

TALEEM REIT FUND

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

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2020
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)
FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **TALEEM REIT FUND** (the "Fund") managed by Saudi Fransi Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020, and the statements of comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRSs") that are endorsed in the Kingdom of Saudi Arabia and other Standards and pronouncement issued by Saudi Organization for Certificate Public Accountants (SOCPA).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (Continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Valuation of investment properties</p> <p>As at 31 December 2020, the carrying value of the Fund's investment properties were SR 560.84 million.</p> <p>The investment properties are stated at cost less impairment in value, if any (Refer to Note 5 for relevant accounting policies). The fair value of the investment properties is also disclosed along with its impact on Net Asset Value per unit is disclosed in note 20.</p> <p>The Fund manager uses two independent valuers licensed by the Saudi Authority for Accredited Valuer's (Taqeem) to evaluate the value of the property at the reporting date.</p> <p>We consider it as key audit matter since the valuation requires significant judgement with respect to the valuation method adopted including the appropriateness of the various assumptions and projections used in the valuation.</p> <p>All assumptions and projections by their nature require significant judgement and there is a risk that changes to these may have significant impact on the valuation of these investment properties.</p> <p>This could result in a material misstatement of the financial statements either through a lack of recognition of impairment of the investment properties or through inaccurate disclosures of the fair value of the investment properties.</p> | <p>Our audit procedures in respect of valuation of investment properties comprised of the following:</p> <ul style="list-style-type: none"> - assessed the qualification and expertise of third party valuers appointed by the Fund for the valuation of the properties; - assessed the recoverable amount based assessment prepared by the third party valuers and assessed the model, assumptions and estimates used in deriving the recoverable values; and - carried out procedures to satisfy ourselves of the accuracy of information supplied to the valuers by the Fund manager. |

Other information included in the Fund's 2020 Annual Report

The fund manager is responsible for the other information. Other information consists of the information included In the Fund's 2020 annual report, other than the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicated the matter to those charged with governance.



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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards ("IFRSs") as endorsed in the Kingdom of Saudi Arabia and other Standards and pronouncement issued by Saudi Organization for Certificate Public Accountants (SOCPA), the Fund's Terms and Conditions and for such internal control as Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.
- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

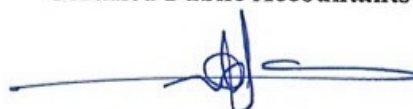
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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



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



Abdullah M. Al Azem
License No. 335

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

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

The accompanying notes from 1 to 27 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

The accompanying notes from 1 to 27 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2020

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

The accompanying notes from 1 to 27 form an integral part of these financial statements.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

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

The accompanying notes from 1 to 27 form an integral part of these financial statements.

TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. THE FUND AND ITS ACTIVITIES

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

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

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

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

The terms and conditions of the Fund have been approved by the CMA on 12 Sha’aban 1438H (corresponding to 8 May 2017). During the year, the terms and conditions has been updated on 09 Dhual Qadah 1441H (corresponding to 30 June 2020) and 22 Dhual Qadah 1441H (corresponding to 13 July 2020).

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

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) and the Real Estate Investment Traded Funds Instructions (REITF) (the “Regulations”) published by the Capital Market Authority (CMA), detailing the requirements for all type of real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 *Statement of Compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to “IFRS as endorsed in KSA”).

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

An analysis in respect of recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note (21).

3.2 *Basis of measurement*

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

3.3 *Functional and presentation currency*

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting used in the preparation of these financial statements are consistent with those used and disclosed in the financial statements for the year ended 31 December 2019

Cash and cash equivalents

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

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition

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

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

Classification

The Fund classifies its financial assets under the following categories:

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

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

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

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

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

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

Derecognition of financial instruments

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

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

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Derecognition of financial instruments (Continued)

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

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

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

Offsetting of financial instruments

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

Impairment of financial assets

The Fund assesses on a forward looking basis the Expected Credit Losses ("ECL") associated with its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and life time ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Fund do not have any investments classified as FVOCI.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (Continued)

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in note 19.

Investment properties

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

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

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

Net investment in finance lease

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

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

Impairment of non-financial asset

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial asset (Continued)

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

Fund management fee

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

Custody fee

As per the Terms and Conditions of the Fund, the Custodian charges custody fees calculated at an annual rate upto 0.0375% on the assets under custody. This is accrued monthly and paid on semi-annual basis.

Provisions

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

Net asset value per unit

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

Zakat

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

Revenue recognition

Investment properties

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

Finance lease income

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

Capital

Units in the Fund are classified as equity instruments when:

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital (Continued)

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

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

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

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

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

Earnings per unit

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

Dividend distribution

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

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

Borrowing

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

Net investment in finance lease

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

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

Valuation of investment properties

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

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance each asset's performance of the cash-generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

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

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

Residual value and useful lives of investment properties

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

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

6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

7. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

The following is the movement in investments during the year:

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

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

9. NET INVESTMENT IN FINANCE LEASE

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

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

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

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

10. PREPAYMENTS AND OTHER ASSETS

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

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

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

- (b) During the year, the Fund was subject to VAT audit for the years 2018 and 2019. GAZT raised an assesment of SR 262,500. The Fund paid the said amount of assessment during the month of December 2020. Subsequent to year end, the Fund Manager filed an appeal in this regard.

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

11. INVESTMENT PROPERTIES

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

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

The investment properties represent following acquired properties:

- (a) During the year, the Fund acquired the land and building leased out to “Al Ghad National School” for a consideration of SR 92 million (excluding transaction cost) on 29 June 2020 corresponding to 08 Dhu’l-Qi’dah 1441. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Ghad National School is located in King Abdullah District in Riyadh City on Al-Uruba Street on a total land size spanning 11,282.58 square meters, with a total built-up area of 17,908.28 square meters. The Fund has classified land and building as an Investment Property. The acquisition is funded by financing facility from Banque Saudi Fransi (Related Party).
- (b) During 2018, the Fund acquired the land and building leased out to “Al Rwad International School” for a consideration of SR 225 million worth of Fund units at SR 10 per unit on 26 September 2018 corresponding to 16 Muharram 1440. The said property is held in the name of “Raj Three Company Limited” which is owned by the KASB Capital (“Custodian of the Fund”). Raj Three Company Limited is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Al Rwad International School is located in the Alnuzha district in Riyadh City and covers an area of 30,000 square meters. The Fund has classified land and building as an Investment Property.
- (c) During 2017, the Fund acquired the land and building leased out to “Tarbiah Islamiah School” for a consideration of SR 285 million worth of Fund units at SR 10 per unit on 29 Shabaan 1438 corresponding to 25 May 2017. The said property is held in the name of “Rabwa Taleem Real Estate Company” which is owned by the KASB Capital (“Custodian of the Fund”). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property. Tarbiah Islamiah School is located in the Umm-al-Hamam district in Riyadh City and covers an area of 45,666.94 square meters on Al-Takhassusi Street. The previous owner (Ahmed Al Rasheed and Sons Holding Company) holds 38.92% (31 December 2019: 39.11%) of the total units in the Fund. The Fund has classified land as an Investment Property.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

12. ACCRUED EXPENSES AND OTHER LIABILITIES

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

13. RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

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

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

13. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

| <i>Related Party</i> | <i>Nature of transaction</i> | <i>Amount of transactions</i> | | <i>Balances Receivables / (Payables)</i> | |
|--------------------------|---|---|---|--|------------------------------------|
| | | <i>For the year ended 31 December 2020 SR</i> | <i>For the year ended 31 December 2019 SR</i> | <i>31 December 2020 SR</i> | <i>31 December 2019 SR</i> |
| Banque Saudi Fransi | Borrowing fee / roll over charges on loan facility | (4,715) | - | - | - |
| | Dividend distribution charges | (9,338) | - | (3,416) | (2,368) |
| | Finance cost | (1,195,348) | - | (18,624) | - |

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

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

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

The Fund maintained cash with Saudi Fransi Capital amounting to SR 5,607,971 (31 December 2019: SR 14,622) and Banque Saudi Fransi amounting to SR 25,112 (31 December 2019: SR Nil).

The Fund holds Nil units (31 December 2019: 613,991 units) of investments in Al Badr Murabaha Fund which is managed by the Fund Manager. As at year-end, the fair value of the investments is SR Nil (31 December 2019: SR 9,536,997).

During the year, the fund subscribed 370,167 units (2019: 524,673 units) of Al Badr Murabaha Fund amounting to SR 5.8 million (31 December 2019: SR 8 million)

During the year, the fund redeemed 984,158 units (2019: 296,618 units) of Al Badr Murabaha Fund amounting to SR 15.41 million (31 December 2019: SR 4.5 million).

14. CAPITAL

The capital of the Fund is SR 510 million (31 December 2019: SR 510 million) divided into 51 million (31 December 2019: 51 million) participating units of SR 10 par value, with each carrying one vote. All issued participating units are fully paid and are listed on the Saudi Stock Exchange (Tadawul). The Fund's capital is represented by these participating units and are classified as equity instruments. The units are entitled to dividends when declared and to payment of a proportionate share of the Fund's net asset value upon winding up of the Fund. A reconciliation of the number of units outstanding at the beginning and end of each reporting period is presented in the Statement of changes in equity.

15. BORROWING FROM BANK

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

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

16. INCOME FROM INVESTMENT PROPERTIES

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

The operating lease relates to land of Tarbiah Islamiah School, land and building of Al Rwad International School, and land and building of Al Ghad National School which is leased out for a remaining lease term of 23.2 years (31 December 2019: 24.2 years), 21.25 years (31 December 2019: 22.25 years) and 9.5 years (31 December 2019: Nil years) respectively. The leases provide for tenants to pay the base rent, with provisions for contractual increases in base rent over the term of the leases.

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

| | <i>31 December 2020 SR</i> | <i>31 December 2019 SR</i> |
|--|------------------------------------|------------------------------------|
| Not later than one year | 41,264,105 | 32,941,053 |
| Later than one year and less than five years | 171,375,032 | 143,820,726 |
| Later than five years | 815,373,853 | 826,417,764 |
| | 1,028,012,990 | 1,003,179,543 |

17. DIVIDEND / DISTRIBUTION

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

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

18. PROVISION OF ZAKAT

a) Basis for Zakat:

Zakat is payable at 2.5% of higher of the approximate zakat base and adjusted net income attributable to the Saudi Unitholders.

The Fund has computed the provision for zakat based on the zakat base.

b) Movement of provision for zakat:

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

c) Status of annual return and assessments:

The Fund would file the annual return for the year ended 31 December 2020 within the stipulated timelines as specified under the Zakat regulations issued by General Authority of Zakat and Tax ("GAZT").

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the principal or the most advantageous market must be accessible to the Fund.

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

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

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

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

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

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

| | <i>Carrying value</i> | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
|----------------------------|---------------------------|----------------|----------------|----------------|--------------|
| 31 December 2020 SR | | | | | |
| Financial assets at FVTPL | - | - | - | - | - |
| | - | - | - | - | - |
| 31 December 2019 SR | | | | | |
| Financial assets at FVTPL | 9,536,997 | 9,536,997 | - | - | 9,536,997 |
| | 9,536,997 | 9,536,997 | - | - | 9,536,997 |

The Fund believes that the fair value of all other financial assets and liabilities approximately equal their carrying value. During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements.

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

In accordance with Article 22 of the Real Estate Investment Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent valuers. As set out in the terms and conditions of the Fund, the net asset values declared are based on the market value obtained. However, in accordance with International Accounting Standards 40 ("IAS 40") the Fund opted to use the cost method wherein investment properties are carried at cost less accumulated depreciation and impairment, if any, in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The valuation of the investment properties (the "properties") is carried out by Olat Properties Management and ValuStrat Consulting. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of the two valuations for the purposes of disclosing the fair value of the properties. The properties were valued taking into consideration of a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost method, residual value method and the discounted cash flow method.

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

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

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

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

| | <i>Within 12 months SR</i> | <i>After 12 months SR</i> | <i>Total SR</i> |
|---|------------------------------------|-----------------------------------|---------------------|
| 31 December 2020 | | | |
| ASSETS | | | |
| Cash and cash equivalents | 5,633,083 | - | 5,633,083 |
| Investments measured at fair value through profit or loss (FVTPL) | - | - | -- |
| Net investment in finance lease | 309,974 | 34,369,089 | 34,679,063 |
| Prepayments, and other assets | 3,832,795 | 29,058,471 | 32,891,266 |
| Investment properties | -- | 560,839,660 | 560,839,660 |
| TOTAL ASSETS | 9,775,852 | 624,267,220 | 634,043,072 |
| LIABILITIES | | | |
| Management fees payable | 1,105,702 | - | 1,105,702 |
| Accrued expenses and other liabilities | 3,162,053 | - | 3,162,053 |
| Provision of zakat | 1,748,511 | - | 1,748,511 |
| Borrowing from Bank | 18,624 | 94,300,000 | 94,318,624 |
| TOTAL LIABILITIES | 6,034,890 | 94,300,000 | 100,334,890 |
| 31 December 2019 | | | |
| ASSETS | | | |
| Cash and cash equivalents | 14,622 | - | 14,622 |
| Investments measured at fair value through profit or loss (FVTPL) | 9,536,997 | - | 9,536,997 |
| Net investment in finance lease | 159,218 | 34,679,060 | 34,838,278 |
| Prepayments, prepaid expenses and other assets | 530,599 | 18,712,295 | 19,242,894 |
| Investment properties | - | 471,871,480 | 471,871,480 |
| TOTAL ASSETS | 10,241,436 | 525,262,835 | 535,504,271 |
| LIABILITIES | | | |
| Management fees payable | 2,881,849 | - | 2,881,849 |
| Accrued expenses and other liabilities | 245,526 | - | 245,526 |
| Provision of zakat | 1,529,806 | - | 1,529,806 |
| TOTAL LIABILITIES | 4,657,181 | - | 4,657,181 |

22. SEGMENT INFORMATION

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

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

23. FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management

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

Risk measurement and reporting system

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

Risk mitigation

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

Concentration risk

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

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

Credit risk

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

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

| | 31 December 2020 SR | 31 December 2019 SR |
|---------------------------------|------------------------------------|------------------------------------|
| Cash equivalents | 5,633,083 | 14,622 |
| Net investment in finance lease | 34,679,063 | 34,838,278 |
| Other assets | 32,030,384 | 19,237,295 |
| | 72,342,530 | 54,090,195 |

TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

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

Liquidity risk

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

The remaining contractual maturities at the reporting date of the Fund's financial liabilities, except for borrowings from bank (see note 15), consisting of management fee payable and other liabilities are all due within 12 months. The undiscounted amount of these financial liabilities approximates their carrying values at the reporting date.

Market risk

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

Currency risk

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

Investment property price risk

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

Special commission rate risk

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

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

TALEEM REIT FUND

(MANAGED BY SAUDI FRANSI CAPITAL)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

24. LAST VALUATION DAY

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

25. EVENTS AFTER THE END OF REPORTING PERIOD

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

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

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

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

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

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

26. IMPACT OF COVID-19

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

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

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

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

27. APPROVAL OF THE FINANCIAL STATEMENTS

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