

AlAhli REIT Fund (1)

Annual Report 2018

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)

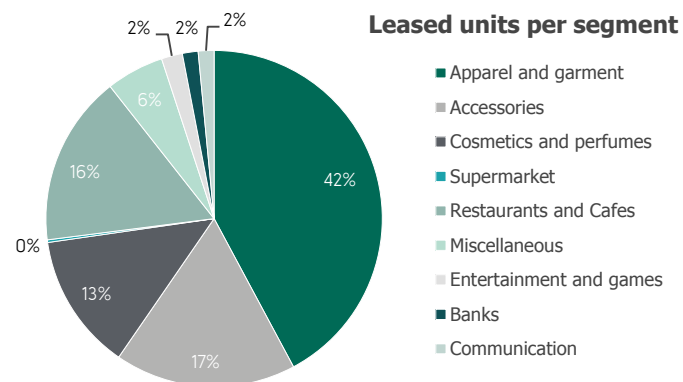
Fund Assets – Al-Andalus Mall



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

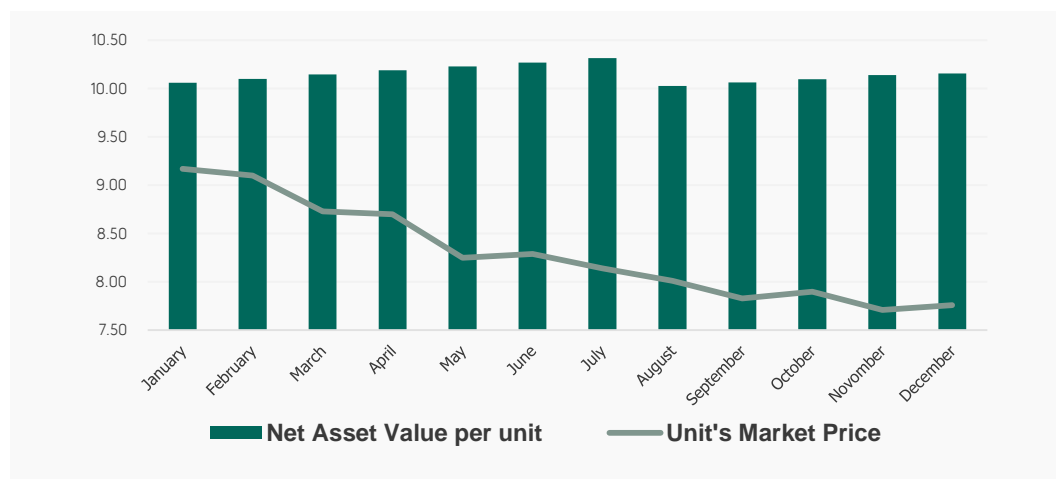
Summary of Fund Performance – 2018	
Number of units issued	137,500,000 units
NAV at inception	SAR 1,375,000,000
Net asset value at end of period	SAR 1,396,971,000
NAV per unit at inception	SAR 10.00
NAV per unit at end of period	SAR 10.16
Fund from operations (FFO)	SAR 88,017,000
Funds from operations 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	SR 1,445,825,000
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.

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



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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