

AlAhli REIT Fund (1)

Annual Report 2018

Management Statement

Dear Unitholders,

We are pleased to present to you the annual report of AIAhli REIT Fund (1) for the fiscal year 2018 which includes a brief on economic conditions, fund's financial performance and plans for the coming years.

Saudi economy remained subdued for the most part of the year as a result of subsidy cuts by the government, implementation of Value Added Tax, and increase in expat levies. These economic factors resulted in lower consumer spending and limited rental growth. However, we expect this to change in the near future as a result of major government initiatives like Vision 2030 and the National Transformation Program.

Amidst economic slowdown during 2018, the fund's underlying investment performed well. AlAndalus Mall managed to sustain occupancy at 93%; whereas Staybridge Suites achieved occupancy of 61% during its first full year of operations. Staybridge Suites was ranked 3rd out of 6 amongst Comp Set in terms of RevPAR as per the STR* report.

From a financial perspective, the fund generated Funds From Operations ("FFO") of SAR 88,017,000 during 2018. The fund's total distribution for the period was SAR 0.65/unit (equivalent to 6.5%). The first distribution of 3.25% for H1 2018 was made in August 2018, and the second distribution of 3.25% for H2 2018 was made in February 2019.

During the last quarter of 2018, the fund signed an Islamic loan facility of SAR 650 million with NCB. It is a 15 years loan with a grace period of 5 years. The purpose of the loan is to fund new acquisitions that will help diversify fund risks and enhance returns for the Unitholders.

We are looking forward with enthusiasm to achieving even better results and accomplishments in the upcoming years

* STR provides data benchmarking, analytics and marketplace insights for global hospitality sectors.

Highlights

Current Net Asset Value: SR 1,396,971,000

Funds From Operations (FFO): SR 88,017,000

* Funds from operations is income after adding back depreciation & amortization

Distribution percentage made for the first half 2018: 3.25%

* The second distribution was made in the first quarter of 2019

** Percentage of the unit's par value

Fund Facts

Fund Name:

AlAhli REIT Fund (1) (the "Fund").

Fund Description:

A close-ended Real Estate Investment Traded Fund operating in accordance with the Shariah guidelines set by the Shariah Board. The Fund is governed by the laws and implementing regulations in the Kingdom of Saudi Arabia and is subject to the regulations and instructions issued by the Capital Market Authority ("CMA").

Fund Investment Objective:

The Fund aims to provide rental income to Unitholders by investing mainly in income-generating developed properties, and to distribute at least 90% of the Fund's net profits to Unitholders on a semi-annual basis. In addition, the Fund may seek to achieve growth in the total value of the Fund's assets by means of asset development, expansion, or acquisition of new assets.

Fund's Assets:

- AlAndalus Mall located in Jeddah, Saudi Arabia
- Staybridge Suites located in Jeddah, Saudi Arabia

Fund Board Report

The Fund Manager convened two Board meetings during the year. The meetings included:

- Ratification and approval of the appointment of external parties to provide various services to the Fund in accordance with the Fund's terms and conditions.
- Discussion on the Fund's business activities, updates and the performance of real estate assets during the first and second half of the year.
- Discussion on the current economic conditions and their expected impact on the Fund's assets in the future.
- Discussion and approval on the annual budget.
- Discussion on the expansion plans of the Fund's current and future assets.
- Ratification and approval on the interim and annual financial statements.
- Approval on the banking facilities agreement with the National Commercial Bank.
- Ratification and approval on the semi-annual and annual dividends, totaling 6.5% of the unit's par value.

Fund Updates

- 2018 distributions of 6.5% of par value were in line with the Fund Manager's projections. The first half distribution was made in August 2018 and the second half distribution was made in February 2019.
- The Fund's assets were evaluated twice during the year by independent and accredited valuers. The valuation reports were published in the Fund Manager website and Tadawul.
- Renovation of AlAndalus Mall food court was completed to make the food court modern and attractive with more number of restaurants. A waterfall and a display screen were added to the food court as well.
- The Fund entered into an agreement to obtain a SR 650 million a Shariah-compliant Ijara facility from the National Commercial Bank.
- The Fund is currently seeking to acquire new assets to enhance return and to diversify its investments and risks.
- The Fund appointed a consultant to work on mall strategy to attract more visitors.

Economic Overview

- Overall, the economic reforms enabled the Kingdom to increase its gross domestic product (GDP) for the year by 2.5% compared to a decrease of -0.8% last year. The real estate sector grew by 2.3% despite the challenges at the beginning of the year.
- The number and value of point-of-sale (POS) transactions in the Kingdom increased in 2018 y-o-y by 46% and 16%, respectively. The increase in city of Jeddah is estimated at 40% and 12% respectively, according to POS data published by the Saudi Arabian Monetary Agency (SAMA). It was noted that the increase in the value of transactions is much lower than the increase in the number of transactions.
- Retail growth is still limited due to lower consumer spending. In the last quarter of 2018, rental rates at large regional malls remained stable, supported by limited supply, while rentals of smaller malls continued to decrease by 5% y-o-y. Vacancy rates in the retail sector remained unchanged y-o-y at 11% due to owners' efforts to provide incentives to retain tenants and maintain occupancy rates.
- The hospitality sector in Jeddah continued to outperform the rest of the Saudi Arabia, with room rates increasing by 11% y-o-y. In addition, 2018 witnessed the addition of 772 hotel keys in Jeddah, a slight decrease from the last three years average, while the occupancy rates remained unchanged during the year.
- The greater impact of economic reforms and incentives on the real estate sector in Jeddah is expected to be reflected in the near future, driven by major economic projects such as the Red Sea and Jeddah Downtown projects.

Sources: Saudi Arabian Monetary Agency report and JLL report (Saudi Real Estate Market 2018)

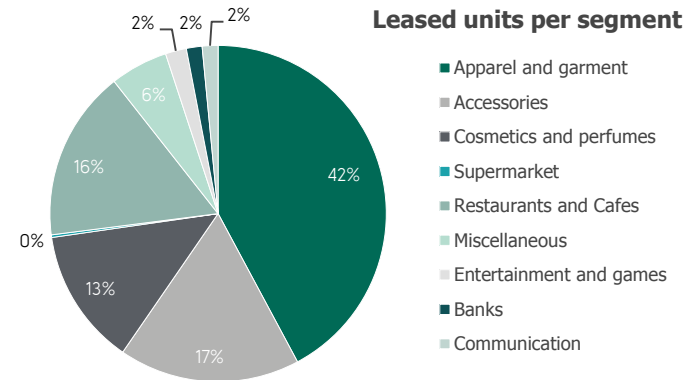
Fund Assets – Al-Andalus Mall



Location	Jeddah - Fayhaa district, King Abdul Aziz Square – near King Abdullah Road intersection with Prince Majed road
Total land area	152,910 square meters
Rental area	89,713 square meters
Mall components	2 floors, 3,000 parking lots, 415 retail shops plus kiosks
Building age	10 years
Occupancy rate at year end 2018	93%
Acquisition price	SR 1,150,000,000
Property manager	AlAndalus Mall is operated and managed by Hamat Real Estate, an experienced company in providing property management, leasing and operating services.

Summary of Al-Andalus Mall performance

Total leased units at AlAndalus mall stood at 463 units as of December 2018. The Fund aims to strengthen and diversify its tenant base, providing investors with consistent cash flows as a result of diversification of tenant business segments. The diversity of tenants in the mall will also lead to risk distribution.



The following table shows the diversity of business segments in the mall and the area occupied by each segment:

Segment	Percentage of income to total income by the mall	Percentage of leased area to total leasable area
Apparel and garment	48%	44%
Accessories	12%	10%
Cosmetics and perfumes	10%	6%
Supermarket	8%	22%
Restaurants and Cafes	9%	4%
Miscellaneous	3%	2%
Entertainment and games	8%	14%
Banks	1%	0.01%
Communication	1%	0.01%

Main Tenants of Al-Andalus Mall

Fawaz Alhokair Group



Landmark Group



Alshaya International Trading Company



Other



Fund Assets – Staybridge Suites Jeddah



Location	Fayhaa district, Jeddah
Category	5-star hotel
Total land area	6,223 square meters
Number of suites	164 suites
Hotel components	16 Floors, 236 parking lots, swimming pool, Spa, tennis court
Building age	One year
Acquisition price	SR 200,000,000
Hotel operator	Staybridge Suites is managed by InterContinental Hotels Group, an experienced firm in hotel operation and management

Fund Assets - Staybridge Suites, Jeddah



The operator sought to develop the hotel's public relations with its clients base locally and globally. For example, rooms and hall reservation offers were made for many banks, universities and other institutions to hold workshops, or conferences etc. in an effort to boost hotel's performance and provide constant cash flows through long term partnership.

Key Performance Indicators

Total guests	50,694
Occupancy rate	61%
Average room daily rate	SR 600
Revenue per room	SR 367

Fund Performance

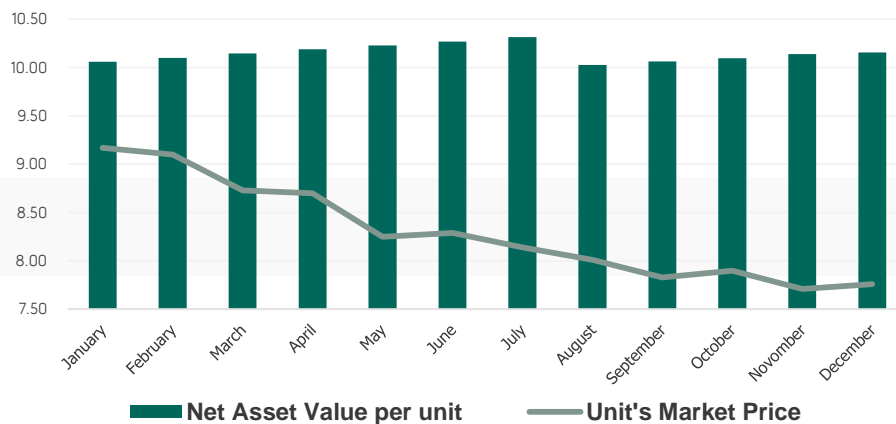
Summary of Fund Performance – 2018	
Number of units issued	137,500,000 units
NAV at inception	SAR 1,375,000,000
Net asset value at end of period	SAR 1,396,971,000
NAV per unit at inception	SAR 10.00
NAV per unit at end of period	SAR 10.16
Fund from operations (FFO)	SAR 88,017,000
Funds from operations per unit	SAR 0.64
Total dividend distributed per unit for 1st half of the year	SAR 0.325
Highest unit closing price (According Saudi Stock Exchange)	10.11
Unit lowest closing price (31 December 2018)	7.37

Fund Fees and Expenses – 2018	
Fund management fees	SR 14,086,000
Professional fees (property valuation and auditing)	SR 350,000
Board fees	SR 100,000
Sharia board fees	SR 27,000
Tadawul fees	SR 757,943
Custodian fees	SR 391,000
Other expenses	SR 1,607,858
Total Fund fees and expenses	SR 17,319,801
Assets under management	\$1,445,825,000 R
Total expenses ratio	1.20%

* Total distributions for the period is SR 0.65 per unit, but the second distribution was made in February 2019, therefore it's not included herein.

Unit Performance During the Year

Unit market price vs unit indicative value 2018



Description	Nest Asset Value	Market Price
Unit initial value	10.00	10.00
Change during period per unit	0.16	(2.24)
Dividends per unit* (dividends distributed during 2018)	0.33	0.33
Total return for the period	4.85%	-19.15%

* Total distributions were SR 0.65 per unit. As the second distribution was made in February 2019, it was not included herein.

Dividends Distribution

The Fund Manager aims to distribute at least 90% of its annual net profit as cash dividends to unitholders twice a year, excluding the capital gains resulting from the sale of real estate assets and investments in money market funds and transactions which may be reinvested in additional assets for the Fund.

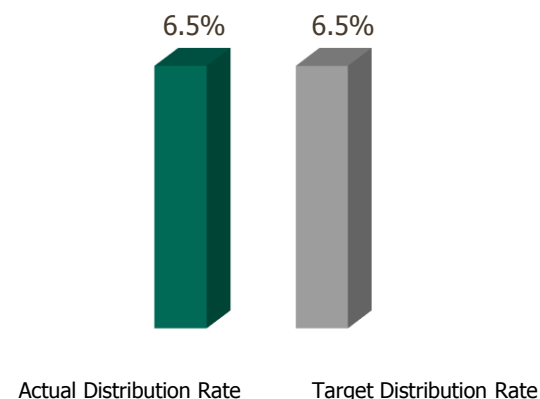
The Fund Manager distributed cash dividends to the Fund's unitholders for the period ended 31 December 2018.

The 1st half dividends were distributed in August 2018 and the 2nd half dividends were distributed in February 2019.

Summary of dividends

Total distributed dividends for the period	SAR 89,375,000
Dividend per unit	SAR 0.65
Number of units outstanding	SAR 137,500,000
Unit nominal value (initial price)	SAR 10
Dividend rate to unit initial price	6.5%
% dividends of net asset value	6.4%
NAV as of 31 Dec 2018	SAR 1,396,971,000

Dividends distributed per nominal value



Disclosures

Other investments

The Fund Manager invested the surplus cash balances in low risk investments (AlAhli Saudi Riyal Trading Fund) in accordance with Sharia investment guidelines.

Special commissions

The Fund is exempt from the management fees payable to AlAhli Saudi Riyal Trading Fund, which shall be rebated to the Fund's account.

Leverage

The fund signed an Islamic loan facility of SAR 650 million with NCB. It is a 15 years loan with a grace period of 5 years. However, no drawdown was made during the year.

Material changes

N/A

Annual voting rights

N/A

Changes to the Terms and Conditions

N/A

Dividends

Semi-annual dividends for the first and second half of 2018 were distributed in August 2018 and February 2019.

Fund Manager and third parties

Custodian



Fund Manager



Auditor



Property Agent



Real Estate Valuator



Real Estate Valuator



Risk Assessment Report

Risk	Risk Description	Risk Mitigation
Income Distribution Risk	The inability or failure of the Fund to achieve periodic or targeted future distribution obligations for the Unitholders as per the Fund's T&C.	<ul style="list-style-type: none"> The Fund has signed long term contracts with anchor tenants and is continuously looking for ways to make sure that the mall enjoys a diversified and strong tenant mix which is considered to be the best mitigation strategy against risk of tenants' delinquencies. Moreover, the hotel is operated by a global and reputable hotel chain which would help ensuring minimal vacancy rates. Specific marketing strategies related to increasing footfall for the Fund's properties are being implemented by property managers and operators. The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its target.
Exit Risk	The inability of the Fund Manager to liquidate the underlying assets in a timely manner and according to the Fund's strategy. This risk is more relevant as the fund gets closer to maturity.	<ul style="list-style-type: none"> The Fund has a very long term to maturity (99 years, extendable) and the Fund's units continue to be tradable on the stock exchange, giving unitholders the ability to exit at the time of their choice based on prevailing market prices.
Interest Rate Risk	The risk that the value of financial instruments will fluctuate due to changes in return rates which are affected by interest rates.	<ul style="list-style-type: none"> Given the nature of the Fund, any movement in profit/ interest rates would have little impact on the value of the underlying assets.
Counterparty/ Credit Risk	<p>The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables.</p> <p>As of 31st December 2018, the Fund had SAR 102 million in credit exposure to various counterparties.</p>	<ul style="list-style-type: none"> The Fund policy is to enter into financial instrument contracts only with reputable counterparties.

Risk Assessment Report (Continued)

Risk	Risk Description	Risk Mitigation
Concentration Risk	<p>The Fund initially invests in assets concentrated in specific geographical area and industries such as hospitality and retailing. In case the Fund Investments are concentrated in one or more industries, the Fund's performance and Unit prices may be affected more adversely than in cases of various assets or properties or in case of dependence on one or more other industries.</p> <p>This risk also covers customer concentration, i.e. reliance on a small number of clients. As of 31st December 2018, the five largest customers account for 29% of the rent receivable and the Fund Manager continues to explore additional options to diversify and mitigate this risk.</p>	<ul style="list-style-type: none"> The Fund is currently fully invested in developed real estate assets located in Jeddah (Saudi Arabia). The Fund's assets are broken down as follows: <ul style="list-style-type: none"> A shopping Mall, representing approximately 85% of the Fund's AUM. A hotel, representing 15% of the Fund's AUM. The Fund Manager continues to explore additional properties that meet its overall risk-return profile to add to the portfolio's diversification mix.
Country Risk	<p>The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity.</p>	<ul style="list-style-type: none"> The Fund is fully invested in Saudi Arabia and it is not expected that this allocation will change soon. The Fund manages the different underlying country risks including regulatory, policy, and tax changes by closely monitoring Saudi Arabia's regulatory/ policy/ tax landscapes and by anticipating and being prepared for any potential change.
Economic Risk	<p>The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.</p>	<ul style="list-style-type: none"> The Fund Manager continues to closely monitor the general macro-economic situation and any specific development in the real-estate sector to ensure that appropriate decisions are made accordingly.

Risk Assessment Report (Continued)

Risk	Risk Description	Risk Mitigation
Asset Under-performance Risk	<p>The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates.</p> <p>As of 31st December 2018, the Fund has SAR 3.2 million in provisions for doubtful debts for tenants who defaulted on rentals. The property manager (Hamat) continues to monitor this to ensure all outstanding amounts are recovered.</p>	<ul style="list-style-type: none"> The Fund Manager has followed a number of mitigation strategies which include: <ul style="list-style-type: none"> Sign long term contracts with anchor tenants Ensure that the mall enjoys a strong diversified tenant mix Partner with a globally reputable hotel chain to operate the Hotel The Fund Manager also closely monitor the performance of the underlying assets and meets regularly with the property managers and hotel operator to monitor any issues/ events that might lead to Fund's underperformance.
Operational Risk	<p>Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally, at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.</p>	<ul style="list-style-type: none"> The Fund is managed by NCB Capital which has excellent track record and experience in asset management. In order to ensure compliance with best practices, certain key activities that require subject matter expertise have been outsourced to experienced and reputable service providers with strong track record. <ul style="list-style-type: none"> Hamat Property Company: is considered to be one of the most prominent malls management companies in KSA with long positive track record Intercontinental Hotel Group (IHG): a British multinational hospitality company with a market cap of ~US\$ 10 billion and is rated BBB by S&P. Broadly, the Fund objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders.

Risk Assessment Report (Continued)

Risk	Risk Description	Risk Mitigation
Compliance Risk	<p>Failure of the Fund to adhere to laws, rules and regulations in the target investment countries.</p> <p>This risk includes: Legal, Regulatory and Sharia Compliance risks.</p>	<ul style="list-style-type: none"> The Fund Manager continues to monitor the Fund's compliance against regulations and its Terms and Conditions and will take all necessary actions to fulfil and meet those requirements.
Valuation Risk	<p>The risk that the market value of the Fund is materially lower than its NAV. This might be due to an overvaluation of the underlying assets.</p>	<ul style="list-style-type: none"> The Fund Manager manages this risk by: <ul style="list-style-type: none"> Pre-acquisition: conducting proper due diligence and valuation. Post-acquisition: focusing on long term value creation for Unitholders, and on its ability to generate sustainable periodic rental income and long term growth potential. The risk that units of the Fund are valued lower than NAV, is also driven by general market sentiment, views on the entire REITS sector and real estate in general. When benchmarking against global valuation, in most countries REITS trade at a discount (lower) to NAV.

Risk Assessment Report (Continued)

Risk	Risk Description	Risk Mitigation
Liquidity Risk	Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.	<ul style="list-style-type: none"> The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through disposal of investment properties or by taking short term loans.
Fund Manager Risk	Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.	<ul style="list-style-type: none"> The Fund Manager has set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly. The Fund Manager relies on the expertise of its highly experienced investment team to act in the best interest of Unitholders and to achieve the Fund's long term growth aspirations. In case where certain functions/ activities are outsourced to 3rd party service provider, the Fund Manager ensures that proper due diligence is performed on the 3rd party provider and that the latter accepts and adheres to the Fund Manager's terms of business.

Financial Statements

For the period ended from 25 December 2017 to 31 December 2018

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

FINANCIAL STATEMENTS

For the period ended from 25 December 2017 to 31 December 2018

with

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS



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Independent Auditors' Report

To the Unitholders of AlAhli REIT Fund (1)

Opinion

We have audited the financial statements of AlAhli REIT Fund (1) (the "Fund"), managed by NCB Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2018, and the related statements of comprehensive income, changes in equity attributable to unitholders and cash flows for the period from 25 December 2017 to 31 December 2018, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements 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 period from 25 December 2017 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the 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 that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other 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 for the current period. 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.

Independent Auditors' Report

To the Unitholders of AlAhli REIT Fund (1) (continued)

Key Audit Matters (continued)

The Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2018, the carrying value of investment property held by the Fund was SR 1,346 Million.</p> <p>The investment property is stated at cost on initial recognition and subsequently at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment property is disclosed along with its impact on equity per unit.</p> <p>In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its property at each reporting date. In case such indicators are identified, therecoverable amount of such property is required to be determined.</p> <p>As part of its assessment of impairment indicators, the Fund reviews both the internal and external indicators of impairment including but not limited to net cash outflows or operating losses, physical wear and tear of assets and adverse market changes or conditions. Moreover, the assessment of recoverable amounts entails the use of complex valuation techniques.</p> <p>Since, the evaluation of impairment indicators and ensuing recoverable amount assessment, where required, involves the exercise of significant judgment, it has therefore been determined to be a key audit matter.</p>	<p>Our audit procedures in response to the assessed risk of material misstatement in valuation of investment properties comprised of:</p> <ul style="list-style-type: none"> - Obtained an understanding of the management processes for identification, and mitigation of valuation risk; - Performed test of details on the costs capitalized and ensured that all costs are appropriately capitalized; - Assessed the process followed by the Fund for the assessment of impairment indicators and recoverable amount determination during the year ended December 31, 2018. - Assessed the Fund Manager's determination of the following: <ul style="list-style-type: none"> • The factors considered by the Fund in impairment indicator assessment; and • The basis used for the identification of cash generating units ('CGU'), which is the level at which recoverable amounts are determined. - Assessed the recoverable amount assessment prepared by the Fund using valuation reports prepared by independent valuers and assessed the model, assumptions and estimates used in the calculation of fair values less cost of disposal ('fair value') and value in use ('VIU'). - Assessed the key assumptions and estimates used, including discount rate, exit yield rate, annual rental income, operating expenditure and occupancy. Performed sensitivity analysis, including assessment of the effect of reasonably possible increases the in discount rate and operating expenditures on the forecasted cash flows to evaluate the impact. - Compared the recoverable amount of each CGU with its carrying value. - Evaluated the financial statement disclosures, including disclosures of key assumptions and judgements.

Independent Auditors' Report

To the Unitholders of AIAhli REIT Fund (1) (continued)

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

Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' 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 auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- 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, then we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Independent Auditors' Report

To the Unitholders of AIAhli REIT Fund (1) (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of AIAhli REIT Fund (1).

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

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

**For KPMG Al Fozan & Partners
Certified Public Accountants**



Ebrahim Oboud Baeshen
License No. 382



Jeddah, 21 Rajab 1440H
Corresponding to 28 March 2019

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)
STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	<i>Notes</i>	<i>31 December 2018</i>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	7	7,337
Investment at fair value through profit or loss	8	58,112
Rent receivable	9	22,997
Due from related parties	15	7,690
Prepayments and other receivables		1,196
Other assets		2,866
Total current Assets		100,198
Non-Current Assets		
Investment properties	10	1,345,627
Total assets		1,445,825
<u>LIABILITIES</u>		
Current Liabilities		
Due to related parties	15	11,693
Other liabilities		10,732
Deferred rental revenue	11	26,429
Total Liabilities		48,854
Equity attributable to unitholders		1,396,971
Units in issue in thousands (number)		137,500
Equity per unit (SAR)		10.1598

The accompanying notes 1 to 20 form integral part
of these financial statements

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

STATEMENT OF COMPREHENSIVE INCOME

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

		<i>For the period from 25 December 2017 to 31 December <u>2018</u></i>
	<i>Notes</i>	
Revenue from properties	12	148,332
Operational expenses	13	(40,523)
Depreciation	10	(21,358)
Allowance for doubtful debts		(3,259)
Gross profit		83,192
Management fees	15	(14,086)
Professional fees		(350)
Board fees		(100)
Tawadul fees		(758)
Custody fees		(391)
Shariah fees		(27)
Other expenses		(1,608)
Net operating profit		65,872
Net gain on investment at fair value through profit or loss	8	787
Profit for the period		66,659
Other comprehensive income for the period		--
Total comprehensive income for the period		66,659

The accompanying notes 1 to 20 form integral part
of these financial statements

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	<i>For the period from 25 December 2017 to 31 December 2018</i>
Total comprehensive income for the period	66,659
Unit transactions during the period	
Proceeds from issuance of units	1,375,000
Dividend paid during the period	(44,688)
Equity attributable to Unitholders at the end of the period	<u>1,396,971</u>

The accompanying notes 1 to 20 form integral part
of these financial statements

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

STATEMENT OF CASH FLOWS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	<i>For the period from 25 December 2017 to 31 December 2018</i>
Cash flow from operating activities	
Profit for the period	66,659
<u>Adjustment for:</u>	
Depreciation	21,358
Allowance for doubtful debts	3,259
Net gain on investment at fair value through profit or loss	(787)
	90,489
<i>Net changes in operating assets and liabilities:</i>	
Due from related parties	(7,690)
Accounts receivable	(26,256)
Prepayments and other receivables	(1,196)
Other assets	(2,866)
Deferred rental revenue	26,429
Due to related parties	11,693
Other liabilities	10,732
Net cash generated from operating activities	101,335
Cash flow from investing activities	
Purchase of investment properties	(420,711)
Construction in progress	(1,274)
Additions to investment at fair value through profit or loss	(83,458)
Disposal of investment at fair value through profit or loss	26,133
Net cash used in investing activities	(479,310)
Cash flow from financing activities	
Proceeds from units sold	430,000
Dividend paid	(44,688)
Net cash generated from financing activities	385,312
Net change in cash and cash equivalents and cash and cash equivalent at the end of the period	7,337
<u>Non-cash information:</u>	
Purchase of investment property against issuance of units	945,000

The accompanying notes 1 to 20 form integral part
of these financial statements

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

1 THE FUND AND ITS ACTIVITIES

AlAhli REIT Fund (1) (the "Fund") is a closed-ended Shariah compliant real estate investment fund, established and managed by NCB Capital Company (the "Fund Manager"), a subsidiary of The National Commercial Bank (the "Bank"), for the benefit of the Fund's unitholders. The Fund is ultimately supervised by the Fund Board.

As defined in Capital Market Authority's Regulation No. 2-83-2005 dated 21 Jumada Awal 1426H (28 June 2005) the Fund Manager conducts following securities' activities:

- a) Dealing;
- b) Arranging;
- c) Managing;
- d) Advising;
- e) Custody;

The Fund's objective is to provide periodic rental income to its Unitholders by investing mainly in Developed Properties generating income, in addition to potential capital growth of the total value of the Fund's assets when assets are sold later, or target assets are developed or expanded.

The Fund will invest mainly in developed income generating real estate assets. The Fund may invest part of its assets and cash surplus in Murabaha transactions and short term deposits in Saudi Riyals with banks that are licensed by the Saudi Arabian Monetary Agency and operate in Saudi Arabia. The Fund may also invest in public money market funds approved the Capital Market Authority.

The terms and conditions of the Fund were approved by the Capital Market Authority (the "CMA") on 11 Rabi Awal 1439H (corresponding to 29 November 2017). The offering period for the subscription of the units was from 6 December 2017 to 19 December 2017. Unitholders subscribed for the units of the Fund during the offering period and cash was held in collection account of NCB Capital. The cash was transferred to the Bank account of the Fund on its commencement date which was used to purchase the investment property and units were issued to unitholders simultaneously. The Fund commenced its activities on 25 December 2017 (the "inception date"). On the inception date, the Fund issued 137,500 units for SR 1,375 million, which was considered as initial capital contribution of the Fund.

The Fund's term will be ninety nine (99) years. The term of the Fund may be extended at the Fund Manager's discretion subject to CMA approval.

The Fund has been established and units are offered in accordance with the Real Estate Investment Funds Regulations issued by the Board of Directors of CMA under Resolution No. 1-193-2006, dated 19/6/1427H, (The "Real Estate Investment Funds Regulations"), and in accordance with the instructions issued by CMA in respect of real estate investment traded funds pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G, ("Real Estate Investment Traded Funds Instructions") detailing requirements for all the Real Estate Investment Traded Funds within the Kingdom of Saudi Arabia. As per the terms and conditions of the Fund, the Fund will distribute at least 90% of its net income to its unitholders.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

2 BASIS OF ACCOUNTING

These financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA") and to comply with the applicable provisions of the Investment Funds Regulations issued by Capital Market Authority, the Fund's terms and conditions and the Information Memorandum.

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern assumption except for investments measured at fair value through profit or loss ("FVTPL") which are recorded at fair value.

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

5 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the 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 expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. The significant accounting judgements and estimates applied in the preparation of these financial statements are as follows:

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 changes in depreciation charges, if any, are adjusted in current and future periods.

Impairment of investment properties

Investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the investment property exceeds its recoverable amount, which is the higher of its fair value less cost to sell and value in use.

For the purpose of assessing impairment, investment properties are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit 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 investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

5 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS
(continued)

Impairment of financial assets held at amortised cost

The Fund assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial instrument assets carried at amortised cost. These primarily includes rent receivable and due from related party. 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.

6 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

6.1 *Cash and cash equivalents*

Cash and cash equivalents include cash at bank and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand and bank balances held at commercial banks.

6.2 *Financial instruments*

Investment in fair value through profit or loss, rent receivable and due from related party are the major financial assets. Financial liabilities mainly include account payable, due to related party and other liabilities.

Initial recognition

A financial asset or financial liability (unless it's a rent receivable / other receivable / due from related party without a significant financing component) is initially measured at fair value plus, for an item not carried at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Rent receivable without a significant financing component is initially measured at transaction price.

Derecognition

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires. A financial liability (or a part of financial liability) can only be derecognized when it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled or expired.

Subsequent measurement

Subsequent to initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated. The Fund recognizes loss allowances for ECL on rent receivable and due from related parties at an amount equal to lifetime ECL.

Investment measured at fair value through profit or loss is measured at its fair value at the reporting date. The movement in the fair value is recognized in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 *Investment properties*

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in statement of comprehensive income.

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

Categories	Useful Life
Building	20 - 40
Furniture and Fixtures	5 - 10
Computer and Hardware	3 - 10
Office Equipment	4 - 10

6.4 *Impairment of non-financial assets*

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

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses are recognized in the statement of comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.5 *Financial liabilities*

All non-derivative financial liabilities, comprising of accounts payable, due to related party and other liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortised cost using the effective commission rate method.

6.6 *Derecognition*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Fund transfers substantially all the risks and rewards of ownership, or (ii) the Fund neither transfers nor retains substantially all the risks and rewards of ownership and the Fund has not retained control.

6.7 *Provisions*

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

6.8 *Accrued expenses and other payables*

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

6.9 *Revenue recognition*

Rental income from investment properties is recognized on straight-line basis in accordance with the terms of the lease contract. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease. The Fund has no geographical dispersion and revenue is recorded over the lease contract.

Revenue from hotel services comprises revenue from rooms, food and beverages and other associated services provided. The revenue is recognized net of discount, applicable taxes and municipality fees on an accrual basis when the services are rendered.

6.10 *Zakat and income tax*

Zakat / taxation is the obligation of the unitholders and therefore, no provision for such liability is made in these financial statements.

6.11 *Dividend payable*

Interim and final dividends are recorded as a liability in the period in which they are approved by the Fund Board.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

6 SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12 *Offsetting*

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Fund.

6.13 *Equity per unit*

The equity per unit is calculated by dividing the equity attributable to Unitholders included in the statement of financial position by the numbers of units outstanding at the year/period end.

6.14 *Units in issue*

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank pari passu in all respects and have identical terms and conditions. The units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets at each redemption date and also in the event of the Fund's liquidation.

Units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

6.15 *Foreign currency transactions*

Transactions denominated in foreign currencies are recorded in the books at the rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Saudi Riyals at the rate of exchange prevailing at the reporting date. All exchange differences are taken to the statement of comprehensive income.

7 CASH AND CASH EQUIVALENTS

These comprises of cash in hand and balances held with commercial banks.

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals ‘000 (unless otherwise stated)

8 INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

Investment at fair value through profit or loss comprises of the following:

	31 December 2018	
	<u>Cost</u>	<u>Value</u>
<i>Investment in mutual fund managed by the Fund Manager</i>		
AlAhli Saudi Riyal Trade Fund (31,308,937 Units) (a related party)	57,729	58,112

During the period, the Fund recognised net gain of SR 787 thousand from these investments.

9 RENT RECEIVABLE

Rent receivable comprises of the following:

	<u>31 Dec 2018</u>
Rent receivable	26,256
Allowance for doubtful debt	(3,259)
Rent receivable – net	22,997

As at 31 December 2018, the five largest customer accounts for 29% of rent receivable of the Fund.

10 INVESTMENT PROPERTIES

The Fund has acquired following properties at inception date of 25 December 2017 against cash consideration of SR 405 million (represents 30% of total purchase value of SR 1,350 million) and issuance of units valued at SR 945 million to AlAndalus Property Company (“APC”) – the previous owner. In addition, the Fund has also capitalized transaction cost amounting to SR 15.53 million at acquisition:

<u>Name of the property</u>	<u>Nature of Property</u>	<u>Purchase Price</u>
Alandalus Mall, Jeddah	Commercial Centre	1,150,000
Staybridge Suites & Hotel, Jeddah	Five Star Hotel	200,000

Hamat Property Company, a Saudi limited liability company, has been assigned as the operator and leasing manager and mandated to deal with all commercial tenancy of Alandalus Mall. Intercontinental Hotel Group is the operator and manager for Staybridge Suites & Hotels and manages room allocation on behalf of the Fund.

The Fund has also acquired certain associated assets and liabilities of the properties including deferred revenue against corresponding claim from APC amounting to SR 25.4 million.

The title deeds of the properties are kept in the name of Sandoog Tamkeen Real Estate Company (“SPV”), which is owned by AlBilad Capital (custodian of the Fund). Fund pays the custody fee to the custodian which is equal to 0.025% of the Fund’s assets under custody based on the average of latest valuations of the properties.

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

10 INVESTMENT PROPERTIES (continued)

At 31 December 2018, investment properties represent the properties that were initially recognized at their cost and are subsequently measured at cost less accumulated depreciation:

	<u>Land</u>	<u>Buildings</u>	<u>Furniture & Fixture</u>	<u>Computer & Hardware</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Acquisition cost	812,411	535,364	8,655	2,039	7,055	--	1,365,524
Additions during the year	--	--	187	--	--	1,274	1,461
Depreciation for the period	--	(18,857)	(1,089)	(235)	(1,177)	--	(21,358)
Carrying value at 31 December 2018	812,411	516,507	7,753	1,804	5,878	1,274	1,345,627

In accordance with article 22 of the Real Estate Investment Funds Regulations issued by CMA, the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's real estate assets based on two evaluations prepared by the independent evaluators. However, in accordance with IFRS as endorsed in Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation in these financial statements.

As per the valuation report, fair value of the properties was determined by Taqueem certified valuers in accordance with Taqueem Regulations (Saudi Authority for Accredited Valuers) in confirming with the International Valuation Standards Council (IVSC's) and International Valuation Standards. The assumptions used in determining fair value of the investment properties are as follows:

<u>Description</u>	<u>Key assumptions</u>	<u>Market Value</u>	
		<u>As at 25 Dec 2017</u>	<u>As at 31 Dec 2018</u>
Valuer: Colliers International			
Al Andalus Mall	Discount rate: 11.25%, Exit yield rate: 9.50%	1,144,000	1,107,000
Stay Bridge Suites Hotel	Discount rate: 11.25%, Exit yield rate: 9.25%	180,000	174,000
		1,324,000	1,281,000
Valuer: Knight Frank			
Al Andalus Mall	Discount rate: 12.25%, Terminal capitalisation rate: 9.25%	1,150,558	--
Stay Bridge Suits Hotel	Discount rate: 12.25%, Terminal capitalisation rate: 9.25%	201,000	--
		1,351,558	--

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

10 INVESTMENT PROPERTIES (continued)

<u>Description</u>	<u>Key assumptions</u>	<u>Market Value</u>	
		<u>As at 25 Dec 2017</u>	<u>As at 31 Dec 2018</u>
Valuer: Value Strat			
Al Andalus Mall	Discount rate: 10.50%, Exit yield rate: 8.50%	--	1,161,000
Stay Bridge Suits Hotel	Discount rate: 9.00%, Exit yield rate: 11.50%	--	179,100
		--	1,340,100

For the purpose of assessing impairment, value in use of the investment properties was determined by Taqeem certified valuers in accordance with guidance of IAS 36 "Impairment of Assets" using the following assumptions:

<u>Description</u>	<u>Key assumptions</u>	<u>As at 31 Dec 2018</u>
Valuer: Insights		
Al Andalus Mall	WACC: 10.2% Terminal capitalisation rate: 8.5%	1,179,472
Stay Bridge Suits Hotel	WACC: 9.59% Terminal capitalisation rate: 9.0%	186,141
		1,365,613

As a result of this analysis, management has not recognised an impairment in the current year, as the recoverable amount, which is the higher of its fair value less cost to sell and value in use, exceeds the carrying amount.

11 DEFERRED RENTAL REVENUE

Movement in deferred revenue for the period from 25 December 2017 to 31 December 2018 is as follows:

	<i>For the period from 25 December 2017 to 31 December 2018</i>
Acquired as part of acquisition	25,406
Rent invoiced during the period	124,332
Adjusted against revenue earned	(123,309)
Balance at the end of the period	26,429

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

12 REVENUE FROM PROPERTIES

Revenue from properties during the period represents the following:

	<i>For the period from 25 December 2017 to 31 December 2018</i>
Alandalus Mall	124,232
Staybridge Suites & Hotel	24,100
	<hr/>
	148,332
	<hr/>

13 OPERATIONAL EXPENSES

	<i>For the period from 25 December 2017 to 31 December 2018</i>
Alandalus Mall	
Operating Expenses	16,886
Utilities	2,317
Marketing expenses	1,706
Agency Fees	500
Other Expense	2,410
	<hr/>
	23,819
Staybridge Suites & Hotel	
Salaries and other related expenses	6,877
Room department expenses	2,022
Marketing expenses	1,020
Management fees	931
Utilities	2,435
Other expenses	3,419
	<hr/>
	16,704
	<hr/>
	40,523
	<hr/>

14 CONTINGENCY AND COMMITMENT

During the period, the Fund entered into agreements with National Commercial Bank for Ijarah financing of SR 650 Million. The financing will be utilized to purchase settled properties for the Fund. As per the agreement the Fund will transfer the ownership of existing investment properties to the Bank as mortgage at the time of disbursement of the amount. As at 31 December 2018, no disbursement was made by the Bank to the Fund.

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

15 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

<u>Name of entity</u>	<u>Relationship</u>
NCB Capital Company	Fund Manager and Unitholder
National Commercial Bank	Shareholder of Fund Manager
AlAndalus Property Company (APC)	Unitholder
Hamat Property Company	Property Manager

Fund management fee

Fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager is entitled to a management fee of 1% per annum of the Fund's total assets net of Fund expenses based on the last valuation and is payable on semi-annual basis.

Property management fee

The Fund via a master transfer agreement dated 25 December 2017 appointed APC as property manager. Under the agreement, APC manages operations of the property against which the Fund pays a fixed amount of SR 500,000 per annum to APC.

Transactions with related parties

During the period from 25 December 2017 to 31 December 2018, the Fund entered into the following transactions with related parties (see note 7 as well) in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund.

<u>Related party</u>	<u>Nature of transaction</u>	<u>Amount of transactions 2018</u>	<u>Balance as at 31 December 2018</u>
Due to related parties			
NCB Capital Company	Management Fee	14,086	6,959
Hamat Property Company	Mall Operating Fee and other related expenses	9,644	4,734
			<u>11,693</u>
Due from related parties			
AlAndalus Property Company	Rental received from tenants/ Expenses paid on behalf of the Fund	74,564	<u>7,690</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

16 FINANCIAL RISK MANAGEMENT

16.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and operational 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.

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. 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.

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

Market risk

Foreign exchange risk

Foreign exchange risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in foreign currency.

The Fund does not have any significant foreign exchange risk since the majority of its transactions are carried out in SAR

Commission rate risk

Commission rate risk is the risk that the value of the future cash flows of a financial instrument or fair values of fixed coupon financial instruments will fluctuate due to changes in market commission rates.

The Fund is not subject to commission rate risk, as it does not currently have any commission bearing financial instruments.

Price risk

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. The Fund closely monitors the price movement of its investments in financial instruments. As of the statement of financial position date, the Fund has investments in AlAhli Saudi Riyal Fund ("Investee Fund").

The effect on the equity (as a result of the change in the fair value of investments as at 31 December) due to a reasonably possible change in equity of FVTPL investments, with all other variables held constant is as follows:

31 December 2018

Effect on equity

±10% ± 5,811

ALAHLI REIT FUND (1)
(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

16 FINANCIAL RISK MANAGEMENT (continued)

16.1 Financial risk factors (continued)

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables.

It is the Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits.

As at the reporting date, the Fund's maximum exposure to credit risk is represented by the respective carrying values of its financial assets exposed to credit risk.

a) *Maximum exposure to credit risk at the reporting date:*

	31 December 2018
<u>Assets</u>	
Cash and cash equivalents	7,337
Investment at fair value through profit or loss	58,112
Rent receivable	26,256
Due to related parties	7,690
Other assets	2,861
	<u>102,256</u>

b) *Analysis of financial assets*

At December 31, 2018, the ageing of financial assets is as follows:

<u>Financial Assets</u>	<u>Neither past due nor Impaired</u>	<u>Past due 1–90 days</u>	<u>Past due 90–180 days</u>	<u>Past due 180 to 270 days</u>	<u>Past due over 270 days</u>	<u>Total</u>
Cash and cash equivalents	7,337	--	--	--	--	7,337
Investment at fair value through profit or loss	58,112	--	--	--	--	58,112
Rent receivable, net	--	6,637	4,768	3,969	7,624	22,997
Due to related parties	7,690	--	--	--	--	7,690
Other assets	2,861	--	--	--	--	2,861
Total financial assets	<u>76,000</u>	<u>6,637</u>	<u>4,768</u>	<u>3,969</u>	<u>7,624</u>	<u>98,997</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

16 FINANCIAL RISK MANAGEMENT (continued)

16.1 Financial risk factors (continued)

Liquidity risk

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

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

Operational risk

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

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

16.2 Fair value estimation

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

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

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

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All financial assets and financial liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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.

The Fund's investment in AlAhli Saudi Riyal Trade Fund is classified as level 2.

NOTES TO THE FINANCIAL STATEMENTS

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17 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following are the new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2019, earlier application is permitted; however, the Fund has not early adopted them in preparing these financial statements.

(a) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease 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 January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Fund can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Fund can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Fund currently plans to apply IFRS 16 initially on January 1, 2019. The Fund has not yet determined which transition approach to apply. As a lessor, the Fund is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Fund Manager does not believe the adoption of IFRS 16 will have a material impact on the financial statements of the Fund.

(b) Annual Improvements to IFRSs 2015–2017 Cycle

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifies how a company 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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 December 2017 to 31 December 2018

Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

17 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(b) Annual Improvements to IFRSs 2015–2017 Cycle (continued)

- 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 non-qualifying 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.

The Fund Manager does not believe adoption of the annual improvements IFRS 2015-2017 Cycle will have any significant impact on the financial statements of the Fund.

(c) Other Amendments

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

- IFRIC 23 Uncertainty over Income Tax Treatments – clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19).
- Amendments to Reference to Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.

18 SUBSEQUENT EVENT

On 13 February 2018, the Fund Board approved to pay a dividend, for the period from 25 December 2017 to 31 December 2018, of SR 0.325 per unit totalling to SR 44.69 million to its unitholders. The dividend will be paid subsequent to the period end.

19 LAST VALUATION DAY

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

20 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 21 Rajab 1440H, corresponding to 28 March 2019.

Financial Statements and Risk Report Annex

The Fund's financial statements were published on the websites of the Fund Manager and the Saudi Stock Exchange (Tadawul).

A copy of the reports can be obtained at:

- Arabic version: <https://goo.gl/FTDfyw>
- English version: <https://goo.gl/Sp54Nv>

Risk report

Arabic version: <https://goo.gl/JfWCXi>

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