of the year	<u>9,536,997</u>	<u>5,865,841</u>

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

10. NET INVESTMENT IN FINANCE LEASE

	<i>31 December 2019 SR</i>	<i>31 December 2018 (Restated) SR</i>
<i>a) Net investment in finance lease consists of:</i>		
Gross investment in finance lease (see (b) below)	74,770,116	77,349,064
Less: Unearned finance income (see (c) below)	(39,931,838)	(42,355,562)
	<u>34,838,278</u>	<u>34,993,502</u>
<i>b) The future minimum lease payments to be received consist of:</i>		
Within one year	2,578,947	2,578,947
After one year but not more than five years	10,966,974	10,702,632
Five years onwards	61,224,195	64,067,485
	<u>74,770,116</u>	<u>77,349,064</u>
<i>c) The maturity of unearned finance income is as follows:</i>		
Within one year	(2,419,729)	(2,423,730)
After one year but not more than five years	(9,456,068)	(9,545,697)
Five years onwards	(28,056,041)	(30,386,135)
	<u>(39,931,838)</u>	<u>(42,355,562)</u>

Finance income earned on the finance lease during the year was SR 2.42 million (31 December 2018 (Restated): SR 2.43 million). The total 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.

The management has conducted a review as required under IFRS 9, which included taking into account numerous variables. Based on the assessment, the management 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.

The finance lease represents the building of the Tarbiah Islamiah School (refer note 12).

11. OTHER ASSETS

	<i>31 December 2019 SR</i>	<i>31 December 2018 (Restated) SR</i>
Rent receivable*	18,712,295	8,579,083
Receivable from lessee	525,000	262,500
VAT receivable – input tax	5,599	4,385
	<u>19,242,894</u>	<u>8,845,968</u>

*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.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12. INVESTMENT PROPERTIES

	<i>31 December 2019</i>	<i>31 December 2018 (Restated)</i>
	<i>SR</i>	<i>SR</i>
<i>Cost:</i>		
At the beginning of the year	475,000,000	250,000,000
Additions	-	225,000,000
At the end of the year	<u>475,000,000</u>	<u>475,000,000</u>
<i>Accumulated depreciation:</i>		
At the beginning of the year	625,704	-
Charged during the year	2,502,816	625,704
At the end of the year	<u>3,128,520</u>	<u>625,704</u>
Net book value	<u>471,871,480</u>	<u>474,374,296</u>

The investment properties represent following two acquired properties:

- 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 previous owner (Raj Three Company Limited) holds 28.46% (31 December 2018: 30.88%) of the total units in the Fund. The Fund has classified land and building as an Investment Property.
- 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 39.11% (31 December 2018: 39.11%) of the total units in the Fund. The Fund has classified land as an Investment Property.

13. OTHER LIABILITIES

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>SR</i>	<i>SR</i>
Unearned rentals	-	5,250,000
Accrued expenses and others	245,526	223,383
	<u>245,526</u>	<u>5,473,383</u>

14. CAPITAL

The capital of the Fund is SR 510 million (31 December 2018: SR 510 million) divided into 51 million (31 December 2018: 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 Stock 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.

TALEEM REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

15. RELATED PARTY TRANSACTIONS AND BALANCES

Related 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 ("the Fund Manager"), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), the Funds' Board of Directors (BOD), affiliates of the Fund Manager, the Funds managed by the Fund Manager and the Unit holders of the Fund.

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

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

<i>Related Party</i>	<i>Nature of transaction</i>	<i>Amount of transactions</i>		<i>Balances</i>	
		<i>For the year ended 31 December 2019</i>	<i>For the year ended 31 December 2018 (Restated)</i>	<i>31 December 2019</i>	<i>31 December 2018</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Fund manager	Asset management fees (note "a" below)	(3,824,999)	(2,585,958)	(2,881,849)	(987,226)
	Expenses paid by the Fund manager on behalf of the Fund	-	-	(69,250)	-
Board of directors	Board fees to independent board members	(10,000)	(10,000)	(15,000)	(15,000)
Unitholders	Purchase of land and building	-	225,000,000	-	-
	Rental income	43,074,265	27,384,360	18,712,295	8,579,083
	Finance lease income	2,423,724	2,434,049	-	-
	Receivable from lessee	-	-	525,000	262,500

- a. As per the Terms and Conditions of the Fund, the Fund Manager charges a management fee calculated at an annual rate of 0.75% of the net asset value of the Fund. This is accrued daily and paid on a semi-annual basis.

During the year 2018, the Fund Board resolved to charge the Management fee based on the Capital base (SAR 510 million) of the Fund instead of net assets of the Fund as long as the NAV is above the Capital base.

The Fund maintained cash with Saudi Fransi Capital at SR 14,622 (31 December 2018: SR 8,995,466). This cash is deposited in a current account maintained with Banque Saudi Fransi under the name of the Fund manager (Saudi Fransi Capital).

The Fund holds investments in Al Badr Murabaha Fund which is managed by the Fund Manager. As at year-end, the fair value of the investments is SR 9,536,997 (31 December 2018: SR 5,865,841).

The Fund has entered into lease agreements with two of its unit holders and currently all the revenues recognised in the financial statements are from the said lease agreements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

16. INCOME FROM INVESTMENT PROPERTIES

	<i>For the year ended 31 December 2019 SR</i>	<i>For the year ended 31 December 2018 (Restated) SR</i>
Lease rental income on investment properties	<u>43,074,265</u>	<u>27,384,360</u>

The operating lease relates to land of Tarbiah Islamiah School, and land and building of Al Rwad International School which is leased out for a remaining lease term of 24.2 years (31 December 2018: 25.2 years) and 22.25 years (31 December 2018: 23.25 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.

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

	<i>31 December 2019 SR</i>	<i>31 December 2018 (Restated) SR</i>
Not later than one year	<u>32,941,053</u>	<u>32,941,053</u>
Later than one year and less than five years	<u>143,820,726</u>	<u>138,883,368</u>
Later than five years	<u>826,417,764</u>	<u>864,296,174</u>
	<u>1,003,179,543</u>	<u>1,036,120,595</u>

17. DIVIDEND / DISTRIBUTION

During the year, the Fund has paid dividends amounting to SR 32.64 million (31 December 2018: SR 17.6 million). The dividend per unit amounted to SR 0.64 per unit (30 December 2018: SR 0.6175 per unit).

Subsequent to the year-end, the Funds' Board has approved, declared and paid dividends amounting to SR 8.16 million (SR0.16 per unit) (31 December 2018: SR 8.16 million (SR 0.16 per unit)).

18. ZAKAT

a) Basis for Zakat:

Up to the period ended December 31, 2018, the Fund was not subject to Zakat. However, during the year 2019, the Fund voluntarily registered as a Zakat-able entity. 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 2019 SR</i>	<i>31 December 2018 SR</i>
Balance at the opening of the year	-	-
Provision for the year	<u>1,529,806</u>	-
Payments during the year	-	-
Balance at the end of the year	<u>1,529,806</u>	-

c) Status of annual return and assessments:

The Fund would file the annual return for the year ended 31 December 2019 within the stipulated timelines as specified under the Zakat regulations issued by General Authority of Zakat and Tax ("GAZT")

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

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, financial assets held at FVTPL, and net investment in finance lease and its financial liabilities consist of management fees payable and other liabilities.

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments are measured at fair value. It does not include fair value information for financial assets and financial liabilities that are not measured at fair value and then carrying amount is a reasonable approximation of fair value.

	<i>Carrying value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2019 SR					
Financial assets at FVTPL	9,536,997	9,536,997	-	-	9,536,997
	<u>9,536,997</u>	<u>9,536,997</u>	<u>-</u>	<u>-</u>	<u>9,536,997</u>
31 December 2018 SR					
Financial assets at FVTPL	5,865,841	5,865,841	-	-	5,865,841
	<u>5,865,841</u>	<u>5,865,841</u>	<u>-</u>	<u>-</u>	<u>5,865,841</u>

The Fund believes that the fair value of net investment in finance lease is approximately equal to its carrying value. The Fund also believes that the fair value of all other financial assets and liabilities approximately equal their carrying value.

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

The Fund will monitor the fair value on a regular basis in line with the relevant legislation.

Valuation techniques

When the fair values of items recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of items in the statement of financial position and the level where the items are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same item (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, the fund performs sensitivity analysis or stress testing techniques.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

20. 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.

The valuation of the investment properties (the "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 properties. The 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 properties fair value versus cost:

	<i>31 December 2019</i>	<i>31 December 2018 (Restated)</i>
	<i>SR</i>	<i>SR</i>
Estimated fair value of investment properties	479,858,209	480,017,931
Book value of investment properties	(471,871,480)	(474,374,296)
Estimated fair value in excess of book value	<u>7,986,729</u>	<u>5,643,635</u>
Units in issue (numbers)	<u>51,000,000</u>	<u>51,000,000</u>
Value per unit relating to excess of estimated fair value over book value of investment properties	<u>0.1566</u>	<u>0.1107</u>
<i>Net asset value</i>		
	<i>31 December 2019</i>	<i>31 December 2018 (Restated)</i>
	<i>SR</i>	<i>SR</i>
Net asset value as per the financial statements	530,847,090	526,614,464
Estimated fair value in excess of book value of investment properties	<u>7,986,729</u>	<u>5,643,635</u>
Net asset value based on fair valuation of investment properties	<u>538,833,819</u>	<u>532,258,099</u>
<i>Net asset value per unit</i>		
Net asset value per unit as per the financial statements	10.4088	10.3258
Estimated fair value in excess of book value of investment properties	<u>0.1566</u>	<u>0.1107</u>
Net asset value per unit based on fair valuation of investment properties	<u>10.5654</u>	<u>10.4365</u>

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.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

21. 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>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
31 December 2019			
ASSETS			
Cash and cash equivalents	14,622	-	14,622
Financial assets held at FVPL	9,536,997	-	9,536,997
Net investment in finance lease	159,218	34,679,060	34,838,278
Other assets	530,599	18,712,295	19,242,894
Investment properties, net	-	471,871,480	471,871,480
TOTAL ASSETS	10,241,436	525,262,835	535,504,271
LIABILITIES			
Management fees payable	2,881,849	-	2,881,849
Other liabilities	245,526	-	245,526
Provision of zakat	1,529,806	-	1,529,806
TOTAL LIABILITIES	4,657,181	-	4,657,181
31 December 2018			
ASSETS			
Cash and cash equivalents	8,995,466	-	8,995,466
Financial assets held at FVPL	5,865,841	-	5,865,841
Net investment in finance lease	155,217	34,838,285	34,993,502
Other assets	266,886	8,579,083	8,845,968
Investment properties, net	-	474,374,296	474,374,298
TOTAL ASSETS	15,283,410	517,791,663	533,075,073
LIABILITIES			
Management fees payable	987,226	-	987,226
Other liabilities	5,473,383	-	5,473,383
TOTAL LIABILITIES	6,460,609	-	6,460,609

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

22. RISK MANAGEMENT

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 bank balance and net investment in finance lease. The bank balance is maintained with a reputed local bank in the Kingdom of Saudi Arabia. The net investment in finance lease is made with two unit holders 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 2019 SR</i>	<i>31 December 2018 (Restated) SR</i>
Cash equivalents	14,622	8,995,466
Net investment in finance lease	34,838,278	34,993,502
	<u>34,852,900</u>	<u>43,988,968</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 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 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.

The Fund Manager already has adequate cash and liquid assets to settle its financial liabilities as they fall due and expects to settle its financial liabilities upon receipt of further amounts from lease rentals.

Market risk

The Fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited, to the overall macroeconomic growth of the Kingdom, special commission rates, demand-supply of land, availability of financing, investor sentiment, liquidity, foreign exchange rate and the legal and regulatory environment.

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, financial assets held at FVPL, management fee payable and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

22. RISK MANAGEMENT (continued)

Market risk (continued)

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

Sensitivity analysis

The table below sets out the effect on profit or loss of a reasonably possible weakening / strengthening in the equity market price of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

	<i>31 December 2019 SR</i>	<i>31 December 2018 SR</i>
Strengthening of 5%	465,242	293,292
Weakening of 5%	(465,242)	(293,292)

Investment property price risk

Investment property price risk is the risk that the tenant may become insolvent causing a significant loss of rental income and reduction in the value of the associated property. The Fund Manager manages this risk through review of financial status of all tenants and decides on the appropriate level of security required via rental deposits or guarantee.

Excessive risk concentration

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of 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. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together. In order to avoid excessive concentrations of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Fund manager is instructed to reduce exposure to manage excessive risk concentrations when they arise. As the Fund is invested in real estate in Kingdom of Saudi Arabia there is a concentration of geographical 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 or future risks 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.

TALEEM REIT FUND
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

23. SEGMENT INFORMATION

The Fund is invested into two real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

24. RESTATEMENTS

During the year ended 31 December 2019, the Fund Manager identified that real estate property, (Al Rwad International School), acquired during the year 2018 was not assessed appropriately at the time of initial recognition and accordingly had been wrongly classified the building portion of the property as a finance lease. The Fund Manager have now taken into consideration all the factors related to acquisition and lease arrangement that existed at the date of initial recognition. Accordingly, the Fund Manager has now rectified the error of classification and have restated the financial statements in accordance with IAS 8.

Following is the reconciliation for impact of restatements on the statement of financial position as of 31 December 2018.

	<i>31 December 2018</i>		
	<i>(Previously disclosed)</i> SR	<i>Adjustments</i> SR	<i>(As restated)</i> SR
ASSETS			
Net investment in finance lease	172,581,399	(137,587,897)	34,993,502
Other assets	8,100,184	745,785	8,845,969
Investment properties	337,345,000	137,029,296	474,374,296
Impact on Total Assets / Net Assets	<u>518,026,583</u>	<u>187,184</u>	<u>518,213,767</u>

Following is the reconciliation for impact of restatements on the statement of comprehensive income for the year ended 31 December 2018.

	<i>For the year ended 31 December 2018</i>		
	<i>(Previously disclosed)</i> SR	<i>Adjustments</i> SR	<i>(As restated)</i> SR
INCOME			
Income from investment properties	24,176,346	3,208,014	27,384,360
Finance lease income	4,829,175	(2,395,126)	2,434,049
Net impact on total income	<u>29,005,521</u>	<u>812,888</u>	<u>29,818,409</u>
Depreciation expense on investment properties	-	(625,704)	(625,704)
Net impact on comprehensive income	<u>29,005,521</u>	<u>187,184</u>	<u>29,192,705</u>

25. LAST VALUATION DAY

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018).

26. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 26 March 2020 (corresponding to 2 Shaban 1441H).

