

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)
Financial Statements
For the year ended 31 December 2020
Together with the
Independent Auditor's Report

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INDEPENDENT AUDITOR’S REPORT

**TO THE UNITHOLDERS
 DERAYAH REIT FUND
 (MANAGED BY DERAYAH FINANCIAL)
 RIYADH, KINGDOM OF SAUDI ARABIA**

Opinion

We have audited the accompanying financial statements of Derayah REIT Fund (“the Fund”), being managed by Derayah Financial Company (the “Fund Manager”), which comprises the statement of financial position as at 31 December 2020, statements of comprehensive income, statements of changes in net assets attributable to the unit holders and cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements taken as a whole, present fairly, in all material respects, the consolidated 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 International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”) 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 professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other 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 judgment, 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.

Key audit matter	How the key matter was addressed in our audit
<p>Derayah REIT Fund owns a portfolio of investment properties comprising of commercial and residential buildings located in the Kingdom of Saudi Arabia.</p> <p>Investment properties are held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any accumulated impairment losses.</p>	<p>For impairment of investment properties, we have carried out the following audit procedures:</p> <ul style="list-style-type: none"> - We obtained two valuation reports from independent real estate evaluators Taqueem certified for each investment properties as at 31 December 2020 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date;

INDEPENDENT AUDITOR’S REPORT (CONTINUED)

TO THE UNITHOLDERS
DERAYAH REIT FUND
MANAGED BY RIYAD CAPITAL
 RIYADH, KINGDOM OF SAUDI ARABIA

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
<p>Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.</p> <p>For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the Fund’s investment properties on semiannual basis.</p> <p>We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.</p>	<ul style="list-style-type: none"> - We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - Involved our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties. - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be higher than the carrying amount of the same except for certain properties, which had an immaterial impairment impact and thus not recorded by the Fund’s management; and - We reconciled the average fair value of the investment properties as per note 14 to the external valuers’ reports.

Other information

Other information consists of the information included in the Fund’s 2020 annual report, other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information in the Fund’s annual report.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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)

TO THE UNITHOLDERS

DERAYAH REIT FUND

MANAGED BY RIYAD CAPITAL

RIYADH, KINGDOM OF SAUDI ARABIA

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Fund's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Fund's management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing "ISA" 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the management.

INDEPENDENT AUDITOR’S REPORT (CONTINUED)

**TO THE UNITHOLDERS
 DERAYAH REIT FUND
 MANAGED BY RIYAD CAPITAL
 RIYADH, KINGDOM OF SAUDI ARABIA**

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

- Conclude on the appropriateness of management’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 audit report to the related disclosures in the consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 compiled with relevant ethical requirements regarding independence, and 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 consolidated 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 communications.

For and on behalf of
Al-Bassam & Co.

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



**18 Shabban 1442
 31 March 2021**

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

(Amounts in SAR)

	<u>Note</u>	<u>As at 31</u> <u>December 2020</u>	<u>As at 31</u> <u>December 2019</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	42,727,649	34,801,270
Rent receivables		54,860,475	32,469,520
Investments carried at FVTPL	9	3,045,950	-
Prepaid expenses and other current assets	10	1,910,771	11,369,936
TOTAL CURRENT ASSETS		102,544,845	78,640,726
NON-CURRENT ASSETS			
Investment properties, net	11	1,587,296,008	1,489,718,028
Benefit contracts, net	12	35,643,020	41,000,159
TOTAL NON-CURRENT ASSETS		1,622,939,028	1,530,718,187
TOTAL ASSETS		1,725,483,873	1,609,358,913
LIABILITIES			
CURRENT LIABILITIES			
Unearned rental income		17,810,478	14,857,872
Accrued management fees	15	4,129,172	4,318,695
Accrued finance expenses	19	5,082,579	7,637,761
Due to related parties	15	-	121,275
Accrued expenses and other liabilities		3,658,701	1,020,985
Zakat provision	16	2,287,195	-
TOTAL CURRENT LIABILITIES		32,968,125	27,956,588
NON-CURRENT LIABILITIES			
Long-term borrowings	19	747,982,834	579,982,834
TOTAL LIABILITIES		780,950,959	607,939,422
Net assets attributable to the Unitholders		944,532,914	1,001,419,491
Units in issue (<i>numbers</i>)		107,507,035	107,507,035
Book value attributable to each unit		8.79	9.31
Fair value attributable to each unit	14	8.95	9.33

DERAYAH REIT FUND
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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Amounts in SAR)

	Note	For the year ended 31 December 2020	For the year ended 31 December 2019
Rental income, net	17	121,387,960	121,191,885
Gain from Investments carried at FVTPL	13	111,866	474,489
Time deposits commission income		-	72,356
Gross Profit		121,499,826	121,738,730
Fund management fees	15	(8,310,298)	(8,729,773)
Finance expenses	19	(23,622,769)	(27,595,665)
Professional and advisory expenses		(1,123,258)	(797,404)
Properties management fees		(3,932,052)	(965,475)
Amortization benefit contracts	12	(5,357,139)	(5,245,006)
Other expenses		(7,286,006)	(2,189,896)
Depreciation expense on investment properties	11	(20,379,693)	(19,471,016)
Impairment on investment properties	11	(34,279,578)	(36,531,386)
Total expenses		(104,290,793)	(101,525,621)
Net income before zakat		17,209,033	20,213,109
Zakat charged during the year	16	(2,287,195)	-
Net income for the year		14,921,838	20,213,109
Other comprehensive income		-	-
Total comprehensive income for the year		14,921,838	20,213,109

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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE UNIT HOLDERS
For the year ended 31 December 2020
(Amounts in SAR)

	For the year ended 31 December 2020	For the year ended 31 December 2019
Net assets value attributable to the Unitholders at the beginning of the year	1,001,419,491	1,061,621,643
Changes from unit transaction:		
- Subscription of units – Cash	-	-
- Subscription of units – In kind contribution	-	-
Assets value attributable to the Unitholders at the end of the year	1,001,419,491	1,061,621,643
Dividends	20 (71,808,415)	(80,415,261)
Total comprehensive income for the year	14,921,838	20,213,109
Net assets value attributable to the Unitholders at the end of the year	944,532,914	1,001,419,491

Transactions in units for the year are summarized as follows:

	31 December 2020	31 December 2019
Number of units at the beginning of the year	107,507,035	107,507,035
Subscription of units – Cash	-	-
Subscription of units – In kind contribution	-	-
Number of units at the end of the year	107,507,035	107,507,035

DERAYAH REIT FUND
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STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in SAR)

	For the year ended 31 December 2020	For the year ended 31 December 2019
OPERATING ACTIVITIES		
Net income for the year before zakat	17,209,033	20,213,109
<i>Adjustments to reconcile net income to net cash from operating activities:</i>		
Unrealized gains on investments carried at FVTPL	(10,104)	(474,489)
Realized gain from investments carried at FVTPL	(101,762)	-
Depreciation on investment properties	20,379,693	19,471,016
Impairment on investment properties	34,279,578	36,531,386
Amortization benefit contracts	5,357,139	5,245,006
	77,113,577	80,986,028
Changes in operating assets:		
Rent receivable	(22,390,955)	(17,195,774)
Prepaid expenses and other current assets	9,459,165	29,861,744
Changes in operating Liabilities:		
Unearned rental income	2,952,606	(8,306,503)
Accrued management fees	(189,523)	(285,439)
Accrued finance expenses	(2,555,182)	498,679
Due to related parties	(121,275)	(3,010,731)
Accrued expenses and other liabilities	2,637,716	(936,080)
Net cash generated from operating activities	66,906,129	81,611,924
INVESTING ACTIVITIES		
Purchase investment properties	(152,237,251)	(105,216,115)
Purchase investment carried at FVTPL	(28,021,356)	(64,800,000)
Proceeds from sale of investment carried at FVTPL	25,087,272	71,886,795
Net cash used in investing activities	(155,171,335)	(98,129,320)
FINANCING ACTIVITIES		
Dividends	(71,808,415)	(80,415,261)
Long-term borrowings	168,000,000	109,852,918
Net cash generated from financing activities	96,191,585	29,437,657
Change in cash and cash equivalents during the year	7,926,379	12,920,261
Cash and cash equivalents at the beginning of the year	34,801,270	21,881,009
Cash and cash equivalents at the end of the year	42,727,649	34,801,270

DERAYAH REIT FUND
A Real Estate Investments Traded Fund
(Managed by Derayah Financial Company)

Notes to the financial statements for the year ended 31 December 2020
(Amounts in SAR)

1 THE FUND AND ITS ACTIVITIES

Derayah REIT Fund (the "Fund") is a closed-ended Shari'a compliant real estate investment traded fund. The fund began operations on March 26, 2018.

Derayah Financial Company ("Fund Manager"), a Saudi closed joint stock company, under the Commercial Registration No. 1010266977 dated 05/04/1430 H corresponding to 04/29/2009 G, and licensed as a "licensed person" under the Capital Market Authority License No. 27-08109 to practice an activity Dealing as principal and agent, management and custody in securities business.

The Fund is listed on the Saudi Stock Exchange ("Tadawul") and its units are traded in accordance with the relevant laws and regulations. The capital of the fund is 1,075,070,350 Saudi riyals, and the term of the fund is 99 years starting from the date of listing units in Tadawul, renewable for a similar period according to the fund manager's discretion and after obtaining the approval of the Capital Market Authority.

The fund aims to invest in real estate assets capable of achieving periodic rental income within the Kingdom of Saudi Arabia and in line with the fund's investment strategy, and to distribute quarterly profits of at least 90% of the fund's net profits in accordance with the instructions for real estate investment traded funds.

2 REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by Capital Market Authority (CMA), detailing requirements for all real estate and traded funds within the Kingdom of Saudi Arabia.

3 BASES OF PREPARATION

A. Statement of compliance

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Certified Public Accountants ("SOCPA").

B. Basis of measurement functional and Presentation Currency

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting except for the investments carried at fair value through profit or loss. These financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Fund.

C Critical accounting judgments, estimates and assumption

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the book value of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the book values of assets and liabilities within the next accounting period, are described below. fund based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of Fund. Such changes are reflected in the assumptions when they occur.

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(Managed by Derayah Financial Company)

Notes to the financial statements for the year ended 31 December 2020
(Amounts in SAR)

3 BASES OF PREPARATION (CONTINUED)

Going Concern

The Fund Manager of the Fund 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 management is not aware of any material uncertainties that may cast significant doubt on the Fund's ability to continue as a going concern.

Impairment of non-financial assets

The book values of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the book value of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Expected credit loss

The measurement of the expected credit loss allowance for financial assets recognized at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flows represent cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less (if any) which are available to the Fund without any restrictions. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

Rent receivable

Receivables are initially recognized at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always recognized at an amount equal to lifetime expected credit losses.

Investment properties

Investment properties are non-current assets held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of operations, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses if any.

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Notes to the financial statements for the year ended 31 December 2020
(Amounts in SAR)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (continued)

Investment properties are derecognized when they are sold, owner-occupied or in case of not holding it for an increase in its value.

Any gain or loss on disposal of the investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs

Useful lives of different components of investment properties are as follows:

Categories	Useful Life
Building	40

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and 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 Funds of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognized in the statement of comprehensive income.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Fund estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

Benefit contracts

Benefit contracts are recorded at cost less accumulated amortization and any impairment losses. Amortization is calculated using the straight-line method over the year of the contract.

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Notes to the financial statements for the year ended 31 December 2020
(Amounts in SAR)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-current assets

At each reporting date, the Fund reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Accrued expenses and other liabilities

Accrued expenses and other payables are recognised initially at fair value and subsequently recognized at amortised cost using the effective commission rate method.

A provision is recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognised for future operating loss.

Revenue recognition

Rental income

Rental income receivable from operating lease of property is accrual basis on a straight-line basis over the term of the lease.

Investment transactions

Investments transactions are accounted for as of the trade date.

Management fees and other expenses

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the fund. Management fees are charged and paid on a semi-annual basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of Funds.

Expenses

Expenses including Property management expenses, Fund management fees, custodial fees and other fees are recorded on accrual basis.

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A Real Estate Investments Traded Fund
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Notes to the financial statements for the year ended 31 December 2020
(Amounts in SAR)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat

Zakat is calculated according to the regulations of the General Authority for Zakat and Income in the Kingdom of Saudi Arabia (the Authority), zakat provision for the year is included in the list of comprehensive income, and any differences between the component provision and the final assessment are recorded in the year in which the final assessment is approved.

Net assets value per unit

The net assets value per unit disclosed in the financial statements is calculated by dividing the net assets of the Fund by the number of units in issue at the year- end.

Dividend distribution

The Fund's policy is to distribute and pay at least 90% of net income as annual distributions on a quarterly basis. Does not include the profit from the sale of any real estate investment, depreciation period and impairment.

Financial instruments

Recognition and initial measurement

Receivables from operating leases issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable from operating leases without a significant financing component) or financial liability is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue, for an item not at Fair Value Through Profit or Loss (FVTPL). Receivable from operating leases without a significant financing component is initially measured at the transaction price.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at **amortized cost** if it meets both of the following conditions:

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

A financial asset shall be measured at FVTOCI if both of the following conditions are met:

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

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVTOCI.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

Financial assets	IFRS 9 classification
Cash and cash equivalents	Amortized cost
Investment at fair value through profit or loss	FVTPL
Receivable from operating leases	Amortized cost
Due from related parties	Amortized cost
Other assets	Amortized cost

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Reclassifications

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

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

A financial asset is derecognised 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

Expected credit loss assessment:

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against:

- Financial assets measured at amortised cost

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified GDP of the Kingdom of Saudi Arabia (the country in which it renders the services), inflation rate and government spending to be the most relevant factor and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD). These are briefly described below:

Loss Given Default (LGD): This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

Probability of Default (PD): the likelihood of a default over a particular time horizon.

Exposure at Default (EAD): This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Specific provision

Specific provision is recognized on customer-to-customer basis at every reporting date. The Fund recognizes specific provision against receivables from certain customers. Provisions are reversed only when the outstanding amounts are recovered from the customers.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Classification and measurement of financial assets

The measurement category and the book value of financial assets and liabilities in accordance with IFRS 9 are compared as follows:

31 December 2020	IFRS 9	Book value
	Measurement category	
Financial assets		
Cash and cash equivalents	Amortized cost	42,727,649
Rent receivables	Amortized cost	54,860,475
Investments carried at FVTPL	Fair value	3,045,950
Total financial assets		100,634,074
Financial liabilities		
Accrued management fees	Amortized cost	4,129,172
Accrued finance expenses	Amortized cost	5,082,579
Accrued expenses and other liabilities	Amortized cost	3,658,701
Zakat provision	Amortized cost	2,287,195
Long-term borrowings	Amortized cost	747,982,834
Total financial assets		763,140,481

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5. NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS

Amendments

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Company's Financial Statements, except for were referenced below.

New amendments to standards issued and applied effective January 1, 2020

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1 and IAS 8	Definition of material	January 1, 2020	The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.
IFRS 3	Definition of business	January 1, 2020	The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.
Revised Conceptual Framework for Financial Reporting	Amendments to references Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted. The Company applied and the impact is disclosed within Note 17.

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6. NEW STANDARDS, AMENDMENTS AND REVISED IFRS ISSUED BUT NOT YET EFFECTIVE

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2021	The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Management anticipates that these new standards interpretations and amendments will be adopted in the Fund’s financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

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7. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

MANAGEMENT FEE, OTHER EXPENSES

The Fund Manager charges the Fund, management fee at 0.85 percent per annum of the Fund's net assets value and is paid on semi-annual basis. Fund manager also recovers from the Fund any other expenses incurred such as auditing fees, legal fees, board compensation and other similar fees.

TRANSACTION FEE

Further, The Fund Manager charges the Fund, one-time transaction fee at 1 percent on the acquisition or sale price of the real estate assets.

8. CASH AND CASH EQUIVALENTS

	<u>Note</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Cash at bank	8-1	42,727,649	34,801,270
		<u>42,727,649</u>	<u>34,801,270</u>

8.1 Cash in current accounts are held in current accounts with local banks. The Fund does not earn profit on these current accounts.

9. INVESTMENTS CARRIED AT FVTPL

<u>31 December 2020</u>	<u>Fund manager</u>	<u>Number of units</u>	<u>Cost</u>	<u>Market Value</u>
Al Rajhi Commodity Fund	Al Rajhi Capital	<u>18,860</u>	<u>3,035,846</u>	<u>3,045,950</u>

<u>31 December 2019</u>	<u>Fund manager</u>	<u>Number of units</u>	<u>Cost</u>	<u>Market Value</u>
Al Rajhi Commodity Fund	Al Rajhi Capital	<u>-</u>	<u>-</u>	<u>-</u>

10. PREPAYMENT AND OTHER RECEIVABLES

	<u>31 December 2020</u>	<u>31 December 2019</u>
Prepaid Expenses	929,834	-
VAT	637,375	1,145,698
Prepaid Rent	343,562	343,562
Advance payments for real estate purchases	-	9,880,676
	<u>1,910,771</u>	<u>11,369,936</u>

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11. INVESTMENT PROPERTIES, NET

	<u>Note</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
<u>Cost</u>				
Balance the beginning of the year		769,182,625	791,278,150	1,560,460,775
Additions during the year		74,456,142	77,781,109	152,237,251
Balance at the end of year		843,638,767	869,059,259	1,712,698,026
<u>Accumulated Depreciation</u>				
Balance the beginning of the year		-	34,211,361	34,211,361
Charge for the year	11-1	-	20,379,693	20,379,693
Balance at the end of year		-	54,591,054	54,591,054
<u>Impairment</u>				
Balance the beginning of the year		-	36,531,386	36,531,386
Charge for the year	11-3	-	38,808,786	38,808,786
Provision reverse during the year		-	(4,529,208)	(4,529,208)
Balance at the end of year		-	70,810,964	70,810,964
Net Book Value:				
as of 31 December, 2020		843,638,767	743,657,241	1,587,296,008
as of 31 December, 2019		769,182,625	720,535,403	1,489,718,028

Real estate investments consist of 25 properties, which are as follows:

- Smart Tower: Office & Retail in Al-Olaya District, Riyadh.
- Jubail Views Residential Compound: A residential compound closed in Rawdah Al Khalidiya in Jubail.
- Mena Warehouses Complex: Three warehouses (administrative and service offices) in Al-Mina area in Dammam.
- City Life Plaza: A commercial property in the Monceya in Riyadh.
- Motoon Towers: A hotel property located in Al- Olaya in Riyadh.
- Al-Fanar Commercial Complex: Commercial real estate in Al-Raka in Al-Khobar.
- The Grand (A) Residential Building: An integrated residential property located in the Anwar of Dammam.
- Al-Wadi District Warehouses: represents a warehouse and a residential building and is located in the valley district in Jeddah.
- AlSitteen Commercial Center: Commercial-Office Property in Al-Zubat district in Riyadh.
- The Grand (B) Commercial Building: An educational property located in the Anwar of Dammam.
- Jubail Employees Residential Buildings: Four residential buildings located in three close areas in the north of Jubail.
- Dammam Labor Housing: Two residential buildings for workers located in the port area of Dammam.
- Khobar Labor Housing: A residential building for workers in Al-Thaqbah in Al-Khobar.
- Khaljeh Business Center: A commercial and office building located in Al Rawabi of Al Khobar.
- Education & Skills School: An educational building located in Al-Deraiya governorate in Riyadh.
- Rasil Medical Center: A medical center building located in Al- Mansourah district in Riyadh.
- Jeddah Office Tower: An administrative and office building located in the Zahra of Jeddah.
- Sulay Warehouses Complex: A collection of walled warehouses located in Al-Sulay in Riyadh.
- Khalidiya District Warehouses: Two warehouses located in the northern Khalidiya district of Dammam.
- Dammam Labor Housing (2): Three residential buildings in Al-Mina district in Dammam.
- Jeddah Khumarh Warehouses: a warehouse located in the Sarawat district in Jeddah.
- Riyadh Al-Azizia Warehouses (1): A warehouse located in Al-Aziziya district in Riyadh.
- Al-Khalidiyyah District Warehouses (2): A warehouse located in the Khalidiya district in Dammam.
- Riyadh Al-Azizia Warehouses (2): A warehouse located in Al-Aziziya district in Riyadh.
- AlSharq Logistics Complex: Warehouses located in Al- Sulay in Riyadh.

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11. INVESTMENT PROPERTIES, NET (CONTINUED)

11-1 The Fund charge depreciation on building over 40 years. The depreciation is charged on depreciable amount i.e., cost less residual value.

11-2 All properties are registered in the name of the company "Derayah Real Estate Custody" ("the SPV"), except for the real estate secured by obtaining loans (see note 19). The SPV are holding these properties for beneficial ownership of the Fund and does not process any controlling interests or any stake in the real estate.

11-3 The Fund manager periodically reviews its investment properties to determine if there is any indication of impairment in assets value. An impairment loss is considered as the amount that exceeds the carrying value of the investment properties its recoverable value, which is higher than the fair value of the assets less the cost of sale and the value of its use. As of 31 December 2019, and according to the periodic evaluation reports provided by the independent evaluation experts of the Fund, Impairment provision was recorded in amount of SR 36.5 million, and as of December 31, 2020, Impairment provision for was recorded in amount of SR 34.3 million.

12. BENEFIT CONTRACTS, NET

	<u>31 December 2020</u>	<u>31 December 2019</u>
<u>Cost</u>		
Balance at the beginning of the year	51,779,858	51,779,858
Addition during the year	-	-
Balance at end of the year	<u>51,779,858</u>	<u>51,779,858</u>
<u>Accumulated Amortization</u>		
Balance at the beginning of the year	(10,779,699)	(5,534,693)
Charge for the year	(5,357,139)	(5,245,006)
Balance at end of the year	<u>(16,136,838)</u>	<u>(10,779,699)</u>
<u>Book Value:</u>		
Balance as of 31 December	<u>35,643,020</u>	<u>41,000,159</u>

The benefit contracts consist of two properties, which are as follows:

- The Valley Commercial Complex: a shopping center in Al-Ahsa.
- City Walk Commercial Complex: a commercial complex in the Gulf district in Riyadh

13. GAIN FROM INVESTMENTS CARRIED AT FVTPL

	<u>2020</u>	<u>2019</u>
Realized gain from investments carried at FVTPL	101,762	474,489
Unrealized gain from investments carried at FVTPL	10,104	-
	<u>111,866</u>	<u>474,489</u>

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14. 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 the Capital Market Authority in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, investment property is stated at cost less accumulated depreciation and impairment, if any, in these financial statements. Accordingly, fair value is disclosed below for the purpose of obtaining information and is not accounted for in the books of the Fund

The fair value of real estate investments and benefit contracts is determined by valuers of each asset, namely Value Expert, Century 21 Saudi Arabia, and Esnad (2 valuers for each property). The following is an assessment of real estate investments and benefit contracts as at 31 December:

<u>31 December 2020</u>	<u>First Appraiser</u>	<u>Second Appraiser</u>	<u>Average</u>
Investment properties	1,614,589,900	1,582,386,570	1,598,488,235
Benefit contracts	39,917,900	43,000,000	41,458,950
Total	<u>1,654,507,800</u>	<u>1,625,386,570</u>	<u>1,639,947,185</u>

<u>31 December 2019</u>	<u>First Appraiser</u>	<u>Second Appraiser</u>	<u>Average</u>
Investment properties	1,512,964,545	1,462,287,417	1,487,625,981
Benefit contracts	43,855,722	46,171,698	45,013,710
Total	<u>1,556,820,267</u>	<u>1,508,459,115</u>	<u>1,532,639,691</u>

The management used the average valuations for the purpose of disclosing the fair value of investment properties and benefit contracts.

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

	<u>31 December 2020</u>	<u>31 December 2019</u>
Estimated fair value of investment properties and benefit contracts based on the average of the two valuers used	1,639,947,185	1,532,639,691
Less book value:		
Investment properties	(1,587,296,008)	(1,489,718,028)
Benefit contracts	(35,643,020)	(41,000,159)
Increase in estimated fair value of carrying value	<u>17,008,157</u>	<u>1,921,504</u>
Units in issue (numbers)	<u>107,507,035</u>	<u>107,507,035</u>
The additional share of the unit of estimated fair value	<u>0.16</u>	<u>0.02</u>

Net asset attributable to unitholders:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Net assets attributable to unitholders as per the financial statements before fair value adjustment	944,532,914	1,001,419,491
Increase in estimated fair value of carrying value	<u>17,008,157</u>	<u>1,921,504</u>
Net value of assets attributable to unit holders on the basis of fair value of investment property and benefit contracts	<u>961,541,071</u>	<u>1,003,340,995</u>

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

Net asset attributable to each unit:

	31 December 2020	31 December 2019
Carrying value per unit as per the financial statements before fair value adjustment	8.79	9.31
The unit value is based on fair value	0.16	0.02
Net assets attributable to each unit	8.95	9.33

15. TRANSACTIONS AND BALANCE WITH RELATED PARTY

Related parties to the Fund include Derayah Financial (Fund Manager) and Al- Inma Investment Company (Custodian). In the ordinary course of its activities, the Fund transacts business with related parties.

The significant related party transactions entered into by the Fund during the year and the balances resulting from such transactions are as follows:

Related Party	Nature of Transactions	Amount of transactions	Balance
		31 December 2020	31 December 2020
Deraya Financial	Management fees	8,310,298	(4,129,172)
	Brokerage commission	1,750,000	-
	Transaction fees	1,400,000	-
	Structure fees	1,680,000	-
Al- Inma Investment Company	Custodial fees	120,000	(120,000)

Related Party	Nature of Transactions	Amount of transactions	Balance
		31 December 2019	31 December 2019
Deraya Financial	Management fees	8,729,773	(4,318,695)
	Brokerage commission	1,366,330	-
	Transaction fees	546,531	-
	Structure fees	528,085	121,275
Al- Inma Investment Company	Custodial fees	120,000	(60,000)

The following is the number of units held by the fund manager as of December 31:

Related Party	Nature of Related Party	31 December 2020	31 December 2019
Derayah Financial	Fund Manager	3,165,559	3,165,559

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16. ZAKAT

A) Zakat base for the Fund

	<u>31 December 2020</u>
Net profit for the year	17,209,033
Additions:	
Net assets attributable to the Unitholders	946,810,329
Borrowings	747,982,834
Deductions:	
Benefit contracts	35,643,020
Investment properties	1,587,296,008
Zakat base	<u>71,854,135</u>
Zakat	<u><u>2,287,195</u></u>

A) Zakat Provision

	<u>31 December 2020</u>
Balance at the beginning of the year	-
Charged during the year	2,287,195
Paid during the year	-
Balance at end of the year	<u><u>2,287,195</u></u>

C) Zakat Position

Although the Fund's terms and conditions indicate that the Fund manager does not pay zakat for investment units from investors and it is the responsibility of the unit's owner to pay zakat on what he owns of investment units, but on September 6, 2020, the Fund's board of directors decided to start the procedures for registering the fund with the General Assembly Zakat and income for the purpose of zakat and the Fund has been registered. As a result, the zakat provision for the year ended December 31, 2020 was calculated and recognized in these financial statements.

17. RENTAL INCOME, NET

The Fund has given discounts to its lessees against the lease rentals relating to the period impacted by the COVID-19 outbreak. Furthermore, negotiation still ongoing with some tenants to obtain a discount as well

	<u>31 December 2020</u>	<u>31 December 2019</u>
Rental income	125,580,791	121,191,885
Covid – 19 concessions	<u>(4,192,831)</u>	-
	<u><u>121,387,960</u></u>	<u><u>121,191,885</u></u>

17-1 The Fund Manager exempted some tenants from rent due to the Corona Covid 19 pandemic.

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

Financial instruments carried in these financial statements principally include Cash and cash equivalents, rent receivables, Investment carried at FVTPL, Accrued management fees, Accrued finance expenses, Due to related parties, Accrued expenses and other liabilities and Long-term borrowing. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously.

Market risk

The fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, interest rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The fund management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the fund.

(i) Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund Manager diversifies the investment portfolio and closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, Fund has equity investments.

The effect on the net assets value (as a result of the change in the fair value of investments as at 31 December 2020 and 31 December 2019) due to a reasonably possible change in equity indices based on the industry concentration, with all other variables held constants is as follows:

	31 December 2020		31 December 2019	
	Potential reasonable change %	Effect on NAV	Potential reasonable change %	Effect on NAV
Al Rajhi Commodity Fund	1%	30,459	1%	-

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to due from related parties an obligation. The Fund is exposed to credit risk for its rental receivables, due from related parties and bank balances.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

The following table shows the maximum exposure to credit risk for the contents of the statement of financial position:

	<u>31 December 2020</u>	<u>31 December 2019</u>
Cash and cash equivalents	42,727,649	34,801,270
Rent receivables	54,860,475	32,469,520

The management has conducted a review as required under IFRS 9 and based on an assessment, the management believes that there is no impairment loss against the carrying value of cash and cash equivalents and rent receivables.

Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through new subscriptions, liquidation of the investment portfolio or by taking short term loans from the Fund Manager.

	<u>31 December 2020</u>		
	<u>Less than 1 year</u>	<u>More than 1 year</u>	<u>Total</u>
Cash and cash equivalents	42,727,649	-	42,727,649
Rent receivables	54,860,475	-	54,860,475
Investments carried FVTPL	3,045,950	-	3,045,950
Prepayment and other receivables	1,910,771	-	1,910,771
Investment properties, net	-	1,587,296,008	1,587,296,008
Benefit contracts, net	-	35,643,020	35,643,020
TOTAL ASSETS	<u>102,544,845</u>	<u>1,622,939,028</u>	<u>1,725,483,873</u>
Deferred rental income	17,810,478	-	17,810,478
Accrued management fees	4,129,172	-	4,129,172
Accrued finance expenses	5,082,579	-	5,082,579
Accrued expenses and other liabilities	3,660,169	-	3,660,169
Zakat provision	2,287,195	-	2,287,195
Long-term borrowings	-	747,982,834	747,982,834
TOTAL LIABILITIES	<u>32,969,593</u>	<u>747,982,834</u>	<u>780,952,427</u>

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A Real Estate Investments Traded Fund
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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

	31 December 2019		
	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	34,801,270	-	34,801,270
Rent receivables	32,469,520	-	32,469,520
Prepayment and other receivables	11,369,936	-	11,369,936
Investment properties, net	-	1,489,718,028	1,489,718,028
Benefit contracts, net	-	41,000,159	41,000,159
TOTAL ASSETS	78,640,726	1,530,718,187	1,609,358,913
Deferred rental income	14,857,872	-	14,857,872
Accrued management fees	4,318,695	-	4,318,695
Accrued finance expenses	7,637,761	-	7,637,761
Due to related parties	121,275	-	121,275
Accrued expenses and other liabilities	1,020,985	-	1,020,985
Long-term Borrowings	-	579,982,834	579,982,834
TOTAL LIABILITIES	27,956,588	579,982,834	607,939,422

Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flow.

The Fund's interest rate risks arise mainly from its borrowings and short-term deposits, which are at fixed rate of interest and are not subject to re-pricing on a regular basis.

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Fund's financial positions and cash flow.

The Fund's interest rate risks arise mainly from its borrowings, which are at variable of interest rate and the sensitivity analysis as follows: -

	Balance as at 31 December 2020			
	Income Statement		Statement of NAV	
	Increase 100 points 1%	Reduce 100 points 1%	Increase 100 points 1%	Reduce 100 points 1%
Interest rate swaps				
Cash-flow sensitivity (net)	7,479,828	(7,479,828)	7,479,828	(7,479,828)

	Balance as at 31 December 2019			
	Income Statement		Statement of NAV	
	Increase 100 points 1%	Reduce 100 points 1%	Increase 100 points 1%	Reduce 100 points 1%
Interest rate swaps				
Cash-flow sensitivity (net)	5,799,828	(5,799,828)	5,799,828	(5,799,828)

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18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Fair value estimation

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The table below presents the financial instruments at their fair value as at December 31, based on the fair value hierarchy:

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Investments carried at FVTPL	-	3,045,950	-	3,045,950
Total assets	-	3,045,950	-	3,045,950

As of December 31, 2020, the Fund's financial instruments comprise cash and cash equivalent, rent receivable, accrued management fees, accrued finance fees, due to related parties, accrued expenses and borrowing. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value. Investments carried at fair value through profit or loss are held in level 2 hierarchy of fair value. To determine the fair value of such investments, management used NAV of the funds which is based on observable market data. There were no transfers among the level 1, 2 and 3 during the year ended December 31, 2020

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19. LONG-TERM BORROWING

The Fund obtained a loan of SAR 96.9 million from Derayah Real Estate Income Fund, which was transferred to the fund through an in-kind contribution (note 1). This loan was obtained on behalf of Save the Real Estate Company, a special-purpose company for Derayah Real Estate Income Fund for a period of five years, extendable for an additional two years, from the date of withdrawal of the amount on June 13, 2016. The (SPV) Derayah Real Estate Custody is a special purpose company for the fund and it is still the obligated party. The loan is secured by the mortgage of Jubail Views Residential Compound.

The loan bears a variable commission and the commission is paid over the term of the loan on a proportional annual basis from the date of transferring the in-kind contributions to the Derayah REIT Fund. In January 2019, the Fund manager transferred the loan from the Arab National Bank to the Riyadh Bank and repaid the debt to the Arab National Bank through a new loan from Riyadh Bank, amounting to: 101.2 million Saudi riyals, the loan bears a variable commission rate and the commission is paid over the term of the loan on a semi-annual basis. The loan is secured by the mortgage of Jubail Views Residential Compound.

The fund also obtained a loan of 373.2 million Saudi riyals from Riyadh Bank for a period of seven years. The loan bears a variable commission and the commission is paid over the term of the loan on a semi-annual basis. During the year ending December 31, 2020, the Fund manager rescheduled the profits owed to Riyadh Bank through the immediate termination of the existing facilities and their renewal at the period's rates. The value of the renewed facilities is 483.82 million Saudi riyals, and it includes the profits owed to Riyadh Bank on the day the facilities are renewed. The financing period is seven years and carries a variable commission paid over the term of the loan on a semi-annual basis. Note that the amount of 9.41 million riyals is payable during the year 2020. The fund also obtained a loan of 168 million Saudi riyals from Riyadh Bank for a period of seven years. The loan bears a variable commission and the commission is paid over the term of the loan on a semi-annual basis. The loans are secured for of the following properties (Jubail Views Residential Compound, Mena Warehouses Complex, City Life Plaza, Motoon Towers, Al-Fanar Commercial Complex, The Grand (A) Residential Building, Al-Wadi District Warehouses, AlSitteen Commercial Center, The Grand (B) Commercial Building, Jubail Employees Residential Buildings, Dammam Labor Housing, Khobar Labor Housing, Khaljeh Business Center, Rasil Medical Center, Education & Skills School, Jeddah Office Tower, Sulay Warehouses Complex, Khalidiya District Warehouses, Dammam Labor Housing (2), Jeddah Khumarh Warehouses and AlSharq Logistics Complex. The special commission due for the year ending on 31 December 2020 has been included and appears in the liabilities.

The fund also obtained a loan of 105.5 million Saudi riyals from Al-Rajhi Bank for a period of seven years. The loan carries a variable commission and the commission is paid over the term of the loan on a semi-annual basis. The loan is secured by a mortgage for Smart Tower. The special commission due for the year ended December 31, 2020 has been included and appears in the liabilities.

Type of the loan	Nature of the loan	Balance as of		Commission expense	
		31 December 2020	31 December 2019	During the year ending in 31 December	
				31 December 2020	31 December 2019
Tawaruq	Long term	747,982,834	579,982,834	23,622,769	27,595,665
		747,982,834	579,982,834	23,622,769	27,595,665

Accrued Finance Fees

	31 December 2020	31 December 2019
Balance at the beginning of the year	7,637,761	7,139,082
Charged during the year	23,622,769	27,595,665
Paid during the year	(26,177,951)	(27,096,986)
Balance at end of the year	5,082,579	7,637,761

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20. DIVIDENDS DISTRIBUTION

- On 1 April 2019, the Fund's Board approved to distribute dividends with regards to the period ended 31 March 2019 amounting to SAR 0.187 per unit totalling SAR 20,060,000 to its unitholders.
- On 1 July 2019, the Fund's Board approved to distribute dividends with regards to the period ended 30 June 2019 amounting to SAR 0.187 per unit totalling SAR 20,060,000 to its unitholders.
- On 1 October 2019, the Fund's Board approved to distribute dividends with regards to the period ended 30 September 2019 amounting to SAR 0.187 per unit totalling SAR 20,060,000 to its unitholders.
- On 1 January 2020, the Fund's Board approved to distribute dividends with regards to the period ended 31 December 2019 amounting to SAR 0.187 per unit totalling SAR 20,060,000 to its unitholders.
- On 1 April 2020, the Fund's Board approved to distribute dividends with regards to the period ended 31 March 2020 amounting to SAR 0.187 per unit totalling SAR 20,060,000 to its unitholders.
- On 6 July 2020, the Fund's Board approved to distribute dividends with regards to the period ended 30 June 2020 amounting to SAR 0.09 per unit totalling SAR 9,675,633 to its unitholders.
- On 1 October 2020, the Fund's Board approved to distribute dividends with regards to the period ended 30 September 2020 amounting to SAR 0.204 per unit totalling SAR 21,930,435 to its unitholders.

In accordance with the fund's terms and conditions (note 1), the fund aims to distribute quarterly profits of no less than 90% of the fund's net profits. The fund manager distributes profits on the basis of cash generated from operations, as the cash generated from operations is calculated by adding the depreciation and the impairment of investment properties to the net profits as mentioned in the comprehensive income statement during the year until December 31, 2020.

21. SUBSEQUENT EVENTS

- On 3 January 2021, the Fund's Board approved to distribute dividends with regards to the period ended 31 December 2020 amounting to SAR 0.204 per unit totalling SAR 21,930,435 million to its unitholders.

22. IMPACT OF CORONAVIRUS (COVID-19)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread throughout the world, including the Kingdom of Saudi Arabia, causing disruptions to businesses and economic activity. The Fund considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the fund.

23. SEGMENT INFORMATION

The Fund invested in 25 real estate investments in the Kingdom of Saudi Arabia. As they are invested in a single industry sector and one country, no segment information has been presented.

24. LAST VALUATION DAY

The last valuation day of the period was 31 December 2020.

25. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Fund Manager on 30 March 2020 (corresponding to 17 Shaban 1442 H).