

2019

ANNUAL REPORT  
ALAHLI REIT  
FUND (1)

This report summarizes  
all the financial records and  
achievements of 2019

الأندلس مال  
ALANDALUS MALL

**GLOBAL**  
BUSINESS OUTLOOK  
AWARDS 2019

NCB Capital  
Best Islamic REIT - AlAhli REIT Fund (1)  
Saudi Arabia

**WINNER**



# TABLE OF CONTENTS

Management Statement	4
Introduction to REITs	5
Fund Overview	5
Fund Updates	12
Fund Prospects	15
Fund Timeline	16
Service Providers	17
Fund Board Report	18
Disclosures	20
Risk Assessment Report	21
Financial Statements	28



# MANAGEMENT STATEMENT

Dear Unitholders,

We are pleased to present to you the Annual Report of AlAhli REIT Fund (1) for the fiscal year 2019, which includes a brief on the Fund's performance, challenges, and opportunities for growth in the future.

It has been an exciting year for the Fund. It won Best Islamic REIT of the Year Award 2019 and was also selected for inclusion in the FTSE EPRA Nareit Global Real Estate Index. At the portfolio level, the Fund has added a grade A office building that provides diversification to its sources of income and ensures greater cash flow stability.

However, 2020 will be a challenging year because of the spread of Coronavirus (COVID-19). Countries across the globe are expecting profound economic impact due to this pandemic.

The Saudi government is making great efforts to reduce the impact by providing economic measures to support the private sector, economic growth and employment.

There are also promising developments coming on stream in the coming years which are expected to boost the value and the potential return for the fund unitholders, including the scheduled opening of the Empire Cinema at Al-Andalus Mall and the construction of Sulaiman Al-Habib Medical Group's major new hospital adjacent to the Mall. The Fund is also evaluating the possibility of adding a boulevard attached to Al-Andalus Mall that will enhance the overall offering of the complex.

The fund will continue to search for new investment opportunities to build on the Fund's successes in the coming years.



# INTRODUCTION TO REITS

REIT in Saudi Arabia is defined as Real Estate Investment Traded Fund. It is a real estate investment fund that is publically offered and the units of which are traded on the stock exchange. The primary investment objective of a REIT is to invest in a developed real estate generating income and to distribute a prescribed percentage of net profit to the unitholders at least annually.

The main benefits of investing in REITs are:

- Superior liquidity (they are traded on the stock exchange)
- Inflation hedge
- Lower minimum requirement
- Access to premium properties
- Professional management

REITs historically have delivered competitive total returns, based on high, steady dividend income and long-term capital appreciation. They have high liquidity, feature broad diversification, provide access to top quality real estate assets, hedge against inflation, and use professional management to oversee the real estate in their portfolio. They also have a comparatively low correlation with other assets - in other words, their price movement is less affected by changes in price in other types of assets such as stocks or bonds. This makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

# FUND OVERVIEW

## **Fund Name:**

AlAhli REIT Fund (1)

## **Fund Description:**

A close-ended Real Estate Investment Traded Fund operating in accordance with the Shariah guidelines set by the Shariah principles. The Fund is managed by NCB Capital and it is traded on the Saudi Stock Exchange "Tadawul". It is governed by its terms and conditions, and the laws and implementing regulations in the Kingdom of Saudi Arabia. It is also subject to the regulations and instructions issued by the Capital Market Authority ("CMA").

## **Fund Objectives:**

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.

## THE FUND'S CURRENT PORTFOLIO:



**Al-Andalus Mall –  
Jeddah, Saudi Arabia**



**Staybridge Suites Hotel –  
Jeddah, Saudi Arabia**



**Salama Tower –  
Jeddah, Saudi Arabia**





## STRONG FOUNDATIONS

Much of the success of the Fund can be attributed to the assets which underpin it. All the properties in the Fund, such as Al-Andalus Mall, the Staybridge Suites Hotel, and the newly acquired Salama Tower, are situated in prime locations. They all enjoy easy accessibility, they are very close to the city centre, and are within densely populated, lively districts. Those managing these properties and operating them on the Fund's behalf are local experts, with strong historical track records.

The Fund itself is managed by a qualified team at NCB Capital - the largest Asset Manager in Saudi Arabia and the largest Sharia Compliant

Asset Manager globally, with over SAR 160 billion of assets under management.

The Fund is audited by KPMG, one of the Big Four audit firms globally, and its properties are diligently evaluated by one of the world's largest global property consultancies, Knight Frank, together with ValuStrat – one of the Middle East's leading consulting and advisory groups. Both property evaluators follow IVS, RICS and Tageem valuation standards.

# FUND ASSETS

## Al-Andalus Mall



<b>Location</b>	Jeddah - Fayhaa District
<b>Total land area</b>	127,000 square meters
<b>Rental area</b>	Approximately 90,000 square meters
<b>Mall components</b>	2 floors, 3,000 parking lots, 517 units (shops, kiosks, restaurants)
<b>Building age</b>	13 years
<b>Occupancy rate at year end 2019</b>	97%
<b>Acquisition price</b>	SAR 1,150,000,000
<b>Property manager</b>	Al-Andalus Property Company



## Overview of Al-Andalus Mall

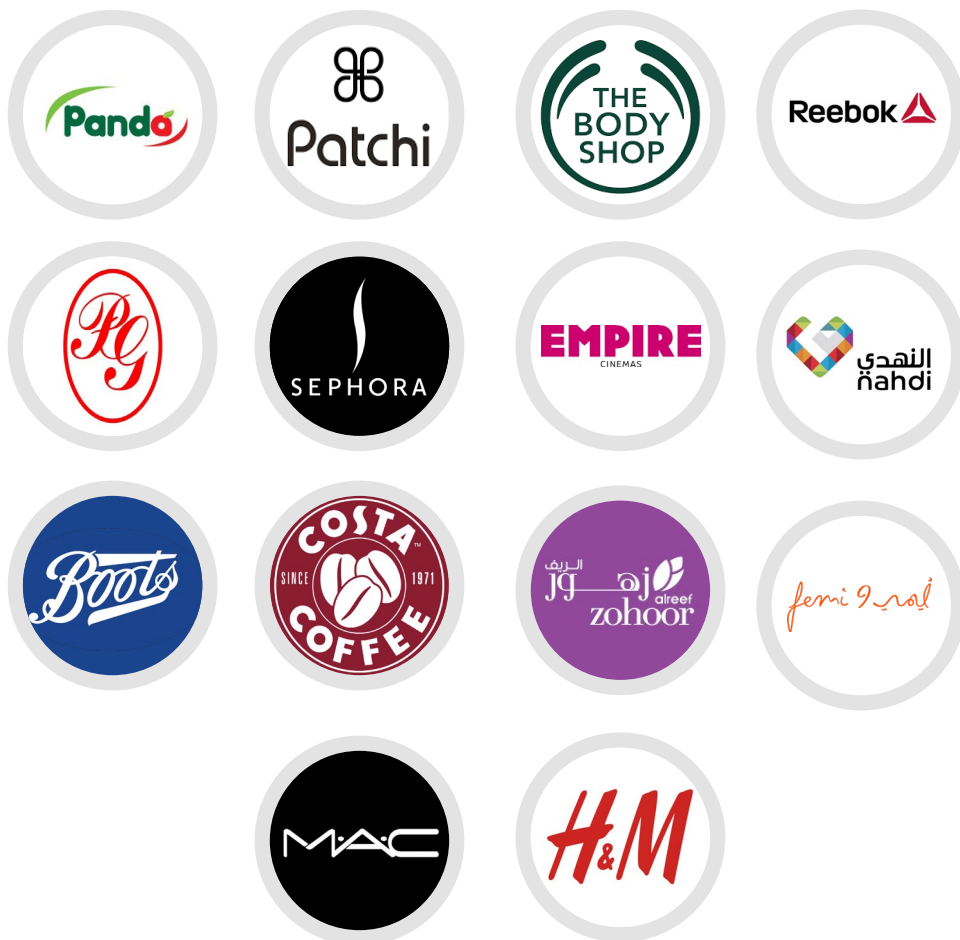
AlAndalus Mall is situated in the heart of the city at King Abdullah Street intersection with Prince Majed Street, Jeddah. Al Haramain Train Station and Kind Abdul Aziz University are in close proximity.

AlAndalus Mall has finest brands and a diverse tenant mix consisting Fashion, Food & Beverage, Entertainment, Indoor Sports etc. It is one of the biggest malls with 517 units shops and a net leasable area of approximately 90,000 sqm.

It is a preferred shopping destination for families which is evident from the huge influx of visitors. During 2018, more than 11 million visitors visited AlAndalus Mall. It enjoys highest occupancy amongst comparable malls in Jeddah.

Empire cinema with 18 showrooms is expected to open in Second quarter of 2020 which will likely increase footfall further.

## Sample of tenants of Al-Andalus Mall



## Staybridge Suites Hotel



<b>Location</b>	Jeddah - Fayhaa District
<b>Category</b>	5-star hotel
<b>Built-up area</b>	28,255 square meters
<b>Number of suites</b>	164 suites
<b>Hotel components</b>	16 Floors, 236 parking lots, swimming pool, spa, tennis court, meeting rooms
<b>Building age</b>	Three years
<b>Acquisition price</b>	SAR 200,000,000
<b>Hotel operator</b>	Staybridge Suites is managed and operated by InterContinental Hotels Group, an international experienced firm in hotel operation and management

### Overview of Staybridge Suites Hotel

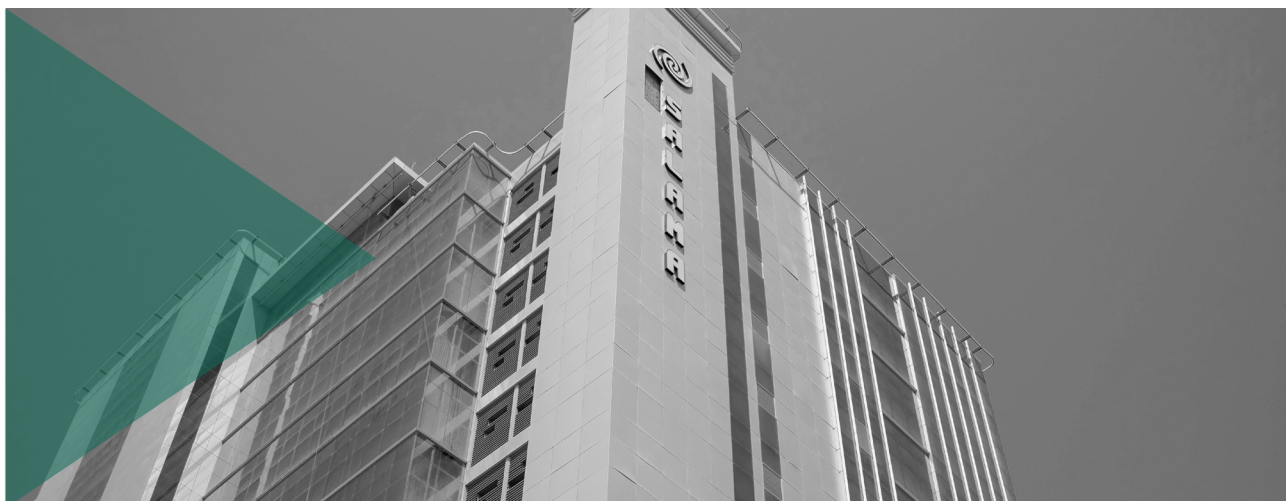
Staybridge Suites is a 5 star hotel, attached to AlAndalus mall, operated by InterContinental Hotels Group. It is just 20 minutes from King Abdul Aziz International Airport Jeddah and a 10-minute drive from downtown and Jeddah Sea Port.

The hotel comprises 44 studios, 90 one bedroom apartments, and 30 or two bedroom apartments. Guests at Staybridge Suites can unwind in the state-of-the-art fitness center, play tennis, and

enjoy time at elite café besides swimming pool. In addition to the leisure amenities, the hotel offers business center, meeting convention spaces, and a ballroom for the business segment.

Dr. Sulaiman AlHabib Hospital is currently being constructed adjacent to Staybridge Suites. Once completed, it is expected to enhance the hotel demand.

## Salama Tower



<b>Location</b>	Jeddah – Madinah Road, Salamah District
<b>Total net leasable area</b>	29,421 square meters
<b>Zoned for retail use</b>	5,710 square meters
<b>Zoned for office use</b>	24,002 square meters
<b>Components</b>	8 retail units on the ground floor and 116 office units across the 13 upper floors.
<b>Building age</b>	7 years
<b>Acquisition price</b>	SAR 255,000,000
<b>Property manager</b>	Jabal Edsas

## Overview of Salama Tower

Salama Tower is located in a prime location in Al Salama district on Al Madina road close to Hira intersection. It is 25-minute drive from downtown and less than 10 minutes away from the new King Abdul Aziz International Airport, Jeddah.

The tower has 13 floors above ground and 1 basement floors and mezzanine floor. The tower comprises 84 offices, 4 showrooms, and 4 warehouses.

The tower is 100% leased for a period of 5 years. The tower is occupied by strong brand names such as Samsung Gulf Electronics, Al Rajhi cooperative insurance company, Al Rajhi Takaful, Taajeer Group, Tim Hortons, National Aviation Services Company, and Salama insurance company to name a few.

# FUND UPDATES

- The Fund acquired Salama Tower on 4 August 2019 for SAR 255 million at a net initial yield of 9% per annum. The whole tower is leased to a single tenant on a triple net basis for a period of 5 years. The rents are secured by way of order notes.
- The Fund has signed a purchase agreement to acquire a brand new office complex in Riyadh for SAR 250 million that will be leased for 3 years to single tenant on a triple net basis. The acquisition is expected to be completed in Q2 2020.
- The Fund was included in “FTSE EPRA Nareit Global Real Estate Index” which allows investors to identify real estate companies with strong sustainability performance. The said inclusion in the index brings the Fund under the radar of international investors.
- The Fund has been registered for zakat which will make investment in the Fund by the unitholders deductible from their zakat base. This makes it more attractive for institutional investors to invest in the Fund.

# FUND PERFORMANCE

Summary of Fund Performance – 2019	
Number of units issued	137,500,000 units
Opening NAV at year beginning	SAR 1,396,971,000
Closing NAV at year end	SAR 1,367,621,000
Opening NAV per unit at year beginning	SAR 10.16
Closing NAV per unit at year end	SAR 9.95
Funds from operations (FFO)	SAR 78,144,000
Funds from operations per unit	SAR 0.57
Total dividends distributed per unit	SAR 0.65
Highest unit closing price	SAR 9.5
Lowest unit closing price	SAR 7.48



Fund Fees and Expenses - 2019	
Management Fees	SAR 14,824,430
Professional Fees	SAR 480,000
Board Fees	SAR 100,000
Tadawul Fees	SAR 700,000
Custody Fees	SAR 344,377
Shariah Fees	SAR 24,000
Other Expenses	SAR 2,011,056

## Unit Performance 2019

Description	Net Asset Value	Market Price
Unit initial value	10.16	7.76
Change during period per unit	(0.21)	1.74
Dividends per unit* (dividends distributed during 2019)	0.65	0.65
Total return for the period	4.33%	30.80%

\*Total distributions during the year totalled to SAR 0.65 per unit. First distribution was in 27 February 2019, and second distribution was in 8 August 2019.

# HISTORICAL COMPARISON

## Historical Comparison Between 2018 and 2019

	2018	2019
<b>Closing NAV</b>	1,396,971	1,367,621
<b>Closing NAV per unit</b>	10.16	9.95
<b>Highest market price</b>	10.11	9.5
<b>Lowest market price</b>	7.37	7.48
<b>Total units outstanding</b>	137,500,000	137,500,000
<b>Dividends distributed per unit</b>	0.33*	0.65
<b>Total expense ratio</b>	1.20%	1.09%

\*Total distributions for 2018 is SAR 0.65 per unit, but the second distribution was made in February 2019, therefore it's not included in 2018.

Total Cumulative Return	1 year	Since inception
<b>Based on NAV</b>	4%	9%
<b>Based on Market Price</b>	30%	5%

## FUND PROSPECTS

There are several encouraging developments in the area around Al-Andalus Mall, and within it, which are expected to enhance its profitability in the years ahead.

Sulaiman Al-Habib Medical Group, one of the best medical care providers in Saudi Arabia, has begun building a major new hospital adjacent to Al-Andalus Mall and Staybridge Suites Hotel. Expected to open in 2023, this hospital will have a very positive impact on both assets – significantly increasing demand, driving up the footfall in the mall and occupancy in the hotel.

Q2 2020 will see the grand opening of the Empire Cinema at Al-Andalus Mall. This cinema will be one of the largest in Jeddah and is forecasted to have a huge impact in driving more customers to the Mall and increasing its overall attractiveness.

Furthermore, a new Lebanese café by the swimming pool area of Staybridge Suites Hotel is due to open by the end of Q1 2020, projected to further increase the profitability of the fund.

At the portfolio level, the Fund is actively looking to acquire high quality assets. The Fund has signed a purchase agreement to acquire a brand new office complex in Riyadh for SAR 250 million that will be leased for 3 years to a single tenant on a triple net basis. The acquisition is expected to be completed in Q2 2020.

The Fund will be left with an unutilised facility of SAR 145 million, after accounting for the aforementioned acquisition, which it will use to acquire new assets to diversify the risk and enhance return for the unitholders.

# FUND TIMELINE

**6 to 19 December 2017**

Initial Public Offering (IPO)

**25 December 2017**

Acquisition of initial portfolio

**8 January 2018**

Listing on Tadawul

**15 August 2018**

1st Distribution

**7 November 2018**

Signing of Islamic loan  
facility agreement

**27 February 2019**

2nd Distribution

**4 August 2019**

Acquisition of Salama Tower

**8 August 2019**

3rd Distribution

**22 October 2019**

Signing SPA for SAR 250 million for  
a commercial office plaza in Riyadh

**23 December 2019**

inclusion in "FTSE EPRA Nareit  
Global Real Estate Index Series"

**December 2019**

Winning Best Islamic REIT

**29 March 2020**

4th Distribution



## SERVICE PROVIDERS



**NCB Capital:**  
Fund Manager



**Custodian**  
**Albilad Capital**



**Real Estate Valuator**  
**Knight Frank**



**Auditor**  
**KPMG**



**Al-Andalus Property**  
**Company**  
**Property Agent & Mall**  
**Operator**



**Hotel Operator**  
**Intercontinental Hotels**  
**Group (IHG)**



**Real Estate Valuator**  
**ValuStrat**

# FUND BOARD REPORT

The Fund Manager convened five board meetings during the year. The meetings included:

Discussion on the Fund's assets operational and financial performance.

Discussion on the current economic trends and their expected implications on the Fund's assets in the future.

Discussion on Fund strategic future plans.

Discussion, review, and assessment of potential investment opportunities.

Reviewing due diligence findings and approving acquisition agreements.

Approval and appointment of Al-Andalus Mall Property Company as the new mall operator.

Ratification and approval of the interim and annual financial statements.

Ratification and approval of the semi-annual distributions of dividends.

## Dividends Distribution 2019

The Fund's dividends policy is 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.

### Summary of Dividends for 2019

<b>Total distributed dividends for the period</b>	SAR 89,375,000
<b>Dividend per unit</b>	SAR 0.65
<b>Number of units outstanding</b>	137,500,000 units
<b>Unit nominal value (initial price)</b>	SAR 10
<b>Dividends % to unit initial price</b>	6.5%
<b>Dividends % of net asset value</b>	6.5%
<b>NAV as of 31 Dec 2019</b>	SAR 1,367,621,000



## Disclosures



### Other investments:

The Fund Manager invested the surplus cash balances in a Sharia compliant money market instrument, AlAhli Saudi Riyal Trading Fund.



### Special commissions:

The Fund is exempted from paying the management fees charged for its investments in the money market fund (AlAhli Saudi Riyal Trading Fund).



### 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. The Fund has drawdown SAR 255 million during the year



### Material changes:

- The Fund has been included in "FTSE EPRA Nareit Global Real Estate Index Series".
- The Fund has appointed Al-Andalus Property Company as the new operator of Al-Andalus Mall.



### Annual voting rights:

N/A



### Changes to the Terms and Conditions:

The Fund has updated its terms and conditions to reflect its Zakat registration with registration with GAZT.



### Dividends:

Dividends for the first half of 2019 were distributed in August 2019 whereas dividends for the second half were distributed in March 2020.



# RISK ASSESSMENT REPORT

Risk	Risk Description	Risk Mitigation
<b>Income Distribution Risk</b>	<p>The Fund's objective is to provide periodic rental income to its unitholders through its investments in income generating properties. Any underperformance of its underlying assets, would expose the Fund to the risk of inability or failure to achieve the periodic or targeted future distribution obligations as per its Terms &amp; Conditions (T&amp;C).</p> <p>Moreover, as per the T&amp;C of the facility provided to the Fund, the Fund should meet a number of conditions under a distribution test to be able to distribute dividends to unitholders. Any breach to these conditions could result in the Fund's inability to make such distributions.</p>	<ul style="list-style-type: none"> <li>● The Fund's approach to mitigate this risk, is to ensure that the underlying assets are performing well and generating the expected cash flows.</li> <li>● Al Andalus Mall: 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.</li> <li>● Staybridge Suites: The hotel is operated by a global and reputable hotel chain (IHG) which would help ensuring minimal vacancy rates.</li> <li>● Salama Tower: The 18 floor office building is fully leased for 5 years to one primary tenant (head lease).</li> </ul> <p>Moreover, specific marketing strategies related to increasing footfall for the Fund's properties are being implemented by property managers and operators.</p> <ul style="list-style-type: none"> <li>● 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 performance targets.</li> </ul> <p>The Fund Manager closely monitors the debt covenants to make sure that the Fund is in adherence with all the covenants including the distribution test.</p>

<b>Exit Risk</b>	<p>The Fund is invested in Real Estate assets which are illiquid in nature. This exposes the Fund to the risk of inability 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.</p>	<ul style="list-style-type: none"> <li>● 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.</li> </ul> <p>The Fund's invested in Real Estate assets that are located in good and central locations in a major city. These assets have suitable appetite and strong investors demand and are easier to liquidate than other Real Estate assets.</p>
<b>Credit Risk</b>	<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>	<ul style="list-style-type: none"> <li>● For Bank balances, the Fund's policy is to enter into financial instrument contracts only with reputable counterparties.</li> <li>● For rent receivables, the Fund is always looking to enter into long term lease agreements with well-established and reputable anchor tenants. Moreover, the Mall enjoys a diversified and strong tenant mix which is considered to be the best mitigation strategy against risk of tenants' delinquencies.</li> </ul>

Risk	Risk Description	Risk Mitigation
<b>Concentration Risk</b>	<p><b>Portfolio Concentration:</b> The Fund invests in 3 Real Estate assets all located in Jeddah. Although this portfolio concentration may enhance total returns to unitholders, if any large Investment results in a material loss, then returns to unitholders may be lower than if the Fund had invested in a well-diversified portfolio.</p> <p><b>Clients/ Tenants Concentration:</b> The Fund is well diversified in terms of client base and main contributors to its rental income. As of 31st December 2019, the five largest clients account for 18% of the Fund's rental income.</p>	<ul style="list-style-type: none"> <li>● In its effort to further diversify the Fund's asset base, the Fund manager has completed the acquisition of an Office Building during 2019. The Fund's asset breakdown is as follows: <ul style="list-style-type: none"> <li>● A shopping Mall, representing approximately 72% of the Fund's total assets (vs. 85% in Dec 2018).</li> <li>● An office building, representing 16% of the Fund's total assets.</li> <li>● A hotel, representing 12% of the Fund's total assets (vs. 15% in Dec 2018).</li> </ul> </li> <li>● The Fund Manager continues to explore additional options to diversify and mitigate this risk by looking for additional properties that meet its overall risk-return profile to add to the portfolio's diversification mix.</li> </ul>
<b>Valuation Risk</b>	<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"> <li>● The Fund Manager manages this risk by: <ul style="list-style-type: none"> <li>● Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition.</li> <li>● 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.</li> </ul> </li> </ul>

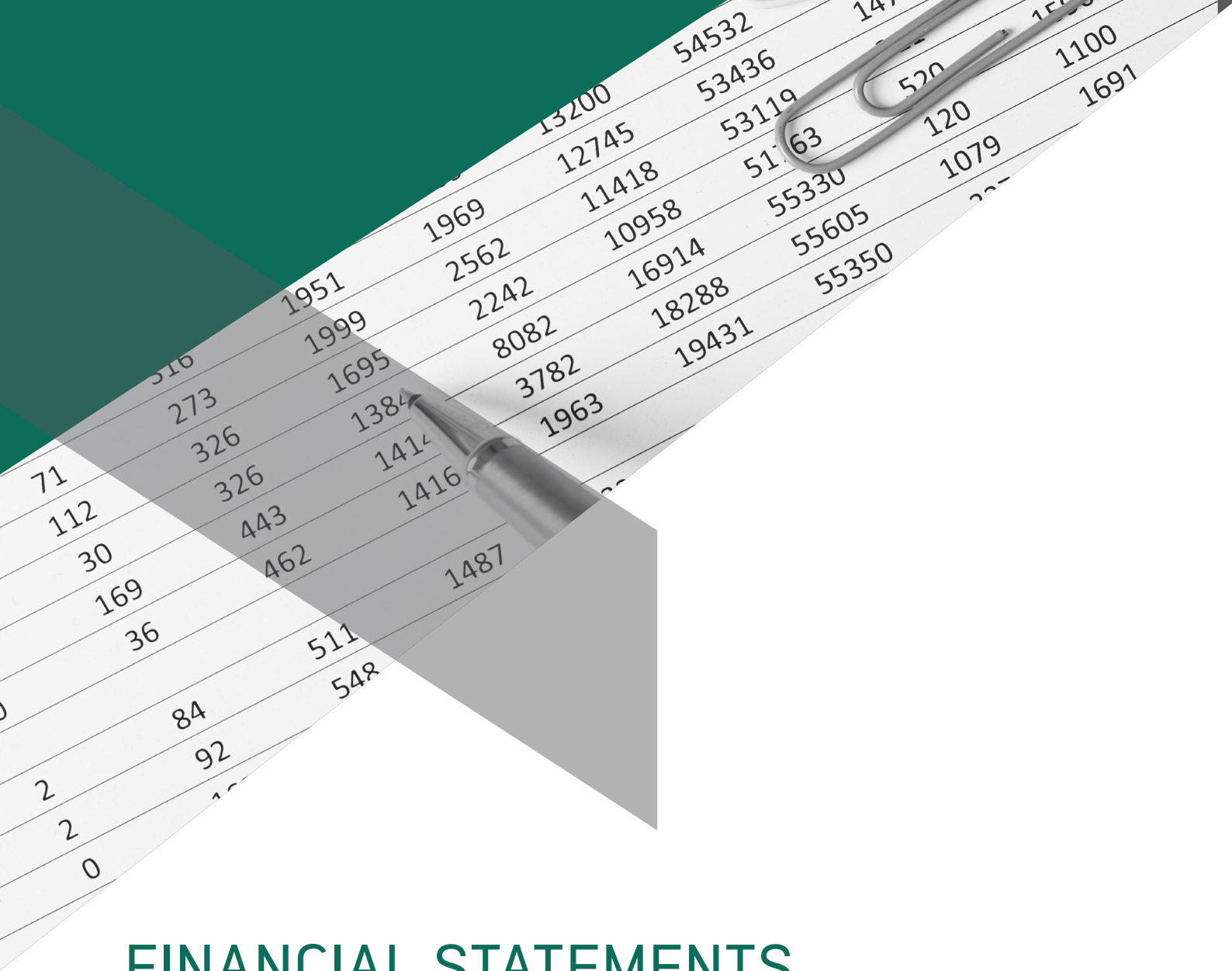
		<ul style="list-style-type: none"> <li>● For the valuation of its assets, the Fund relies on two independent valuations from reputable Real Estate Valuation companies (ValuStrat and Knight Frank). These valuations are internally reviewed and checked by the Fund Manager's team to make sure that they are not overstating the fair value of the assets.</li> </ul> <p>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.</p>
<b>Liquidity Risk</b>	<p>Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations (e.g. debt servicing, dividends distribution, operating expenses, capital expenditure) in full as they fall due or can only do so on terms that are materially disadvantageous.</p>	<ul style="list-style-type: none"> <li>● The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise.</li> <li>● The Fund enjoys a Credit facility that can be used to meet new acquisition requirements.</li> </ul> <p>The Fund Manager always keeps a liquidity buffer by placing some money in liquid assets.</p>
<b>Profit / Rate Risk</b>	<p>The risk that the value of Fund's assets and financial instruments will fluctuate due to adverse changes in profit/ interest rates. As the Fund is leveraged using a floating rate facility (priced at a SAIBOR + spread rate), any adverse change in SAIBOR would result in higher profit/ interest expenses and consequently lower total returns to the Unitholders.</p>	<ul style="list-style-type: none"> <li>● Over the last year, the Fed stance was more towards reducing interest rates which is reflected in the downward trend of the SAIBOR.</li> <li>● The Fund Manager does not foresee significant increases in SAIBOR, if any, over the next year</li> </ul>

Risk	Risk Description	Risk Mitigation
<b>Leverage Risk</b>	<p>The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default. The Fund has obtained a Shariah Compliant Ijara facility to acquire income-generating properties. While this would contribute in diversifying the assets and would increase the Fund's cash distribution capacity and its total return, it also has the effect of potentially increasing losses in adverse scenarios.</p>	<ul style="list-style-type: none"> <li>● The Fund Manager was able to negotiate and secure a Financing agreement with favorable terms in order to guarantee optimal returns to the Unitholders.</li> <li>● The facility has a 5 years grace period, during which, the Fund will only pay will only pay interest/profit expenses (no principal repayment). This would reduce the financial burden on the Fund during its investment phase.</li> <li>● The Fund Manager closely monitors liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment commitments as they arise. Moreover the Fund Manager closely monitors the debt covenants to make sure that all covenants are met.</li> </ul>
<b>Fund Manager Risk</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>● 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.</li> <li>● 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.</li> </ul>

		<ul style="list-style-type: none"> <li>● 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.</li> </ul>
<b>Country Risk</b>	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.	<ul style="list-style-type: none"> <li>● The Fund is fully invested in Saudi Arabia.</li> <li>● The Fund manages this risk by closely monitoring Saudi Arabia's regulatory/ policy/ tax landscapes and by anticipating and being prepared for any potential change.</li> </ul>
<b>Economic Risk</b>	The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.	<ul style="list-style-type: none"> <li>● 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.</li> </ul>
<b>Asset Under-Performance Risk</b>	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. As of 31st December 2019, the Fund has SAR 1.3million as a general provision for potential doubtful debts. The property manager continues to monitor this to ensure that all outstanding amounts are recovered.	<ul style="list-style-type: none"> <li>● The Fund Manager has followed a number of mitigation strategies which include: <ul style="list-style-type: none"> <li>Sign long term contracts with anchor tenants</li> </ul> </li> <li>● Ensure that the Mall enjoys a strong diversified tenant mix</li> <li>● Partner with a globally reputable hotel chain to operate the Hotel</li> <li>● Sign a long term head lease contract with a reputable company for the office tower.</li> </ul> <p>The Fund Manager also closely monitors 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.</p>



Risk	Risk Description	Risk Mitigation
<b>Operational Risk</b>	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.	<ul style="list-style-type: none"> <li>● The Fund is managed by NCB Capital which has proven track record and experience in asset management.</li> <li>● 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.</li> <li>● Al Andalus Property Company: were recently approved to be appointed as operator of Al Andalus Mall. The company is considered to be one of the most prominent malls management companies in KSA with long positive track record.</li> <li>● Intercontinental Hotel Group (IHG): a British multinational hospitality company with a market cap of ~US\$ 10 billion and is rated BBB by S&amp;P.</li> <li>● The office tower was triple-net leased (NNN) to the seller, NCBC is only liable for property insurance.</li> <li>● 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.</li> </ul>
<b>Compliance Risk</b>	Failure of the Fund to adhere to laws, rules and regulations. This risk includes: Legal, Regulatory and Sharia Compliance risks.	<ul style="list-style-type: none"> <li>● 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.</li> </ul>



# FINANCIAL STATEMENTS

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Together with  
**INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS**

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
As at 31 December 2019

---

	<u>Page</u>
Independent auditors' report on the financial statements	1 - 4
Statement of financial position	5
Statement of profit or loss and other comprehensive income	6
Statement of changes in equity attributable to unitholders	7
Statement of cash flows	8
Notes to the financial statements	9 - 35



**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
Riyadh Front, Airport road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia

Telephone +966 (011) 874 8500  
Fax +966 (011) 874 8600  
Internet [www.kpmg.com/sa](http://www.kpmg.com/sa)

Licence No. 46/11/323 issued 11/3/1992

# Independent Auditor's Report

To the Unitholders of AIAhli REIT Fund (1)

## Opinion

We have audited the financial statements of AIAhli REIT Fund (1) (the "Fund"), managed by NCB Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity attributable to unitholders and cash flows for the for the year then ended, 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 2019, and its financial performance and its cash flows for the year then ended 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 Auditor's 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 Auditor's Report

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

## Key Audit Matters (continued)

### Valuation of investment properties

See note 12 to the financial statements

The Key audit matter	How the matter was addressed in our audit
<p>As at 31 December 2019, the carrying value of the Fund's investments properties is SR 1,589 million (31 December 2018: SR 1,346 million), and its fair value amounted to SR 1,600 million (31 December 2018: SR 1,311 million).</p> <p>The investment properties are stated at cost less accumulated depreciation and impairment losses, if any. However, the fair value of the investment properties is disclosed in the notes to the financial statements.</p> <p>The Fund uses valuation reports from the independent valuer engaged by the Fund Manager to evaluate the fair value of properties at the reporting date.</p> <p>We considered this as a key audit matter since the valuation requires significant judgment with respect to the appropriateness of the method used, and any input inaccuracies in this judgement could result in material misstatements of the financial statements disclosure.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> <li>- Meeting with the Fund's independent valuers to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions. We also obtained an understanding of the Fund Managers involvement in the valuation process to assess whether appropriate oversight was performed.</li> <li>- Assessing the independence, professional qualifications, competence and experience of the Fund's independent valuers, also ensured the valuers were certified by the Saudi Authority for Accredited Valuers (TAQEEM).</li> <li>- Assistance by our property valuation specialist in this area to review the assumptions used in valuing the investment properties.</li> <li>- Agreeing observable inputs used in the valuations, such as rental income, occupancy rates, break clauses and lease lengths back to lease agreements for a sample of properties.</li> <li>- Assessing the Fund's disclosures in relation to the judgements inherent in valuing investments properties.</li> </ul>





# Independent Auditor's Report

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

## Other Information

The Fund Manager is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## 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, the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority and the Fund's terms and conditions, 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.

Board of directors 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 auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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.

# Independent Auditor's Report

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

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

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 for the current period and are therefore the key audit matters. We describe these matters in our auditor's 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**



Hani Hamzah A. Bedairi  
License No. 460

Date, 15 March 2020  
Corresponding to 20 Rajab 1441H



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

As at 31 December 2019

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

	<i>Notes</i>	<b>31 December 2019</b>	31 December 2018
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	10,175	7,337
Financial instruments at fair value through profit or loss	9	42,264	58,112
Receivable from operating leases	10	35,004	27,362
Due from related parties	17	2,659	7,690
Prepayments and other receivables	11	14,787	4,061
<b>Total Current Assets</b>		<b>104,889</b>	104,562
<b>Non-Current Assets</b>			
Investment properties	12	1,589,485	1,345,627
<b>Total Non-Current Assets</b>		<b>1,589,485</b>	1,345,627
<b>Total Assets</b>		<b>1,694,374</b>	1,450,189
<b><u>LIABILITIES</u></b>			
<b>Current Liabilities</b>			
Due to related parties	17	20,590	11,693
Deferred rental revenue	13	28,097	26,429
Other liabilities	14	11,976	7,061
Advances from leases	15	11,540	8,035
Zakat Provision	16	1,500	-
<b>Total Current Liabilities</b>		<b>73,703</b>	53,218
<b>Non-Current Liabilities</b>			
Borrowings	18	253,050	-
<b>Total Non-Current Liabilities</b>		<b>253,050</b>	-
<b>Total Liabilities</b>		<b>326,753</b>	53,218
<b>Equity attributable to unitholders</b>		<b>1,367,621</b>	1,396,971
<b>Units in issue in thousands (number)</b>		<b>137,500</b>	137,500
<b>Equity per unit (SAR)</b>		<b>9.95</b>	10.16
<b>Equity per unit fair value (SAR)</b>	23	<b>10.16</b>	10.31

The accompanying notes 1 to 29 form an integral part of these financial statements

**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the year ended 31 December 2019

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

		<b>For year ended 31 December 2019</b>	<b>For the period from 25 December 2017 to 31 December 2018</b>
	<i>Notes</i>		
Revenue from properties	19	<b>151,696</b>	148,332
Operational expenses	20	<b>(44,379)</b>	(40,523)
Depreciation	12	<b>(18,119)</b>	(21,358)
Allowance for doubtful debts	10	<b>(5,607)</b>	(3,259)
<b>Gross profit</b>		<b>83,591</b>	83,192
Management fees	17	<b>(14,824)</b>	(14,086)
Professional fees		<b>(480)</b>	(350)
Board fees		<b>(100)</b>	(100)
Tawadul fees		<b>(700)</b>	(758)
Custody fees		<b>(344)</b>	(391)
Shariah fees		<b>(24)</b>	(27)
Other expenses		<b>(2,012)</b>	(1,608)
<b>Net operating profit</b>		<b>65,107</b>	65,872
Gain on investment at fair value through profit or loss	9	<b>885</b>	787
<b>Profit before Islamic financing facility cost and zakat</b>		<b>65,992</b>	66,659
Islamic financing facility cost		<b>(4,467)</b>	-
Provision for zakat	16	<b>(1,500)</b>	-
<b>Profit for the year</b>		<b>60,025</b>	66,659
<b>Other comprehensive income for the year/ period</b>		-	-
<b>Total comprehensive income for the year / period</b>		<b>60,025</b>	66,659

The accompanying notes 1 to 29 form an 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 year ended 31 December 2019

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

	<b>For year ended 31 December 2019</b>	For the period from 25 December 2017 to 31 December 2018
<b>Equity attributable to unitholders at the beginning of the year/ period</b>	<b>1,396,971</b>	-
<b>Total comprehensive income for the year/ period</b>	<b>60,025</b>	66,659
<b>Unit transactions during the period</b>		
Proceeds from issuance of units	-	1,375,000
<b>Dividend paid during the year/period</b>	<b>(89,375)</b>	(44,688)
<b>Equity attributable to unitholders at the end of the year/ period</b>	<b>1,367,621</b>	1,396,971

The accompanying notes 1 to 29 form an integral part of these financial statements

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	<b>For year ended 31 December 2019</b>	<b>For the period from 25 December 2017 to 31 December 2018</b>
<b>Cash flow from operating activities</b>		
Profit for the year/period before the Zakat	<b>61,525</b>	66,659
<u>Adjustment for:</u>		
Depreciation	<b>18,119</b>	21,358
Allowance for doubtful debts	<b>5,607</b>	3,259
Islamic financing facility cost	<b>4,467</b>	-
Gain on investment at fair value through profit or loss	<b>(885)</b>	(787)
	<b>88,833</b>	90,489
<i>Net changes in operating assets and liabilities:</i>		
Receivable from operating leases	<b>(13,249)</b>	(30,621)
Due from related parties	<b>5,031</b>	(7,690)
Prepayments and other receivables	<b>(10,726)</b>	(4,062)
Due to related parties	<b>8,897</b>	11,693
Deferred rental revenue	<b>1,669</b>	26,429
Other liabilities	<b>3,205</b>	7,061
Advances from leases	<b>3,504</b>	8,036
Islamic financing facility cost paid	<b>(2,757)</b>	-
<b>Net cash flow from operating activities</b>	<b>84,407</b>	101,335
<b>Cash flow from investing activities</b>		
Purchase of investment properties	<b>(261,977)</b>	(421,985)
Financial instruments at fair value through profit or loss	<b>16,733</b>	(57,325)
<b>Net cash used in investing activities</b>	<b>(245,244)</b>	(479,310)
<b>Cash flow from financing activities</b>		
Proceeds from units issued	-	430,000
Dividend paid	<b>(89,375)</b>	(44,688)
Proceeds from borrowings	<b>253,050</b>	-
<b>Net cash flow from financing activities</b>	<b>163,675</b>	385,312
<b>Net change in cash and cash equivalents</b>	<b>2,838</b>	7,337
Cash and cash equivalents at the beginning of the period	<b>7,337</b>	-
<b>Cash and cash equivalents at the end of the year/period</b>	<b>10,175</b>	7,337
<u>Non-cash information:</u>		
Purchase of investment property against issuance of units	-	945,000

The accompanying notes 1 to 29 form an integral part of these financial statements



**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

---

**1 THE FUND AND ITS ACTIVITIES**

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

As per license number 37-06046 granted by the Capital Market Authority ("CMA"), the Fund Manager is authorized to carry out the following activities with respect to securities:

- a) Dealing as principal and agent, and underwriting;
- b) Arranging;
- c) Managing;
- d) Advising; and
- e) Custody.

The Fund's objective is to provide periodic rental income to its unitholders by investing mainly in developed income-generating properties and to potentially provide capital growth by developing and/or expanding and/or selling assets.

The Fund invests mainly in developed income-generating real estate assets and 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 ("SAMA") and operate in Saudi Arabia. The Fund may also invest in public money market funds approved CMA.

The terms and conditions of the Fund were approved by 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 an initial capital contribution of the Fund.

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

The Fund was established and units were offered in accordance with the Real Estate Investment Traded Funds Instructions issued by CMA pursuant to Resolution No. 6-130-2016, dated 23/1/1438H, corresponding to 24/10/2016G amended by Resolution No. 2-115-2018, dated 13/2/1440H corresponding to 22/10/2018G.

As per the terms and conditions of the Fund, the Fund will distribute at least 90% of its net income to its unitholders.

**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 Implementing Regulations issued by CMA and the Fund's terms and conditions.

### **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.

On 31<sup>st</sup> December 2019, CMA has examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation option and made the following decisions

- Obligating listed companies to continue to use the cost model to measure property (IAS 16) and investment property (IAS 40) in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022.
- Allowing listed companies the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2022 or thereafter.

### **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 ("SR"), which is the Fund's Functional Currency and Presentation Currency.

### **5 ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

#### **5.1 Effect of changes in accounting policies as a result of the adoption of new IFRS**

##### **IFRS 16 'Leases'**

IFRS 16 introduces a single, on-financial position lease accounting model for lessees. A lessee recognizes 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 'Leases' replaces the following standard and interpretations:

- IAS 17 'Leases'.
- IFRIC 4 'Determining whether an Arrangement contains a lease'.
- IFRIC 15 'Operating leases - incentives'.
- SIC 27 'Evaluating the substance of transactions involving the legal form of a lease'.

The standard determines the principles of recognition, measurement, presentation and disclosure of leases and requires lessees to recognize leases in accordance with the accounting framework in the statement of financial position.

**5 ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)**

**5.1 Effect of changes in accounting policies as a result of the adoption of new IFRS (Continued)**

The Fund is engaged in leasing activities as a lessor and does not have any contract as a lessee. Consequently, IFRS 16 does not have any impact on the Fund's financial statements.

**Amendments to IFRS 9: Prepayment Features with Negative Compensation**

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments have no impact on the financial statements of the Fund, as it does not have prepayment features with negative compensation.

**IAS 23 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale is complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Fund's current practice is in line with these amendments, they have no impact on the financial statements of the Fund.

**6 SIGNIFICANT ACCOUNTING POLICIES**

***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, cash in investment accounts and bank balances held at commercial banks.

***Financial instruments***

***Recognition and initial measurement***

Receivables from operating leases issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a receivable from operating leases without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. Receivable from operating leases without a significant financing component is initially measured at the transaction price.

***Financial assets***

***Classification of financial assets***

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at **amortised cost** if it meets both of the following conditions:

- a. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- b. 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.

A financial asset shall be measured at **FVTOCI** if both of the following conditions are met:

- a. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b. 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.

A financial asset shall be measured at FVTPL unless it is measured at amortised cost or at FVTOCI.

## **6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***Financial instruments (Continued)***

#### ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

<b>Financial assets</b>	<b>IFRS 9 classification</b>
Cash and cash equivalents	Amortised cost
Investment at fair value through profit or loss	FVTPL
Receivable from operating leases	Amortised cost
Due from related parties	Amortised cost

#### ***Subsequent measurement***

The following accounting policies apply to the subsequent measurement of financial assets.

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
<b>Financial assets at amortized cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
<b>Debt investments at FVOCI</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Fund has no such investments.
<b>Equity investments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Fund has no such investments.

**6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

***Derecognition***

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired, or
- the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:
  - (a) the Fund has transferred substantially all the risks and rewards of the asset, or
  - (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

***Impairment of financial assets***

IFRS 9 impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVTOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

***Impairment of financial assets***

Recognition of credit losses is no longer dependent on the Fund first identifying a credit loss event. Instead, the Fund considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
  - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.
- '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

## **6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Expected credit loss assessment:**

The Fund applies IFRS 9 simplified approach for measuring expected credit losses, which uses a lifetime expected loss allowance. The method is applied for assessing an allowance against:

- financial assets measured at amortised cost

The expected loss rates are based on the payment profiles of receivables over a period of 12 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Fund has identified GDP, inflation rate and government spending to be the most relevant factor and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss approach breaks the total loss amount modelling into the following parts: Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD). These are briefly described below:

**Loss Given Default (LGD):** This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.

**Probability of Default (PD):** the likelihood of a default over a particular time horizon.

**Exposure At Default (EAD):** This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

### ***Model and Framework***

The Fund uses a point in time (PIT) probability of default model to measure its impairment on financial assets. Point-in-time PD models incorporate information from a current credit cycle and assess risk at a point-in-time. The point-in-time PD term structure can be used to measure credit deterioration and starting PD when performing the allowance calculations. Also, when calculating lifetime expected credit losses, after the inputs are correctly converted, cash flows can be projected and gross carrying amount, loss allowance, and amortized cost for the financial instrument are then calculated.

### **Macroeconomic weighted average scenarios**

The Fund includes a macroeconomic factor of GDP, inflation rate and government spending to develop multiple scenarios, the purpose is towards the realization of most likely outcome using worst and best case scenarios. The scenario-based analysis incorporates forward-looking information into the impairment estimation using multiple forward-looking macroeconomic scenarios. The estimate of expected credit losses reflects an unbiased probability-weighted amount that is determined by evaluating a range of possible outcomes.

After the inputs to the model are adjusted for the above mentioned macroeconomic scenarios, PD of each scenario is calculated and then weighted average PD based on the likelihood of scenarios is calculated. In the last step, a weighted average lifetime ECL based on the likelihood of the scenarios is determined.



## **6      SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Portfolio segmentation**

The fund assesses its financial assets based on credit risk characteristics using segmentations such as geographical region, type of customer, customer rating etc. The different segments reflect differences in PDs and in recovery rates in the event of "default".

### **Definition of default**

In the above context, the Fund considers default when:

- the customer is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the customer is more than 360 days past due on any material credit obligation to the Fund. As the industry norm suggests that such a period fairly represents the default scenario for the Fund, this rebuts the presumption of 90 days mentioned in IFRS 9.

The carrying amount of the asset is reduced using the above model and the loss is recognised in the statement of profit or loss. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognised under other income in the statement of profit or loss.

### **Specific provision**

Specific provision is recognized on customer to customer basis at every reporting date. The Fund recognizes specific provision against receivables from certain customers. Provisions are reversed only when the outstanding amounts are recovered from the customers.

### **Write-off**

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

### **Financial liabilities**

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Fund's financial liabilities mainly include trade and other payables, related party and borrowings.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

#### **Financial liabilities**

Due to related parties  
Other liabilities  
Long term loans

#### **IFRS 9 classification**

Amortised cost  
Amortised cost  
Amortised cost

### **Derecognition**

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

## **6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### ***Modifications of financial assets and financial liabilities***

#### ***Financial assets***

If the terms of the financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of profit or loss.

#### ***Financial liability***

The Fund derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised in the statement of profit or loss.

### ***Offsetting of financial instruments***

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

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Fund's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

### ***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.

Investment properties are derecognized when they are sold, owner-occupied or in case of not holding it for an increase in its value.

**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Any gain or loss on disposal of the investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

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

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

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

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 Funds 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.

***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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

***Revenue recognition***

***Rental income from the lease of investment property***

Rental income arising from operating leases on investment properties is recognized, net of discount, in accordance with the terms of lease contracts over the lease term on a straight-line basis, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

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.

***FRS 15: Revenue from contracts with customers***

This standard replaces IAS 11, which covers construction contracts, and IAS 18, which includes revenue resulting from the selling of goods and rendering of services. This standard is based on the principle of revenue recognition, when control on goods or service is transferred to the customer unless those contracts are in the scope of other standards. The new standard establishes a five steps approach for the accounting of revenue from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which a Fund expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires organizations to make an estimation, taking into account all facts and related circumstances upon applying each step of the approach on the contracts with its customers. In addition, the standard determines accounting of the additional costs to obtain the contract and cost related directly to perform the contract.

The Fund is mainly engaged in leasing activities except for food and beverage revenue and these contracts are within the scope of IFRS 16. Consequently, IFRS (15) does not have any significant impact on the Fund's financial statements.

***Zakat and income tax***

The Fund is subject to Zakat in accordance with the Zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on net equity using the basis defined in the Zakat regulation. The management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation. Zakat is charged to the statement of profit or loss and other comprehensive income. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

***Dividend payable***

Dividends are recorded in the period in which they are approved by the Board of Fund.

**6      SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Impairment of non-financial assets*

*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.

*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 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.

*Foreign currency transactions*

Transactions in foreign currencies are initially recorded by the Fund at the Functional Currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the financial statements. All differences are recognised in the statement of profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

**ALAHLI REIT FUND (I)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

---

**7 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements requires management to make judgment, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Fund's accounting policies, management has made the following estimates and judgments, which are significant to the financial statements:

**Judgments**

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements. Judgement has been applied in the cases of determining whether an arrangement contains a lease and classification of leases.

**Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the financial statements are described below:

**Provision for expected credit losses of the receivable from operating leases**

The Fund uses a provision matrix to calculate ECLs of receivable from operating leases. The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product, Inflation rate and governmental spending ) is expected to deteriorate over the next year which can lead to an increased number of defaults in the real estate sector, the historical default rates are adjusted. At every reporting date, the historically observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecasted economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

**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.

**Valuation of investment properties**

The Fund uses the services of third party professionally qualified evaluator to obtain estimates of the market value of investment properties using recognized valuation techniques for the purpose of impairment review and disclosures in the financial statements, For further details of assumptions and estimates please refer to note 12

**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**7 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)*****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 funded 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.

***Impairment of non-financial assets "Value in use calculation"***

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance the performance of the assets tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to property recognised by the Fund.

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

**8 CASH AND CASH EQUIVALENTS**

	<b>31 December 2019</b>	31 December 2018
Cash at banks	<b>10,033</b>	7,193
Cash in hand	<b>142</b>	144
	<b>10,175</b>	7,337

**9 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

	<b>31 December 2019</b>		31 December 2018	
	<b>Cost</b>	<b>Value</b>	Cost	Value
<i>Investment in mutual fund managed by the Fund Manager (a related party)</i>				
AlAhli Saudi Rival Trade Fund	<b>41,566</b>	<b>42,264</b>	57,729	58,112

During the year, the Fund recognized a net gain of SR 885 thousand (2018: SR 787 thousand) from these investments.

**10 RECEIVABLE FROM OPERATING LEASES**

Receivable from operating leases comprise of the following:

	<b>31 December 2019</b>	31 December 2018
Receivable from operating leases	<b>43,870</b>	30,621
Allowance for doubtful debt	<b>(8,866)</b>	(3,259)
Receivable from operating leases – net	<b>35,004</b>	27,362

**Allowance for doubtful debt**

	<b>2019</b>	2018
1 January	<b>3,259</b>	-
Provided during the year	<b>5,607</b>	3,259
31 December	<b>8,866</b>	3,259

The aging analysis of receivable from operating leases at the reporting date:

		<b>Past due and impaired</b>					
Year	Total	1 to 90 days	From 91-180 days	From 181-270 days	From 271-365 days	From 366-455 days	More than 455 days
<b>2019</b>	<b>43,870</b>	<b>21,883</b>	<b>8,307</b>	<b>3,906</b>	<b>1,172</b>	<b>4,969</b>	<b>3,633</b>
2018	30,621	11,555	5,489	5,953	7,624	-	-



**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**11 PREPAYMENTS AND OTHER RECEIVABLES**

	<b>2019</b>	2018
Input value added tax	<b>12,495</b>	2,886
Prepaid expenses	<b>773</b>	415
Other debit balances	<b>1,519</b>	760
	<b>14,787</b>	4,061

**12 INVESTMENT PROPERTIES**

The Fund acquired AlAndalus Mall and Staybridge Suites at Inception Date against cash consideration of SR 405 million (representing 30% of the total purchase value of SR 1,350 million) and by issuing units valuing SR 945 million to Alandalus Property Company ("APC") – the previous owner.

The Fund acquired Salama Tower on 4<sup>th</sup> August 2019 against cash consideration of SR 255 million. It was subsequently leased to the seller for a net lease amount of SR 23.1 million per annum for a period of 5 years. The seller is allowed to sub-lease the property to multi-tenants during this period.

<b>Name of the property</b>	<b>Nature of Property</b>	<b>Purchase Price</b>
Al Andalus Mall, Jeddah	Mall	1,150,000
Staybridge Suites, Jeddah	Hotel	200,000
Salama Tower, Jeddah	Office	255,000

The properties are held under the custody of Sandooq Tamkeen Real Estate Company ("SPV"), which is owned by AlBilad Capital (the Custodian of the Fund). The Fund pays a custody fee of 0.025% per annum based on the average market value of the properties.

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals ‘000 (unless otherwise stated)

**12 INVESTMENT PROPERTIES (CONTINUED)**

At 31 December 2019, investment properties represent the properties that were initially recognized at their cost and are subsequently measured at cost less accumulated depreciation:

	<b>Land</b>	<b>Buildings</b>	<b>Furniture And Fixture</b>	<b>Computer and Hardware</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b><u>Cost:</u></b>							
Balance at 1 January	812,411	535,364	8,842	2,039	7,055	1,274	1,366,985
Additions during the year	53,393	204,539	18	-	86	3,941	261,977
Balance at 31 December 2019	865,804	739,903	8,860	2,039	7,141	5,215	1,628,962
<b><u>Accumulated depreciation</u></b>							
Balance at 1 January	-	(18,857)	(1,089)	(235)	(1,177)	-	(21,358)
Depreciation charged for the year	-	(15,733)	(1,045)	(211)	(1,130)	-	(18,119)
Balance at 31 December 2019	-	(34,590)	(2,134)	(446)	(2,307)	-	(39,477)
<b>Net book value at 31 December 2019</b>	<b>865,804</b>	<b>705,313</b>	<b>6,726</b>	<b>1,593</b>	<b>4,834</b>	<b>5,215</b>	<b>1,589,485</b>
Net book value at 31 December 2018	812,411	516,507	7,753	1,804	5,878	1,274	1,345,627

The Fund has pledged Al-Andalus mall and Staybridge Suites as security against SR 650 million Islamic financing facility obtained from NCB. The carrying value of AlAndalus Mall and Staybridge Suites is SR 1,328 million as at the reporting date.

In accordance with Article 8 of the Real Estate Investment Traded Funds Instructions issued by CMA, the Fund Manager assesses the Fund’s real estate value by appointing two independent evaluators. However, in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia, investment in real estate properties are carried at cost less accumulated depreciation in these financial statements.

**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**12 INVESTMENT PROPERTIES (CONTINUED)**

The market value of the properties was determined by Taqueem certified evaluators in accordance with Taqueem Regulations in conformity with the International Valuation Standards Council's International Valuation Standards. The assumptions used in determining the fair value of the investment properties are as follows:

Description	Valuation approach	Key assumptions	Market Value	
			As at 31 December 2019	As at 31 December 2018
Evaluator: <b>ValuStart</b>				
AlAndalus Mall	Discounted cash flow	Discount rate: 11% Exit yield rate: 8.50%	<b>1,176,800</b>	1,161,000
Staybridge Suites	Discounted cash flow	Discount rate: 11.5% Exit yield rate: 9%	<b>164,000</b>	179,100
Salama Tower	Discounted cash flow	Discount rate: 11.5% Exit yield rate: 9%	<b>264,000</b>	-
			<b>1,604,800</b>	1,340,100
Evaluator: <b>Knight Frank (2019) &amp; Colliers (2018)</b>				
AlAndalus Mall	Discounted cash flow	Discount rate: 10.75% Exit yield rate: 8.75%	<b>1,171,600</b>	1,107,000
Staybridge Suites	Discounted cash flow	Discount rate: 11.25% Exit yield rate: 9.25%	<b>170,100</b>	174,000
Salama Tower	Discounted cash flow	Discount rate: 10.75% Exit yield rate: 8.25%	<b>253,860</b>	-
			<b>1,595,560</b>	1,281,000

Valuation techniques used to derive level 3 of fair value.

The valuation mechanism of properties adopted in the valuation of investment properties is consistent with the international board for valuation standards as well as the guidance of the Saudi Authority for Accredited Valuers (TAQEEM).

For the purpose of assessing impairment, the value in use of the investment properties was determined by Taqueem certified valuers in accordance with the guidance of IAS 36 "Impairment of Assets". As the recoverable amount, which is the higher of its fair value less cost to sell and value in use, exceeds the carrying amount, no impairment is recognised in the current year.

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

**13 DEFERRED RENTAL REVENUE**

	<b>31 December 2019</b>	31 December 2018
Balance at the beginning of the year	26,429	25,406
Adjusted against revenue earned	127,044	125,355
Rent invoiced during the year	(125,376)	(124,332)
Balance at the end of the year	<u>28,097</u>	<u>26,429</u>

**14 OTHER LIABILITIES**

	<b>31 December 2019</b>	31 December 2018
Trade Payable	2,697	4,108
Islamic financing facility cost payable	1,710	-
Accrued Expenses and credit balances	7,569	2,953
	<u>11,976</u>	<u>7,061</u>

**15 ADVANCES FROM LEASES**

	<b>31 December 2019</b>	31 December 2018
Advance from customers	6,106	4,365
Security tenants	5,434	3,670
	<u>11,540</u>	<u>8,035</u>

**16 ZAKAT**

During 2019, the Fund was registered with GAZT for zakat purposes. The Fund will pay zakat for the year 2019 onwards.

**Zakat base**

Zakat is calculated for the year ended 31 December using the Zakat base as follows:

	<b>31 December 2019</b>	31 December 2018
Net zakat positive base (A)		
Capital	1,375,000	-
Provisions	5,607	-
Loan	253,050	-
Net adjusted profit	61,356	-
Net zakat positive base	<u>1,695,013</u>	<u>-</u>
Net zakat negative base (B)		
Investments property	1,589,485	-
Other deductions	69,748	-
Net zakat negative base	<u>1,659,233</u>	<u>-</u>
Net	35,780	-
Net adjusted profit	60,000	-
Zakat charge at 2.5%	<u>1,500</u>	<u>-</u>

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**16 ZAKAT (CONTINUED)**

Zakat provision movement is as follows:

	<b>31 December 2019</b>	31 December 2018
1 January	-	-
Provided during the year	<b>1,500</b>	-
Payments made during the year	-	-
31 December	<b>1,500</b>	-

**17 RELATED PARTY TRANSACTIONS AND BALANCES**

In its ordinary course of business, the fund transacts with entities owned by certain shareholders and other related parties.

<b><u>Name of entity</u></b>	<b><u>Relationship</u></b>
NCB Capital Company	Fund Manager and Unitholder
National Commercial Bank (NCB)	Shareholder of Fund Manager
Alandalus Property Company (APC)	Unitholder
Hamat Property Company	Mall Operator
IHG Group (Inter-continental)	Operated Co for Staybridge Hotel

**Fund management fee**

The Fund pays the Fund Manager a management fee of 1% per annum of the Fund's total assets (based on the last valuation) less Fund's current liabilities. The management fee is payable in arrears on a semi-annual basis.

**Agency fee**

The Fund via a master transfer agreement dated 25<sup>th</sup> December 2017 appointed APC as the "Property Agent". Under the agreement, APC is appointed to exercise, perform and discharge all rights and obligations as an agent of AlAndalus Mall and Staybridge Suites. The Fund pays a fixed amount of SR 500,000 per annum to APC for the aforementioned agency services.

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals ‘000 (unless otherwise stated)

**17 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

*Transactions with related parties*

The Fund entered into the following transactions with related parties in the ordinary course of business. These transactions were carried out on the basis of approved terms and conditions of the Fund. All related party transactions were approved by the Fund Board.

Summary of transactions and balances are as follows:

	Transactions for the year ended 31 <sup>st</sup> December 2019		Transactions for the period ended 31 <sup>st</sup> December 2018		Balance at	
	Management fee / Operating fee and other related expenses	Rental received from tenants/ Expenses paid on behalf of the Fund	Management fee / Operating fee and other related expenses	Rental received from tenants/ Expenses paid on behalf of the Fund	31 December 2019	31 December 2018
<b><u>Due from related parties:</u></b>						
AlAndalus Property Company(*)	-	26,304	74,564	-	2,461	7,690
Staybridge Suites	2,843	-	-	-	198	-
					<b>2,659</b>	7,690
<b><u>Due to related parties:</u></b>						
Hamat Property Company	11,679	-	9,644	-	5,503	4,734
NCB Capital	14,824	-	14,086	-	14,824	6,959
Alandalus Property Company(*)	525	0.24	-	-	263	-
					<b>20,590</b>	11,693

(\*) The nature of theses balances are different ,consequently the netting wasn't considered for it

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**18 BORROWINGS**

	<b>31 December 2019</b>	31 December 2018
Balance at the beginning year/period	-	-
Financing facility utilized during the period	<b>255,000</b>	-
Transaction cost and amortisation	<b>(1,950)</b>	-
Balance at the end of the year/period	<b>253,050</b>	-

At 7 November 2018, the Fund signed an agreement of Islamic financing facility of SAR 650 million from NCB. The Fund transferred the title deed of properties, AlAndalus Mall and Staybridge Suites, in favour of Real Estate Development Company for Management and Ownership, a fully owned subsidiary of the NCB as a security against the Islamic financing facility.

On 1 August 2019 the Fund utilized SR 255 million as the first tranche from the Islamic financing facility. The tenor of the Islamic financing facility is 15 years. The Islamic financing facility provides 5 years grace period during which only profit payments are to be made. Following the grace period, the principal amount shall be repaid over 10 years on a quarterly basis.

**19 REVENUE FROM PROPERTIES**

	<b>31 December 2019</b>	For the period from 25 December 2017 to 31 December 2018
AlAndalus Mall	<b>125,376</b>	124,232
Staybridge Suites	<b>16,889</b>	24,100
Salama Tower	<b>9,431</b>	-
	<b>151,696</b>	148,332

**20 OPERATIONAL EXPENSES**

	<b>31 December 2019</b>	For the period from 25 December 2017 to 31 December 2018
AlAndalus Mall	<b>28,777</b>	23,819
Staybridge Suites	<b>15,226</b>	16,704
Salama Tower	<b>376</b>	-
	<b>44,379</b>	40,523

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**21 SEGMENT REPORTING**

The Fund's activities include a number of sectors as follows:

Retail Sector: This includes units of investment properties such as malls.

Hospitality Sector: This includes hospitality service providing entities (Staybridge Suites).

Offices Sector: This includes rent for commercial units from investment properties (Salama Tower).

The Fund's investment properties are organized into the following segments::

	31 December 2019					31 December 2018			
	<u>Mall</u>	<u>Hotel</u>	<u>Office</u>	<u>Fund</u>	<u>Total</u>	<u>Mall</u>	<u>Hotel</u>	<u>Fund</u>	<u>Total</u>
Revenue	125,376	16,889	9,431	-	151,696	124,232	24,100	-	148,332
Operating expense	28,777	15,226	376	18,119	62,498	23,819	16,704	21,358	61,881
Allowance for doubtful debt	5,607	-	-	-	5,607	3,259	-	-	3,259
Operating profit	90,992	1,663	9,055	(18,119)	83,591	97,154	7,396	(21,358)	83,192
Total assets	1,185,206	188,947	265,367	54,854	1,694,374	1,198,624	193,404	58,161	1,450,189
Total liabilities	49,177	5,374	-	272,202	326,753	37,582	7,575	8,062	53,219

**22 OPERATING LEASES**

**As Lessor**

	31 December 2019	31 December 2018
Less than one year	93,779	135,626
From one to 5 years	147,146	214,394
Above 5-year	110,615	137,145
	<b>351,540</b>	<b>487,165</b>



**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2019  
Expressed in Saudi Arabian Riyals ‘000 (unless otherwise stated)

**23 EFFECT IF INVESTMENT PROPERTIES ARE FAIR VALUED ON EQUITY PER UNIT**

	<b>31 December 2019</b>	31 December 2018
Fair Value of investment properties	<b>1,618,486</b>	1,365,613
Less Carrying amount of the investment property	<b>1,589,485</b>	1,345,627
Increase in equity	<b>29,001</b>	19,986
Units in issue in thousands (number)	<b>137,500</b>	137,500
Additional equity per unit based on fair value	<b>0.21</b>	0.15
Equity attributable to unitholders before fair value adjustment	<b>1,367,621</b>	1,396,971
Increase in equity	<b>29,001</b>	19,986
Equity attributable to unitholders after fair value adjustment	<b>1,396,622</b>	1,416,957
<b><u>Net Assets Attributable to each unit</u></b>		
Equity per unit (SAR) before fair value adjustments	<b>9.95</b>	10.16
Increase in equity per unit (SAR) based on fair value	<b>0.21</b>	0.15
Net Assets Attributable to each unit	<b>10.16</b>	10.31

**24 FINANCIAL RISK MANAGEMENT**

**24.1 Financial risk factors**

The Fund is subjected to various financial risks due to its activities including: Market risk (including currency risk, fair value and cash flows of interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Fund

Fund manager is responsible for risk management. Financial instruments carried on the statement of financial position include cash and cash equivalents, investments, accounts receivable, due from/to related parties, prepayments and other current assets, long term debts ,trade payables ,accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial asset and liability is offset and net amounts reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and liability simultaneously

**a. Market risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, profit rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

## **24 FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **24.1 Financial risk factors (continued)**

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 fair value of FVTPL investments, with all other variables held constants is as follows:

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 as follows:

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Effect on equity	<b>±10    ± 4,226</b>	<b>±10%    ± 5,811</b>

#### **b. Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's transactions are principally in Saudi Riyals.

The management closely and continuously monitors the exchange rate fluctuations.

#### **c. Islamic financing facility cost rate risk**

Islamic financing facility cost rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing Islamic financing rates on the Fund's financial positions and cash flow.

The Fund's interest rate risks arise mainly from its Islamic financing facility. Islamic financing facility cost rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing Islamic financing facility cost rates on the Fund's financial positions and cash flow.

The Fund's Islamic financing facility cost rate risks arise mainly from its borrowings, which are at variable of Islamic financing facility cost rate and the sensitivity analysis as follows:-

Impact on statement of profit or loss for the year ended 31 December 2019

	<b><u>Increase 100 points</u></b>	<b><u>Reduce 100 points</u></b>
Islamic financing facility cost	<b>(2,531)</b>	<b>2,531</b>

#### **c. Credit risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk from its trade receivables, cash and cash equivalent, due from related parties and Prepayments and other debit balances.

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Cash and cash equivalents	<b>10,175</b>	<b>7,337</b>
Investment at fair value through profit or loss	<b>42,264</b>	<b>58,112</b>
Receivable from operating leases	<b>35,004</b>	<b>27,362</b>
Due from related parties	<b>2,659</b>	<b>7,690</b>
	<b><u>90,102</u></b>	<b><u>100,501</u></b>

## **24 FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **24.1 Financial risk factors (continued)**

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from BBB- and above.
- The receivable are shown net of allowance for impairment of trade receivables.
- Financial position of related parties is stable.

The Fund manages credit risk with respect to receivables from customers by monitoring in accordance with defined. Policies and procedures. The Fund seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Fund's exposure to bad debts is not significant.

Trade receivables outstanding balance is of due from local customers in Saudi Arabia.

#### **d. 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 through committed credit facilities to meet any future commitments.

The Fund's objective is to maintain a balance between continuity of funding and flexibility using bank overdrafts and bank loans.

The table below analyses the Fund's financial liabilities as at the reporting date and classifies into relevant maturities based on the contractual undiscounted cash flows.

<b>At 31 December 2019:</b>	<b>Less than 1 year</b>	<b>More than 1 year</b>
Other Liabilities	11,976	-
Due to related parties	20,590	-
Long term borrowings	-	253,050
	<b>32,566</b>	<b>253,050</b>
<b>At 31 December 2018:</b>	<b>Less than 1 year</b>	<b>More than 1 year</b>
Other Liabilities	7,061	-
Due to related parties	11,693	-
	<b>18,754</b>	<b>-</b>

## **25 FAIR VALUE**

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 and at prevailing market conditions regardless if the price is directly identified or estimated using other valuation technique.

All assets and liabilities whether measured at fair value or their fair values are disclosed in the financial statements in accordance with the hierarchical levels of fair value measurements as stated below are classified into the lowest level of measuring input which is considered significant for measuring the fair value as a whole.

**ALAHLI REIT FUND (1)****(Managed by NCB Capital Company)****NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

**25 FAIR VALUE (CONTINUED)**

**Level 1:** Declared (unadjusted) and quoted market prices in active markets for identical assets or liabilities.

**Level 2:** Inputs that are directly or indirectly observable or tracked for an asset or a liability other than declared prices mentioned in level 1.

**Level 3:** Inputs that are unobservable or not tracked for an asset or a liability.

**Fair values of financial instruments**

The Fund is exposed to risks as a result of using financial instruments. The following explains the Fund's objectives, policies and operations to manage these risks and methods used to measure them in addition to quantitative information related to these risks in the accompanying financial statements.

There were no significant changes that may expose the Fund to financial instrument risks through its objectives, policies and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

- The Fund's management considers the fair value for lessees' receivables, Long term loan, balances of related parties, rents due from lease, accruals and other payable approximate to their carrying value because of the short terms of financial instruments.
- The Fund's management estimated the fair value for short-term Islamic Tawarruq facilities, which are classified in level 3, to be approximate to their carrying value.
- There were no transfers between level 1, 2 or 3 during the reporting period.

Financial instruments are exposed to change in value risk as a result of changes in commission rates of the financial assets and liabilities with variable commission. Actual commission rate and period of re-pricing or maturity of financial assets and liabilities were mentioned in the related notes.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount Designated at fair value	Fair Value		
		Level 1	Level 2	Level 3
<b>2019</b>				
Financial instruments- FVTPL	-	-	42,263	-
<b>2018</b>				
Financial instruments- FVTPL	-	-	58,111	-

**26 SUBSEQUENT EVENT**

On 27th January 2020, the Fund Board approved and ratified the appointment of Alandalus Property Company as the Mall Operator effective from 1st January 2020.

The Fund has signed an agreement to purchase an office complex in Riyadh for SR 250 million. The acquisition is expected to be completed before the end of March 2020.

On 15 March 2020, the Fund Board approved to pay a dividend of SR 4.469 million (SR 0.325 per unit) to Fund unitholders. The dividend will be paid subsequent to the period end.

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

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

---

**27    RECLASSIFICATION**

Certain comparative figures in these financial statements have been reclassified to match with current year presentation for better presentation and disclosure with no material impact on the financial statements.

**28    LAST VALUATION DAY**

The last valuation day for the period was 31 December 2019.

**29    APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements were approved by the Fund Board on 15 March 2020G, corresponding to 20 Rajab 1441H.

## DISCLAIMER

This report is intended for general information purposes only and is not intended as an offer or solicitation with respect to the sale or purchase of any security. This document is not intended to take into account any investment suitability needs of the recipient.

In particular, this report is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive it.

To the maximum extent permitted by the applicable law and regulations, NCB Capital shall not be liable for any loss that may arise from the use of this report or any of its contents or otherwise arising in connection therewith.

Any financial projections, fair value estimates and statements regarding future prospects contained in this report may not be realized.

All opinions and estimates included herein constitute the author's judgment as of the date of production hereof, and are subject to change without prior notice. No part of this report or any

documents attached herewith may be reproduced without the written permission of

NCB Capital. NCB Capital shall be fully responsible for the accuracy of the information contained herein and confirms that, to the best of its knowledge and belief, after having conducted reasonable investigation, there are no other facts omission of which may render any statement contained herein to be misleading.

The Capital Market Authority takes no responsibility in connection with the contents of this report and does not make any representation regarding the accuracy or completeness thereof and expressly disclaims any liability whatsoever for any loss that may be incurred as a result of using any part of this report. Potential buyers of the Fund units offered under this document must conduct their own due diligence regarding the accuracy of the information related to this investment fund.

NCB Capital is authorised by the Capital Market Authority under License number 37-06046. NCB Capital's registered office is King Saud Road, P.O Box 22216, Riyadh 11495, Kingdom of Saudi Arabia, [www.alahlicapital.com](http://www.alahlicapital.com).

