جـدوى ريـت الحـرمـين
Jadwa REIT Al Haramain

ANNUAL REPORT 2018

جدوى للإستثمار
Jadwa Investment

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His Majesty
King Salman
Bin Abdulaziz Al Saud
Custodian Of The Two
Holy Mosques

His Royal Highness Prince
Mohammed Bin Salman
Bin Abdulaziz Al Saud
Crown Prince,
First Deputy Prime Minister

Contents

Fund Manager's Message To Unitholders

Dear Unitholders,

As we approach the second anniversary of Jadwa REIT Al Haramain Fund's listing, we are pleased to share the Fund's annual report for the year ended 31 December 2018.

Market conditions in Makkah and Madinah were challenging last year, largely due to competitive dynamics in the hospitality sector.

That said, the quality of our existing assets and tenants has meant stability in the Fund's cash flows and therefore dividend payments. At the same time, the continued supply-demand imbalance around the Haram has been positive for the fair-value estimation of the Fund's holdings.

Given the intense competition in the core-asset segment, and resultant stretched valuations, we are casting our net wider, looking at both value-add and opportunistic investments.

However, any such acquisitions would come with clear risk-mitigation measures, including securing pre-lease terms with high-quality tenants. Needless to say, we are only interested in taking on more risk when this is amply compensated for by the probable rewards of the project considered.

Over the course of the year we completed the acquisition of a retail building located near the Haram, which remains the Fund's principal search area. We are still actively monitoring opportunities in Madinah, but have yet to find assets that meet our selective investment criteria.

Many of the current headwinds are more short term in nature however this should not obscure the underlying drivers of the real-estate markets in Makkah and Madinah, which are strong demographic trends and the ambitious reform and investment drive under Vision 2030. Religious tourism is a central pillar of the government's diversification strategy, providing a structural tailwind for hospitality assets in the holy cities.

Last year saw the opening of major infrastructure projects, including the Haramain High-Speed Railway and Jeddah International Airport, both of which are significant positives for regional tourism. Meanwhile, there are ongoing efforts to boost capacity at the holy sites, as well as broaden the region's cultural offering. In our view, all of this lays the foundation for accelerated growth.

Last year, earnings per unit as measured by Funds from operations grew by approximately 7.7%.

As of 31 December 2018, the fair value of the Fund's property portfolio, which was priced by two independent valuers, stood at SAR 862 million, up by 4.3% year on year due to the acquisition of Ibrahim Al Khalil II (Restaurant Building). The Fund's NAV was stable over the past year, ending at SAR 10.86 per unit.

The Fund's dividend policy remains unchanged. Distributions to unitholders should not fall below SAR 0.52 per unit. For the 2018 calendar year we are happy to report that:

- Half yearly Dividends of SAR 0.28 per unit were distributed.
- Total debt at the end of the year stood at SAR 183 million, with a loan-to-value (LTV) ratio of 21.6% (far below the maximum regulatory LTV of 50% of asset value).

Lastly, we would like to express our gratitude for your support, as we continue to build a real estate portfolio with compelling long-term income and growth prospects.

Section 1

REIT AT A GLANCE

JADWA REIT AL HARAMAIN - AT A GLANCE

APRIL 2017	Fund Listing
JULY 2017	Obtained a Shariah-compliant credit facility of SAR 500 million
AUGUST 2017	Fund Dividend Policy First Dividend Distribution of SAR 0.1
DECEMBER 2017	Acquired Wadi Ibrahim Hotel and a Retail Building (Pharmacy changed to a resturant)
JANUARY 2018	Second Dividend Distribution of SAR 0.26
MAY 2018	• Obtained a Shariah-compliant credit facility of SAR 200 million • acquired a retail building
JULY 2018	Third Dividend Distribution of SAR 0.28
FEBRUARY 2019	Fourth Dividend Distribution of SAR 0.28

JADWA REIT AL HARAMAIN - AT A GLANCE

The Fund

The Jadwa REIT Al Haramain Fund is a closed-ended Shariah-compliant real estate investment-traded Fund. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued by Saudi Arabia's Capital Market Authority (CMA). The Fund was listed on the Tadawul (Saudi) Stock Exchange in April 2017, under ticker symbol 4332. The term of the Fund is 99 years from the listing date, renewable at the discretion of the Fund manager following CMA approval. The Fund was established with an initial equity offering of SAR 660 million.

Fund Manager

The Fund is managed by Jadwa Investment Company, a Saudi Arabian closed joint-stock company licensed by the CMA as an "authorized person" under license number 06034-37, dated 03/03/2007G (corresponding to 13/02/1428H).

Investment Objectives

The primary investment objective of the Fund is to provide its unitholders with a regular income by investing in income-generating real estate assets in Saudi Arabia, focusing exclusively on the holy cities of Makkah and Madinah.

Distribution policy

As the Fund manager, Jadwa Investment Company pays out dividends to investors twice a year with an annual cash dividend of no less than 90% of the Fund's net profits. This does not include profits resulting from the sale of the underlying real estate assets and other investments, which may be reinvested in new real estate or used to renovate the Fund's existing assets.

Report Availability

This report is available on both the Jadwa Investment Company and Tadawul websites.

Units Issuing

The REIT Fund issued 66 million units of SAR 10 each, resulting in total raised equity of SAR 660 million.

Existing Portfolio

The initial portfolio comprised of two hospitality assets (a four-star hotel and pilgrim accommodation) located in Makkah, offering approximately 984 rooms for Umrah and Hajj Pilgrims. The four-star hotel is strategically located close to the Haram, while the pilgrim accommodation is situated approximately 900 meters away from the Mina, five kilometers to the east of Makkah. In Dec 2017, the Fund completed the acquisition of two additional assets including a three-star hotel and a mixed-use building offering retail and ancillary residential, located in Al Misfalah District, within walking distance of the Haram.
In 2018 the Fund made a small acquisition in a restaurant building, which is attractively located in the vicinity of the Haram.

Debt Facility

In May 2018, Jadwa Investment announced another Shariah-compliant credit facility offered by Riyad Bank, also to be used for the Fund's expansion plan. The details are as follows:

- SAR 200 million debt facility.
- Facility period extends for three years
- The facility drawdown period is two years. The full amount of drawdowns shall be paid in one installment at the end of facility period. During the facility period, only the financing costs will be paid.
- As of December 2018 the Fund has only utilized SAR 183 million out of the 500mn facility obtained by Banque Saudi Fransi

JADWA REIT AL HARAMAIN - AT A GLANCE

Expense Ratio	Annual Fund Expenses	Maximum Limit as % of NAV	Expenses fiscal year 2018	Expenses fiscal year 2017 (from 16 April to 31 December)
	Management Fee	1.00%	7,204,393	5,036,419
	Registrar Fee		400,093	282,740
	Listing Fee		210,657	225,806
	Custodian Fee	0.025%	162,001	116,370
	Administrator Fee	0.02%	143,412	98,197
	Auditor Fee		40,000	40,000
	Board Oversight Fee		20,000	20,000
	Other Fund Fees	up to 0.5%	653,477	354,044
	Finance Charges		8,222,254	166,219
	Grand Total		17,056,287	6,339,795
	Expenses Ratio		2.64%	0.96%

Portfolio Characteristics		As of 31 December 2018
	Number of Properties	5
	Sectors	Hospitality, Retail and ancillary residential
	Total Land Area	3,227 sqm
	Total BUA	43,255 sqm
	No. of Rooms	1,069
	No. of beds	5,022
	Portfolio Occupancy	100%
	Number of Tenants	2
	WAULT	11.34
	Fair Market Value*	861,950,000
	Annual Contractual Income ***	52,700,000
	Net Property Yield	6.5%
	Net Fund Yield**	5.6%

**Market Value as per two independent and credited valuers*

***The annualized Net Fund Yield at par value*

**** Based on hejri calender*

Income and Dividend		31 December 2018	31 December 2017**
	Revenues*	54,085,976	29,876,715
	Net Profit	23,612,661	15,103,806
	Funds From Operation (FFO)	37,029,689	23,536,920
	FFO per Unit	0.56	0.36
	DPU	0.56	0.1

**The leases are FRI*

***Starting from 16th April 2017*

Balance Sheet		31 December 2018	31 December 2017
	Total Assets	830,219,181	847,201,562
	Liabilities	183,642,714	188,597,756
	Net Asset Value	646,576,467	658,603,806
	Cost NAV per Unit (SAR)	9.80	9.98
	Fair value NAV per unit (SAR)	10.86	10.86
	LTV	21.60%	21.60%

The NAV has not changed from 2017 compared to 2018.

Section 2

PORTFOLIO DESCRIPTION

JADWA REIT AL HARAMAIN FUND

2

Retail

The Fund's retail exposure is currently made up of an ownership of a retail building and a restaurant property, both located within walking distance of the Masjid Al-Haram, the primary destination for pilgrims in Makkah.

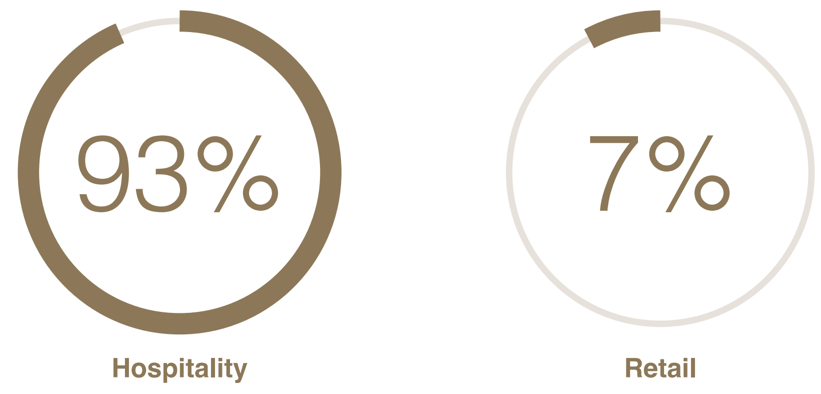
3

Hospitality

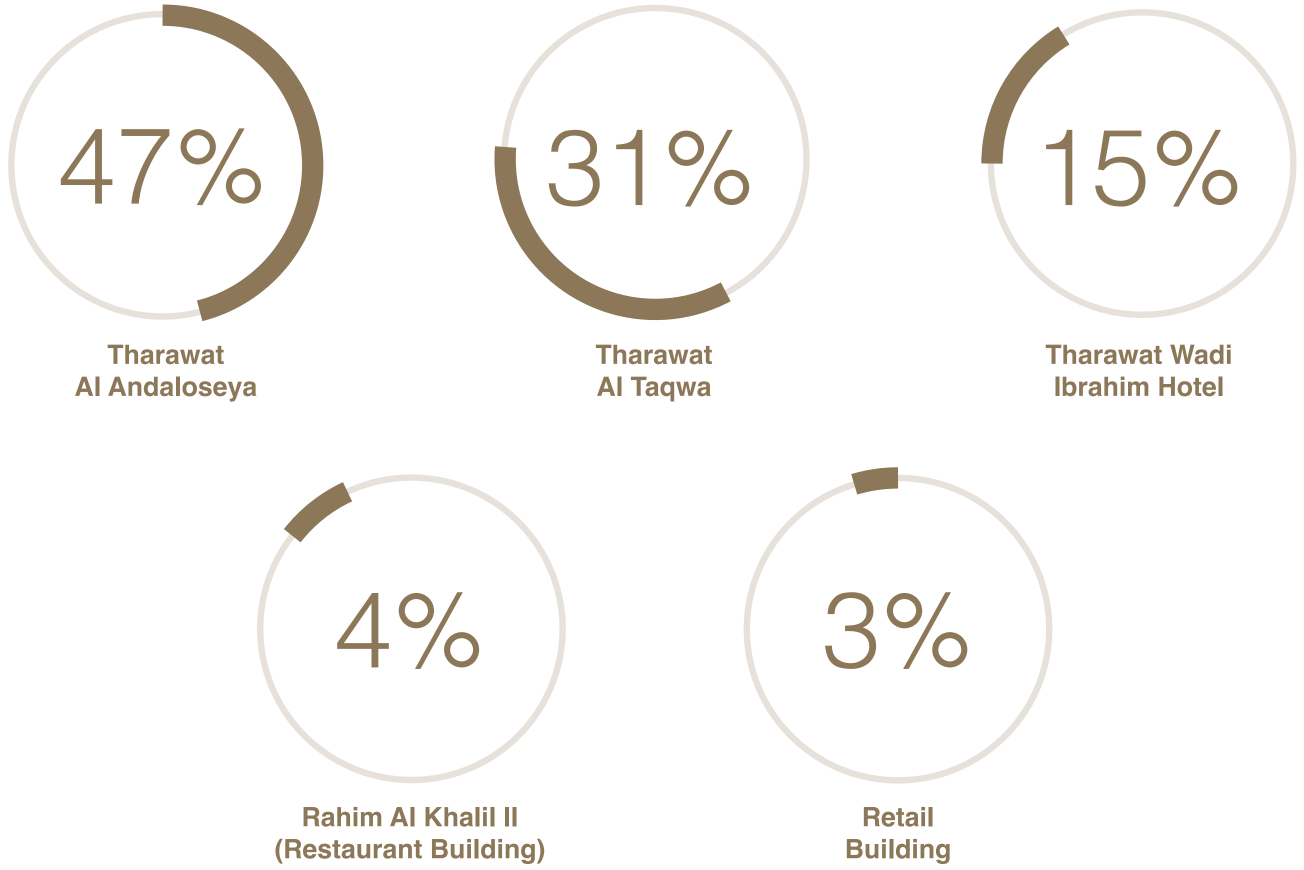
The Fund owns three hospitality assets: a four-star hotel, a three-star hotel, and one pilgrim accommodation all located within Makkah. At a combined capacity of 1,069 beds, the hotels provide accommodation and services for Umrah and Hajj pilgrims.

Around 10 million pilgrims visit Saudi Arabia each year, making Makkah one of the world's most attractive hotel markets. Targeting this sector allows the Fund to generate income, while also bringing strong capital-appreciation potential.

Portfolio Allocation by Sector



Portfolio Allocation by Asset Value



JADWA REIT AL HARAMAIN FUND

Tharawat Al Andalosiya

Al Mesfalah District, Makkah
Location

379,000,000
Acquisition Price

6.67%
Net Acquisition Yield

1
Tenant

404,150,000
Average Market Value

100%
Occupancy Rate

13.7 Years
Remaining Lease Term

46%
of Portfolio Rental Value

- The property is currently utilized as a four-star hotel, under the brand of 'Tharawat Al Andaloseya Hotel'.
- 294 rooms to accommodate visitors to Makkah's holy sites throughout the year. Located within 500 meters of the Masjid Al-Haram.
- The property consists of a basement, ground level, mezzanine floor, service level, 12 upper levels and a roof.
- The ground level is internally configured to accommodate ten shops.
- The property is subject to a remaining 1.5 year rental guarantee in the form of a promissory note from the lessee.

JADWA REIT AL HARAMAIN FUND

Tharawat Al Taqwa

Al Shishah District, Makkah
Location

250,000,000
Acquisition Price

6.81%
Net Acquisition Yield

1
Tenant

267,000,000
Average Market Value

100%
Occupancy Rate

13.7 Years
Remaining Lease Term

31%
of Portfolio Rental Value

- The property is currently utilized for the accomodation of Hajj and Umrah visitors, under the brand of 'Tharawat Al Taqwa Hotel'.
- 690 rooms to accommodate visitors to Makkah's holy sites during the Hajj season and month of Ramadan. Located approximately 900 meters from Mina, the hotel can host 3,506 pilgrims.
- The property is arranged over three basement levels, a ground floor, mezzanine level, service level, restaurant level, 14 upper levels and a roof.
- The property is subject to a remaining 6.5 year rental guarantee in the form of a promissory note from the lessee.

JADWA REIT AL HARAMAIN FUND

Tharawat Wadi Ibrahim Hotel

Al Mesfalah District, Makkah
Location

125,000,000
Acquisition Price

6.6%
Net Acquisition Yield

1
Tenant

129,000,000
Average Market Value

100%
Occupancy Rate

2.61 Years
Remaining Lease Term

15%
of Portfolio Rental Value

- The property is currently utilized for the accomodation of Hajj and Umrah visitors, under the brand of 'Tharawat Wadi Ibrahim Hotel'.
- 85 rooms to accommodate visitors to Makkah's holy sites throughout the year. Located within 500 meters of the Masjid Al-Haram.
- Consists of a ground level, 11 upper levels and a roof.
- The ground level is internally configured to accommodate two shops.
- The rent is being guaranteed via promissory note.

JADWA REIT AL HARAMAIN FUND

Retail Building

Al Mesyal Road, Makkah
Location

23,000,000
Acquisition Price

6.72%
Net Acquisition Yield

1
Tenant

25,000,000
Average Market Value

100%
Occupancy Rate

4.55 Years
Remaining Lease Term

3%
of Portfolio Rental Value

- The property is configured to allow for two retail shops and ancillary residential.
- The building consists of a ground level, two upper levels and a roof.
- The rent is guaranteed via promissory note.

JADWA REIT AL HARAMAIN FUND

Ibrahim Al Khalil II

Al Mesfalah District, Makkah
Location

35,000,000
Acquisition Price

6.48%
Net Acquisition Yield

1
Tenant

36,800,000
Average Market Value

100%
Occupancy Rate

2.61 Years
Remaining Lease Term

4%
of Portfolio Rental Value

- The property covers a plot of land measuring 57 sq. m, incorporating an operational restaurant.
- The subject is a three-storey building, consisting of a restaurant, with accommodation above, located within the central area of Makkah in close proximity to the Haram.
- The rent is guaranteed via promissory note.

Section 3

MARKET OVERVIEW

MARKET COMMENTARY - HOSPITALITY SECTOR

Market Summary

- The Saudi economy recovered in 2018, helped by a buoyant oil sector. Real GDP growth came in at 2.2% for the full year, a clear improvement on 2017, when fiscal tightening and the lower oil price weighed on activity.
- The real-estate hospitality segment experienced some softness, partly due to competitive dynamics and policy changes.
- In both Makkah and Madinah, this manifested itself in downward pressure on occupancy levels and other key sector metrics, such as the average daily rate (ADR) and revenue per available room (RevPAR). However, these effects are widely seen as transitory, as major public and private investment initiatives start to bear fruit.
- The Haramain high-speed railway became operational in the second half of 2018, with its 300 km/hour electric trains reducing the travel time between Makkah and Madinah significantly. At peak capacity, the rail line, which also stops at Jeddah, King Abdulaziz International Airport and King Abdullah Economic City, is expected to ferry up to 60 million passengers per year.
- The introduction of the Kingdom's first electronic visa system, Sharek, has been a positive development for the tourism sector, bringing a fast and seamless application process for prospective visitors. Meanwhile, the 30-day visa extension available for Umrah pilgrims has helped increase the average length of stay of overseas worshippers.

Source: Published Market Report

- Notably, the government's 2016 visa-fee hike does not appear to have dented religious tourism so far. However, there is lingering nervousness among operators and signs of a shift in the types of visitors arriving (in a more price-sensitive direction).
- The ongoing restoration of Masjid Al Haram will increase its capacity to an estimated 2.5 million visitors. At the same time Makkah is broadening its cultural offering, through the construction of the landmark Islamic Faith Museum, as well as the development of a number of key historical sites.
- By size, Makkah hospitality market continues to eclipse that of other major destinations such as Riyadh and Jeddah, and remains the cornerstone of the government's tourism agenda. Madinah is undergoing strong capacity growth too, aided by major developments such as the Knowledge Economic City and ongoing Prophet's Mosque expansion.

Source: Published Market Report

MARKET COMMENTARY - HOSPITALITY SECTOR

Structural Growth

While religious tourism in the Kingdom has seen some variability in recent years, the long-term growth prospects remain very bright. According to the Pew Research Center's projections for religious groups, Muslims will grow more than twice as fast as the overall world population (70% vs 32%) between 2015 and 2060 — from 1.8 billion to nearly 3 billion. Meanwhile, the Kingdom's demographic profile bodes well for internal tourism, with around 70% of Saudis under the age of 40, and attendant strong population-growth prospects.

This structural demand driver, coupled with the government's ambitious reforms, has created a very attractive backdrop for hospitality-related investment, as evidenced by the increased activity of both domestic and international hotel operators. In Makkah, the scale of ambition is illustrated by mega projects such as Jabal Omar and the Rou'a Al Haram development, both of which will bring major increases to the city's room supply.

Infrastructure a Major Catalyst

Tourism is a central pillar of the government's Vision 2030 strategy and the associated National Transformation Program (NTP), which are aimed at diversifying the economy away from hydrocarbons. Religious travel is a critical component of this, with significant infrastructure upgrades and increased visitor capacity at the Kingdom's holy sites meant to pave the way for 30 million Umrah pilgrims by 2030.

On top of the now operational Haramain railway, there are major efforts to improve air connectivity and road infrastructure. 2018 saw the first flight at Jeddah International Airport, as well as the announcement of a planned new 72 km-long highway that will cut the travel time between Jeddah and Makkah to 35 minutes. Meanwhile, in Makkah itself, preparations are underway for the King Abdul Aziz Road, a massive multimodal transportation project that will accommodate over 100,000 travelers to and from Masjid Al Haram.

Source: Published Market Report

Push to Broaden the Cultural Offering

As well as the huge infrastructure program, the government is allocating Funds to tourist attractions, having earmarked $64bn for investments in culture, leisure and entertainment initiatives over the coming decade. Last year, the Makkah Development Commission launched the Makkah and Madinah historical sites development project, with $113 million budgeted for the restoration of four key historical sites in Makkah and Madinah.

Combined with recent visa changes, the foundations for accelerated hospitality growth are being laid and, by extension, a greater role for tourism in the economy. According to World Travel & Tourism Council (WTTC) projections, the travel & tourism sector's contribution to the Kingdom's economy is set to grow by 3.7% per annum to SAR131.3 billion (or 3.6% of GDP) in 2028. If the government manages to execute on its vision, this is likely to prove a conservative forecast.

Seasonality of Demand

A prominent characteristic of the hospitality market in Makkah and Madinah, is the significant swing in demand between peak and low seasons. During Hajj and Ramadan, hotel occupancy surges to capacity but then tends to drop off markedly, forcing some hotels to close temporarily. Many of the government's current initiatives should help smooth these fluctuations by increasing the attraction of year-round visits.

Source: Published Market Report

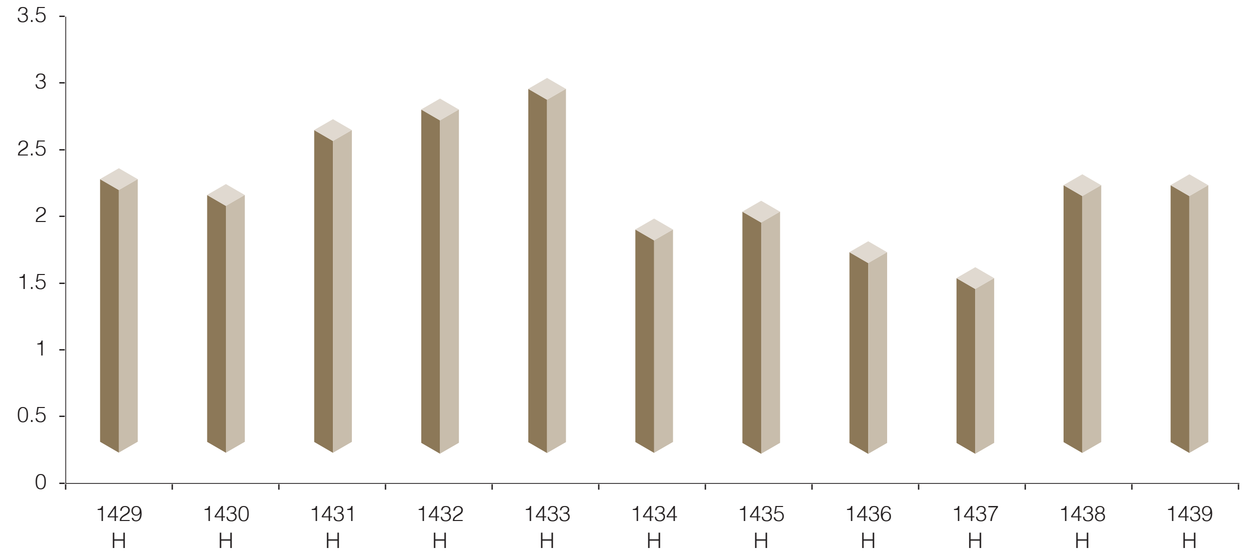
MARKET COMMENTARY - HOSPITALITY SECTOR

Hajj Pilgrims

General Authority for Statistics (GaStat) for Hijri year 1439 (2018) show a 1% year-on-year increase in Hajj pilgrims to 2.372 million. This compares well with the average seen over the preceding five years, although still some distance away from the 3.162 million seen in Hijri year 1433 (2012). By origin, some 74% of pilgrims last year came from abroad of domestic pilgrims, around 65% were non-Saudi.

Capacity constraints remain, but the ongoing multi-billion dollar expansion of Masjid al-Haram is paving the way for major growth in the number of Hajj pilgrims that can be accommodated. This has been a hugely ambitious multi-phase project including the main building extension, as well as the construction of new courtyards, pedestrian tunnels, a central services station, and the ring road surrounding the holy site — all of which is estimated to lift the Haram's capacity to some 2.5 million pilgrims.

Number of Hajj Visitors



Source: Published Market Report

Umrah Pilgrims

Data from the Ministry of Hajj and Umrah show that the total number of Umrah performers locally and internationally climbed from 12.7 mn to 19 mn from 2016 (1437-1438H) to 2017 (1438-1439H) respectively.

The large rise in Umrah visitors in 1439H is attributable to less stringent regulation. A lot of effort is being directed at increasing the number of Umrah visas issued and therefore inbound religious travel. Vision 2030 is playing a major role in lifting the number of Umrah pilgrims. 1440H is likely to have posted continued growth, based on already published statistics by General Authority of Statistics (GASTAT), which show a 50% increase in the number of visitors in the month Muharam.

Overall, hospitality operators have displayed continued concern about the impact of the SAR 2000 visa fee introduced in late 2016. Although the aggregate inflow of worshippers has held up, there appears to have been a shift in the type of pilgrim: with weakened demand for high-end accommodation and more interest in cheaper alternatives further away from Masjid al-Haram.

MARKET COMMENTARY - HOSPITALITY SECTOR

Mid-Market in Focus

A Large number of the pilgrims' demand for accommodation is met by the hotel sector, with the remainder served by other forms of lodging. Recent years have seen the government place some restrictions on non-hotel accommodation during Hajj, shoring up hotel occupancy levels during this period. Notably, although the Makkah and Madinah markets have historically been dominated by high-end luxury hotels, there is an increasing focus on the more affordable mid-market bracket, which is more suited to the growing number of Millennial visitors. Competition in the core luxury segment has been fierce, creating a less attractive margin environment for landlords. Meanwhile, there has been strong growth of nimbler unbranded players, many of whom base themselves outside of the Haram.

Outlook

Macroeconomic conditions continue to improve, and this is reflected in strengthening business sentiment across the Kingdom. The large pipeline of mega projects has helped generate a great deal of international publicity and investor interest, including in the hospitality sector. Although there have been inevitable concerns around excessive supply, and palpable ADR and RevPAR pressures, continued infrastructure development and visa-regime changes, are setting the scene for an eventual acceleration of tourism growth. In our view, Makkah and Madinah are uniquely placed to benefit from global and local demographic trends, as well as the massive government-supported investment drive under Vision 2030. While we believe some caution is warranted in the short-term, particularly in the frothier high-end of the market, opportunities still beckon for patient long-term investors.

Source: Published Market Report

Section 4

GROWTH STRATEGY

FUND INVESTMENT STRATEGY

Introduction

The Fund’s acquisition strategy is underpinned by the strong long-term prospects for Makkah’s real estate market and remains focused on assets located near to the Haram. Although we constantly look to expand and diversify the portfolio, recent fierce competitive dynamics — and attendant capitalization-rate compression — have significantly reduced the supply of attractively valued core properties. As a result, the Fund only added one asset in 2018: a restaurant building purchased for SAR 35 million and Funded from the BSF credit facility. Against the more challenging valuation backdrop in core assets, we are pursuing a more aggressive acquisition strategy by considering value-add and opportunistic investments; with risks mitigated by securing pre-lease terms with strong-covenant tenants, and thoroughly stress testing post-completion Fundamentals.

The Fund’s first acquisitions were two hospitality assets in Makkah, purchased for SAR 629 million. These two hotels have long-term leases secured with Tharawat Al Mashaer Property Development and Investment Company. This has enabled the Fund to distribute the equivalent of an annualised dividend of SAR 0.52 per share. In December 2017, the Fund concluded two further acquisitions in Makkah: a hotel located within walking distance of the Haram, as well as a Retail building, at a combined cost of SAR 148 million. Last year these assets were complemented with the aforementioned investment in a restaurant building. Together these acquisitions have helped lift the Fund’s per-unit dividend from SAR 0.52, to SAR 0.56 (as of December 2018).

Although the number of portfolio holdings has increased, the majority of the Fund’s operating income is still derived from the leases with Tharawat Al Mashaer — a tenant with high covenant strength and impressive market share.

Looking ahead, the Fund will endeavour to secure further assets with a view to diversifying the portfolio (in terms of tenant profiles/counterparties) and boosting dividend growth and total shareholder returns. Again, with core-asset cap rates under pressure — and therefore potentially impacting the Fund’s ability to generate near-term dividend growth — we will consider slightly higher-risk opportunities, while still maintaining conservative leverage ratios.

In the current competitive market conditions, this could mean operating hospitality assets with shorter-term leases close to the Haram or taking on multi-tenancies with a high percentage of strongly rated tenants in certain commercial sub-categories, including schools, hospitals and retail.

Our investment approach is designed to support both the growth of the Fund’s per-share income and of its NAV. By adapting our strategy to the changing environment, we expect to maintain a dividend yield in excess of SAR0.54 per unit.

FUND INVESTMENT STRATEGY

The Fund's Investment Strategy

- Invests directly in the holy cities of Makkah and Madinah. No opportunities outside these two cities will be considered.
- Focuses on core+, value-add and opportunistic (with mitigated risk) real estate assets.
- Primarily targets the Makkah hospitality market, which caters for Hajj-season pilgrims and all-year-round Umrah visitors to the city. Hospitality assets in Madinah are also pursued.
- Distinctive and rigorous investment process, taking into account supply-and-demand factors, geopolitical concerns, cyclicality, and relative dynamics of various real estate sub-categories.
- Acquires properties through single-asset purchases, portfolio acquisitions, build-to-suit developments, semi-developed assets with strong market Fundamentals post completion.
- Active management of the Fund's real estate assets – producing cash flow to sustain dividend distribution. In the main, we focus on net-leasing assets to creditworthy tenants on a long-term basis, or by directly operating properties.
- Increase the value and returns to investors by improving net-operating income through economies of scale as the asset base grows.
- Diversify the portfolio away from the hospitality sector, with investments in a range of commercial, mixed-use, logistics, schools and retail assets that meet the Fund's investment criteria. Long leases are generally demanded in these types of assets.

Investment Objectives

The primary objective of the Fund is to provide its unitholders with a regular income and long-term capital appreciation, by investing in income-generating real estate assets in the holy cities of Makkah and Madinah.

All the Fund's financing arrangements are Shariah-compliant. It pays out dividends to investors semi-annually, with an annual cash dividend of no less than 100% of the Funds from operations (FFO). This does not include profits resulting from the sale of the underlying real estate assets or other investments, which may be reinvested in new real estate or used to renovate the Fund's existing assets.

While the Fund invests primarily in developed real estate assets, it may also opportunistically invest in real estate development projects, but with the portfolio weighting of such investments capped at 25% of the Fund's total asset value. The Fund does not invest in 'white land'.

The Types of Asset the Fund Invests in:

- Assets with no regulatory violations, which prevent utilization or operation of the property.
- Properties with no major engineering defects.

The projected internal rate of return (IRR) on new acquisitions should be accretive relative to the Fund's prevailing weighted-average cost of capital (WACC) at the time of purchase. An acquisition's initial leverage-neutral yield should likewise be accretive to the dividend.

ACQUISITION CRITERIA

Hospitality

We consider five-star, four-star or unrated hotels located within a five-kilometer radius of the main holy sites of Makkah and Madinah, or with good access to transport links if situated outside this area. Long leases are preferred because they reduce near-term capital expenditure, and the operator will have proven experience with the hotel's brand. The operator should also be able to deliver profitability above market averages over a sustained period.

Commercial

Strip malls, showrooms and logistics operations with ancillary offices will be considered, as well as leased schools and hospitals. Net leases are preferred because of lower operational expenses. Furthermore, the critical or strategic use of a property by a tenant tends to increase the likelihood that they will renew their lease.

In all cases, we seek highly covenanted properties with a healthy share of the markets they operate in. The credit quality of tenants remains a core selection criterion of the Fund's underwriting.

ACQUISITION CRITERIA

Asset Management Strategy

We recognize the importance of productive tenant relationships, viewing our counterparties as partners. This not only optimizes rental rates but also increases tenant retention. As the portfolio grows, asset management will be the prime focus of the Fund’s strategy.

Portfolio Management Strategy

The principal objective is to provide unitholders with income and capital appreciation, by investing in a portfolio of real estate assets located in the two holy cities of Makkah and Madinah.

The Fund is achieving this through the ongoing acquisition of core assets. These investments are expected to account for more than 60% of the portfolio’s net asset value, while allowing for limited exposure to value-added and opportunistic real estate of no more than 40% of the Fund's total assets value. These allocation weightings will be reconsidered proactively.

FUND'S PORTFOLIO STRATEGY

Ownership

The Fund may also consider investing in ground rent opportunities. Leasehold assets should account for no more than 25% of the portfolio.

Portfolio Concentration

- The Fund's focus is on Makkah real estate opportunities. Due to the current absence of attractive risk-return opportunities in Madinah, we have no immediate plans to invest in this city. This decision is reviewed on a regular basis.
- Up to 25% of the Fund's total asset value might invest in SAR Murabaha financing arrangements with local Saudi banks, Shariah-compliant real estate equity shares or real estate investment-traded Funds listed on the Saudi Stock Exchange.

As the Fund manager, Jadwa Investment Company considers whether each transaction is in line with the investment policy and overall strategy of the REIT. It also assesses the risk profile and opportunities relating to each proposal.

All transactions adhere to applicable laws and regulations.

Investment Limitations

Type Of Investment	Asset Allocation	Current Allocation
Real estate investments in the Holy Cities	No less than 100% of the Fund's real estate asset value	100% of the Fund's real estate asset value is invested in the Holy Cities
Real estate developments	Up to 25% of the Fund's gross asset value	0% of the Fund's gross asset value is invested in real estate developments
• SAR Murabaha placements • Listed real estate companies • Other real estate investment-traded Funds	Up to 25% of the Fund's total asset value	1.45% of the Fund's total asset value is invested in SAR Murabaha placements
Investments outside of Saudi Arabia	0% - The Fund will not invest outside of the Kingdom of Saudi Arabia	0% of the Fund is invested outside of the Kingdom of Saudi Arabia
White land	0% - The Fund will not invest in white land	0% of the Fund is invested in white land
Leverage	Not to exceed a ratio of 50% of the Fund's total asset value	The Fund's current LTV ratio is 21.6%

Monitoring the Market

The Fund manager continually screens the market for suitable investment opportunities, as well as assessing sources of risk. Simultaneously, external advisors are regularly used to assess Saudi Arabia's real estate market. This ensures that the Fund diversifies across growing sectors, capitalizes on any opportunities, and meets its long-term investment objectives.

FUND'S PORTFOLIO STRATEGY

Fund's Borrowing Strategy

A SAR 500 million credit-line facility has been set up with Banque Saudi Fransi, a local bank. Secured at competitive rates, it allows the Fund to acquire new assets swiftly and efficiently, as well as maintain a flexible balance sheet.

Further, the Fund has secured an additional SAR 200 million credit-line facility from Riyad Bank to facilitate the acquisition of new assets where there is an equity contribution from the seller.

We build relationships with investors ahead of future equity and debt capital raising activities. This is achieved by creating a compelling identity, clearly communicating the Fund's investment strategy, conducting periodic investor surveys, and disclosing financial information in a transparent manner.

Leverage does not exceed 50% of the Fund's total asset value.

Exit Strategy and Disposal of Investments

The Fund holds on to assets if their risk-reward profiles remain attractive, but maintains strong sell-discipline should these profiles show signs of worsening. That is why we continually monitor the market for exit opportunities. A decision to exit any of the Fund's assets would be for one of the following reasons:

- A rebalancing of the Fund's assets to add new, more attractive assets.
- Changes in the Fundamentals of the asset.
- A negative view of the real-estate market and its sub-sectors, which may affect the Fund's assets.

We hold investments for the long term. However, we regularly value all our assets and recommend strategies for each property. Any asset to be sold, or disposed of, will require two independent valuations, and the selling price shall not be for less than the lowest of the two valuations.

Dividend Policy and Distributions

REIT Funds are primarily income-generating investment vehicles, which provide exposure to real estate assets that are either: currently leased and producing income or have the potential to do so in the future.

The objectives of the Fund's dividend policy are:

- To distribute all available Funds from operations (FFO) to unitholders on a semi-annual basis after accounting for short-term obligations.
- To only make changes to the dividend policy in the following scenarios: a significant shift in the Fund's strategy, an investment plan requiring the Fund to keep cash, or in the event of revisions to any relevant laws and regulations.
- To distribute half-yearly dividend payments of at least SAR 0.26 per share over the coming five years.

FUND'S PORTFOLIO STRATEGY

Risk Profile

- To date, all the Fund's acquisitions have been in Makkah, Saudi Arabia, as we are yet to find suitable assets in Madinah. This heavy focus on Makkah exposes the Fund to the real estate conditions specific to the holy city, such as competition for core assets.
- 93% of the Fund's assets (by value) are hotels, which subjects the REIT to the risks inherent in the hospitality industry.
- Tharawat Al Andaloseya, Tharawat Al Taqwa, Wadi Ibrahim and the Restaurant Building, are leased by the same tenant, Tharawat Al Mashaer Property Development and Investment Company.
- The majority of the Fund's rental income of SAR 53.98 million is currently derived from this tenant. If, for instance, this lessee was to serve the Fund notice in the next few years, it could expose the REIT to high cash-flow risk. However, portfolio growth using a greater range of tenants reduces this risk.
- Capitalization rates are currently compressed in Makkah. As a result, the Fund is exploring the acquisition of higher-risk assets, with the additional risk mitigated through pre-lease terms with strong-covenant tenants, and rigorous assessment of post-completion Fundamentals.
- Other potential risks include changes to the tax and regulatory landscape — this includes the recent implementation of the 5% value-added tax (VAT), which is applicable to all the Fund's new acquisitions.
- As income-oriented investment vehicles, REITs can be sensitive to changes in interest rates, with sharp increases potentially reducing their relative appeal.

Risk Management

- With a strong management team and a proven track record, the Fund continues to explore the Makkah and Madinah real estate markets for new opportunities.
- We acquire properties in proximity to the main holy sites of Makkah and Madinah, where the most profitable hotels are located.
- Saudi Arabia's real estate hospitality market has delivered robust, risk-adjusted returns over the long term. However, the Fund also looks to diversify its portfolio from time to time, in a range of commercial, mixed-use, logistics, residential, schools and retail assets, that meet the Fund's strict investment criteria.
- Our Fund seeks to maximize the performance of assets for a given level of risk.
- We strive to increase investor returns by improving the Fund's net-operating income. This means active management of our real estate assets, ensuring the Fund's properties generate strong yields and a focus on net-leasing assets to creditworthy tenants on a long-term basis. We believe that the establishment of strong relationships with tenants not only optimizes rental rates, but also increases tenant retention.
- The Fund has a combined credit-line facility of SAR 700 million from BSF and Riyad Bank (only SAR 183 million of the BSF facility has been utilized to date). This allows it to maintain a flexible balance sheet, acquiring new assets swiftly and efficiently. Debt repayments are Funded either through rental proceeds or cash. Leverage does not exceed 50% of the Fund's total asset value.
- The Fund manager has appointed PWC as a VAT consultant.
- We are actively considering the use of hedging tools to help offset the risk of any adverse price movements. These could be triggered by factors such as interest-rate changes.
- The Fund only considers blue-chip tenants with a low risk of rent default. For the first two properties, we negotiated a rent promissory note for five years. For the two subsequent acquisitions, the promissory period is for 3.5 years, and for the most recent purchase the property will be subject to pre-lease terms, extending to a five-year period.

Section 5

THE FUND MANAGER & SERVICE PROVIDERS

JADWA INVESTMENT

About the REIT

The Jadwa REIT Al Haramain Fund is a closed-ended Shariah-compliant real estate investment-traded Fund that is managed by Jadwa Investment Company. The Fund operates in accordance with the Real Estate Investment Fund Regulations and the REIT Instructions issued by Saudi Arabia's Capital Market Authority (CMA).

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com

About Jadwa Investment Company

Jadwa Investment is a Riyadh-headquartered investment management and advisory firm with assets under management of SAR 25.5 billion in public equity, private equity, real estate, fixed income and Assets Under Advisory of SAR 11.5 billion.

The firm's clients include government-related entities, local and international institutional investors, leading local family companies and offices and high-net-worth individuals.

Jadwa Investment is one of Kingdom's three largest public-equity asset managers and one of the region's top mutual Fund performer.

Jadwa Investment is licensed by the CMA as an authorized person, registration number 6034/37.

Material Disclosure

Over the reporting period to 31 December 2018, there have been no transactions involving material conflicts of interest between Jadwa REIT Al Haramain Fund, Jadwa Investment Company, its board or any third parties.

By way of clarification, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

In addition, the appointed custodian is a shareholder of Jadwa Investment Company at a percentage not representing control.

Jadwa Investment Company shall not have any interest in or claims against Jadwa REIT Al Haramain Fund's assets, except in its potential capacity as a unitholder. Creditors of Jadwa Investment Company shall not have any interest in any of Jadwa REIT Al Haramain Fund's assets.

Delegation to Third Parties

As the Fund manager, Jadwa Investment Company is liable for the appointment of any third party (including its affiliates) and their responsibilities.

Jadwa Investment Company is also the Fund administrator. However, Jadwa has delegated certain administrative functions to Apex Fund Services (Dubai) Ltd to enhance the performance of the REIT.

JADWA INVESTMENT

Custodian

Name	AlBilad Investment Company
Address	Smart Tower, First Floor, Intersection of King Fahad Road and Tahlia Road, P.O. Box 140, Kingdom of Saudi Arabia.
Website	www.albilad-capital.com
Tel	+966 11 290 6245

Auditor

Name	Alliance Chartered Accountants (ACA)
Address	187 Abo Bakr Al Siddiq Road, Al Morsalat District, Fourth Floor, P.O Box 7535-4304, Riyadh, 12462, Kingdom of Saudi Arabia
Tel	+966 11 269 4419

Administrator

Name	Jadwa Investment Company
Address	Sky Towers, Fourth Floor, King Fahad Road, P.O. Box 60677, Riyadh, 11555, Kingdom of Saudi Arabia
Website	www.jadwa.com
Tel	+966 11 279 1111

Legal Advisor

Name	Abuhimed Alsheikh Alhagbani Law Firm (in affiliation with Clifford Chance LLP)
Address	The Business Gate, 15th Floor King Khaled International Airport Road, Kingdom of Saudi Arabia
Tel	+966 11 481 9700
Website	www.ashlawksa.com

Third-Party Valuers

Name	White Cubes Company
Address	Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 810 1765
Website	www.white-cubes.com

Name	ValuStrat Company
Address	6th Floor, Southern Tower, King Khalid Foundation Al Faisaliah Complex, King Fahd Road, Riyadh, Kingdom of Saudi Arabia
Tel	+966 11 293 5127
Website	www.valustrat.com

VAT Consultant

Name	PricewaterhouseCoopers (PWC)
Address	Kingdom Tower - 21st Floor, King Fahd Highway, Riyadh, 11414, Saudi Arabia
Tel	+966 11 211 0400
Website	www.pwc.com/m1

Conflicts of Interest

As of December 31, 2018, there are no transactions involving material conflicts of interest between Jadwa REIT Al Haramain Fund, Jadwa Investment Company, its board or any third parties. To clarify, the appointed custodian Al Bilad Capital is wholly owned by Al Bilad Bank. A member of Jadwa Investment Company's board of directors is a shareholder in a founding company of Al Bilad Bank (at a percentage not representing control).

Conflicts of interest may exist or arise from time to time between the REIT, and the Jadwa Investment Company or its affiliates, subsidiaries, directors, officers, employees and agents thereof, and other Funds sponsored or managed by them. Where Jadwa Investment Company has a material conflict of interest with the Fund, Jadwa Investment Company will make full disclosure to the Fund Board as soon as practicable. Jadwa Investment Company will attempt to resolve any conflicts of interest by exercising its good faith judgment considering the interests of all affected investors and parties taken as a whole.

Material Changes

During the reporting period the Fund announced the following material changes:

1. Obtained a SAR 200 million credit-line facility from Riyadh Bank.
2. Completion of an acquisition of a property in Makkah in Jadwa REIT Al Haramain.
3. Change in the Fund board membership via the appointment of Dr. Fahad Al Turki instead of Raed Al Ammari who resigned from the board.

(a) Similar Vehicles Managed by Jadwa Investment Company

Jadwa Investment Company currently manages and expects to continue operating its proprietary account and other investments and accounts with objectives similar in whole or in part to those of the Fund. These include other collective investment vehicles which are managed or sponsored by Jadwa Investment Company or in which its affiliates may have an equity interest.

Jadwa Investment Company manages two REIT Funds, one that invests solely in Makkah and Madinah and one that invests in Saudi Arabia (excluding Makkah and Madinah).

Subject to the limitations set forth herein, Jadwa Investment Company and its affiliates may in the future sponsor or serve as Fund manager, investment manager or general partner with respect to investment Funds or other collective investments. One or more of these may invest in properties similar to those in the Fund's assets, provided that such other activity does not impair the success of the Fund.

(b) Conflicts of Interest Regarding Transactions with the Fund Manager and its Affiliates

The Fund may engage in transactions with the Fund manager or its affiliates or other entities in which Jadwa Investment Company has a direct or indirect interest. For example, certain affiliates of Jadwa Investment Company may provide services to the Fund, such as administrative services.

All transactions between the Fund and the Fund manager, its affiliates and entities in which Jadwa Investment Company holds a direct or indirect interest will be disclosed by the Fund manager to the Fund Board. However, the Fund manager and the Fund Board shall use their good faith commercially.

They will also make reasonable efforts to ensure that the terms of the agreements between the Fund manager and its affiliates, on the one hand, and the Fund, on the other hand, are prepared on an arms-length basis and be in line with market standard terms.

Section 6

FUND GOVERNANCE

JADWA REIT GOVERNANCE

Fund's Board

The Fund Board oversees the resolution of conflicts of interests. As of December 31, 2018, the Fund Board is composed of appointees of the Fund manager.

The members of the Fund Board have fiduciary duties to the investors under the Real Estate Investment Fund Regulations and will use their best efforts to resolve all conflicts by exercising their good faith judgment.

The Fund Board is composed of 5 members appointed by the Fund manager, of whom two are independent. Any amendment to the composition of the Fund Board shall be notified to the Unitholders by an announcement on the Fund manager's and Tadawul's websites.

Fund Board Meetings

The Fund manager held two Fund Board meetings during 2018

First meeting 8th August 2018

1. An Overview of the traded REIT Funds in Tadwaul, with the focus on current performance of REIT Al Haramain against its beers.
2. Discuss the Fund's dividend policy, as the Fund was able to distribute three dividend since listing.
3. Discuss the Fund's growth strategy and its conversion from being a hospitality focus to multi assets class by adding retail exposure to improve the mid to long-term returns. The Fund completed its first acquisition with overall acquisitions concluded since inception resulted in a growth in the Fund's yield from SAR 0.52 to SAR 0.56, almost a growth of 8%.
4. Over view of the Fund borrowing strategy, with the Fund's having an LTV of 21% of the Fund Size.
5. The board discussed the Fund's asset management strategy and the opportunity of re-leasing the assets upon expiry, which is still three years away.

Second meeting 2nd December 2018

1. An overview of the macroeconomic indicators, with a focus on the current condition of the Makkah hospitality market, past performance and future forecasts of Hajj and Umrah seasons.
2. Discuss the Fund's growth strategy and its conversion from being a hospitality focus to multi assets class by adding retail exposure to improve the mid to long-term returns.
3. The Fund manager is continuing to explore the acquisition of new assets via the utilization of the remaining SAR 500 million facility obtained from Banque Saudi Fransi and Riyadh Bank, to improve the Fund's Fund form Operations (FFO) and hence the dividend to investors.
4. Compliance confirmed that they did not see any suspicious actions on both the Fund level and the unitholder level.

Circular of acquiring new assets

Before the acquisitions took place, the Fund manager received Fund Board approval for the intended assets to be acquired.

JADWA REIT GOVERNANCE

Shariah Board

The Fund manager has appointed a Shariah Board as the Fund Shariah Advisor (the "Shariah Board"). The Shariah Board is a panel consisting of four scholars who are experts in the field of Islamic Shariah. It monitors the business, operations, investments and financings of the Fund to ensure compliance with the Islamic principles of Shariah.

The Fund manager carries out the Shariah monitoring tasks for the Fund's investments, which include the following:

- Achieve the Fund's commitment to Shariah monitoring through periodic reviews.
- Review agreements and contracts regarding the Fund's transactions.
- Follow-up with the Fund's operations, review its activities in terms of their legality and consider the extent of its compliance with the Shariah Guidelines and the Shariah Board's directions.
- Submit the matter to the Shariah Board in case of any potential Shariah violations.
- Prepare and follow-up with the necessary endorsements for the purification amounts approved by the Shariah Board.

The Shariah Board oversees the compliance of the Fund's activities with the Shariah Guidelines and provides relevant advice.

The Shariah Board consists of the following members:

H.E. Sheikh Dr. Abdulla Al Mutlaq

Chairman of the Board

H.E. Sheikh Dr. Abdulla Al Mutlaq is a member of the Senior Ulema Board, Advisor to the Royal Court, former Chairman of the comparative Fiqh, Imam Mohammed Bin Saud Islamic University, and a member of the Shariah Board for several financial institutions in the Kingdom of Saudi Arabia.

Sheikh Dr. Muhammad Ali bin Ibrahim Al Qari bin Eid

Member of the Board

Sheikh Dr. Muhammad Ali Al Qari bin Eid is a professor of Islamic Economics at King Abdulaziz University in Jeddah, and an expert at the Fiqh Academy of the Organization of Islamic Conference in Jeddah.

Sheikh Bader Abdulaziz Al Omar

Member of the Board

Sheikh Bader Abdulaziz Al Omar has 18 years of experience in Islamic banking. Currently he is the head of Shariah group at Jadwa Investment, having worked earlier in several positions at the Shariah group within Al Rajhi bank. He is a former member of the Islamic banking committee at the Saudi Arabian Monetary Agency.

Sheikh Ahmed Abdulrahman Al Gaidy

Member of the Board

Sheikh Ahmed Abdulrahman Al Gaidy is our head of Shariah research and has 14 years of experience in investment banking. He has issued several pieces of Shariah research and previously worked as Shariah consultant to the Al Rajhi Bank's investment department. He was also a Shariah consultant to the Al-Jazira Bank's treasury department.

JADWA REIT GOVERNANCE

Expenses

The Fund manager is responsible for the expenses of the Shariah Board, including those related to monitoring the business, operations, investments and financings of the Fund. The Fund is not responsible for Shariah Board's expenses.

The Shariah Board has reviewed these Terms and Conditions and approved the structure of the Fund and the offering of units at the Fund's inception. The Fund shall also comply with the approved Shariah Guidelines.

If any investment proceeds or other amounts received by the Fund are not Shariah-compliant, the Fund shall arrange for such Funds to be 'purified' in accordance with a procedure to be determined by the Shariah Board from time to time. The Shariah Board shall specify the relevant purification percentage or amount.

Shariah guidelines for the Fund's investment in real estate assets

The Shariah Board believes that investments in real estate assets are permissible subject to the following guidelines:

1. The purchase-and-sale agreement for the real estate assets must be in the Shariah Board's approved form.
2. The invested real-estate asset must be accurately known with due diligence.
3. The price must be known.
4. The Fund manager must not execute any lease contracts on a real estate asset until completion of the purchase of the real estate asset;
5. The property cannot be rented from the owner for a deferred payment, and then re-leased to the owner for an amount that is less than the deferred amount. The property must not be rented from the owner with a current payment, then re-leased to the owner for more than that price for a deferred payment.

In Addition:

1. The Fund can only invest directly in the shares of listed real estate companies.
2. The Fund can only purchase units in other real estate Funds traded on the Saudi Stock Market 'Tadawul' if these are Shariah complaint and are approved by the Shariah Board.
3. SAR Murabaha placement.

JADWA REIT GOVERNANCE

The Fund Board consists of the following members:

Zaheeruddin Khalid	**Chairman** Mr. Khalid is the Head of Asset Management and Chief Investment Officer at Jadwa Investment Company. He has over 16 years of experience in the field of investments and capital markets, and joined Jadwa in 2008 to develop the buy-side research team and later held the position of head of portfolio management. Prior to joining Jadwa, Mr. Khalid held various positions, including Head of Research and Product Development in Mezzan for Investment Management and Head of Research in Elixir Securities Company. He holds an MBA degree and is a CFA charterholder.
Ghannam Al Ghannam	**Member** Mr. Al Ghannam is the Director, Private & Institutional Client Investments at Jadwa Investment Company. Prior to joining Jadwa, he was a Senior Investment Advisor for private clients at HSBC Saudi Arabia. Mr. Al Ghannam has over 14 years of experience in business development and wealth management. He is a certified financial planner and holds a BS degree in Business Adminstration from Toledo University.
Fahad Al Turki, Ph.D.	**Member** Dr. Fahad Al Turki is the Chief Economist and Head of Research at Jadwa investment Company in Riyadh. He is also a member of its Executive Management Committee and a chairperson of its Public Funds Board. With almost 20 years of experience, Dr. Fahad manages the economic research department and publishes regular reports on issues related to the Saudi and global economies and the world oil market. Prior to joining Jadwa, he was the Chief Economist at Barclays Saudi Arabia. Dr. Fahad graduated with a BA in Business Administration (majoring in accounting) from King Saud University in Saudi Arabia, and has a Master’s degree and a Ph.D. in economics from University of Oregon (Eugene, USA).
Dr. Waleed Addas	**Independent Board Member** Dr. Addas is the Chief of Programs and Portfolio Monitoring Division at Islamic Development Bank. Prior to this he was Director of Finance and Administration at International Energy Forum, Riyadh. Dr. Addas holds a Doctorate in Economics from International Islamic University, Malaysia.
Dr. Waleed Alnumay	**Independent Board Member** Dr. Alnumay is a Faculty Member at King Saud University and Chairman of the Saudi Association of Community Colleges. Over the years, he has held many administrative and supervisory positions - most notably in the field of information technology projects, such as the establishment and management of large data centers and smart schools. Dr. Waleed holds a Master’s degree from Atlanta University and a Doctorate degree from Oklahoma University.

Related party transactions

The REIT may, from time to time, enter into transactions with related parties and affiliates to provide services to the Fund. Such arrangements must be disclosed to the Fund’s Board and shall be on market standard terms. In case a related party or an affiliate, including another Fund or collective investment vehicle established by the Fund manager, wishes to enter into a transaction with the Fund, the Fund manager will obtain the approval of the Fund’s Board. If the Fund buys or sells assets to a related party or an affiliate, the purchase price paid or received by the Fund must be consistent with independent valuations.

Raed Al Ammari has resigned in February 2018, and Dr. Fahad has been appointed.

The preceding does not purport to be a complete or exhaustive explanation and summary of all the potential conflicts of interest involved in an investment in units in the Fund. It is strongly recommended that all potential investors seek independent advice from their professional advisors.

Section 7

REIT Fund Financials

AUDITED FINANCIAL STATEMENT

31, December 2018

ALLUHAID & ALYAHYA
اللحيدو اليحيى

Alluhaid & Alyahya Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Al Haramain Fund
(Managed by Jadwa Investment Company)

Opinion

We have audited the accompanying financial statements of Jadwa REIT Al Haramain Fund (the "Fund") being managed by Jadwa Investment Company, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of cash flows and statement of changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements taken as a whole, present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia.

Basis for Unqualified Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics, as 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

ALLUHAID & ALYAHYA
اللحيدو اليحيى

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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Al Haramain Fund
(Managed by Jadwa Investment Company) (continued)

Key Audit Matters (continued)

Key Audit Matter	How the key matter was addressed in the audit
The Fund owns a portfolio of investment properties comprising of commercial building being located in the Kingdom of Saudi Arabia. Investment properties, being held for capital appreciation and/or rental yields, are stated at cost less accumulated depreciation and any impairment losses. Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For assessing the impairment of investment properties, the fund management monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the fund's investment properties on semiannual basis. We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.	For impairment of investment properties, we have carried out the following audit procedures: - We assessed the independence of the external valuers and read their terms of engagement with the fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - We reviewed the methodology applied by the external valuers to ensure it is appropriate; - We obtained two valuation reports from two different / independent real estate valuers for all investment properties as at 31 December 2018 and confirmed that the valuation approaches are suitable for use in determining the carrying values as at the reporting date; - Based on the average fair value of the related investment properties as per the above-mentioned valuation reports, we have determined that the average fair value is higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 7 to the external valuers' reports.

AUDITED FINANCIAL STATEMENT

31, December 2018

ALLUHAID & ALYAHYA
اللحيدو اليحيى

Alluhaid & Alyahya Chartered Accountants
License No. (735)
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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Al Haramain Fund
(Managed by Jadwa Investment Company) (continued)

Responsibilities of Management 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 IFRS as endorsed in the Kingdom of Saudi Arabia and for such internal control as management 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, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the 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 ISA as 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 ISA as 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.

ALLUHAID & ALYAHYA
اللحيدو اليحيى

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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Jadwa REIT Al Haramain Fund
(Managed by Jadwa Investment Company) (continued)

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

for Alluhaid & Alyahya Chartered Accountants

Saleh A. Al-Yahya
Certified Public Accountant
Registration No. 473

Riyadh 25 Jumada Al-Thani 1440 H
(3 March 2019)

اللحيد واليحيى محاسبون قانونيون
ترخيص رقم
٧٣٥
Professional License No. 735
Alluhaid & Alyahya Chartered Accountants

AUDITED FINANCIAL STATEMENT

31, December 2018

	Notes	2018 SR	2017 SR
ASSETS			
NON-CURRENT ASSETS			
Investment properties	6	**791,569,234**	768,620,861
CURRENT ASSETS			
Rent receivables	8	**23,459,282**	11,902,139
Prepayments and other assets	9	**372,264**	35,827
Short-term deposit	10	**7,000,000**	-
Cash and cash equivalents	11	**7,818,401**	66,642,735
TOTAL CURRENT ASSETS		**38,649,947**	78,580,701
TOTAL ASSETS		**830,219,181**	847,201,562
LIABILITIES			
NON-CURRENT LIABILITIES			
Long-term loan	12	**177,898,126**	177,083,975
CURRENT LIABILITIES			
Due to related parties	14	**1,849,663**	6,179,398
Accrued management fee	14	**3,612,721**	5,036,419
Accrued expenses	13	**282,204**	297,964
TOTAL CURRENT LIABILITIES		**5,744,588**	11,513,781
TOTAL LIABILITIES		**183,642,714**	188,597,756
NET ASSETS		**646,576,467**	658,603,806
Units in issue	16	**66,000,000**	66,000,000
Per unit value		**9.80**	9.98
Per unit fair value	7	**10.86**	10.86

	Notes	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
INCOME			
Rental income from investment properties		**53,984,261**	29,876,715
Finance income		**101,715**	-
		54,085,976	29,876,715
EXPENSES			
Depreciation	6	**(12,051,627)**	(8,379,139)
Management fees	14	**(7,204,393)**	(5,036,419)
General and administrative expenses	17	**(1,629,640)**	(1,137,157)
Amortisation of transaction costs	12	**(1,365,401)**	(53,975)
		(22,251,061)	(14,606,690)
OPERATING PROFIT		**31,834,915**	15,270,025
Finance charges	14	**(8,222,254)**	(166,219)
NET INCOME FOR THE PERIOD		**23,612,661**	15,103,806
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**23,612,661**	15,103,806

AUDITED FINANCIAL STATEMENT

31, December 2018

	Notes	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
OPERATING ACTIVITIES			
Net income for the period		**23,612,661**	15,103,806
Adjustments for non-cash and other items:			
Depreciation	6	**12,051,627**	8,379,139
Finance charges	14	**8,222,254**	-
Amortisation of transaction costs	12	**1,365,401**	53,975
Finance income		**(101,715)**	-
		45,150,228	23,536,920
Changes in operating assets and liabilities:			
Rent receivables		**(11,557,143)**	(11,902,139)
Prepayments and other assets		**(300,589)**	(35,827)
Due to related parties		**(5,910,709)**	6,179,398
Accrued management fee		**(1,423,698)**	5,036,419
Accrued expenses and other liabilities		**(15,760)**	297,964
		25,942,329	23,112,735
Finance charges paid		**(6,641,280)**	-
Finance income received		**65,867**	-
Net cash used in operating activities		**19,366,916**	23,112,735
INVESTING ACTIVITIES			
Payment for investment properties	6	**(35,000,000)**	(477,000,000)
Payment for short-term deposit	10	**(7,000,000)**	-
Net cash used in investing activities		**(42,000,000)**	(477,000,000)

	Notes	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
FINANCING ACTIVITIES			
Dividends distributed	22	**(35,640,000)**	(6,600,000)
Debt structuring fee	14	**(551,250)**	-
Proceeds from units sold		**-**	360,000,000
Proceeds from long-term loan		**-**	177,030,000
Equity structuring fee	14	**-**	(9,900,000)
Net cash (used in) from financing activities		**(36,191,250)**	520,530,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(58,824,334)**	66,642,735
Cash and cash equivalents at beginning of the period	11	**66,642,735**	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	11	**7,818,401**	66,642,735
NON-CASH TRANSACTIONS			
Investment properties (compensated against sale of units)	6	**-**	300,000,000

AUDITED FINANCIAL STATEMENT

31, December 2018

	Notes	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
Net asset value attributed to the unitholders at beginning of the period		**658,603,806**	-
Issuance of units			
for cash		**-**	360,000,000
for consideration other than cash		**-**	300,000,000
		-	660,000,000
Equity structuring fee	14	**-**	(9,900,000)
Net income for the period		**23,612,661**	15,103,806
Other comprehensive income for the period		**-**	-
Total comprehensive income for the period		**23,612,661**	15,103,806
Dividend distribution	22	**(35,640,000)**	(6,600,000)
Net asset value attributed to the unitholders at end of the period		**646,576,467**	658,603,806

AUDITED FINANCIAL STATEMENT

31, December 2018

1. GENERAL

Jadwa REIT Al Haramain Fund (the "Fund") is a closed-ended Shariah compliant real estate investment traded Fund. The Fund operates in accordance with Real Estate Investment Fund Regulations ("REIFR") and Real Estate Investment Traded Funds ("REITF") Instructions issued by the Capital Market Authority ("CMA").

The Fund is listed on Saudi Stock Exchange ("Tadawul") and the units of the Fund started to be traded on Tadawul in accordance with its rules and regulations. The Capital of the Fund is SR 660,000,000 divided into 66,000,000 units of SR 10 each. The Fund has a term of 99 years, which is extendable on the discretion of the Fund Manager following the approval of the CMA.

The Fund is being managed by Jadwa Investment Company, a Saudi Arabian closed joint stock company with commercial registration number 1010228782, and an Authorized Person licensed by the CMA under license number 06034-37 (the "Fund Manager").

Jadwa Al Khalil Real Estate Company, a Limited Liability Company with commercial registration number 101049553, has been established and approved by the CMA as a special purpose vehicle (the "SPV") for the beneficial interest of the Fund. The SPV owns all the assets of the Fund and its contractual obligations.

The SPV has not been consolidated in these financial statements as the same is being consolidated with the ultimate parent in which the unitholders of the Fund are the owners.

The primary investment objective of the Fund is to provide its investors with regular income by investing in income-generating real estate assets in Saudi Arabia, with a focus on the Holy Cities of Makkah and Medina.

While the Fund will primarily invest in developed real estate assets which are ready for use, it may also opportunistically invest in real estate development projects in a value not exceeding 25% of the Fund's total asset value with the aim of achieving an increase in value per unit; provided that (i) at least 75% of the Fund's total assets are invested in developed real estate assets which generate periodic income and (ii) the Fund shall not invest in White Land.

2. REGULATING AUTHORITY

The Fund is governed by the REIFR published by the CMA in the Kingdom of Saudi Arabia on 19 Jumada II 1427 H (corresponding to 15 July 2006) and REITF instructions published by CMA on 23 Muharram 1438 H (corresponding to 24 October 2016), detailing requirements for all real estate Funds operating 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") and as endorsed in the Kingdom of Saudi Arabia.

3.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, using accrual basis of accounting and the going concern concept.

3.3 Functional and presentation currency

These financial statements are presented in Saudi Riyals ("SR"), which is the functional currency of the Fund. All financial information has been rounded off to the nearest SR.

AUDITED FINANCIAL STATEMENT

31, December 2018

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the ordinary course of business, the preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are reviewed and in any future period affected. The significant accounting judgments and estimates applied in the preparation of these financial statements are as follows:

4.1 Useful lives of investment properties

The management determines the estimated useful lives of investment properties for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods. The estimated useful lives of the investment properties are disclosed in note 6.

4.2 Impairment of investment properties

The Fund assesses whether there are any indicators of impairment for all investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

4.3 Impairment of financial assets held at amortised cost

The Fund assesses on a forward-looking basis the expected credit loss (“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.

5. SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Investment properties

Investment properties comprise completed properties that are held to earn rentals or for capital appreciation or both. Investment property is stated at cost including transaction costs net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

The cost less estimated residual value, if any, of investment property is depreciated on a straight-line basis over the estimated useful lives of the assets. Land, on the other hand, is reported at cost.

The fair value of investment properties is disclosed in note 7.

5.2 Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset’s fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

5.3 Cash and cash equivalents

Cash and cash equivalents consist of bank balances and investments that are readily convertible into known amounts of cash and have a maturity of three months or less when purchased.

5.4 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.

5.4.1 Initial recognition and measurement of financial instruments

The Fund initially recognises financial assets and financial liabilities when it becomes party to the contractual provisions of the financial instrument.

Initial measurement of the financial instrument is at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets carried at FVTPL are expensed in the statement of comprehensive income.

5.4.2 Financial assets – subsequent classification and measurement

Financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (“FVOCI”) or FVTPL. There are two criteria used to determine how financial assets should be classified and measured:

- The Fund’s business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset

AUDITED FINANCIAL STATEMENT

31, December 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at amortised cost if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, a financial asset is measured at FVTPL.

The Fund has no financial assets measured at FVTPL and FVOCI.

The Fund derecognises a financial asset when the rights to the cash flows from the financial asset have expired or where the Fund has transferred substantially all risks and rewards associated with the financial asset and does not retain control of the financial asset.

5.4.3 Impairment of financial assets

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and lifetime 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. Where there is no significant financing component in the financial instruments recognised at amortised cost or FVOCI, then the Fund can use simplified approach and assess allowance on lifetime ECL using a forward-looking provision matrix.

As at period end, the Fund has bank balances, rent receivables and accrued interest receivable as financial assets carried at amortised cost.

The bank balances are demand deposits with reputable financial institutions with investment grade credit rating. These financial institutions are highly capitalised and sufficiently liquid. They adhere to strict requirements of their regulator with respect to capital adequacy and liquidity requirements. Further, based on the economic review in general and assessment of the forecast of the Saudi Arabian Financial Institutions specifically by the reputable financial analyst and other agencies, the management believes that the financial institutions will continue their positive capital of liquidity requirements. Accordingly, the management believes no provision is required at this stage.

With respect to rent receivables and accrued interest receivable, these are short-term receivables which are current and are settled within a very short period of time. No provision has been booked on the rent receivables as the management expects the receivable to be fully recoverable.

5.4.4 Financial liabilities – subsequent classification and measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate (“EIR”) method. The EIR is the rate that discounts the estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Fund derecognises a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The Fund’s financial liabilities include due to related parties, accrued management fee and accrued expenses.

5.4.5 Offsetting of financial instruments

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

5.5 Provision

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

5.6 Revenue recognition

The Fund recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15, Revenue from Contracts with Customers:

1. Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Fund expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Fund will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Fund expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Fund satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Fund’s performance as the Fund performs; or
- The Fund’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Fund’s performance does not create an asset with an alternative use to the Fund and the Fund has an enforceable right to payment for performance completed to date.

For performance obligations, where one of the above conditions are not met, revenue is recognized at the point in time at which the performance obligation is satisfied. When the Fund satisfies a performance obligation by delivering the promised services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount billed to the customer exceeds the amount of revenue recognized, this gives rise to a contract liability. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

The specific recognition criteria described below must also be met before revenue is recognised.

Rental income

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

5.7 Management fees

Management fees are charged by the Fund Manager at the rate of 1.0% per annum of the Fund’s net asset market value. Management fee is calculated and payable semi-annually in arrears.

AUDITED FINANCIAL STATEMENT

31, December 2018

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 Expenses

General and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under IFRS.

5.9 Net assets value

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

5.10 Zakat

Zakat is the obligation of the Unitholders and is not provided for in the financial statements.

5.11 Dividend distribution

The Fund has a policy of distributing and paying at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

5.12 Standards effective 1 January 2018

The Fund has adopted the following new standards which have been issued and effective from 1 January 2018:

5.12.1 IFRS 9, Financial Instruments

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets. It contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The standard eliminates the existing categories of held to maturity, loans and receivables and available for sale. Based on its assessment, the Fund believes that the new classification requirements have no impact on its accounting for financial assets.

IFRS 9 replaces the incurred loss model with a forward-looking ECL model. This requires considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost. Based on its assessment, the Fund believes that there is no material impact on the financial statements from adopting IFRS 9 in respect of ECLs.

5.12.2 IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under the standard, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The application of this standard did not have an impact on the amounts presented in these financial statements.

5.13 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

5.13.1 IFRS 16, Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 'IAS 17 Leases', 'IFRIC 4 Determining whether an Arrangement contains a Lease', 'SIC 15 Operating Leases – Incentives' and 'SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

The standard is effective for annual periods beginning on or after 1 January 2019 and earlier adoption is permitted.

The Fund is still assessing the potential impact of adopting the new standard on the financial statements.

5.13.2 Annual Improvements to IFRSs 2015-2017 Cycle

- IFRS 3, Business Combinations and IFRS 11, Joint Arrangements clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.
  - If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
  - If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.
- IAS 12, Income Taxes, clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.
- IAS 23, Borrowing Costs, clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any nonqualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

5.13.3 Other Amendments

The following new or amendments to standards are not yet effective and neither expected to have a significant impact on the Fund's financial statements:

- IFRS 9, Financial Instruments, Prepayment Features with Negative Compensation
- IAS 19, Employee Benefits, Plan Amendments, Curtailment or Settlement
- IAS 28, Investments in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures
- IFRIC 23, Uncertainty over Income Tax Treatments

AUDITED FINANCIAL STATEMENT

31, December 2018

6. INVESTMENT PROPERTIES

The composition of the investment properties as of the reporting date is summarized below:

31, December 2018	Cost SR	Accumulated depreciation SR	Net book value SR
Land	**498,291,500**	**-**	**498,291,500**
Tharawat Al Andalusia Hotel	**152,000,000**	**11,805,824**	**140,194,176**
Tharawat Al Taqwa Hotel	**158,000,000**	**8,410,441**	**149,589,559**
Ibrahim Al-Khalil I	**3,408,500**	**173,908**	**3,234,592**
Retail Building	**100,000**	**33,942**	**66,058**
Ibrahim Al-Khalil II	**200,000**	**6,651**	**193,349**
	812,000,000	**20,430,766**	**791,569,234**
31, December 2017	**Cost SR**	**Accumulated depreciation SR**	**Net book value SR**
Land	463,491,500	-	463,491,500
Tharawat Al Andalusia Hotel	152,000,000	4,900,174	147,099,826
Tharawat Al Taqwa Hotel	158,000,000	3,475,053	154,524,947
Ibrahim Al-Khalil I	3,408,500	3,273	3,405,227
Retail Building	100,000	639	99,361
	777,000,000	8,379,139	768,620,861

The movement in the account during the period is as follows:

Cost	2018 SR	2017 SR
Balance at beginning of the period	**777,000,000**	-
Additions during the period	**35,000,000**	777,000,000
Balance at end of the period	**812,000,000**	777,000,000
Accumulated depreciation		
Balance at beginning of the period	**8,379,139**	-
Depreciation charge for the period	**12,051,627**	8,379,139
Balance at end of the period	**20,430,766**	8,379,139
Net book value	**791,569,234**	768,620,861

6.1

The useful lives of the investment properties as estimated by an independent valuator range from 22 to 32 years.

6.2

Freehold land comprises of the lands acquired on which the buildings are built. Freehold land along with the properties are kept in the custody of Albilad Capital. The Fund acquired properties in Makkah in different locations with an aggregate area of 3,227.2 square meter of land. The consideration for the two hotels was partly paid in cash and partly settled through issuance of 30,000,000 units of the Fund.

6.3

Brief details of the investment properties follow:

6.3.1 Tharawat Al Andalusia Hotel

This property is a fully constructed and operated hotel located in Al Misfalah District, being situated approximately 0.5 km away from Al Haram, benefitting from a direct view over Ibrahim Al-Khalil Road.

6.3.2 Tharawat Al Taqwa Hotel

This property is a fully constructed pilgrim accommodation hotel located in Shisha District north of the intersection between the major Al Hajj Road and King Fahad Road.

6.3.3 Ibrahim Al-Khalil I

This property is a fully constructed hospitality tower located in Al Misfalah District, with a direct view on Ibrahim Al-Khalil Road, and is 350m away from the Holy Mosque.

6.3.4 Retail Building

The property was acquired as a retail property. It is located in Al Misfalah District, with a direct view on Misyal Road, and is 500m away from the Holy Mosque. The property in its current state is fully leased.

6.3.5 Ibrahim Al-Khalil II

The property is a fully constructed retail building located in Al Misfalah District, with a direct view on Ibrahim Al-Khalil Road, and is 350 m away from the Holy Mosque.

6.4

These investment properties have been pledged with Banque Saudi Fransi ("BSF") in order to secure a debt facility obtained by the SPV for the purposes of the Fund.

AUDITED FINANCIAL STATEMENT

31, December 2018

7. EFFECT ON NET ASSET VALUE IF INVESTMENTS IN REAL ESTATE PROPERTIES ARE FAIR VALUED

In accordance with Article 21 of the REIFR issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by independent evaluators. However, in accordance with the requirement in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less 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 fair value of the investment properties is determined by two selected appraisers, i.e. ValuStrat and White Cubes. As at reporting date, the valuation of investment properties are as follows:

31, December 2018	Appraiser 1 SR	Appraiser 2 SR	Average SR
Tharawat Al Andalusia Hotel	**400,000,000**	**408,300,000**	**404,150,000**
Tharawat Al Taqwa Hotel	**270,000,000**	**264,000,000**	**267,000,000**
Ibrahim Al-Khalil I	**133,000,000**	**125,000,000**	**129,000,000**
Retail Building	**25,000,000**	**25,000,000**	**25,000,000**
Ibrahim Al-Khalil II	**37,000,000**	**36,600,000**	**36,800,000**
	865,000,000	**858,900,000**	**861,950,000**

31, December 2017	Appraiser 1 SR	Appraiser 2 SR	Average SR
Tharawat Al Andalusia Hotel	400,000,000	410,000,000	405,000,000
Tharawat Al Taqwa Hotel	270,000,000	267,200,000	268,600,000
Ibrahim Al-Khalil I	133,000,000	125,000,000	129,000,000
Retail Building	25,000,000	23,000,000	24,000,000
	828,000,000	825,200,000	826,600,000

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration number of factors, including the area and type of property. Below is an analysis of the investment properties' fair value against cost:

7.1 The unrealised gain on investment properties based on fair value evaluation is set out below:

	2018 SR	2017 SR
Fair value of investments in real estate properties	**861,950,000**	826,600,000
Less: Carrying value of investments in real estate properties (note 6)	**791,569,234**	768,620,861
Unrealised gain based on fair value evaluation	**70,380,766**	57,979,139
Units in issue	**66,000,000**	66,000,000
Per unit share in unrealised gain based on fair value evaluation	**1.06**	0.88

7.2 The net asset value using the fair values of the real estate properties is set out below:

	2018 SR	2017 SR
Net asset value at cost, as presented in these financial statements	**646,576,467**	658,603,806
Unrealised gain based on real estate evaluations (note 7.1)	**70,380,766**	57,979,139
Net asset based on fair value	**716,957,233**	716,582,945

7.3 The net asset value per unit, using the fair values of the real estate properties is set out below:

	2018 SR	2017 SR
Net asset value per unit, at cost as presented in these financial statements	**9.80**	9.98
Impact on net asset value per unit on account of unrealised gain based on fair value evaluations (note 7.1)	**1.06**	0.88
Net asset value per unit at fair value	**10.86**	10.86

AUDITED FINANCIAL STATEMENT

31, December 2018

8. RENT RECEIVABLE

This account represents the rent receivable from the operating leases (see note 19).

Following is the ageing analysis of the receivable:

	2018 SR	2017 SR
Less than 30 days	**18,125,992**	187,853
Between 31 to 60 days	**-**	-
Between 61 to 90 days	**5,333,290**	10,565,827
Between 91 to 120 days	**-**	1,148,459
More than 120 days	**-**	-
	23,459,282	11,902,139

No provision has been booked on the above receivables, as the Fund expects the receivable to be fully recoverable. The receivables are secured by promissory notes.

9. PREPAYMENT AND OTHER ASSETS

	2018 SR	2017 SR
Input value-added tax (“VAT”)	**228,326**	-
Prepaid insurance	**108,090**	35,827
Accrued interest receivable	**35,848**	-
	372,264	35,827

10. SHORT-TERM DEPOSIT

Short-term deposit represents the amount invested by the Fund in a Murabaha with BSF which has an original maturity period of more than three months but less than one year.

As at 31 December 2018, the Fund’s short-term deposit amounted to SR 7,000,000 and yield finance income at a rate of 2.85%.

11. CASH AND CASH EQUIVALENTS

	2018 SR	2017 SR
Cash in banks	**2,818,401**	66,642,735
Murabaha deposit	**5,000,000**	-
	7,818,401	66,642,735

As of 31 December 2018, two of the four bank accounts are maintained with BSF and Riyad Bank under the name of the SPV with a total balance of SR 162,703 (31 December 2017: SR 46,384,875).

Murabaha deposit is held by BSF and yields finance income at a rate of 2.63%.

AUDITED FINANCIAL STATEMENT

31, December 2018

12. LONG-TERM LOAN

	2018 SR	2017 SR
Long-term loan	**183,000,000**	183,000,000
Less:		
Transaction cost	**6,521,250**	5,970,000
Amortisation of transaction costs	**(1,419,376)**	(53,975)
	5,101,874	5,916,025
Long-term loan	**177,898,126**	177,083,975

The Fund has obtained the following Shariah-compliant facilities through the SPV:

1. On 20 July 2017, BSF has extended an Islamic finance facility (Tawaruq) to the SPV amounting to SR 500,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the Facility to the Fund on terms and conditions same as that of the facility.

   The facility and correspondingly the loan is available till 20 July 2020 and is repayable in full on 31 August 2022.

   The loan carries mark-up at the rate of Saudi Inter-Bank Offered Rate ("SAIBOR") plus 2% per annum, payable on semi-annual basis. As at 31 December 2018, SR 183,000,000 have been drawn from the available facility.

   Transaction costs related to the loan amounting to SR 6,521,250 as of 31 December 2018 (31 December 2017: SR 5,970,000) has been capitalized in the carrying amount of the loan and are being amortized over the period of the loan.

   The facility is secured by promissory notes and pledge of certain coverage ratio over the current and future rights and interests in the investment properties of the Fund (see note 6).

2. On 8 May 2018, Riyad Bank has extended an Islamic finance facility to the SPV amounting to SR 200,000,000 for the purposes of financing the real estate investments of the Fund. The SPV has made an arrangement with the Fund under a long-term loan agreement to lend all the loan proceeds availed by it under the facility to the Fund on terms and conditions same as that of the facility.

   The facility and correspondingly the loan is available for two years and is repayable in full on 7 February 2021. As at 31 December 2018, the Fund has not drawn any amount from the facility.

   The facility is secured by promissory notes and pledge of certain coverage ratio over the current and future rights and interests in the investment properties of the Fund (see note 6).

13. ACCRUED EXPENSES

	2018 SR	2017 SR
Professional fee	**95,906**	17,500
Custody fee	**81,001**	82,466
Administration fee	**53,984**	31,409
Property valuation fee	**51,313**	140,000
Legal fee	**-**	16,589
Board oversight fee	**-**	10,000
	282,204	297,964

AUDITED FINANCIAL STATEMENT

31, December 2018

14. RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of the significant transactions with related parties during the period:

Related party	Nature of relationship	Nature of transaction	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
Jadwa Investment Company	Fund manager	Management fee (note 14.1)	**7,204,393**	5,036,419
		Debt structuring fee (note 14.2)	**551,250**	2,220,000
		Administration fee (note 14.3)	**143,412**	98,197
		Equity structuring fee	**-**	9,900,000
		SPV legal expenses	**-**	23,710
Jadwa Al-Khalil Real Estate Company	SPV	Finance charges	**8,222,254**	166,219
		Loan arrangement fee (note 14.4)	**-**	3,750,000

14.1 Management fee

In consideration for managing the assets of the Fund, the Fund Manager in accordance with the Terms and Conditions of the Fund charges the Fund a management fee equal to 1.0% of the net asset market value of the Fund calculated and payable semi-annually in arrears.

14.2 Debt structuring fee

The Fund Manager charges the Fund a debt structuring fee equal to 1.5% of the amount drawn pursuant to any debt financing obtained by the Fund. The debt structuring fee is calculated on the amount utilised from the drawdown amount of the Facility. This amount is recognised in the carrying amount of the loan as a transaction cost and is amortised over the period for which the loan is available.

14.3 Administration fee

The Administrator, in accordance with the Terms and Conditions of the Fund, charges the Fund an administration fee equal to 0.02% of the Fund's net asset market value, payable semi-annually in arrears.

14.4 Loan arrangement fee

This amount pertains to the arrangement fee paid upon signing the agreement for obtaining the loan. The arrangement fee is recognised in the carrying amount of the loan as a transaction cost and is amortised over the period for which the loan is available.

For the dividends distributed to the unitholders, please refer to note 22.

The following are the details of major related party balances at period end:

Due to related parties

	2018 SR	2017 SR
Jadwa Al-Khalil Real Estate Company	**1,747,193**	6,136,219
Unitholders - Unpaid dividends	**100,470**	19,469
Jadwa Investment Company	**2,000**	23,710
	1,849,663	6,179,398

Accrued management fee

	2018 SR	2017 SR
Jadwa Investment Company	**3,612,721**	5,036,419

AUDITED FINANCIAL STATEMENT

31, December 2018

15. REMUNERATION TO INDEPENDENT DIRECTORS

During the period, the following expense in relation to the independent directors is included in the general and administrative expenses:

	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
Board oversight fee	**20,000**	20,000

16. UNIT TRANSACTION

Transaction in units of the Fund is summarized as follows:

	2018 In numbers	2017 In numbers
Units at beginning of the period	**66,000,000**	-
Units issued during the period for consideration in cash	**-**	36,000,000
Units issued during the period for consideration other than cash	**-**	30,000,000
Units at end of the period	**66,000,000**	66,000,000

17. GENERAL AND ADMINISTRATIVE EXPENSES

	For the period from 1 January 2018 to 31 December 2018 SR	For the period from 16 April 2017 to 31 December 2017 SR
Registrar fee	**400,093**	282,740
Professional fee	**365,667**	35,000
Tadawul listing fee	**210,657**	225,806
Custody fee	**162,001**	116,370
Administration fee	**143,412**	98,197
Insurance	**124,865**	85,922
Property valuation fee	**106,761**	170,000
Board oversight fee	**20,000**	20,000
Tadawul registration fee	**-**	53,628
Others	**96,184**	49,494
	1,629,640	1,137,157

AUDITED FINANCIAL STATEMENT

31, December 2018

18. 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

Assets and liabilities for which fair value is recognised or disclosed are categorized within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

18.1 Financial instruments

Financial assets consist of cash and cash equivalents and rent receivables. Financial liabilities consist of due to related parties, accrued management fees, other accrued expenses and long-term loan. The fair values of financial assets and financial liabilities are not materially different from their carrying values.

18.2 Non-financial assets

The following table shows the fair value of investment properties disclosed:

31 December 2018	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Tharawat Al Andalusia Hotel	-	404,150,000	-	404,150,000
Tharawat Al Taqwa Hotel	-	267,000,000	-	267,000,000
Ibrahim Al-Khalil I	-	129,000,000	-	129,000,000
Retail Building	-	25,000,000	-	25,000,000
Ibrahim Al-Khalil II	-	36,800,000	-	36,800,000
	-	861,950,000	-	861,950,000

31 December 2017	Level 1 SR	Level 2 SR	Level 3 SR	Total SR
Tharawat Al Andalusia Hotel	-	405,000,000	-	405,000,000
Tharawat Al Taqwa Hotel	-	268,600,000	-	268,600,000
Ibrahim Al-Khalil I	-	129,000,000	-	129,000,000
Retail Building	-	24,000,000	-	24,000,000
	-	826,600,000	-	826,600,000

When the fair value of items disclosed in these financial statements cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk, correlation and volatility.

Changes in assumptions about these factors could affect the fair value of items disclosed in these financial statements and the level where the items are disclosed in the fair value hierarchy.

The fair values of investment properties were assessed by ValuStrat and White Cubes as disclosed in note 7. They are accredited independent valuers with a recognised and relevant professional qualification and with recent experience in the location and category of the investment properties being valued.

The valuation models have been applied in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards, in addition to recently published International Valuation Standards issued by International Valuation Standards Council (IVSC) and applied by Saudi Authority for Accredited Valuers (TAQEEM). These models comprise both the income capitalisation approach and depreciated replacement cost (DRC).

19. OPERATING LEASES

Future rental commitments under the operating leases are as follows:

	2018 SR	2017 SR
Not later than one year	53,944,668	51,705,000
Later than one year and not later than five years	183,382,692	188,002,662
Later than five years	421,255,408	465,806,866
	658,582,768	705,514,528

The Fund enters into long-term operating lease contracts with tenants for space in its investment properties. Initial lease terms are generally between three and 16 years. Leases generally provide for the tenant to pay the base rent, with provisions for contractual increases in base rent over the term of the lease. Responsibility for repair and maintenance of the property, and its insurance over the term of the lease lies with the lessee.

AUDITED FINANCIAL STATEMENT

31, December 2018

20. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk, liquidity risk and property risk.

The Fund Manager is responsible for identifying and controlling risks. The Fund Board supervises the Fund Manager and is ultimately responsible for the overall management of the Fund.

The Fund has its Terms and Conditions document that sets out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

20.1 Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk arises from the short-term deposits and long-term loan. This is benchmarked to SAIBOR which expose the Fund to cash flow interest rate risk.

The Fund analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund.

An increase/decrease in interest rate of 1%, with all other variables held constant, would have resulted in a net increase/decrease in the Fund's total comprehensive income of SR 423,000 for the period ended 31 December 2018 (31 December 2017: SR 45,000)

20.2 Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents and short-term deposit are placed with banks having sound credit ratings. The Fund seeks to limit its credit risk with respect to counterparties by setting credit limits for individual counterparties and by monitoring outstanding receivables.

The maximum exposure to credit risk applicable to the Fund approximates to the carrying value of the financial assets as disclosed in these financial statements.

20.3 Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising Funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient Funds are available to meet any future commitments.

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted payments:

31 December 2018	On demand SR	Less than 3 months SR	3 to 12 months SR	More than 12 months SR	Total SR
Due to related parties	**102,470**	**-**	**1,747,193**	**-**	**1,849,663**
Accrued management fees	**-**	**3,612,721**	**-**	**-**	**3,612,721**
Accrued expenses	**-**	**282,204**	**-**	**-**	**282,204**
Long-term loan	**-**	**-**	**-**	**177,898,126**	**177,898,126**
	102,470	**3,894,925**	**1,747,193**	**177,898,126**	**183,642,714**

31 December 2017	On demand SR	Less than 3 months SR	3 to 12 months SR	More than 12 months SR	Total SR
Due to related parties	43,179	6,136,219	-	-	6,179,398
Accrued management fees	-	5,036,419	-	-	5,036,419
Accrued expenses	-	297,964	-	-	297,964
Long-term loan	-	-	-	177,083,975	177,083,975
	43,179	11,470,602	-	177,083,975	188,597,756

20.4 Property risk

Property risk is the risk related to the investment properties of the Fund. The Fund's management has identified the following risks related to its investment properties:

- A tenant may become insolvent causing a significant loss of rental income and a reduction in the value of the associate property. To reduce this risk, the Fund reviews the financial status of all prospective tenants and decides on the appropriate level of security required via promissory notes.
- Concentration risk as all the investment properties of the Fund are located in the vicinity of the Holy Mosque in Makkah. This causes changes in economic, political or other conditions to similarly affect all the properties at the same time. The Fund's management regularly assess the changes in the market indicators and diversifies its investment in different areas within the macro location, as this is a premium location with high level of demand for hospitality units.

AUDITED FINANCIAL STATEMENT

31, December 2018

21. OPERATING SEGMENT

The Fund is organised into one operating segment. All of the Fund's activities are interrelated and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of the Fund as one segment.

22. DIVIDENDS DISTRIBUTION

On 2 January 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2017 to 31 December 2017 amounting to SR 17,160,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

On 23 July 2018, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 January 2018 to 30 June 2018 amounting to SR 18,480,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

Subsequently, on 18 February 2019, the Fund Manager approved to distribute dividends to the unitholders for the period from 1 July 2018 to 31 December 2018 amounting to SR 18,480,000 in accordance with the terms and conditions of the Fund which was at least 90% of the Fund's annual net profits.

23. COMMITMENTS AND CONTINGENCIES

As of 31 December 2018, the Fund has contingencies related to the output VAT on rental income for the period from 1 January 2018 to 31 May 2018.

The General Authority of Zakat and Tax has yet to provide assessment on the amount of VAT to be charged by the Fund.

24. LAST VALUATION DAY

The last valuation day of the period was 31 December 2018.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 25 Jumada Al-Thani 1440 H (corresponding to 3 March 2019).

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