

# Taleem REIT

REAL ESTATE INVESTMENT  
TRADED FUND

Annual Report 2020



# Table of Content

---

Fund Overview	03
Fund Performance	04
Management Discussion and Analysis	06
Real Estate Assets Overview	07
Risk Assessment Report	10
Fund Governance and Other Disclosures	12
Financial Statements	15

# Taleem REIT Fund Overview

The Taleem REIT Fund (the “Fund”) is a closed and publicly traded with Sharia-compliant real estate investment Fund that is established under Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions issued by the Capital Market Authority (“CMA”).

The Fund is considered to be the first thematic fund that was listed on the Saudi Stock Exchange (“Tadawul”) in mid-2017. The Fund aims to invest in real estate assets in the educational segment, which is one of the basic and most stable sectors to invest inside and outside of Kingdom of Saudi Arabia. As of 31 December 2020, 100% (3 properties) of Fund’s real estate assets are freehold properties and the Fund has zero investments in leasehold properties.

The Fund was established by acquiring real estate asset of Al-Tarbiyah Al-Islamiyah Schools, which is one of the oldest and most popular schools in the city of Riyadh, and enjoys good reputation amongst locals. The Fund has a long-term triple net binding lease contract of 27 years with the operator of this school. Further, in continuation with implementation of the Fund’s strategy, during 2018, the Fund acquired another real estate asset which is leased to Al-Rowad International Schools for a period of 30 years (starting 1 January 2012) under a triple net binding lease contract. This school is considered one of the most prestigious schools in the Kingdom of Saudi Arabia. Further, during mid-2020, the Fund acquired real estate asset of Al-Ghad National Schools located in King Abdullah District, Riyadh. This school is wholly-owned and operated by National Company for Learning and Education. The real estate property is leased to the school for a period of 10 years, which is automatically renewed for additional three five-year periods (total lease life of 25 years); unless the lessee elects to not renew by serving a 5-year advance notice period to the lessor.

All three long term lease contracts have periodic escalation clauses and due to their long-term nature, they provide certainty, transparency and predictability in respect of future cashflows. Accordingly, the Fund features a quarterly dividend distribution policy, which is well-liked amongst the investor community and hence reflects positively on Fund’s unit price. Following is a summary of material developments that took place during 2020:

- The Fund acquired Al-Ghad National Schools for SAR 92 million, which was funded by Fund’s existing financing facility with Banque Saudi Fransi.

The Taleem REIT Fund is managed by Saudi Fransi Capital (“Fund Manager”) a leading financial services provider offering investment banking, asset management, debt and equity research, institutional sales trading, and local and global securities brokerage. Saudi Fransi Capital is the investment arm of Banque Saudi Fransi, where it was trademarked with a paid up capital of 500 million Saudi Riyals and is a closed joint stock company in the Kingdom of Saudi Arabia. It is licensed by the Capital Market Authority with license 11153-37 to conduct a wide range of investment activities include dealing, arranging, managing, advising and custody of securities business.

## Fund Strategy

The Fund aims to form an investment portfolio linked to the education and training sector in the Kingdom of Saudi Arabia and abroad, capable of achieving periodic rental income which will generate returns on the invested capital in line with the Fund’s investment strategy. The Fund can also invest in real estate development projects, provided it does not invest in white lands.



# 2020 Fund performance

Key Financial Performance as at 31 December 2020



Total Revenue  
SAR **48.8** million



Total Expense  
SAR **13.2** million



Net Income before zakat  
SAR **37.3** million



Net Income after zakat  
SAR **35.5** million



Total Dividends  
SAR **32.6** million



Price per unit range  
SAR **12.66** – SAR **12.88**



Occupancy Rate  
**100%**



Net Asset Value (Book Value)  
SAR **533.7** million



Annualized Dividend Yield  
**4.97%**

### Performance of the fund during the last (3) financial years or since the inception (SAR)

		2020	2019	2018
Year-End NAV (SAR)		533,708,182	530,847,090	526,614,464
NAV per Unit (SAR Fair Value)	Year-End	10.6701	10.5654	10.4365
	High	10.6701	10.5654	10.4365
	Low	10.5749	10.5457	10.3537
Number of units		51,000,000	51,000,000	51,000,000
Dividend per Unit (SAR)		0.6400	0.6400	0.6175
Expense Ratio		1.56%	1.19%	0.63%
Total Return per annum*		7.05%	7.37%	7.24%
Cumulative Total Return*		27.18%	19.19%	11.82%

\*Total return is calculated based on fair value NAV and dividend payments for each fiscal year.

## Historical Performance

### Total Annualized Return for 1 Year, 3 Years, 5 Years, and Since Inception

	1 Year	3 Years	Since Inception
Total Return	7.05%	21.92%	27.18%

### Total Annual Returns for Each of the Past 10 Years or Since Inception

	2020	2019	2018	2017	Since Inception
Total Return	7.05%	7.37%	7.24%	4.58%	27.18%

Note: The Fund was launched during the year 2017.

### Any material changes that occurred during the period and which affected the performance of the fund

During mid-2020, the Fund acquired the real estate property of Al-Ghad National Schools. The property was acquired for SAR 92M and it is leased to the school under a 10-year binding lease agreement starting from 1 July 2020, with annual rent payment of SAR 5.95 million and increases by 10% in year 5, followed by 10% escalation every 5th year (including renewal periods). Further, the lease is automatically renewed for additional three five-year periods (total lease life of 25 years); unless the lessee elects to not renew by serving a 5-year advance notice period to the lessor.

# Management Discussion & Analysis

## Market Overview

The year 2020 began on a positive note with world economy off to a healthy start and several GCC countries including Kingdom of Saudi Arabia were poised for a stellar year. However, following the World Health Organization's declaration of COVID-19 as a global pandemic in March 2020 and subsequent restrictive measures introduced by the Government of Saudi Arabia, local economy's growth came to a standstill and business sentiment swayed to business continuity. Many companies were forced to close or reduce their operating hours during the second quarter of 2020. All these events led to global economy contracting by 3.5% whilst Saudi Arabian economy contracted by 3.7% in the year 2020.

Moreover, in order to contain the spread of COVID-19 and for the safety of students and education staff in the education sector, the Ministry of Education suspended in-person schooling for all K12, higher education and technical training sectors. Accordingly, Taleem REIT schools swiftly transitioned to online schooling. Despite these challenges, Taleem REIT Fund strategically managed its rent collection process during the pandemic by collecting 100% of the rent. In addition, during mid-2020 the Fund managed to acquire a brand new educational property, which is currently leased by Al-Ghad National Schools located in King Abdullah District, Riyadh. Al-Ghad National Schools is wholly-owned and operated by National Company for Learning and Education.

We believe that this is an unprecedented crisis that will undoubtedly cause significant temporary disruption to the landscape. However, over the long term the Fund Board of Taleem REIT Fund would like to assure all stakeholders that they retain the utmost confidence and optimism in both the Saudi Arabian economy and the positioning and quality of Taleem REIT Fund schools.

## Regulatory Changes

During Q4 2020, the Real Estate Transaction Tax was introduced in the Kingdom of Saudi Arabia. This tax applies to all land and property sales (and rights thereto), assignments, transfers and similar that take place in Saudi Arabia. This is a new tax in KSA and will have a far-reaching impact for companies and organizations (involved in any real estate) including Taleem REIT Fund whilst undertaking new real estate investments in the near future.

## Fund Operations Review

Taleem REIT has reported total revenues of SAR 48.8 million and a net profit of SAR 35.5 million for the year ended 31 December 2020. Total expenses (operating and non-operating) of the Fund amounted to SAR 13.3 million, out of which SAR 5.4 million relates to depreciation and impairment expense, SAR 3.8 million for management fees, SAR 1.7 million for zakat expense, SAR 1.2 million for finance charges and SAR 1.2 million for Fund related other expenses. As a result of stable and organic growth of Fund's core properties, total dividends amounting to SAR 32.6 million were distributed amongst unitholders of the Fund during 2020.

In our assessment, overall risks to economic growth and to the real estate sector have started receding and activity is expected to normalize over the next few years.

## Regulatory Changes

Subsequent to the year-end, following events have occurred:

- With due consideration to the potential impact of the COVID-19 pandemic, the Fund Manager has suspended rental escalation(s) for 1 year, which were becoming due in the year 2021 and will now be affected in the year 2022; and
- Subject to tenant's acceptance, the Fund Manager will appoint an independent financial consultant to assess the financial stress caused by COVID-19 pandemic on Fund's tenants. Any extension of financial support measures for tenants by the Fund will be based on the independent financial consultant's report. As of Fund's 2020 audit report date, two tenants have shown willingness to cooperate with an independent financial consultant to assess the financial impact caused by COVID-19 pandemic.

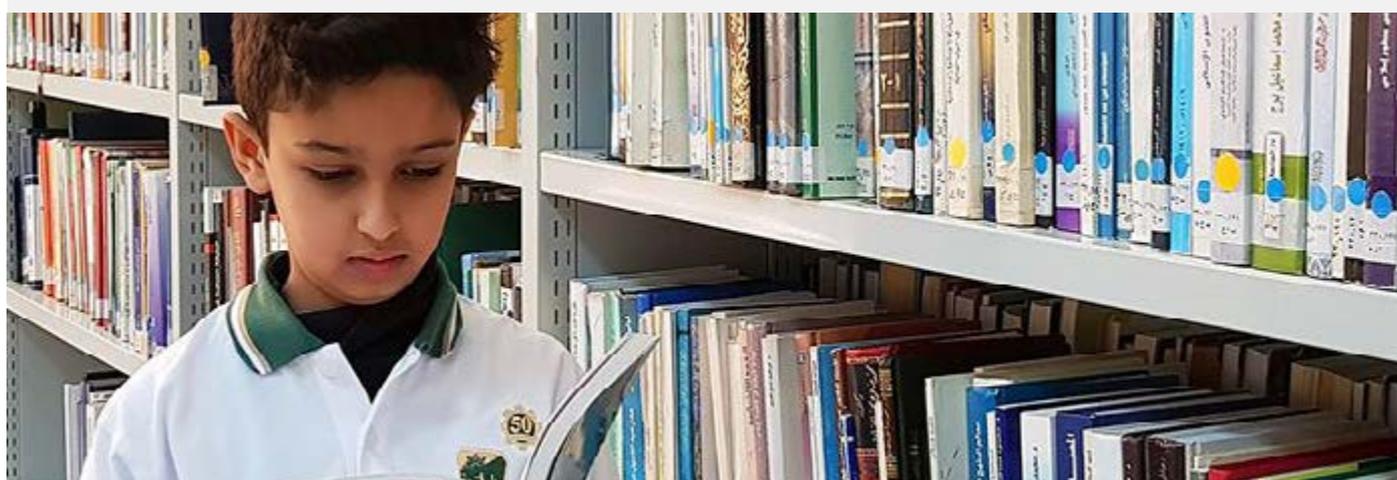
The Fund Manager is in continuous discussions with all the tenants in order to preserve the strategic contractual relationships that will be in the benefit of all stakeholders.

# Real Estate Assets

## Al Tarbiyah Al Islamiyah Schools (Freehold)

It is a school located in Al-Rahmaniya district in Riyadh and leased by Islamic Education Schools Company Limited. The school has been in operations for a period of more than fifty years.

Asset Information	
Asset Name	Al Tarbiyah Al Islamiyah Schools
Asset type	Education Building
Location	Riyadh, Ar Rahmaniyyah District
Land Area	45,666.94 m <sup>2</sup>
Built-up Area	30.122 m <sup>2</sup>
Year constructed and Operated	1384 Hijri corresponding to 1964 Gregorian
Occupancy Rate	100%
Asset Value	SAR 285,000,000



## Al-Rowad International School: AIS

The original real estate is a school located in Al-Nuzha district, Riyadh, block 232, chart No. 1954/A and leased by Al-Rowad International Schools Company. The school started its operations on 01/04/1435H corresponding to 1/1/2012.

### Asset Information

Asset Name	Al-Rowad International School: AI
Asset type	Education Building
Location	Riyadh, Al Nuzha District
Land Area	30,000 m <sup>2</sup>
Built-up Area	48,967 m <sup>2</sup>
Year constructed and Operated	1435 Hijri corresponding to 2012 Gregorian
Occupancy Rate	100%
Asset Value	SAR 225,000,000



## Al-Ghad National Schools: Al-Ghad

The school located in King Abdullah District on Al-Uruba Street and it is leased by Al-Ghad National Schools.

### Asset Information

Asset Name	Al-Ghad National Schools
Asset type	Education Building
Location	Riyadh, King Abdullah District
Land Area	11,282.58 m <sup>2</sup>
Built-up Area	17,908.28 m <sup>2</sup>
Year constructed and Operated	1441 Hijri corresponding to 2019 Gregorian
Occupancy Rate	100%
Asset Value	SAR 92,000,000



# Risk Assessment Report

As part of effective risk management policy, the Fund Manager has adopted a four-point framework to ensure risks are appropriately identified and mitigated. The components of framework are as follows: Annual review of Risk Register and Control Matrix, Third Party Risk Management Strategy ("TPRM"), Continuous monitoring and reporting of any non-compliance with the regulations, and Annual monitoring of outstanding external audit recommendations. To address each of these areas, the Fund Manager has adopted policies and/or designated specific departments/staff at SFC to effectively mitigate those risks.

## The risk of not having an investment profitability guarantee in the Fund

Not ensuring that the Fund will be able to achieve investment returns or that the returns will be proportional to the Fund's investments. It is possible that the value of the units may decrease or the Fund may lose some or all of its capital. It is not possible to provide a guarantee that the expected or targeted returns of the Fund will be achieved. To reduce these risks, real estate assets are evaluated twice a year by independent valuers, and changes in market conditions are taken into account and actions are taken to protect the value of real estate and investment profitability.

## Risks of not fulfilling the relevant regulations

The Fund may become ineligible to be a real estate investment Fund in accordance with Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions as issued by the CMA. This can have negative effects on the liquidity of trading in the Fund's units, which may negatively affect the value of its investments. It should be noted that there is no guarantee that the Fund will remain in circulation in the financial market due to the failure to meet the regulatory requirements. To reduce these risks, the Fund Manager follows all the rules and regulations with independent supervision by the Compliance and Compliance Department on all the activities of the Fund.

## The risks of changing interest rates and general economic conditions

Changes in economic conditions, including interest rates and inflation, will negatively affect the business and opportunities of the Fund. To reduce these risks, the value and amount of financing is studied, which greatly reduces the risk of interest rates.

## The nature of the investment risk

There will be no guarantee that the Fund will be able to achieve returns on its investments in a timely manner. There may be no possibility to sell or dispose of its assets, and if it is decided to dispose of it by selling, there may be no possibility to sell it at a price that the Fund Manager believes represents the fair value to it or to be sold within the time frame required by the Fund. To reduce these risks, none of the assets owned by the Fund will be sold until after the appropriate procedures are followed to sell them, according to the market conditions at the time.

## Real estate investment risks

The Fund will be affected by the general real estate sector conditions in the Kingdom of Saudi Arabia, which in turn are affected by many factors, including but not limited to, macroeconomic growth, political stability, change in interest rates, supply and demand, financing availability, real estate trends, liquidity, the legal and regulatory environment, and other conditions that may affect the real estate market prices, which in turn is reflected in the value of the Fund's units. To reduce these risks, the Fund Manager follows economic news, regulatory trends and laws that would help the Fund Manager to be proactive in taking the necessary steps to mitigate or reduce the impact of the event as much as possible.

## Risks of a decrease in the value of the property

The value of real estate is subject to fluctuations and changes. The change in the indicators of the Saudi economy may lead to a decrease in the market value of the Fund's investments, which in turn may lead to a decrease in the Fund's returns or the liquidation of the Fund. In addition, investments in commercial and residential real estate are exposed to risks that affect the commercial and residential real estate sector in general, including seasonal changes, real estate buyers desire and changes in economic conditions. To reduce these risks, Fund's assets are evaluated twice a year by independent valuers, and the Fund Manager may use internal valuations for various purposes, including knowing market conditions well to avoid loss.

## Risks of tenants being unable to meet their lease obligations

The real estate assets are leased by three tenants. Consequently, the Fund is vulnerable in the event that one of the tenants fails to fulfill its obligations. If one of the tenants fails to pay the payments due on a real estate or real estate

assets, this may limit the ability of the Fund Manager to re-rent or rent the property on satisfactory terms. The real estate assets are leased by schools that have an operating profitability that enables them to commit to paying the rental amounts on a regular basis, and this is ultimately due to the Fund Manager's due diligence of operator's ability to make contractual payments.

### **Risks of not occupying the real estate for long periods**

When any of the real estate units becomes vacant for long periods as a result of the expiry of the lease contract without renewing it, the inability of the tenant to legally complete the lease, the tenant has declared bankruptcy, cancellation or non-renewal of the contract or other reasons, the Fund may suffer from a decrease in returns, and hence lower periodic dividends for investors. To reduce these risks, high occupancy rates must be maintained, the Fund's properties managed appropriately, the property manager should be followed in the lease operations and find a replacement. The current occupancy rate is 100% for long-term contracts. Prior notice is provided by either party before the contract is terminated so that the Fund manager can find an alternative.

### **Risks of operating companies or companies specialized in property management**

The Fund will use a company or companies specialized in operating and managing real estate assets. On the other hand, the Fund can enter into triple net lease agreement to ensure Fund's assets are maintained by the operator. Accordingly, any failure, or defect in the level of service provided by the operator or the tenant for any reason will have a direct and negative impact on the performance of the Fund and its financial position, and thus on the unit price. To reduce these risks, the Fund Manager undertakes a thorough analysis to ensure operator has the capacity and ability to maintain assets. This is further verified by period inspections as undertaken by the Fund Manager and/or its affiliates (such as valuers).

### **Real estate development risks**

1. Delay in completing works in a timely manner.
2. Exceeding the specified costs
3. The inability to achieve lease contracts at the expected levels
4. Force majeure resulting from factors outside the control of the fund related in particular to the contracting sector

Note that the fund does not intend to engage in any real estate development project at the present time, but in the event of entering into development projects in the future, the fund will

develop a clear and logical plan that includes the necessary studies to avoid any problems.

### **Risks of the possibility of not being able to renew the lease or re-lease the leased area at the end of the contract period**

The Fund depends on its profit on the rental amounts paid by the tenants and accordingly, the financial position of the Fund and the results of operations and cash flow as well as the ability of the Fund to distribute profits may be affected negatively in the event that the Fund is not able to immediately re-rent properties or renew the lease contracts. To reduce these risks, the lease contracts concluded with a prior notice period are included, enabling the Fund to search for an alternative tenant, and the Fund seeks to renew the lease contracts in line with the prevailing market conditions.

### **Risks of concluding long-term leases**

The Fund will enter into long leases with some tenants. These contracts may include increases in the rental value or may not include it. It is expected that the returns of the Fund will decrease when there is an increase in operating costs, inflation rates, change in currency exchange rates, or an increase in real estate prices with the stability of the rental payments. To reduce these risks, these contracts must be based on commercial foundations and future aspirations to avoid losses.

### **Risks of investing in the educational sector**

The Fund's performance will be affected by factors that affect the education sector in general. These factors may include factors related to demand levels, including any economic downturn, restrictions imposed in the educational system in general, revocation of licenses granted to private schools, or any regulations or regulations (including those related to taxes and fees), or factors related to supply levels, including increased supply from private or governmental schools. The education sector is one of the defense sectors and is the least affected by economic conditions. Further, the operators of Fund's schools' assets are well-known and have a strong loyal base of students/parents. Hence, the threat from new entrants is deemed to be low.

### **Risk of pandemics and/or similar situations resulting in lockdowns that might affect tenants' school operations and their ability to honor lease payments**

The Fund owns three properties that are leased to tenants operating in K12 educational industry. There is a risk that a pandemic or similar situation might result in 'distance learning model' whereby tenants' use of school property might be limited. In such a situation, schools' financial performance might suffer and accordingly, they might not honor their rental payments on time. The Fund Manager mitigates this risk by ensuring Fund's interests are protected by way of promissory notes, corporate guarantees or other relevant means in lease contracts. Further, the Fund Manager aims to preserve Fund's strategic contractual relationships by engaging with all tenants in a timely fashion.

# Fund Governance

In line with CMA rules and regulation, Taleem REIT Fund Board of Directors supervise and monitor the progress of Fund's performance in line with Fund's terms and conditions. During 2020, the Fund's Board of Directors held three (3) meetings. During these meetings, Fund's performance along with any regulatory and compliance related matters were duly discussed.

Fund Board Meetings	Meeting Date
Fund Board Meeting (01)	28 June 2020
Fund Board Meeting (02)	25 August 2020
Fund Board Meeting (03)	8 December 2020

Summary of Major Decisions	
1	Approval of 2019 financial statements
2	Approval on acquisition of AIGHad National Schools and key terms of lease contract
3	Approval of 30 June 2020 interim financial statements
4	Approval on dividend payments (four approvals during the year)

### Services, commissions, fees, and expenses charged to the Fund throughout the year

There were no instances during which the Fund Manager waived or reduced any fees. The Fund Manager did not receive any soft commissions during the year.

	Amount (SAR)
Management fee	3,825,000
Registration fee (Tadawul)	400,000
Listing fee	112,064
Custody fee	188,175
Audit fee	60,000
Fund board fee	10,000
Regulatory fee (CMA)	7,500
Zakat expense	1,748,511
Other expenses	366,229
Expense Ratio	1.56%

## Fund Manager



Saudi Fransi Capital  
8092 King Fahd Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 23454 – Riyadh 11426 – Kingdom of Saudi Arabia  
Telephone: +966 11 282 6666 – Fax: +966 11 282 6667

## Custodian



KASB Capital  
8848 Turki bin Khalid al-Sudairy Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 395737 – Riyadh 11375 – Kingdom of Saudi Arabia  
Telephone: +966 11 211 0044 – Fax: +966 11 211 0040

## Financial Auditor



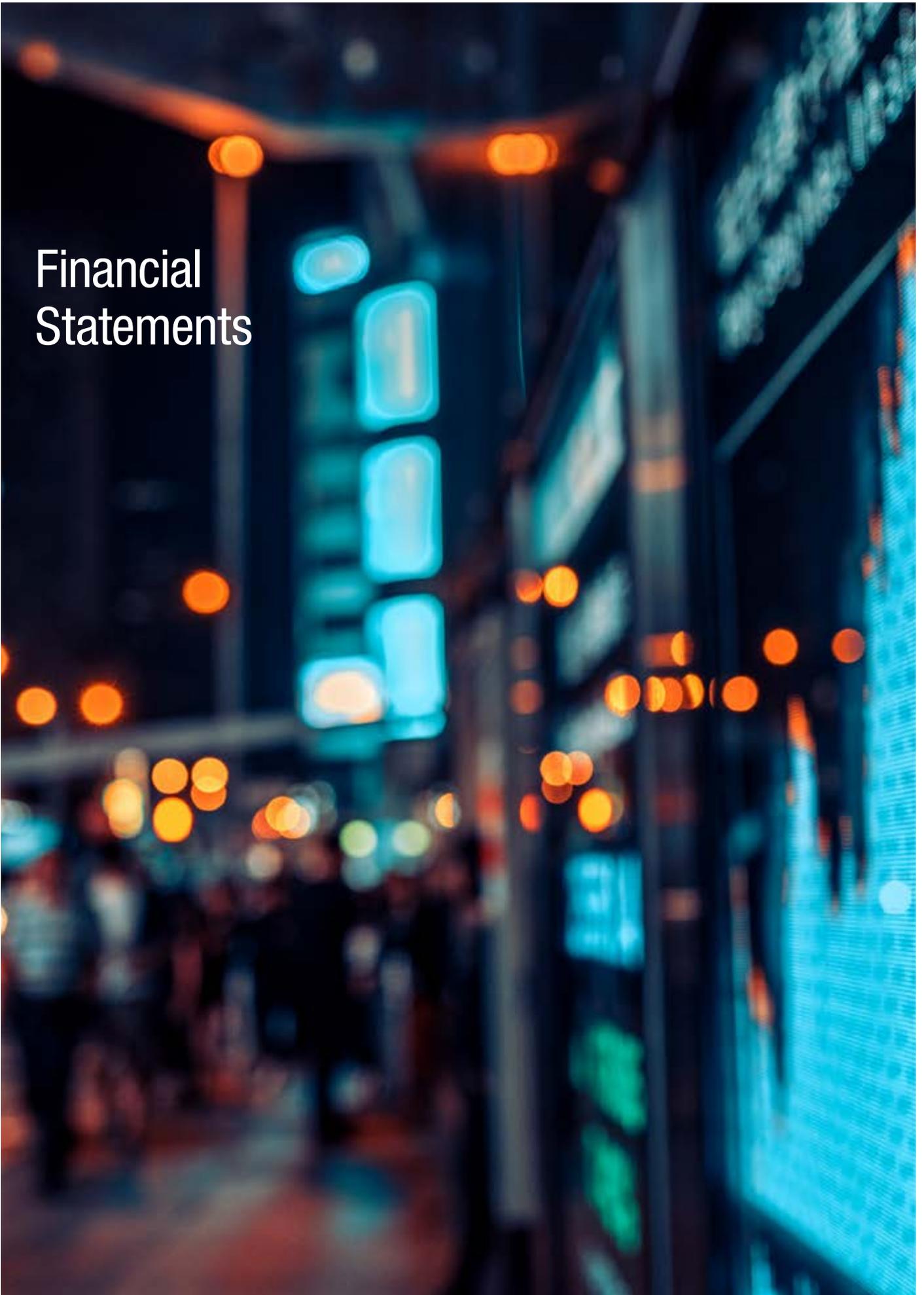
Al Azem, Al Sudairy, Al Shaikh & Partners  
CPA's & Consultants - Member Crowe Global

Al-Azem, Al-Sudairy, Al-Shaikh & Partners (a member of Crowe Horwath International)  
3174 Prince Muhammad Bin Abdulaziz Road – Riyadh – Kingdom of Saudi Arabia  
Mailing Address: P.O. Box 11 – Riyadh 10504 – Kingdom of Saudi Arabia  
Telephone: 920004741 – Fax: +966 11 217 5000

Fund reports are available upon request and free of charge. These reports are also available on the Fund Manager's website at [www.sfc.sa](http://www.sfc.sa) and on the Saudi Stock Exchange website (Tadawul).

Saudi Fransi Capital (Closed Joint Stock Company owned by Banque Saudi Fransi) – Commercial Registration 1010231217 – Authorized and Regulated by the Capital Market authority (CMA) under license 11153-37

# Financial Statements





Al Azem, Al Sudairy, Al Shaikh & Partners  
 CPA's & Consultants  
 Member Crowe Global  
 C.R License No. 323/11/148  
 P.O. Box 10504 Riyadh 11443  
 Kingdom of Saudi Arabia  
 Telephone: +966 11 217 5000  
 Facsimile : +966 11 217 6000  
 Email: ch@crowe.sa  
 www.crowe.com/sa

## 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 2020, 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 2020 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:

Audit, Tax & consultants

Salman B. AlSudairy  
 License No. 283

Musad A. Al Shaikh  
 License No. 658

Abdullah M. AlAzem  
 License No. 335

**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><b>Valuation of investment properties</b></p> <p>As at 31 December 2020, the carrying value of the Fund's investment properties were SR 560.84 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 in 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"> <li>- assessed the qualification and expertise of third party valuers appointed by the Fund for the valuation of the properties;</li> <li>- 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; and</li> <li>- carried out procedures to satisfy ourselves of the accuracy of information supplied to the valuers by the Fund manager.</li> </ul>

**Other information included in the Fund's 2020 Annual Report**

The fund manager is responsible for the other information. Other information consists of the information included in the Fund's 2020 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), 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 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**

15 Shaban 1442H (March 28, 2021)  
 Riyadh, Kingdom of Saudi Arabia

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Note</i>	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
<b>ASSETS</b>			
Cash and cash equivalents	7	5,633,083	14,622
Investments measured at fair value through profit or loss (FVTPL)	8	-	9,536,997
Net investment in finance lease	9	34,679,063	34,838,278
Prepayments and other assets	10	32,891,266	19,242,894
Investment properties	11	560,839,660	471,871,480
<b>TOTAL ASSETS</b>		<b>634,043,072</b>	<b>535,504,271</b>
<b>LIABILITIES</b>			
Management fee payable	13	1,105,702	2,881,849
Accrued expenses and other liabilities	12	3,162,053	245,526
Provision of zakat	18	1,748,511	1,529,806
Borrowing from bank	15	94,318,624	-
<b>TOTAL LIABILITIES</b>		<b>100,334,890</b>	<b>4,657,181</b>
<b>Net assets attributable to unitholders</b>		<b>533,708,182</b>	<b>530,847,090</b>
Units in issue - Numbers	14	51,000,000	51,000,000
Net asset value per unit – Book value		10.4649	10.4088
Net asset value per unit – Fair value	20	10.6701	10.5654

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	For the year ended 31 December 2020 SR	For the year ended 31 December 2019 SR
<b>INCOME</b>			
Income from investment properties	16	46,286,681	43,074,265
Finance lease income	9	2,419,729	2,423,724
Gain on investments measured at FVTPL		72,415	221,156
Other income		7,388	5,000
<b>TOTAL INCOME</b>		<b>48,786,213</b>	<b>45,724,145</b>
<b>EXPENSES</b>			
Management fees	13	(3,825,000)	(3,824,999)
Custodian fees		(188,175)	(136,876)
Other expenses		(955,791)	(857,022)
Finance cost		(1,195,348)	-
<b>TOTAL EXPENSES</b>		<b>(6,164,314)</b>	<b>(4,818,897)</b>
Depreciation expense on investment properties	11	(3,180,314)	(2,502,816)
Impairment in investment properties	11	(2,191,982)	-
<b>NET INCOME BEFORE ZAKAT FOR THE YEAR</b>		<b>37,249,603</b>	<b>38,402,432</b>
Provision for zakat	18	(1,748,511)	(1,529,806)
<b>NET INCOME AFTER ZAKAT FOR THE YEAR</b>		<b>35,501,092</b>	<b>36,872,626</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>35,501,092</b>	<b>36,872,626</b>
<b>Earnings per unit</b>			
Weighted average units in issue	14	51,000,000	51,000,000
Earnings per unit		0.6961	0.7230

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2020

	<i>For the year ended 31 December 2020 SR</i>	<i>For the year ended 31 December 2019 SR</i>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE BEGINNING OF THE YEAR	<u>530,847,090</u>	<u>526,614,464</u>
CHANGES FROM OPERATIONS		
Net income for the year	<u>35,501,092</u>	<u>36,872,626</u>
Total comprehensive income	<u>35,501,092</u>	<u>36,872,626</u>
Income distributions during the year (note 17)	<u>(32,640,000)</u>	<u>(32,640,000)</u>
	<u>(32,640,000)</u>	<u>(32,640,000)</u>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE YEAR	<u><u>533,708,182</u></u>	<u><u>530,847,090</u></u>
UNIT TRANSACTIONS		
Transactions in units during the years are summarised as follows:		
	<i>For the year ended 31 December 2020 Units</i>	<i>For the year ended 31 December 2019 Units</i>
UNITS AT THE BEGINNING AND END OF THE YEAR	<u><u>51,000,000</u></u>	<u><u>51,000,000</u></u>

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

**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2020**

	<i>Note</i>	<i>For the year ended 31 December 2020 SR</i>	<i>For the year ended 31 December 2019 SR</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income before zakat for the year		<b>37,249,603</b>	38,402,432
Adjustment for:			
Unrealised loss / (gain) from investments measured at FVTPL	8	-	(166,310)
Depreciation expense on investment properties	11	<b>3,180,314</b>	2,502,816
Impairment in investment properties	11	<b>2,191,982</b>	-
Finance cost		<b>1,195,348</b>	-
Operating cash flows before working capital changes		<b>43,817,247</b>	40,738,938
<b>Changes in operating assets and liabilities:</b>			
Prepayments and other Assets		<b>(10,938,959)</b>	(10,396,925)
Management fee payable		<b>(1,776,147)</b>	1,894,623
Other liabilities		<b>2,896,946</b>	(5,227,858)
Zakat paid		<b>(1,529,806)</b>	-
<b>Net cash generated from operating activities</b>		<b>32,469,281</b>	27,008,778
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Recovery of net investment in finance lease, net		<b>159,215</b>	155,224
Purchase of investments measured at FVTPL	8	<b>(5,800,000)</b>	(8,000,000)
Sale of investments measured at FVTPL, net	8	<b>12,627,584</b>	4,495,154
Purchase of investment property	11	<b>(94,340,476)</b>	-
<b>Net cash used in investing activities</b>		<b>(87,353,677)</b>	(3,349,622)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Dividends paid, net off unclaimed dividends	17	<b>(32,620,419)</b>	(32,640,000)
Borrowings from bank	15	<b>98,900,000</b>	-
Repayment of bank borrowings		<b>(4,600,000)</b>	-
Finance cost paid		<b>(1,176,724)</b>	-
<b>Net cash generated from / (used in) financing activity</b>		<b>60,502,857</b>	(32,640,000)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>5,618,461</b>	(8,980,844)
Cash and cash equivalents at the beginning of the year		<b>14,622</b>	8,995,466
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>5,633,083</b>	14,622

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2020

**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 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 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). During the year, the terms and conditions has been updated on 09 Dhual Qadah 1441H (corresponding to 30 June 2020) and 22 Dhual Qadah 1441H (corresponding to 13 July 2020).

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 2020

**4. 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 2019.

*Cash and cash equivalents*

Cash and cash equivalents include balances maintained with Saudi Fransi Capital and Banque Saudi Fransi.

*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.

*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.

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.

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


---

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Financial instruments (Continued)*

*Derecognition of financial instruments (Continued)*

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 and FVOCI, the ECL is based on a 12-month ECL and life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Fund do not have any investments classified as FVOCI.

*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:

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


---

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Fair value measurement (Continued)*

- 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.

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

*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. 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)**  


---

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 will charge 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 (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 upto 0.0375% on the assets under custody. This is accrued monthly 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 is 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.

*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 2020

**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Capital (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.

*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 quarterly basis.

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

*Borrowing*

Borrowing is initially recognized at fair value. Borrowings are subsequently measured at amortized cost.

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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.

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.

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


---

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)**

*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 (the "properties") is carried out by Olast 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 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 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.

*Residual value and useful lives of investment properties*

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

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. 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 2020

7. CASH AND CASH EQUIVALENTS

	<i>31 December</i> <b>2020</b> SR	<i>31 December</i> <b>2019</b> SR
Balances with Saudi Fransi Capital	5,607,971	14,622
Bank balances	25,112	-
	<u>5,633,083</u>	<u>14,622</u>

No special commission is receivable on this balance (Note 13).

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.

8. 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</i> <b>2020</b> SR	<i>31 December</i> <b>2019</b> SR
<i>Financial assets held at fair value through profit or loss</i>		
Al Badr Murabaha Fund	-	9,536,997

The following is the movement in investments during the year:

	<i>31 December</i> <b>2020</b> SR	<i>31 December</i> <b>2019</b> SR
<i>Carrying amount:</i>		
At beginning of the year	9,536,997	5,865,841
Additions during the year	5,800,000	8,000,000
Sold during the year	(15,336,997)	(4,495,154)
<b>At end of the year</b>	<u>-</u>	<u>9,370,687</u>
<i>Changes in fair value:</i>		
Changes in fair value during the year	-	166,310
<b>Net investments at end of the year</b>	<u>-</u>	<u>9,536,997</u>

During the year, the fund redeemed 984,158 units (2019: 296,618 units) of Al Badr Murabaha Fund.

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2020

9. NET INVESTMENT IN FINANCE LEASE

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
<i>a) Net investment in finance lease consists of:</i>		
Gross investment in finance lease (see (b) below)	72,191,169	74,770,116
Less: Unearned finance income (see (c) below)	<b>(37,512,106)</b>	<b>(39,931,838)</b>
	<b>34,679,063</b>	34,838,278
<i>b) The future minimum lease payments to be received consist of:</i>		
Within one year	2,707,895	2,578,947
After one year but not more than five years	11,102,368	10,966,974
Five years onwards	<b>58,380,906</b>	61,224,195
	<b>72,191,169</b>	74,770,116
<i>c) The maturity of unearned finance income is as follows:</i>		
Within one year	<b>(2,397,921)</b>	(2,419,729)
After one year but not more than five years	<b>(9,344,883)</b>	(9,456,068)
Five years onwards	<b>(25,769,302)</b>	(28,056,041)
	<b>(37,512,106)</b>	<b>(39,931,838)</b>

The finance lease represents the building of the Tarbiah Islamiah School (refer note 11).

Finance income earned on the finance lease during the year was SR 2.42 million (31 December 2019: SR 2.42 million).

The management has conducted a review as required under IFRS 9, 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.

10. PREPAYMENTS AND OTHER ASSETS

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Rent receivable (refer note a below)	<b>14,340,508</b>	7,673,271
Rent receivable from related party (refer note a below) & [note 13 (b)]	<b>14,717,963</b>	11,039,024
Receivable from lessee	-	525,000
Receivable against disposal of investments classified as FVTPL	<b>2,709,413</b>	-
VAT receivable – input tax	<b>402,353</b>	5,599
Prepaid expenses	<b>458,529</b>	-
Other assets (refer note b below)	<b>262,500</b>	-
	<b>32,891,266</b>	19,242,894

(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.

Subsequent to year end, the Fund Manager has suspended rental escalation(s) for 1 year, which were becoming due in the year 2021 and will now be affected in the year 2022 as disclosed in detail in note 25. This Suspension for rental escalations have no significant impact on financial statements.

(b) During the year, the Fund was subject to VAT audit for the years 2018 and 2019. GAZT raised an assesment of

**TALEEM REIT FUND**  
**(MANAGED BY SAUDI FRANSI CAPITAL)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**11. INVESTMENT PROPERTIES**

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
<i>Cost:</i>		
At the beginning of the year	<b>475,000,000</b>	475,000,000
Additions	<b>94,340,476</b>	-
At the end of the year	<b>569,340,476</b>	475,000,000
<i>Accumulated depreciation:</i>		
At the beginning of the year	<b>(3,128,520)</b>	(625,704)
Charged during the year	<b>(3,180,314)</b>	(2,502,816)
At the end of the year	<b>(6,308,834)</b>	(3,128,520)
<i>Impairment during the year:</i>	<b>(2,191,982)</b>	-
Net book value	<b>560,839,660</b>	471,871,480

For the year ended December 31, 2020, the Fund recorded an impairment loss amounting to SR 2.2 million (December 31, 2019: Nil). The impairment on this investment property is determined based on the valuation by two independent valuers (refer note 20).

The investment properties represent following acquired properties:

- (a) During the year, 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 an Investment Property. The acquisition is funded by financing facility from Banque Saudi Fransi (Related Party).
- (b) 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 an Investment Property.
- (c) 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-Takhassemi Street. The previous owner (Ahmed Al Rasheed and Sons Holding Company) holds 38.92% (31 December 2019: 39.11%) of the total units in the Fund. The Fund has classified land as an Investment Property.

**TALEEM REIT FUND**  
**(MANAGED BY SAUDI FRANSI CAPITAL)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**12. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<i>31 December</i> 2020 SR	<i>31 December</i> 2019 SR
Unearned / deferred rentals	<b>2,950,548</b>	-
Accrued expenses and others	<b>211,505</b>	245,526
	<b><u>3,162,053</u></b>	<b><u>245,526</u></b>

**13. RELATED PARTY TRANSACTIONS AND BALANCES**

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.

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</i>	<i>For the year ended</i>	<i>31 December</i>	<i>31 December</i>
		<i>31 December 2020</i>	<i>31 December 2019</i>	<i>2020</i>	<i>2019</i>
		SR	SR	SR	SR
Fund manager	Asset management fees (note "a" below)	<b>(3,825,000)</b>	(3,824,999)	<b>(1,105,702)</b>	(2,881,849)
	Reimbursement of expenses paid by the Fund manager on behalf of the Fund	-	-	-	(69,250)
	Receivable against disposal of investments classified as FVTPL	-	-	<b>2,709,413</b>	-
Board of directors	Board fees to independent board members	<b>(10,000)</b>	(10,000)	-	(15,000)
Unitholders (note "b" below)	Rental income	<b>22,099,996</b>	22,099,996	<b>14,717,963</b>	11,039,024
	Finance lease income	<b>2,419,729</b>	2,423,724	-	-
	Receivable from lessee	-	-	-	525,000
Banque Saudi Fransi	Borrowing from Bank	<b>98,900,000</b>	-	<b>(94,300,000)</b>	-
	Repayment of borrowing	<b>(4,600,000)</b>	-	-	-
	Management fee on loan facility	<b>(494,500)</b>	-	<b>458,529</b>	-

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2020

16. INCOME FROM INVESTMENT PROPERTIES

	<i>For the year ended 31 December 2020 SR</i>	<i>For the year ended 31 December 2019 SR</i>
Lease rental income on investment properties	<u>46,286,681</u>	<u>43,074,265</u>

The operating lease relates to land of Tarbiah Islamiah School, land and building of Al Rwad International School, and land and building of Al Ghad National School which is leased out for a remaining lease term of 23.2 years (31 December 2019: 24.2 years), 21.25 years (31 December 2019: 22.25 years) and 9.5 years (31 December 2019: Nil 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 2020 SR</i>	<i>31 December 2019 SR</i>
Not later than one year	<u>41,264,105</u>	32,941,053
Later than one year and less than five years	<u>171,375,032</u>	143,820,726
Later than five years	<u>815,373,853</u>	826,417,764
	<u>1,028,012,990</u>	<u>1,003,179,543</u>

17. DIVIDEND / DISTRIBUTION

During the year, the Fund has paid dividends amounting to SR 32.62 million, net off unclaimed dividends (31 December 2019: SR 32.64 million). The dividend per unit amounted to SR 0.64 per unit (31 December 2019: SR 0.64 per unit).

Subsequent to the year-end, the Funds' Board has approved, declared and paid dividends amounting to SR 8.16 million (SR 0.16 per unit) (31 December 2019: SR 8.16 million (SR 0.16 per unit)).

18. 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 2020 SR</i>	<i>31 December 2019 SR</i>
Balance at the beginning of the year	<u>1,529,806</u>	-
Provision for the year	<u>1,748,511</u>	1,529,806
Payments during the year	<u>(1,529,806)</u>	-
Balance at the end of the year	<u>1,748,511</u>	<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 2020 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 2020

**19. 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, 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>
<b>31 December 2020 SR</b>					
Financial assets at FVTPL	-	-	-	-	-
	-	-	-	-	-
<b>31 December 2019 SR</b>					
Financial assets at FVTPL	9,536,997	9,536,997	-	-	9,536,997
	9,536,997	9,536,997	-	-	9,536,997

The Fund believes that the fair value of all other financial assets and liabilities approximately equal their carrying value. During the year ended 31 December 2020, 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.

**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 Olat 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.

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)  


---

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2020

20. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED  
(CONTINUED)

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

	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Estimated fair value of investment properties	<b>571,303,116</b>	479,858,209
Book value of investment properties	<b>(560,839,660)</b>	(471,871,480)
Estimated fair value in excess of book value	<b>10,463,456</b>	7,986,729
Units in issue (numbers)	<b>51,000,000</b>	51,000,000
Value per unit relating to excess of estimated fair value over book value of investment properties	<b>0.2052</b>	0.1566
Net asset value		
	<i>31 December 2020 SR</i>	<i>31 December 2019 SR</i>
Net asset value as per the financial statements	<b>533,708,182</b>	530,847,090
Estimated fair value in excess of book value of investment properties	<b>10,463,456</b>	7,986,729
Net asset value based on fair valuation of investment properties	<b>544,171,638</b>	538,833,819
Net asset value per unit		
Net asset value per unit as per the financial statements	<b>10.4649</b>	10.4088
Estimated fair value in excess of book value of investment properties	<b>0.2052</b>	0.1566
Net asset value per unit based on fair valuation of investment properties	<b>10.6701</b>	10.5654

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 2020

**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>
<b>31 December 2020</b>			
<b>ASSETS</b>			
Cash and cash equivalents	5,633,083	-	5,633,083
Investments measured at fair value through profit or loss (FVTPL)	-	-	--
Net investment in finance lease	309,974	34,369,089	34,679,063
Prepayments, and other assets	3,832,795	29,058,471	32,891,266
Investment properties	--	560,839,660	560,839,660
<b>TOTAL ASSETS</b>	<b>9,775,852</b>	<b>624,267,220</b>	<b>634,043,072</b>
<b>LIABILITIES</b>			
Management fees payable	1,105,702	-	1,105,702
Accrued expenses and other liabilities	3,162,053	-	3,162,053
Provision of zakat	1,748,511	-	1,748,511
Borrowing from Bank	18,624	94,300,000	94,318,624
<b>TOTAL LIABILITIES</b>	<b>6,034,890</b>	<b>94,300,000</b>	<b>100,334,890</b>
<b>31 December 2019</b>			
<b>ASSETS</b>			
Cash and cash equivalents	14,622	-	14,622
Investments measured at fair value through profit or loss (FVTPL)	9,536,997	-	9,536,997
Net investment in finance lease	159,218	34,679,060	34,838,278
Prepayments, prepaid expenses and other assets	530,599	18,712,295	19,242,894
Investment properties	-	471,871,480	471,871,480
<b>TOTAL ASSETS</b>	<b>10,241,436</b>	<b>525,262,835</b>	<b>535,504,271</b>
<b>LIABILITIES</b>			
Management fees payable	2,881,849	-	2,881,849
Accrued expenses and other liabilities	245,526	-	245,526
Provision of zakat	1,529,806	-	1,529,806
<b>TOTAL LIABILITIES</b>	<b>4,657,181</b>	<b>-</b>	<b>4,657,181</b>

**22. SEGMENT INFORMATION**

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

TALEEM REIT FUND  
(MANAGED BY SAUDI FRANSI CAPITAL)  


---

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2020

**23. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES**

*Risk management*

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

*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 Saudi Fransi Capital and Banque Saudi Fransi. The net investment in finance lease is made with the unit holder 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>2020</i> <i>SR</i>	<i>31 December</i> <i>2019</i> <i>SR</i>
Cash equivalents	<b>5,633,083</b>	14,622
Net investment in finance lease	<b>34,679,063</b>	34,838,278
Other assets	<b>32,030,384</b>	19,237,295
	<b><u>72,342,530</u></b>	<b><u>54,090,195</u></b>

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


---

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**23. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

***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 15), 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 optimizing the return

***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, 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.

***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 promissory notes and/or guarantee.

***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.

**TALEEM REIT FUND**  
**(MANAGED BY SAUDI FRANSI CAPITAL)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**24. LAST VALUATION DAY**

The last valuation day of the year was 31 December 2020 (2019: 31 December 2019).

**25. EVENTS AFTER THE END OF REPORTING PERIOD**

Subsequent to the statement of financial position date, following events have occurred:

- With due consideration to the potential impact of the COVID-19 pandemic, the Fund Manager has suspended rental escalation(s) for 1 year, which were becoming due in the year 2021 and will now be affected in the year 2022; and
- Subject to tenant's acceptance, the Fund Manager will appoint an independent financial consultant to assess the financial stress caused by COVID-19 pandemic on Fund's tenants. Any extension of financial support measures for tenants by the Fund will be based on the independent financial consultant's report.

In this regard, two of the tenants have shown willingness to cooperate with an independent financial consultant to assess the financial impact caused by COVID-19 pandemic.

The third and final tenant has sent a request to the Fund Manager to adjust the rent for the financial year 2020 and to negotiate the rent for financial year 2021 in lieu of the resolution issued by the General Commission of the Supreme Court of the Kingdom of Saudi Arabia (Decision Number 45/M dated 08/05/1442 H corresponding to 23 December 2020). This resolution contains guidelines and judicial principles to be applied by Saudi Courts to decide on matters related to Covid-19 pandemic. Moreover, this tenant has shown reservation in providing the required financial information to the independent financial consultant to fully conduct an accurate assessment.

The Fund Manager is in continuous discussions with all the tenants in order to preserve the strategic contractual relationships that will be in the benefit of all stakeholders.

The Fund Manager is currently assessing the impact of above stated events and will continue to reassess its position and the related impact on a regular basis. Moreover, the fund manager will follow up on events and monitor any future substantial developments.

**26. IMPACT OF COVID-19**

On 11 March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews. Later on, the situation has improved with the easing of lockdown restrictions.

In response to the spread of the Covid-19 virus, the Fund Manager has proactively assessed its impacts on the operations of the Fund and has taken a series of proactive and preventative measures to ensure the health and safety of its employees.

For the year ended 31 December 2020, there is no major impact of Covid-19 pandemic on the operations of the Fund. Moreover, the events occurred subsequent to the statement of financial position date in relation to COVID-19 pandemic are disclosed under note 25.

The Fund Manager continues to monitor the evolving situation carefully and will take required actions. Further, the Fund will continue to follow the Government policies and advice and, in parallel, will do utmost to continue Fund's operations in the best and safest way possible without jeopardizing the health of employees.

**27. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Fund Board on 15 Shaban 1442H (corresponding to 28 March 2021).

