



Derayah REIT

2019 Annual Report

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Fund Manager Statement

Dear Derayah REIT Unitholders,

We are pleased to present Derayah REIT annual report for the Fiscal Year 2019, highlighting Fund's performance during the year and our expectations for Fund's performance in 2020. The report includes an overview of Derayah REIT, its real estate assets, the Fund Board of Directors' report, and risk assessment report.

Since listing Derayah REIT in Tadawul in March 2018, our investment philosophy has been based on acquiring and managing a portfolio of real estate assets diversified by geography and by sector while avoiding geographic, sector or tenant large concentrations. This approach reduces the overall investment risk and had positively reflected on the results of the Fund's operations, cash flows, and ability to payout consistent dividends to investors.

As a result, Derayah REIT Fund successfully ended its second year, achieving its main investment objective, and that is, enabling the Fund to generate income on investor capital and to distribute quarterly dividends. The Fund managed to distribute a total dividend of SR 0.748 per unit for the year 2019.

We remain committed to improving Derayah REIT profits; we are considering various real estate opportunities in 2020. We expect that buying those assets will have a positive impact on the Fund's performance.

We are also working diligently to mitigate the negative effect of the precautionary measures taken against (COVID-19) on unitholders during 2020. To preserve the liquidity of Derayah REIT, we have embarked on several measures, including, for instance, negotiations with property managers and financing banks to reduce and/or defer payment of Fund expenses. While doing so, we continue to monitor the Fund's financial position to maintain Derayah REIT's ability to payout consistent quarterly cash dividends.

Lastly, we would like to extend sincere thanks and appreciation to respected Derayah REIT Fund Unitholders for their continued trust, and to the members of the Board of Directors for their continuous guidance and efforts in achieving the Fund's investment goals. Looking forward together towards more progress, growth and success.

Sincerely,

Derayah Financial



Derayah REIT

A Shariah-compliant closed-end real estate investment traded fund. The Fund operates per the Real Estate Investment Funds Regulations and the Real Estate Investment Traded Funds Instructions issued by the Capital Market Authority.

The Fund aims to generate income on investors' capital through investing in income-generating real estate assets in Saudi Arabia (excluding Makka and Madina) which will enable the Fund to general annual returns and distribute quarterly cash dividends of no less than 90% of net profits according to Real Estate Investment Traded Funds Instructions.

Capital Market Authority (CMA) approved listing Derayah REIT Find in the Saudi Stock Exchange (Tadawul) on 06/12/2017G, and the Fund was listed in Tadawul in 26/03/2018.

It is a diversified fund in terms of allocating properties across various geographical locations and real estate sectors, which contributes to varying rental income sources and reduces the exposure of assets concentration risks.

Underlying investments include 26 properties distributed across six cities in Saudi Arabia, mainly concentrated in Riyadh, followed by Dammam, Jeddah, Jubail, Khobar, and AlAhsa. Properties are fairly allocated across nine real estate sectors in a balanced manner between warehouses, office, and residential, followed by the remaining sectors. The Fund maintains a high occupancy rate; currently 97% of the gross leasable area is occupied.

Fund Information	
Fund Manager	Derayah Financial
Fund Term	99 Years
Fund Currency	Saudi Riyal (SAR)
Fund Size on Inception Date	SAR1,075,070,350
Outstanding No. Units	107,507,035 Unit
Price on Inception Date	SAR10 Per Unit
Management Fee	0.85% of NAV
Custody Fee	0.03% of NAV capped at SR120,000 annually
Valuation Frequency	Semi-annual. End of Jun & Dec of every Gregorian year
Dividend Distribution	Quarterly dividends of no less than 90% of net profits
2019 Dividends	SAR80,240,000 total distributed dividends for 2019
Total Assets Value	SAR1,609,358,913 as in 31/12/2019
Fund Manager Ownership	The fund manager owns 3,165,559 units as in 31/12/2019
Fund Manager Ownership	SAR 33,238,370 ⁽¹⁾ the market value of units as in 31/12/2019
Indicative Unit Price ⁽²⁾	SAR9.33 per unit as in 31/12/2019

Fund's Assets Information	
Number of Properties	26 Properties
Geographical Distribution	6 Main Cities
Sector Allocation	9 Sectors
Occupancy Rate	97% of gross leasable area

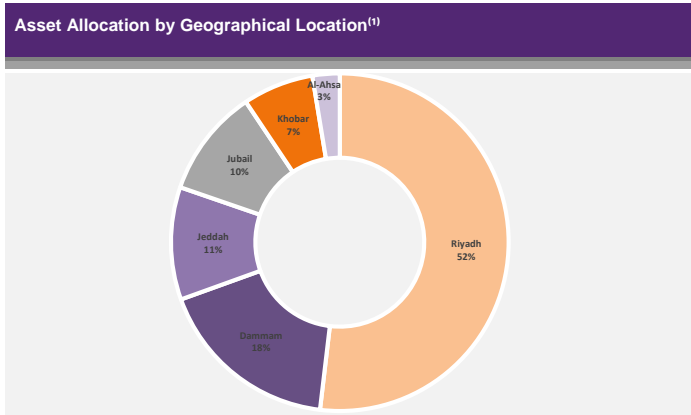
Fund's Portfolio

Fund's portfolio consist of 26 income generating properties that are allocated across six main cities and nine real estate sectors, which enhances fund's ability to reduce the exposure of assets concentration risks.

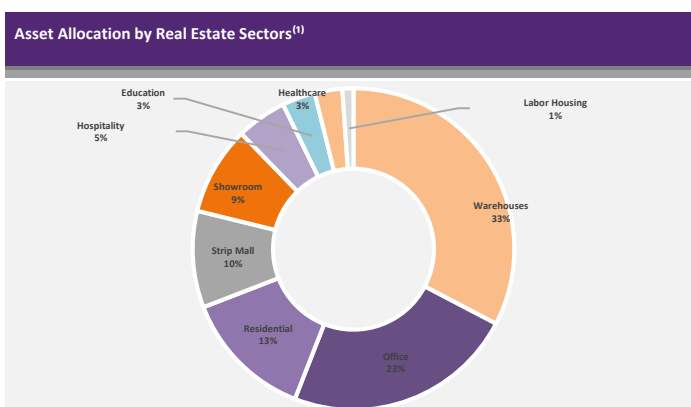
#	Property Name	Ownership	Sector	City	Purchase Price	% in Portfolio
1	Smart Tower	Freehold	Offices	Riyadh	263,500,000	16.93%
2	Sulay Warehouses Complex	Freehold	Warehouses	Riyadh	196,000,000	12.59%
3	Jubail Views Residential Compound	Freehold	Residential	Jubail	145,500,000	9.35%
4	Dammam Warehouses Complex	Freehold	Warehouses	Dammam	130,000,000	8.35%
5	City Life Plaza	Freehold	Strip Mall	Riyadh	106,250,000	6.83%
6	Motoon Tower	Freehold	Hospitality	Riyadh	98,000,000	6.30%
7	Al-Fanar Commercial Complex	Freehold	Showroom	Khobar	60,600,000	3.89%
8	Grand A Residential Building	Freehold	Residential	Dammam	58,800,000	3.78%
9	Al-Wadi District Warehouses	Freehold	Warehouses	Jeddah	58,000,000	3.73%
10	AlSitteen Commercial Center	Freehold	Offices	Riyadh	52,125,000	3.35%
11	Jeddah Office Tower	Freehold	Offices	Jeddah	45,000,000	2.89%
12	Jeddah Khumrah Warehouses	Freehold	Warehouses	Jeddah	44,000,000	2.83%
13	Education & Skills School	Freehold	Education	Riyadh	41,176,470	2.65%
14	The Valley Commercial Center	Leasehold	Strip Mall	AlAhsaa	39,500,000	2.54%
15	AlKhaleejiah Business Center	Freehold	Offices	Khobar	38,000,000	2.44%
16	Grand B Commercial Building	Freehold	Education	Dammam	31,250,000	2.01%
17	Al-Khalidiyyah District Warehouses (2)	Freehold	Warehouses	Dammam	29,000,000	1.86%
18	Jubail Employees Residential Buildings	Freehold	Residential	Jubail	24,273,685	1.56%
19	Raseel Medical Center	Freehold	Healthcare	Riyadh	22,000,000	1.41%
20	Khalidiya District Warehouses	Freehold	Warehouses	Dammam	18,000,000	1.16%
21	Riyadh Al-Azizia Warehouses (1)	Freehold	Warehouses	Riyadh	14,000,000	0.90%
22	Riyadh Al-Azizia Warehouses (2)	Freehold	Warehouses	Riyadh	11,653,160	0.75%
23	Dammam Labor Housing (2)	Freehold	Labor Housing	Dammam	11,000,000	0.71%
24	City Walk Commercial Center	Leasehold	Strip Mall	Riyadh	10,504,994	0.68%
25	Dammam Labor Housing	Freehold	Labor Housing	Dammam	5,087,559	0.33%
26	Khobar Labor Housing	Freehold	Labor Housing	Khobar	3,012,441	0.19%
Total					1,556,233,309	100%

Assets Distribution and Occupancy Rate

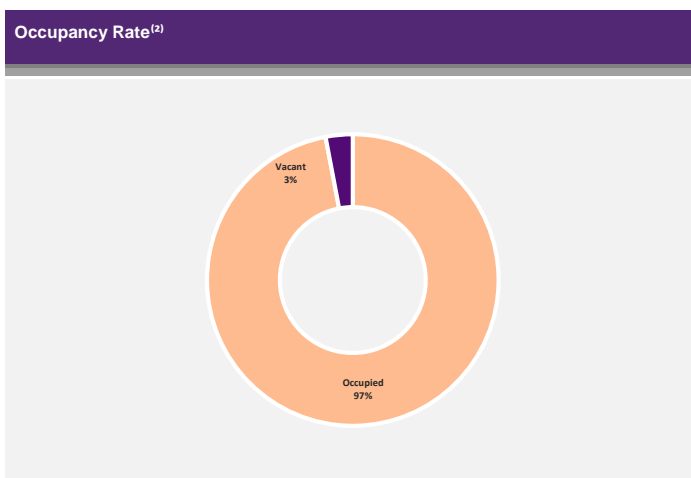
The properties are distributed across six cities in Saudi Arabia, mainly concentrated in Riyadh, followed by Dammam, Jeddah, Jubail, Khobar, and AlAhsa.



Properties are allocated across nine real estate sectors in a balanced manner between Warehouses, office, and residential, followed by the remaining sectors.



The total leased area accounts for 97% of the gross leasable area, while the vacant space remains low at 3% only.



Fund's Performance

Derayah REIT Fund started operations on March 26, 2018. It had 15 income-generating real estate assets with a total value of SAR 1.17 billion. The assets value increased by 34% in 2018 to SAR 1.57 billion after acquisitions by the Fund of 7 income-generating properties financed by the banking facilities available to the Fund.

In 2019, assets value increased to SAR 1.60 billion, an increase of 2% compared to the end of 2018, after the acquisitions by the Fund of 4 income-generating logistical properties funded by bank facilities available to the Fund, bringing the total number of real estate properties to 26.

The bank facilities utilized by the Fund to finance its acquisitions stood at SAR 580 million at the end of 2019, representing 36% of total asset value.

Despite Fund Manager's aspiration to expand and diversify the real estate portfolio, it adopts strict acquisition criteria taking into account the location of real estate assets, quality of tenants, duration of lease contracts, viability of properties from a technical, legal and regulatory point of view, in addition to considering the

Saudi real estate market trends, and medium and long term supply and demand factors.

This year also saw an increase in the unit price at the Saudi stock market, Tadawul. The unit price stood at SAR 10.50 on 31/12/2019, a rise of 28% compared to the opening price of SAR 8.19 on 1/1/2019.

In 2019, Derayah REIT Fund achieved revenues from operations of SAR 1.127 per unit, with a total value of SAR 121 million for the year ended December 31, 2019. The Fund was able to distribute dividends of SAR 0.748 per unit, with a total value of SR 80 million to Unitholders in 2019.

The Fund will continue to distribute quarterly dividends of no less than 90% of net profits for the year 2020. The Fund will seek to enhance returns to Unitholders by expansion and adding more income-generating real estate assets to the Fund's portfolio.

The Fund Manager is considering several investment opportunities that it plans to capture in the year 2020. Once completed, it is expected to reflect positively on the Fund's performance for this year.

Comparative Table Covering Performance

Period	Net Assets Value	Net Assets Value Per Unit			Outstanding Units	Dividends (SAR)	Expense Ratio ⁽¹⁾
		Year End	Highest Value	Lowest Value			
31 December 2018	1,070,600,370	9.95	10.06	9.95	107,507,035	0.651 per unit	4.90%
31 December 2019	1,003,340,995	9.33	9.69	9.33	107,507,035	0.748 per unit	2.45%

Performance Record

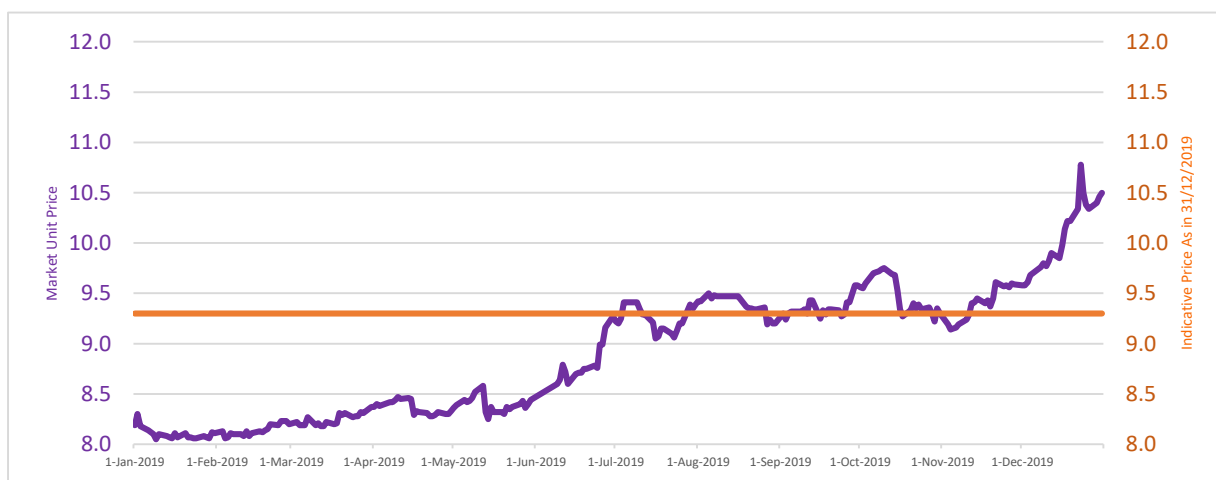
Total Accumulated Return ⁽²⁾	1 Year	3 Years	5 Years	Since Inception
2019	7.48%	N/A	N/A	13.98%

Year	Total Return ⁽³⁾
6.50%	2018
7.48%	2019

Market Unit Price

During the year 2019, the market unit price exceeded the IPO price of SAR10. The closing unit market price recorded the highest value at SAR10.78 on 23/12/2019 and the lowest

value at 8.05 on 09/01/2019. During the second half of 2019, units were traded in the market for prices ranging between SAR9.05 and SAR10.78.

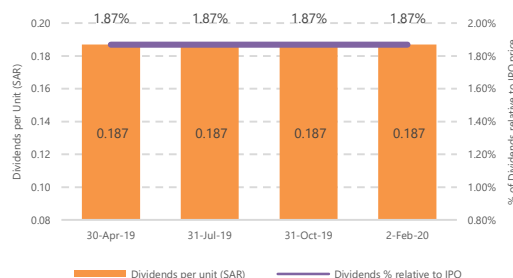


2019 Dividends

Fund's dividends policy is to distribute quarterly dividends of no less than 90% of net profits, to unitholders. Dividends are distributed on 1 May for the period from 1 Jan to 31 Mar, on 1 Aug for

the period from 1 Apr to 30 Jun, on 1 Nov for the period from 1 Jul to 30 Sep, and on 1 Feb for the period from 1 Oct to 31 Dec, of every Gregorian year.

2019 Dividends Summary	
Outstanding Units	107,507,035 Unit
Distributed Dividend Per Unit	SAR 0.748
Total Distributed Dividends	SAR 80,240,000
Distribution % relative to IPO Price	7.48%
Distribution % relative to NAV	8.02%
Net Assets Value as in 31/12/2019	SAR 1,003,340,995



Fund Expenses 2019

Derayah REIT expense ratio equates to 2.45% of total assets value as in 31/12/2019. There was no circumstances in which the fund

Manager elected to waive or rebate any fees. The Fund Manager didn't receive any special commissions during the period.

Fees, Services And Expenses Paid By The Fund During 2019	
Fund Management Fee	8,729,773
Financing Fee	27,595,665
Property Management, Maintenance & Operations Fee	1,482,980
Custody Fee	120,000
Valuation Fee	260,000
Audit Fee	30,000
Sharia Board Fee	18,750
Independent Board Members Fee	8,000
Saudi Stock Exchange "Tadawul" & Edaa Fee	664,998
Capital Market Authority Fee	7,500
Other Fees	575,545
Expense Ratio	2.45% of Total Assets Value

Board of Directors' Report

The Fund Manager obtained Capital Market Authority's approval to appoint a Board of Directors to govern the Fund. The Board consists of six members, two of whom are independent.

Fund Board's responsibilities include making a reasonable effort to ensure that the Fund Manager carries out its duties in a manner best serves the Unitholders' interest subject to the Fund's terms and conditions and relevant regulations, in addition to settling any conflict of interest involving any Board member by judging in good faith for Unitholders' benefit. The Fund Manager held two Board meetings in 2019, in which the directors discussed the following agenda:

- The plan that the Fund Manager is working on in cooperation with property managers

and marketers to maintain and improve occupancy levels.

- The unit market price performance and the reasons behind the price increase
- Fund Manager's recommendations to ensure better governance for Derayah REIT Fund
- The mechanism and aspects of investing the Fund's surplus cash
- The proposed changes to the Fund's terms and conditions and their feasibility and effectiveness
- The Fund's performance in 2019 and the critical developments witnessed by the Fund since listing
- The Fund's expansion plans and the procedures to be followed by the Fund Manager to ensure positive results to Unitholders.

Material Changes That Occurred During the Year

Date	Type	Description
17 Jan 2019	Pledge	The mortgage of a commercial real estate asset in Riyadh city, named Smart Tower to Al Rajhi Bank as guarantee of provided shariah-compliant facility by bank to the fund.
25 Jul 2019	Acquisition	Acquiring a logistic asset in Jeddah for a total consideration of SAR44 million
19 Nov 2019	Acquisition	Acquiring a logistic asset in Riyadh for a total consideration of SAR25.6 million
26 Dec 2019	Acquisition	Acquiring a logistic asset in Dammam for a total consideration of SAR29 million

Risk Assessment Report

Item	Description	Risk Mitigant
Market risk	Fund's future performance depends on changes in the levels of supply and demand in the relevant real estate sectors. Also, the increased competition may cause the value of properties to decline. Such changes may, therefore, have an adverse impact on the Fund's performance due to the decline in the rental income or net asset value of the Fund over the medium and long term.	The properties are evaluated periodically. The valuation reports include information on the market conditions, including the factors affecting supply and demand, sales, and leasing rates. Based on these reports, decisions are made, in addition to in-house studies conducted by the Fund Manager and third parties upon the Fund Manager's request. Moreover, the Fund Manager shall monitor the levels of competition through such reports and studies.
Legal and regulatory risks	Risks related to changes in the rules, legislation, regulations, or instructions relating to the Fund's operations may result in taking actions that affect the Fund's performance.	The Fund Manager is committed to implement and follow up the instructions issued by the relevant authorities. The Compliance and Anti-money Laundering Department regularly reviews the extent of compliance with the applicable regulations, which is discussed in the Fund's Board of Directors meetings.
Leasing and occupancy risks	Include the risks relating to leasing vacant spaces, the risk of abrogation and termination of leases, and the ability of tenants to meet their rental obligations, which may affect the cash flows of the Fund.	The vacancy rate of the Fund is 3%. The Fund Manager shall market the properties a few months before the end of the lease. The Fund manager will choose tenants with a sound financial position and will ensure their ability to pay rental obligations by requiring them to provide promissory notes covering the lease period, in addition to leasing the units for more than three years, if possible.
Risk of cash flow for property maintenance, improvement, and other works	Risks concerning the costs that may be incurred by the Fund to maintain the value of the property through maintenance and renovation, in addition to unexpected costs resulting from natural disasters or any other reasons.	The Fund Manager conducts a technical inspection to ascertain the quality of the property in terms of structure and finishing before acquisitions, to ensure that the property has no defects that may require costly maintenance during ownership thereof. The Fund Manager engages competent property managers to conduct regular inspections of the property. The Fund Manager also maintains insurance coverage against risks that may affect the properties.
Decrease in assets value risks	Many factors associated with the overall local economic conditions and the real estate sectors could make it difficult to sell or refinance the properties and may cause the value of the Fund's assets to decline.	The Fund Manager studies the market conditions on an ongoing basis. If the Fund Manager decides to exit any property, an appropriate strategy will be selected and approved by the Board. The Fund Manager has no plans to exit any property at this time.
Risks of geographic and property concentration	Risks related to the concentration of the Fund's assets in a particular geographical area or real estate sector.	The Fund Manager is committed to maintaining low levels of geographic and sector concentration, which reduces the impact of any recession that may affect a particular geographical area or a specific real estate sector on the Fund's assets.
Risks of real estate development	Risks related to the construction and leasing of a new real estate project include delay in completing work, cost overrun, inability to secure expected rental values, and other risks.	As of the date of preparing this report, the Fund has no real estate development projects.
VAT associated Risks	The risks associated with the implementation of value-added tax (VAT) on the properties acquired by the Fund, which may increase the value of properties, and would adversely affect the Fund's revenues.	The Fund Manager recovered most of the value-added tax paid on the Fund's acquisitions. Therefore there is no significant impact of the application of VAT.
Financing risks	The use of financing creates an opportunity to increase returns to the Fund, but in the meantime time, it involves a high degree of financial risks, such as higher financing cost.	The Fund Manager is committed to obtaining financing at competitive prices and on favorable terms.

Important Notice

The Fund's terms and conditions, financial statements, and other reports are provided on the Fund Manager's website and Tadawul website, free of charge, and may be obtained upon request from the Fund Manager.

A potential investor willing to invest in this Fund should be aware that investing in the Fund carries high risks and that no guarantee may be given that the Fund will achieve its investment objectives. Market conditions may change regularly and are affected by the overall macroeconomic conditions, the capital market, or business developments in the Kingdom of Saudi Arabia and abroad, as well as market trends in the real estate sectors. Therefore, no guarantee can be given that investors in this Fund will receive the original amount invested in the Fund in whole or in part. Therefore, any investor considering investing in this Fund should read the "Risks of Investment in the Fund" set out in the terms and conditions before making any decision to invest in the Fund. Investors should be aware that the past performance of the real estate sector, in general, is not necessarily indicative of any future performance. No guarantee can be given that the target profits will be achieved or that the Fund will not incur any significant losses. Therefore, investors should be prepared to lose part of their investment, if not all. Unitholders should be aware that investing in the Fund does not imply any guarantee of profit or not incurring a loss, as the Fund's investments are subject to the loss of actual value in whole or in part.

Moreover, the past performance of property prices is not necessarily indicative of similar future performance. Investment in the Fund is not a deposit with a local bank. The value of the investment in the Fund is subject to change and may increase or decrease.

Disclaimer

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