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Samba Real Estate Fund

Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2018



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, 2018, 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, 2018;
- 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 net assets 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



By: _____
Bader I. Benmohareb
License Number 471

February 19, 2019

Samba Real Estate Fund

STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

		December 31, 2018 SAR	December 31, 2017 SAR	January 1, 2017 SAR
	<i>Note</i>			
ASSETS				
Cash and cash equivalents		5,394,202	11,083,878	82,790,117
Investments at fair value through profit or loss	5	-	-	8,850,489
Inventories - real estate properties	6	311,717,281	416,369,076	952,491,270
Other receivables		-	160,235,000	100,986,956
		317,111,483	587,687,954	1,145,118,832
LIABILITIES				
Redemption payable		6,200,367	72,955,166	157,663,870
Performance fee payable	9	-	-	12,185,166
Management fee payable	10	9,815,907	13,306,843	7,565,999
Accrued expenses		667,915	715,896	657,000
		16,684,189	86,977,905	178,072,035
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		300,427,294	500,710,049	967,046,797
Units in issue		24,968,930	36,460,315	54,546,523
Per unit value	8	SAR 12.03	SAR 13.73	SAR 17.73

The notes 1 to 14 form part of these financial statements.

Samba Real Estate Fund

STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2018

	<i>Note</i>	2018 SAR	2017 SAR
INCOME/(LOSS)			
Loss on sale of real estate properties	7	(21,607,429)	(83,889,808)
Provision for changes in value of real estate properties	6	(7,044,366)	(51,277,386)
Gain on investments at fair value through profit or loss		-	25,280
Other income		522,009	2,123,773
		(28,129,786)	(133,018,141)
EXPENSES			
Performance fee	9	-	(12,185,166)
Management fee	10	9,678,811	19,359,447
Other expenses		914,381	890,070
		10,593,192	8,064,351
NET LOSS FOR THE YEAR		(38,722,978)	(141,082,492)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(38,722,978)	(141,082,492)

The notes 1 to 14 form part of these financial statements.

Samba Real Estate Fund

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

	<i>Note</i>	2018 SAR	2017 SAR
OPERATING ACTIVITIES			
Net loss for the year		(38,722,978)	(141,082,492)
Adjustment for:			
Provision for changes in value of real estate properties	6	7,044,366	51,277,386
		(31,678,612)	(89,805,106)
Changes in operating assets and liabilities:			
Investments at fair value through profit or loss, net		-	8,850,489
Inventories – real estate properties	6	97,607,429	484,844,808
Other receivables		160,235,000	(59,248,044)
Performance fee payable		-	(12,185,166)
Management fee payable		(3,490,936)	5,740,844
Accrued expenses		(47,981)	58,896
Net cash generated from operating activities		222,624,900	338,256,721
FINANCING ACTIVITIES			
Proceeds from units sold		413,191	13,676,342
Value of units redeemed, net		(228,727,767)	(423,639,302)
Net cash used in financing activities		(228,314,576)	(409,962,960)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(5,689,676)	(71,706,239)
Cash and cash equivalents at the beginning of the year		11,083,878	82,790,117
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		5,394,202	11,083,878

The notes 1 to 14 form part of these financial statements.

Samba Real Estate Fund

STATEMENT OF CHANGES IN NET ASSETS

Year Ended December 31, 2018

	2018 SAR	2017 SAR
NET ASSETS AT THE BEGINNING OF THE YEAR	500,710,049	967,046,797
CHANGES FROM OPERATIONS		
Total comprehensive loss for the year	(38,722,978)	(141,082,492)
CHANGES FROM UNIT TRANSACTIONS *		
Proceeds from units sold	413,191	13,676,342
Value of units redeemed	(161,972,968)	(338,930,598)
Net change from unit transactions	(161,559,777)	(325,254,256)
Net assets at the end of the year	300,427,294	500,710,049

* 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:

	2018 Units	2017 Units
UNITS AT THE BEGINNING OF THE YEAR	36,460,315	54,546,523
Units sold	29,566	681,884
Units redeemed	(11,520,951)	(18,768,092)
Net change in units	(11,491,385)	(18,086,208)
UNITS AT THE END OF THE YEAR	24,968,930	36,460,315

The notes 1 to 14 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

1 GENERAL

Samba Real Estate Fund (the Fund) is an open-ended 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. Where policies are applicable under IFRS or SOCPA, those policies have been particularly specified.

3.1 Basis of preparation

These financial statements of the Fund have been prepared 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").

For the year ended December 31, 2017, the Fund prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by SOCPA. SOCPA's Board of Directors in their meeting held on Thursday, July 18, 2013, (corresponding to 10 Ramadan 1434H), agreed to apply the International Financial Reporting Standards (IFRSs), after being endorsed by SOCPA, all at once. The required date for application for all entities (other than listed entities) is the financial periods starting from January 1, 2018. Accordingly, the financial statements for the year ended December 31, 2018 are the first year end annual financial statements of the Fund prepared in accordance with IFRS as endorsed in KSA and other standards and pronouncements issued by SOCPA. Accordingly, International Financial Reporting Standard 1, "First-time Adoption of International Financial Reporting Standards" (IFRS 1), as endorsed in the Kingdom of Saudi Arabia has been applied. Refer to note 4 for information on the first time adoption of IFRS as endorsed in the Kingdom of Saudi Arabia, by the Fund.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

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 behavior. Also refer to note 3.3.

3.2 Revenue recognition

The revenue recognition policies for the various streams of revenue as per IFRS 15 are as follows:

Revenue from sale of real estate properties

Policy applicable under IFRS

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, which typically occurs when title of the property is transferred to the counter party.

Policy applicable under SOCPA

Revenue arising on sale of plots of land and real estate is recognised when a sale has been completed.

Gains / losses on investments

Unrealised gains and losses on the revaluation of investments at fair value through profit or loss 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

3.6 Financial instruments***Change in accounting policy***

The Fund has adopted IFRS 9 'Financial Instruments', as issued by the International Accounting Standards Board (IASB) in July 2014, with a date of transition of January 1, 2018, which has resulted in insignificant changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. Hence, financial assets and liabilities have not been re-classified/re-measured in these financial statements.

Set out below are the disclosures relating to the impact of the adoption of IFRS 9 on the Fund. Further details of the specific IFRS 9 accounting policies applied in the current year (as well as the previous SOCPA compliant accounting policies applied in the comparative periods) are described in more detail in below notes.

There were no changes to the classification and measurement of financial assets and liabilities as a result of adoption of IFRS 9.

Reconciliation of statement of financial position balances from SOCPA to IFRS 9

The Fund performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to Note 3.6.2 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with SOCPA to their new measurement categories upon transition to IFRS 9 on January 1, 2018.

	SOCPA amount December 31, 2017 SAR	Re- classifications SAR	Re- measurement SAR	IFRS 9 amount January 1, 2018 SAR
Amortised cost				
Cash and cash equivalents	11,083,878	-	-	11,083,878
Other receivables	160,235,000	-	-	160,235,000

The total impact of re-measurement loss relating to ECL allowance was not significant to the opening net assets of the Fund.

Reconciliation of impairment allowance balance from SOCPA to IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with previous incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at January 1, 2018.

	SOCPA Impairment allowance SAR	Re- Classification SAR	Re- measurement SAR	IFRS 9 Impairment allowance SAR
Cash and cash equivalents	-	-	-	-
Other receivables	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

3.6.1 Measurement methods

Policy applicable under IFRS

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 profit or loss, 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 profit or loss 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.

Policy applicable under SOCPA

All regular-way purchases and sales of financial assets are recognised and derecognised on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the time frame generally established by regulation or convention in the market place. All other financial assets and liabilities are initially recognised on the trade date at which the Fund becomes a party to the contractual provision of the instrument.

3.6.2 Classification and measurement of financial assets at fair value through profit or loss

The Fund classifies its financial assets as described below:

Equity instruments

Policy applicable under IFRS

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 profit or loss (FVPL). The Fund subsequently measures all equity investments at fair value through profit or loss, 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.

Policy applicable under SOCPA

Investments are classified as "held for trading" if they are purchased for the purpose of resale in the short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenditures made by the Fund for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognised in the statement of income but excluding dividend income which is separately shown in the statement of income. Realised gains or losses at disposal and unrealised gains or losses are determined on average cost basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

3.6.3 Impairment of financial assets

Policy applicable under IFRS

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.

Policy applicable under SOCPA

Financial assets are assessed for impairment when it is established that there is objective evidence that the Fund may not be able to collect all amounts due. The amount of impairment is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows discounted based on the original effective yield rate.

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 FVPL. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

3.9 Redeemable units

The net asset value 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 (NAV) 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.
- 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

IFRS 16 – Leases has been issued by International Accounting Standard Board (IASB) that is mandatory for the accounting period beginning on or after January 1, 2019 but is not considered to have any significant effect on the Fund's operations.

4 FIRST TIME ADOPTION OF IFRS

The financial statements for the year ended December 31, 2018 are the first annual financial statements of the Fund prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia. For periods up to and including the year ended December 31, 2017, the Fund prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by SOCPA.

Accordingly, the Fund has prepared the financial statements that comply with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA applicable as at December 31, 2018, together with the comparative periods as at January 1, 2017 and as at December 31, 2017. This note explains the principal adjustments made by the Fund in restating its previous statements of financial positions as at January 1, 2017 and December 31, 2017 which had been prepared in accordance with the requirements of SOCPA.

Exemptions applied

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Fund has applied the following exemption:

The Fund has adopted IFRS 9 as issued by International Accounting Standards Board in July 2014 with a date of transition of January 1, 2018, which did not result in adjustments to the amounts previously recognised in the financial statements.

The assessment of business model has been made on the basis of the facts and circumstances that existed at the date of transition.

As permitted by the transitional provisions of IFRS 9, the Fund elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition to IFRS 9

Samba Real Estate Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

were recognised in the opening net assets (January 1, 2018) of the current year. Accordingly, the information presented in comparative periods reflects the requirements of SOCPA and therefore is not comparable to the information presented under the requirements of IFRS 9 for the year ended December 31, 2018. Therefore, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current year only.

Estimates

The estimates at January 1, 2017 and at December 31, 2017 are consistent with those made for the same dates in accordance with SOCPA.

The reconciliation to IFRS from previous financial reporting framework (i.e. SOCPA) on statement of financial position as on January 1, 2017 and December 31, 2017 is given below:

	December 31, 2017			January 1, 2017		
	SOCPA SAR	Effect of transition to IFRS SAR	IFRS SAR	SOCPA SAR	Effect of transition to IFRS SAR	IFRS SAR
ASSETS						
Investment in real estate properties	416,369,076	(416,369,076)	-	952,491,270	(952,491,270)	-
Inventories – real estate properties	-	416,369,076	416,369,076	-	952,491,270	952,491,270
Total	416,369,076	-	416,369,076	952,491,270	-	952,491,270

The Fund's liabilities, income, expenses, operating and financing cash flows reported under SOCPA did not significantly differ from IFRS.

5 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Number of Shares	Cost SAR	Market value SAR
<i>January 1, 2017</i>			
Jabal Omer Development Company	60,000	2,747,913	4,484,400
Arriyadh Development Company	191,916	2,985,116	4,366,089
		5,733,029	8,850,489

6 INVENTORIES - REAL ESTATE PROPERTIES

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

<i>December 31, 2018</i>						
Project Description	Cost SAR	Development expenses incurred SAR	Total cost SAR	Fair value excluding development expenses SAR	Fair value including development expenses SAR	Carrying value (Lower of cost or fair value) SAR
Derab-Riyadh	126,496,128	-	126,496,128	146,848,100	146,848,100	126,496,128
Sea View Tower	48,931,850	12,958,150	61,890,000	64,835,033	77,793,183	61,890,000
Knoz Jeddah	62,500,000	7,500,000	70,000,000	45,988,887	53,488,887	53,488,887
Olaya Villas	30,188,623	25,561,377	55,750,000	10,724,436	36,285,813	36,285,813
Al Yamamah- Block(7) Subdivision	39,363,920	-	39,363,920	33,556,453	33,556,453	33,556,453
	307,480,521	46,019,527	353,500,048	301,952,909	347,972,436	311,717,281

Samba Real Estate Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

<i>December 31, 2017</i>						
<i>Project Description</i>	<i>Cost SAR</i>	<i>Development expenses incurred SAR</i>	<i>Total cost SAR</i>	<i>Fair value excluding development expenses SAR</i>	<i>Fair value including development expenses SAR</i>	<i>Carrying value (Lower of cost or fair value) SAR</i>
Derab-Riyadh	126,496,128	-	126,496,128	151,279,497	151,279,497	126,496,128
Al-Esayi Print Land	120,360,949	32,131,051	152,492,000	65,476,378	97,607,429	97,607,429
Sea View Tower	48,931,850	12,958,150	61,890,000	71,685,557	84,643,707	61,890,000
Knoz Jeddah	62,500,000	7,500,000	70,000,000	50,940,000	58,440,000	58,440,000
Olaya Villas	30,188,623	25,561,377	55,750,000	14,043,313	39,604,690	39,604,690
Al Yamamah-Block(7) Subdivision	39,363,920	-	39,363,920	32,330,829	32,330,829	32,330,829
	<u>427,841,470</u>	<u>78,150,578</u>	<u>505,992,048</u>	<u>385,755,574</u>	<u>463,906,152</u>	<u>416,369,076</u>
<i>January 1, 2017</i>						
<i>Project Description</i>	<i>Cost SAR</i>	<i>Development expenses incurred SAR</i>	<i>Total cost SAR</i>	<i>Fair value excluding development expenses SAR</i>	<i>Fair value including development expenses SAR</i>	<i>Carrying value (Lower of cost or fair value) SAR</i>
Al-Qarah	191,150,960	-	191,150,960	190,712,524	190,712,524	190,712,524
Al Bawabah-2	188,645,156	24,524,608	213,169,764	167,201,419	191,726,027	191,726,027
Al-Esayi Print Land	120,360,949	32,131,051	152,492,000	87,911,063	120,042,114	120,042,114
Derab-Riyadh	126,496,128	-	126,496,128	252,517,499	252,517,499	126,496,128
Knoz Jeddah	62,500,000	7,500,000	70,000,000	63,468,750	70,968,750	70,000,000
Telal Jeddah	59,916,400	-	59,916,400	58,303,261	58,303,261	58,303,261
Sea View Tower	48,931,850	12,958,150	61,890,000	82,695,017	95,653,167	61,890,000
Olaya Villas	30,188,623	25,561,377	55,750,000	24,292,923	49,854,300	49,854,300
Kasr Jabrah Subdivision	44,102,996	-	44,102,996	44,113,696	44,113,696	44,102,996
Al Yamamah-Block(7) Subdivision	39,363,920	-	39,363,920	39,439,276	39,439,276	39,363,920
	<u>911,656,982</u>	<u>102,675,186</u>	<u>1,014,332,168</u>	<u>1,010,655,428</u>	<u>1,113,330,614</u>	<u>952,491,270</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 and one property is registered in the name of Samba Real Estate Company, a company wholly owned by the Bank.

Samba Real Estate Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

7 LOSS ON SALE OF REAL ESTATE PROPERTIES

	2018 SAR	2017 SAR
Revenue from sale of real estate properties	76,000,000	400,955,000
Cost of real estate properties	(97,607,429)	(484,844,808)
Loss on sale of real estate properties	(21,607,429)	(83,889,808)

8 EFFECT ON NET ASSET VALUE 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, 2018, December 31, 2017 and January 1, 2017 are set out below:

	31-Dec-18 SAR	31-Dec-17 SAR	01-Jan-17 SAR
Fair value of real estate properties (refer note 6)	347,972,436	463,906,152	1,113,330,614
Lower of cost or fair value of real estate properties (refer note 6)	(311,717,281)	(416,369,076)	(952,491,270)
Unrealised gain based on real estate evaluations	36,255,155	47,537,076	160,839,344
Units in issue	24,968,930	36,460,315	54,546,523
Per unit share in unrealised gain based on real estate evaluations	1.45	1.30	2.95

- ii) The net asset values, using the fair values of the real estate properties, as at December 31, 2018, December 31, 2017 and January 1, 2017 are set out below

	31-Dec-18 SAR	31-Dec-17 SAR	01-Jan-17 SAR
Net asset value, at lower of cost or fair value as presented in these financial statements	300,427,294	500,710,049	967,046,797
Unrealised gain based on real estate evaluations (refer note 8 (i))	36,255,155	47,537,076	160,839,344
Net asset value based on fair value	336,682,449	548,247,125	1,127,886,141

Samba Real Estate Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

- iii) The net asset value per unit, using the fair values of the real estate properties, as at December 31, 2018, December 31, 2017 and January 1, 2017 are set out below:

	<i>31-Dec-18</i> <i>SAR</i>	<i>31-Dec-17</i> <i>SAR</i>	<i>01-Jan-17</i> <i>SAR</i>
Net asset value per unit, at lower of cost or fair value as presented in these financial statements	12.03	13.73	17.73
Impact on net assets value per unit on account of unrealised gain based on real estate evaluations (note 8 (i))	1.45	1.30	2.95
Net asset value per unit using fair value of real estate properties	13.48	15.03	20.68

9 PERFORMANCE FEES

In accordance with the agreements executed by the Manager, the Fund is liable to pay performance fees to developers, at the time of liquidation of properties, calculated on the net increases in values of its real estate properties. The terms of the performance fee calculation varies between developers. On a quarterly basis, the Fund accrues for these performance fees at the agreed rates based on the changes in the market value of properties and adjusts the performance fees accordingly if there are previous over/under accruals.

10 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.

The Fund pays a management fee of 2.25% (2017: 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.

11 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.

11.1 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 5 and 6.

Samba Real Estate Fund

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

(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 6, title deeds of certain real estate properties are registered in the name of subsidiaries of the Bank and 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:

As at December 31, 2018	7 days to 1 month SAR	1-12 months SAR	
Financial liabilities			
Redemptions payable	-	6,200,367	
Management fee payable	9,815,907	-	
	<u>9,815,907</u>	<u>6,200,367</u>	
As at December 31, 2017	7 days to 1 month SAR	1-12 months SAR	
Financial liabilities			
Redemptions payable	-	72,955,166	
Management fee payable	13,306,843	-	
	<u>13,306,843</u>	<u>72,955,166</u>	
As at January 1, 2017	7 days to 1 month SAR	1-12 months SAR	More than 12 months SAR
Financial liabilities			
Redemptions payable	-	157,663,870	-
Performance fee payable	-	-	12,185,166
Management fee payable	7,565,999	-	-
	<u>7,565,999</u>	<u>157,663,870</u>	<u>12,185,166</u>

Subsequent to the year end, the Fund has sold certain inventories and realised SAR 28.2 million which will be used to meet liquidity requirements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2018

(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.

11.2 Capital risk management

The capital of the Fund is represented by the net assets attributable to redeemable unitholders. The amount of net asset 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 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 net assets attributable to unitholders.

11.3 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 except for investments at fair value through profit or loss whose fair value is disclosed in note 5 to these financial statements. Investments at fair value through profit or loss are held in level 1 hierarchy of fair value.

12 FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and financial liabilities were classified under amortised cost (except for investments at fair value through profit or loss as at January 1, 2017 which were classified as measured at fair value) as of December 31, 2018, December 31, 2017 and January 1, 2017.

13 LAST VALUATION DAY

The last valuation date for the purpose of preparation of these financial statements was December 31, 2018 (2017: December 31, 2017).

14 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on February 18, 2019.