

# **Samba Real Estate Fund**

Financial Statements and  
Independent Auditor's Report  
for the Year Ended December 31, 2019



## ***Independent auditor's report to the unitholders and the Fund Manager of Samba Real Estate Fund***

### ***Report on the audit of the financial statements***

#### ***Our opinion***

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

#### **What we have audited**

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity attributable to unitholders for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Fund in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

#### ***Responsibilities of the Fund Manager and those charged with governance for the financial statements***

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA, and for such internal control as the 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, the 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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Fund's financial reporting process.



***Independent auditor's report to the unitholders and the Fund Manager of Samba Real Estate Fund (continued)***

***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 International Standards on Auditing, 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 International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism 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 Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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.

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.

**PricewaterhouseCoopers**

  
Bader I. Benmohareb  
License Number 471

March 31, 2020  
(7 Sha'ban 1441H)



# Samba Real Estate Fund

## STATEMENT OF FINANCIAL POSITION

As at December 31, 2019 and 2018

	<i>Note</i>	<b>2019 SAR</b>	<b>2018 SAR</b>
<b>ASSETS</b>			
Cash and cash equivalents		<b>10,663,309</b>	5,394,202
Inventories - real estate properties	4	<b>240,486,128</b>	311,717,281
<b>TOTAL ASSETS</b>		<b>251,149,437</b>	317,111,483
<b>LIABILITIES</b>			
Redemption payable		<b>9,582,997</b>	6,200,367
Management fee payable	8	<b>12,892,143</b>	9,815,907
Accrued expenses		<b>1,355,382</b>	667,915
<b>TOTAL LIABILITIES</b>		<b>23,830,522</b>	16,684,189
<b>EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>		<b>227,318,915</b>	300,427,294
Units in issue		<b>20,730,975</b>	24,968,930
Per unit value	6	<b>SAR 10.97</b>	SAR 12.03

The accompanying notes 1 to 12 form an integral part of these financial statements.

# Samba Real Estate Fund

## STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2019 and 2018

	<i>Note</i>	<b>2019</b> <b>SAR</b>	<b>2018</b> <b>SAR</b>
<b>INCOME/(LOSS)</b>			
Loss on sale of real estate properties	5	<b>(13,830,308)</b>	(21,607,429)
Provision for changes in value of real estate properties	4	<b>(1,388,887)</b>	(7,044,366)
Other income		<b>58,872</b>	522,009
<b>TOTAL LOSS</b>		<b>(15,160,323)</b>	(28,129,786)
<b>EXPENSES</b>			
Management fee	8	<b>3,076,236</b>	9,678,811
Other expenses		<b>1,044,271</b>	914,381
<b>TOTAL EXPENSES</b>		<b>4,120,507</b>	10,593,192
<b>NET LOSS FOR THE YEAR</b>		<b>(19,280,830)</b>	(38,722,978)
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(19,280,830)</b>	(38,722,978)

The accompanying notes 1 to 12 form an integral part of these financial statements.

# Samba Real Estate Fund

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2019 and 2018

	<i>Note</i>	<b>2019</b> <b>SAR</b>	<b>2018</b> <b>SAR</b>
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		<b>(19,280,830)</b>	(38,722,978)
Adjustment for:			
Provision for changes in value of real estate properties	4	<b>1,388,887</b>	7,044,366
		<b>(17,891,943)</b>	(31,678,612)
Changes in operating assets and liabilities:			
Inventories – real estate properties	4	<b>69,842,266</b>	97,607,429
Other receivables		-	160,235,000
Management fee payable		<b>3,076,236</b>	(3,490,936)
Accrued expenses		<b>687,467</b>	(47,981)
Net cash generated from operating activities		<b>55,714,026</b>	222,624,900
<b>FINANCING ACTIVITIES</b>			
Proceeds from units sold		<b>462,346</b>	413,191
Value of units redeemed, net		<b>(50,907,265)</b>	(228,727,767)
Net cash used in financing activities		<b>(50,444,919)</b>	(228,314,576)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>5,269,107</b>	(5,689,676)
Cash and cash equivalents at the beginning of the year		<b>5,394,202</b>	11,083,878
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>10,663,309</b>	5,394,202

The accompanying notes 1 to 12 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**

Year Ended December 31, 2019

	<b>2019</b> <b>SAR</b>	<b>2018</b> <b>SAR</b>
<b>NET EQUITY AT THE BEGINNING OF THE YEAR</b>	<b>300,427,294</b>	500,710,049
<b>CHANGES FROM OPERATIONS</b>		
Total comprehensive loss for the year	<b>(19,280,830)</b>	(38,722,978)
<b>CHANGES FROM UNIT TRANSACTIONS *</b>		
Proceeds from units sold	<b>462,346</b>	413,191
Value of units redeemed	<b>(54,289,895)</b>	(161,972,968)
Net change from unit transactions	<b>(53,827,549)</b>	(161,559,777)
<b>EQUITY AT THE END OF THE YEAR</b>	<b>227,318,915</b>	300,427,294

\* Subscriptions and redemptions of the units are at the net asset value calculated based on the fair value on the date of transaction.

**UNIT TRANSACTIONS**

Transactions in units for the year ended December 31 are summarised as follows:

	<b>2019</b> <b>Units</b>	<b>2018</b> <b>Units</b>
<b>UNITS AT THE BEGINNING OF THE YEAR</b>	<b>24,968,930</b>	36,460,315
Units sold	<b>36,485</b>	29,566
Units redeemed	<b>(4,274,440)</b>	(11,520,951)
Net change in units	<b>(4,237,955)</b>	(11,491,385)
<b>UNITS AT THE END OF THE YEAR</b>	<b>20,730,975</b>	24,968,930

The accompanying notes 1 to 12 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

### 1 GENERAL

Samba Real Estate Fund (the Fund) is an open-ended Sharia compliant public real estate investment fund, designed for investors seeking medium to long term capital growth through acquiring, developing and selling residential, commercial and industrial land and existing buildings. The Fund can also invest in real estate private equity and in shares of listed local real estate companies. The Fund may, depending upon market conditions and availability of cash, invest in money market instruments. The Fund commenced its operations on February 1, 2007.

The Fund is managed by Samba Capital & Investment Management Company (the Manager) a wholly owned subsidiary of Samba Financial Group (the Bank).

### 2 REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (the REIFR) published by the Capital Market Authority (CMA) in the Kingdom of Saudi Arabia on 19 Jumad Thani 1427H (corresponding to July 15, 2006).

### 3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### 3.1 Basis of preparation

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

##### *Functional and presentation currency*

Items included in these financial statements are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). These financial statements are presented in Saudi Arabian Riyals ("SAR") which is the Fund's functional and presentation currency.

##### *Accounting convention*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments at fair value through profit or loss.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

##### *Use of estimates in the preparation of the financial statements*

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The measurement of the Expected Credit Loss (ECL) allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Also refer to note 3.3.

#### 3.2 Revenue recognition

The revenue recognition policies for the various streams of revenue are as follows:

##### *Revenue from sale of real estate properties*

Revenue is measured based on the consideration specified in agreement with the counter parties. The Fund generally recognises revenue at a point-in-time when the performance obligation of the Fund is satisfied i.e. when it transfers control of property to a counter party.



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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

*Gains / losses on investments*

Unrealised gains and losses on the revaluation of investments at fair value through income statement and realised gains and losses on disposal of investments are recognised in the statement of comprehensive income.

*Dividend Income*

Dividend income is recognised when right to receive dividend is established.

**3.3 Inventories - real estate properties**

Inventories comprise of real estate properties and are carried at the lower of cost and net realisable value. Cost is determined using the specific identification method under which specific costs are attributed to identified items of inventory. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to sell.

In case, where fair values are less than cost, provision for changes in value of real estate properties is recognised based on the average fair value of real estate properties of two market value evaluations prepared by independent evaluators and is recorded in the statement of comprehensive income. These values are based on the estimates of the independent evaluators and are subject to their estimation uncertainties.

**3.4 Cash and cash equivalents**

Cash and cash equivalents as referred to in the statement of cash flows comprise current accounts with banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**3.5 Zakat and income tax**

Zakat and income tax are the obligation of the unit-holders and are not provided for in the financial statements.

**3.6 Financial instruments**

**3.6.1 Measurement methods**

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions of the instrument. The Fund records its investments on a 'trade date' basis.

At initial recognition, the Fund measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through income statement, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through income statement are expensed in the statement of comprehensive income. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost, as described in Note 3.6.3, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated.

**3.6.2 Classification and measurement of financial assets at fair value through income statement**

The Fund classifies its financial assets as described below:

*Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund classifies its equity investments at fair value through income statement (FVIS). The Fund subsequently measures all equity investments at fair value through income statement, except where the Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Fund's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to trade. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to the statement of comprehensive income, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in the statement of comprehensive income when the Fund's right to receive payments is established.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

**3.6.3 Impairment of financial assets**

The Fund assesses, on a forward-looking basis, the ECL associated with its financial assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Fund does not have significant assets carried at amortised cost and the impact of ECL on the net assets in respect of these assets is not significant at the reporting date.

**3.6.4 De-recognition of financial instruments**

A financial asset is derecognized, when the contractual rights to the cash flows from the financial asset expire or the asset is transferred, and the transfer qualifies for de-recognition. In instances where the Fund is assessed to have transferred a financial asset, the asset is derecognized if the Fund has transferred substantially all the risks and rewards of ownership. Where the Fund has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Fund has not retained control of the financial asset. The Fund recognizes separately, as assets or liabilities, any rights and obligations created or retained in the process.

**3.6.5 Financial liabilities**

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVIF. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

**3.6.6 Offsetting**

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**3.7 Accrued expenses and other payables**

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost.

**3.8 Provisions**

Provisions are recognised when a reliable estimate can be made for a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation.

**3.9 Redeemable units**

The net asset value (equity) of the Fund's portfolio is determined on the last Wednesday of each quarter (each a "Valuation Day"). The unit price is calculated by subtracting the liabilities from the total assets value, then dividing the result (equity) by the number of units outstanding on a valuation day.

The Fund classifies its redeemable units as an equity instrument if the redeemable units have all of the following features:

- It entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The instrument is in the class of instruments that is subordinate to all other classes of instruments.
- All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The instrument does not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata shares of the Fund's net assets.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

- The total expected cash flows attributable to the instrument 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.

The Fund's redeemable units meet the definition of puttable instruments classified as equity instruments under IFRS and accordingly, are classified as equity instruments.

**3.10 Accounting standards issued but not effective**

The International Accounting Standard Board (IASB) has issued new standard IFRS 17 'Insurance contracts'. The effective date of IFRS 17 is January 1, 2023. This standard is not considered to have significant impact on the financial statements of the Fund.

**4 INVENTORIES - REAL ESTATE PROPERTIES**

The composition of the inventories - real estate properties on the last valuation day is summarised below:

<b>December 31, 2019</b>						
<b>Project Description</b>	<b>Cost SAR</b>	<b>Development expenses incurred SAR</b>	<b>Total cost SAR</b>	<b>Fair value excluding development expenses incurred SAR</b>	<b>Fair value including development expenses incurred SAR</b>	<b>Carrying value (Lower of cost or fair value) SAR</b>
Derab-Riyadh	126,496,128	-	126,496,128	154,422,200	154,422,200	<b>126,496,128</b>
Sea View Tower	48,931,850	12,958,150	61,890,000	55,271,636	68,229,786	<b>61,890,000</b>
Knoz Jeddah	62,500,000	7,500,000	70,000,000	44,600,000	52,100,000	<b>52,100,000</b>
	<u>237,927,978</u>	<u>20,458,150</u>	<u>258,386,128</u>	<u>254,293,836</u>	<u>274,751,986</u>	<u><b>240,486,128</b></u>
<b>December 31, 2018</b>						
<b>Project Description</b>	<b>Cost SAR</b>	<b>Development expenses incurred SAR</b>	<b>Total cost SAR</b>	<b>Fair value excluding development expenses incurred SAR</b>	<b>Fair value including development expenses incurred SAR</b>	<b>Carrying value (Lower of cost or fair value) SAR</b>
Derab-Riyadh	126,496,128	-	126,496,128	146,848,100	146,848,100	<b>126,496,128</b>
Sea View Tower	48,931,850	12,958,150	61,890,000	64,835,033	77,793,183	<b>61,890,000</b>
Knoz Jeddah	62,500,000	7,500,000	70,000,000	45,988,887	53,488,887	<b>53,488,887</b>
Olaya Villas	30,188,623	25,561,377	55,750,000	10,724,436	36,285,813	<b>36,285,813</b>
Al Yamamah-Block(7) Subdivision	39,363,920	-	39,363,920	33,556,453	33,556,453	<b>33,556,453</b>
	<u>307,480,521</u>	<u>46,019,527</u>	<u>353,500,048</u>	<u>301,952,909</u>	<u>347,972,436</u>	<u><b>311,717,281</b></u>

The inventories in real estate properties are presented at the lower of historical cost and fair value. The fair value of inventories in real estate properties is based on an average of two market value evaluations prepared by independent evaluators. These values which are based on the estimates of the independent evaluators are subject to their estimation uncertainties.

Title deeds of real estate properties are registered in the name of Samba Investment Real Estate Company, a company wholly owned by the Manager.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

**5 LOSS ON SALE OF REAL ESTATE PROPERTIES**

	<b>2019</b>	<b>2018</b>
	<b>SAR</b>	<b>SAR</b>
Revenue from sale of real estate properties	<b>56,011,958</b>	76,000,000
Cost of real estate properties	<b>(69,842,266)</b>	(97,607,429)
Loss on sale of real estate properties	<b>(13,830,308)</b>	(21,607,429)

**6 EFFECT ON EQUITY IF REAL ESTATE PROPERTIES ARE FAIR VALUED**

In accordance with Article 22 of the Real Estate Investment Funds Regulations issued by the CMA in the Kingdom of Saudi Arabia, the 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 values declared, and management and performance fee calculations, are based on the evaluations obtained. However, in accordance with the Fund's accounting policy, real estate properties are carried at lower of cost or net realisable value.

- i) The unrealised gain on real estate properties is based on real estate evaluations (fair value) as at December 31, 2019 and December 31, 2018 are set out below:

	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	<b>SAR</b>	<b>SAR</b>
Fair value of real estate properties (refer note 4)	<b>274,751,986</b>	347,972,436
Lower of cost or fair value of real estate properties (refer note 4)	<b>(240,486,128)</b>	(311,717,281)
Unrealised gain based on real estate evaluations	<b>34,265,858</b>	36,255,155
Units in issue	<b>20,730,975</b>	24,968,930
Per unit share in unrealised gain based on real estate evaluations	<b>1.65</b>	1.45

- ii) The equity attributable to the unitholders, using the fair values of the real estate properties, as at December 31, 2019 and December 31, 2018 are set out below

	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	<b>SAR</b>	<b>SAR</b>
Equity at lower of cost or fair value as presented in these financial statements	<b>227,318,915</b>	300,427,294
Unrealised gain based on real estate evaluations (refer note 6 (i))	<b>34,265,858</b>	36,255,155
Equity based on fair value	<b>261,584,773</b>	336,682,449

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

- iii) The Equity per unit, using the fair values of the real estate properties, as at December 31, 2019 and December 31, 2018 are set out below:

	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	<b>SAR</b>	<b>SAR</b>
Equity per unit, at lower of cost or fair value as presented in these financial statements	<b>10.97</b>	12.03
Impact on net assets value per unit on account of unrealised gain based on real estate evaluations (note 6 (i))	<b>1.65</b>	1.45
Equity per unit using fair value of real estate properties	<b>12.62</b>	13.48

**7 STATUS OF TAX ASSESSMENT**

During the year, the Fund has received its Value Added Tax (VAT) assessment from General Authority of Zakat & Tax (GAZT) for the year ended 2018. GAZT in its assessment has raised a demand of SAR 3.8 million towards VAT liability and a penalty of SAR 1.99 million on the project sold during the year 2018. The Fund has submitted appeals to the GAZT for the waiver of VAT as well as the related penalty on the basis of the sale of business satisfies the requirements of Article 17(1) of the KSA VAT Regulations and could be treated as outside the scope of VAT in KSA, which was cancelled by the GAZT without providing any grounds. The Fund has submitted appeals to General Secretariat of Tax Committee (GSTC), which is under review by the GSTC. To avoid further penalties, the Fund has paid VAT on the project sold during the current year. The Fund Manager has borne the penalties related to the above assessment and the VAT to the extent of the units redeemed/subscribed during 2018.

**8 TRANSACTIONS WITH RELATED PARTIES**

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 the ordinary course of business, the Fund transacts with the related parties. The principal related parties of the Fund are the Fund Manager, the Bank and the Fund Board.

The Fund pays a management fee of 1% (2018: 2.25%) per annum to the Manager on the net asset value at the end of each quarter. The Bank acts as the Fund's banker. Other expenses for the year include SAR 80,000 (2018: SAR 80,000) towards the Fund Board remuneration.

**9 RISK MANAGEMENT**

The Manager has in place policies and procedures to identify risks affecting the Fund's assets and to ensure that such risks are addressed as soon as possible. Furthermore, the Manager makes every effort to ensure that sufficient liquidity is available to meet any anticipated redemption request. The Board of the Fund plays a role in ensuring that the Manager fulfils its responsibilities to the benefit of the Unitholders in accordance with the provisions of the Real Estate Investment Funds Regulations and the Terms and Conditions of the Fund.

**9.1 Financial risk management**

The Fund's activities are primarily exposed to market risk in addition to the other risks like liquidity and credit risks.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

**(a) Market risk****(i) Market price risk**

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate because of changes in market prices. The Fund's investments are also susceptible to market price risk arising from uncertainties about future prices. The Manager seeks to limit this risk through diversification of its assets as detailed in note 4.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

*(ii) Special commission rate risk*

Special commission rate risk arises from the possibility that changes in market special commission rates will affect future profitability or the fair value of the financial instruments. As the Fund is not carrying any significant special commission bearing financial assets, the Fund is not subject to any significant special commission rate risk.

*(iii) Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund's financial assets and liabilities are denominated in Saudi Riyal and therefore the Fund is not exposed to any currency risks.

*(iv) Legal risk*

As set out in note 4, title deeds of certain real estate properties are registered in the name of subsidiary of the Manager. The enforceability of any related rights and obligations are subject to interpretation and enforceability in the relevant courts of law.

**(b) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in realising funds to meet commitments associated with financial liabilities.

The Fund arranges for the subscriptions and redemptions of units on a scheduled basis and is therefore exposed to the liquidity risk of meeting unit holder redemptions. The Manager monitors liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet commitments as they arise.

The Manager's expectation of timing for settlement of financial liabilities is summarised below:

<b><i>As at December 31, 2019</i></b>	<b><i>7 days to 1 month SAR</i></b>	<b><i>1-12 months SAR</i></b>
<b><i>Financial liabilities</i></b>		
Redemptions payable	-	9,582,997
Management fee payable	12,892,143	-
	<u>12,892,143</u>	<u>9,582,997</u>
	<u><u>12,892,143</u></u>	<u><u>9,582,997</u></u>
<b><i>As at December 31, 2018</i></b>	<b><i>7 days to 1 month SAR</i></b>	<b><i>1-12 months SAR</i></b>
<b><i>Financial liabilities</i></b>		
Redemptions payable	-	6,200,367
Management fee payable	9,815,907	-
	<u>9,815,907</u>	<u>6,200,367</u>
	<u><u>9,815,907</u></u>	<u><u>6,200,367</u></u>

**(c) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The proceeds receivable against the sale of real estate properties are included in other receivables. Currently, the Fund is not exposed to any significant credit risk. The Bank balances are held with the Bank which has been assigned investment grade rating by Moody's & S&P with A1 and BBB+ respectively.

**9.2 Capital risk management**

The capital of the Fund is represented by the equity attributable to redeemable unitholders. The amount of equity attributable to the unitholders can change significantly on each Valuation Day, as the Fund is subject to subscriptions and redemptions at the discretion of unitholders on every Valuation Day, as well as changes resulting from the Fund's performance. The Fund's objective when managing capital is to safeguard the Fund's

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the Year Ended December 31, 2019

ability to continue as a going concern in order to provide returns for unitholders, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund Board and the Manager monitor capital on the basis of the value of equity attributable to unitholders.

### **9.3 Fair value estimation**

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

- 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 estimated fair value of the Fund's financial assets and liabilities is not considered to be significantly different from their carrying values.

### **10 FINANCIAL INSTRUMENTS BY CATEGORY**

All financial assets and financial liabilities were classified under amortised cost as of December 31, 2019 and December 31, 2018.

### **11 LAST VALUATION DAY**

The last valuation date for the purpose of preparation of these financial statements was December 31, 2019 (2018: December 31, 2018).

### **12 APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Fund Board on 6 Sha'ban 1441H (corresponding to March 30, 2020).