



Annual Report 2020

ALAHILI REIT FUND (1)



TABLE OF CONTENTS

Management Statement	4
Introduction to REITs	5
Fund Overview	6
Fund Updates	16
Fund Performance	18
Fund Timeline	20
Service Providers	22
Fund Board Report	23
Dividends Distribution	24
Disclosures	25
Risk Assessment Report	26
Financial Statements	32
Disclaimer	70





AlAhli REIT Fund (1) (“Fund”) is a real estate investment traded fund listed on Tadawul, the Saudi Stock Exchange.



The Fund aims to provide regular rental income to its unitholders by investing mainly in developed income-generating real properties.



The Fund is managed by NCB Capital, the largest Asset Manager in Saudi Arabia and the largest Sharia Compliant Asset Manager globally, with over SAR 190 billion of assets under management.



The Fund’s diverse portfolio comprises AlAndalus Mall, AlAndalus Mall Hotel, Salama Tower – a premium office building, and Qbic Plaza - a top quality office complex leased to the Ministry of Housing.



The combined market value of the portfolio is around SAR 1.9 billion.



The Fund is actively looking to acquire new quality assets and enhance the value of the existing assets to have more robust cash flows and enhanced returns for the unitholders.



MANAGEMENT STATEMENT

Dear Unitholders,

We are pleased to present to you the Annual Report for the fiscal year 2020, which includes a brief on the Fund's performance, its achievements, and how we plan to continue the Fund's strong growth into the future.

Despite all the challenges caused by the pandemic, the Fund performed fairly well in 2020. Due to the closure of certain properties, the dividend pay-out was impacted during the first half of the year; however, the Fund increased the dividend pay-out to its pre-covid level in the second half. The Fund distributed a total of 4.5% dividend (at par value) for the year.

We were able to minimize the impact by proactively managing the underlying properties and by making new investments. We acquired Qbic Plaza in Riyadh, a high-end office complex that is fully leased to the Ministry of Housing. In addition to that, we acquired land adjacent to AlAndalus Mall as part of the new expansion plan, i.e. to build a Food & Beverage centric boulevard that will increase the leasable area by around 16,000 square meters.

The Fund's assets generally demonstrated incredible resilience. AlAndalus Mall's footfall surged back to almost a million visitors per month and occupancy remained strong at around 98%. The Mall's offering was enhanced further by

the opening of Empire Cinema which has 18 screens, 1600 seats, and state-of-the-art, region's-first, Sphera premium-cinema concept. The Mall was given recognition award by the Ministry of Health for effective application of precautionary measures against coronavirus, which included creating awareness of the virus amongst its customers.

AlAndalus Mall is adjacent to the upcoming Dr. Sulaiman Al-Habib Hospital with 330 beds and 245 clinics, which is due to begin operations in 2023. Once completed, it will be the first complex in Jeddah to offer a mall, hotel and hospital together in one location. This will drive up occupancy at the Hotel and increase footfall at the Mall.

For AlAndalus Mall Hotel, we are in advance discussions with internationally renowned hotel operators and expect to make an appointment soon. We firmly believe that the Hotel's performance shall be enhanced further with a strong brand name and the loyal customer base it would bring.

We have a relentless focus on improving the Fund's income streams and enhancing its dividend pay-out. In 2021, we will continue to actively look for quality assets that would diversify the portfolio and enhance returns for the unitholders.

INTRODUCTION TO REITS



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

The main benefits of investing in a REIT are:

- Superior liquidity
(they are traded on the stock exchange)
- Inflation hedge
- 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

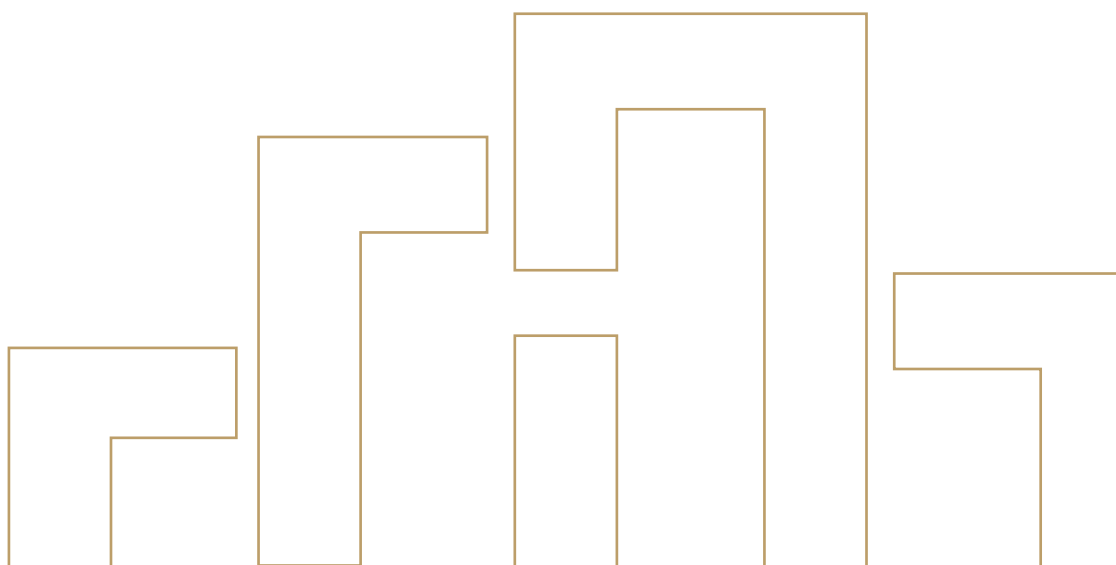
AlAhli REIT Fund (1)

Fund Description

A close-ended Real Estate Investment Traded Fund operating in accordance with the Shariah guidelines set by the Shariah Board. 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 applicable implementing regulations 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.



FUND'S PORTFOLIO

AlAndalus Mall
Jeddah, Saudi Arabia



AlAndalus Mall Hotel
Jeddah, Saudi Arabia



Salama Tower
Jeddah, Saudi Arabia



Qbic Plaza
Riyadh, Saudi Arabia



QUALITY ASSETS AND WORLD CLASS TEAMS

The Fund comprises very high-quality assets in prime locations in both Jeddah and Riyadh. AlAndalus Mall, AlAndalus Mall Hotel, and Salama Tower in Jeddah, and the newly acquired Qbic Plaza in Riyadh, all enjoy easy accessibility, are very close to the city centre, and are within lively districts. The properties are operated by local property management experts with strong 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 190 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 TAQEEM valuation standards.

REMARKABLE RESILIENCE

As part of the Saudi government's precautionary measures to combat the spread of coronavirus, AlAndalus Mall was closed for about two and a half months. In order to compensate the tenants for the aforementioned closure and ensure business continuity, the Fund provided appropriate discounts to its tenants.

Despite these unprecedented challenges, the Mall demonstrated remarkable resilience. It maintained a healthy base of tenants and has a series of contracts due to be signed, some of them with new regional brands.

On the expense side, the Mall Operator negotiated some contracts with the vendors and succeeded in getting temporary discounts for the period when the Mall was not operational.

The second half of 2020 saw a surge in occupancy, rent collection and consumer footfall to almost pre-covid levels. We expect this to continue to rise in the months ahead as the world returns to normality.

OPPORTUNITY AND RETURNS

The Mall is now ideally placed to capitalize on the coming post-pandemic bounce back in the Retail, Food & Beverage, and Entertainment sectors. The Empire Cinema at the Mall with region's-first, Sphera premium-cinema concept was launched in December 2020. Mall expansion is expected to begin in the second half of 2021, with a new boulevard featuring restaurants both indoor and outdoor, and a new three-floor parking building with 1500 parking spots.

The boulevard will be adjacent to Dr. Sulaiman Al-Habib Hospital, which is due to begin operating in 2023. The Habib Medical Group are the largest provider of healthcare in the Middle East and their South West Jeddah Hospital will feature 330 beds and 245 clinics. Once completed, it will be the first complex in Jeddah to offer a mall, hotel and hospital together in one location. This will drive up occupancy at the Hotel and increase footfall at the Mall.

The Mall's resiliency is complemented by both Salama Tower and Qbic Plaza. Salama Tower is a fully leased office building with another three and a half years left remaining on its lease term. Qbic Plaza has been leased in its entirety to the Ministry of Housing for three years, who have invested a huge amount in fitting out the interior and are expected to renew for another three years at the end of their term.

These developments have created consistent revenue streams, together with lowering the credit risk of the portfolio, creating a virtuous circle for investors in the Fund.

The Management Team's efforts have resulted in the winning combination of numerous opportunities for growth, and the security of long-term contracts with both highly reputable businesses and government.



ALANDALUS 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 the finest brands and a diverse tenant mix consisting of Fashion, Food & Beverage, Entertainment, Indoor Sports etc. It is one of the biggest malls in Jeddah, with 351 shops and a net leasable area of around 90,000 square meters. It is operated and managed by AlAndalus Property Company.

It is a preferred shopping destination for families which is evident from the huge influx of visitors. During 2020, more than 11 million visitors visited AlAndalus Mall. It enjoys the highest occupancy amongst comparable malls in Jeddah.

Location	Jeddah - Fayhaa District
Total Land Area	152,910 square meters
Rental Area	90,000 square meters
Mall Components	2 Floors, 3,000 parking lots, 518 units (shops, kiosks, restaurants, ATMs, Warehouses)
Building Age	14 years
Occupancy Rate at year end 2020	98%
Acquisition Price	SAR 1,150,000,000
Property Manager	AlAndalus Property Company

Select Tenants

MANGO

DKNY



Austin Reed[®]



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 typical floors and 2 parking floors above ground, and 1 basement floor. The tower comprises 84 offices, 4 showrooms, and 4 warehouses.

The tower is 100% leased for a remaining period of three and a half years. The tower is occupied by strong brand names such as Al Rajhi Cooperative insurance company, Al Rajhi Takaful, Taajeer Group, Tim Hortons, National Aviation Services Company, and Salama Insurance company to name a few.

Location	Jeddah – Madinah Road, Salama District
Total Land Area	7,682 square metres
Net Leasable Area	29,921 square metres
Zoned for Retail Use	5,710 square metres
Zoned for Office Use	24,002 square meters
Components	8 Retail units on the ground floor and 116 office units across the 13 upper floors
Building Age	8 years
Acquisition Price	SAR 255,000,000
Property Manager	Jabal Edsas

Select Tenants



QBIC PLAZA



وزارة الإسكان
MINISTRY OF HOUSING



A high-end, three-floors office complex that is located just 170 meters North of the intersection of King Abdulaziz Road with Northern Ring Branch Road in Al Ghadeer District in Riyadh. The complex is fully leased to the Ministry of Housing for a period of three years.

Location	Al Ghadeer District, Riyadh
Total Land Area	17,444 square metres
Net Leasable Area	21,253 square metres
Components	All offices
Building Age	1 Year
Acquisition Price	SAR 250,000,000
Property Manager	Al-Ard Real Estate Development & Investment
Tenant	Ministry of Housing
Lease Type	Triple Net Lease
Lease Term	Three years, extendable

ALANDALUS MALL HOTEL



AlAndalus Mall Hotel is an upscale hotel, attached to AlAndalus mall. 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 two-bedroom apartments. Guests at AlAndalus Mall Hotel can unwind in the state-of-the-art fitness center play tennis, and enjoy time at the elite café beside the swimming pool. In addition to the leisure amenities, the hotel offers a business center meeting convention spaces, and a ballroom for the business segment. The hotel enjoys an 8.5 rating on Booking.com.

Dr. Sulaiman Al Habib Hospital is currently being constructed adjacent to AlAndalus Mall Hotel. Once completed, it is expected to enhance the hotel demand.

Location	Jeddah - Fayhaa District
Category	5 Star Hotel
Total Land Area	6,223 square metres
Total Construction Area	28,255 square metres
Number of Suites	164
Hotel Components	16 floors, 236 parking lots, swimming pool, spa, tennis court, meeting rooms
Building Age	4 years
Acquisition Price	SAR 200,000,000

FUND UPDATES

- The Fund completed the acquisition of Qbic Plaza, a brand-new office complex in Riyadh for SAR 250 million, that is leased for three years to the Ministry of Housing.
- The Fund signed off on a major expansion of AlAndalus Mall, with construction expected to begin in the second half of 2021, with a new boulevard featuring restaurants both indoor and outdoor, and a new, three-floor parking building with 1500 parking spots. The 16,000 square metres NLA (Net Lettable Area) expansion is expected to be completed within 2-3 years.
- The Fund terminated its contract with Holiday Inns Middle East Limited. The Hotel will no longer be operated under the brand name “Staybridge Suites”. The Management Team are in advanced discussions with internationally renowned hotel operators to manage the Hotel and expect to make an appointment soon.
- As of 31st December 2020, the Fund had an unutilised facility of SAR 132 Million. The Fund is actively looking for assets to acquire to further diversify the portfolio and enhance returns for the unitholders.



HISTORICAL COMPARISON

HISTORICAL COMPARISON BETWEEN 2018, 2019 AND 2020

	2018	2019	2020
Closing NAV	1,396,971	1,367,621	1,320,470
Closing NAV Per Unit	10.16	9.95	9.60
Highest Market Price	10.11	9.50	10.20
Lowest Market Price	7.37	7.48	7.83
Total Units Outstanding	137,500,000	137,500,000	137,500,000
Dividends Distributed Per Unit*	0.33*	0.65	0.45
Total Expense Ratio	1.20%	1.09%	1.14%

*Total distribution for 2018 was SAR 0.65 per unit, but the second distribution was made in February 2019, therefore it was not reflected in 2018.

Total Cumulative Return	1 year	Since inception
Based on NAV	1.01%	10.25%
Based on Market Price	(1.37%)	3.45%

FUND PERFORMANCE

SUMMARY OF FUND PERFORMANCE - 2020

Number Of Units Issued	137,500,000 units
Opening NAV at Year Beginning	SAR 1,367,621,000
Closing NAV at Year End	SAR 1,320,470,000
Opening NAV Per Unit at Year Beginning	9.95
Closing NAV Per Unit at Year End	9.60
Funds From Operations (FFO)	62,640,000
Funds From Operations Per Unit	0.46
Total Dividends Distributed Per Unit	0.45
Highest Unit Closing Price	10.20
Lowest Unit Closing Price	7.83

FUND FEES AND EXPENSES - 2020

Management Fees	SAR 17,399,000
Professional Fees	SAR 500,000
Board Fees	SAR 100,000
Tadawul Fees	SAR 700,000
Custody Fees	SAR 446,000
Shariah Fees	SAR 24,000
Other Expenses	SAR 2,473,000

UNIT PERFORMANCE 2020

	Net Asset Value	Market Price
Unit Initial Value	9.95	9.50
Change During Period per Unit	(0.35)	(0.58)
Dividends per Unit * (Dividends Distributed During 2020)	0.45	0.45
Total Return for The Period	1.01%	(1.37%)

* Total distributions during the period totaled SAR 0.45 per unit. First distribution was made on 29th March 2020, and the second distribution was made on 31st August 2020.

FUND TIMELINE

25 Dec 2017

Fund Inception



25 Dec 2017

Acquisition of AlAndalus Mall
and AlAndalus Mall Hotel



8 Jan 2018

Listing on Tadawul



4 August 2019

Acquisition of Salama
Tower in Jeddah



23 Dec 2019

Inclusion in FTSE EPRA
Nareit Global Real Estate
Index Series



Dec 2019

Winning Global Business
Outlook's 'Best Islamic Reīf
Award'



22 June 2020

Acquisition of Qbic Plaza
in Riyadh



9 Nov 2020

Acquired land adjacent
to AlAndalus Mall for
development



SERVICE PROVIDERS

الأهلي كابيتال
NCB Capital



Fund Manager
NCB Capital

البلاد المالية
Albilad Capital



Custodian
Al-Bilad Capital



Auditor
KPMG



Real Estate Evaluators
Knight Frank & ValuStrat



الأندلس العقارية
Alandalus Property

AlAndalus Mall Operator & Property Agent
AlAndalus Property Company

FUND BOARD REPORT

The Fund Manager held four board meetings during the year. The meetings included:



DIVIDENDS DISTRIBUTION

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 2020

Total Distributed Dividends for The Period	SAR 61,875,000
Dividend Per Unit	SAR 0.45
Number of Units Outstanding	137,500,000 units
Unit Nominal Value (Initial Price)	SAR 10
Dividends % to Unit Initial Price	4.5%
Dividends % of Net Asset Value	4.7%
NAV as of 31 Dec 2019	SAR 1,320,470,000

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 a total of SAR 518 million as of 31st December 2020.

Material changes:

The Fund and Holiday Inns Middle East Limited have mutually terminated the contractual relationship to operate the hotel adjacent to AlAndalus Mall, operated earlier under the brand name "Staybridge Suites Hotel".

Annual voting rights:

N/A

Changes to the Terms and Conditions:

- Update the information on the cover page, such as fund size and fund manager declaration.
- Update the declarations inside the cover page to be in accordance with the of the Real Estate Investment Traded Funds Instructions issued by the Capital Market Authority.
- Update the operator of AlAndalus Mall, one of the Fund's assets to be: "AlAndalus Property Company" as the successor to "Hamat Real Estate Company".
- Add ValuStrat details as appointed appraiser for the Fund's assets instead of Colliers.
- Update the Fund summary to reflect the updated information on the size of the Fund, the Fund's assets, and the date of listing the Fund's units.
- Update the definition of the anti-money laundering law.
- Delete the definitions related to the offering period, which are the subscription fee, the minimum subscription fee, and the subscription application form.
- Amend the definition of "Target Assets" to be "Initial Assets" acquired by the fund after the initial offering period, and amending this wherever it is stated in the Terms and Conditions.
- Amend the target fund distribution period to be no later than March and September.
- Add the results of the offering in the eighth paragraph of the Fund's Terms and Conditions.
- Amend Paragraph (9) of the Fund's Terms and Conditions.
- Amending the percentage limit of substantial difference between the periodic independent valuations submitted by independent valuers, which requires the appointment of a third valuator to be 10% instead of 5%.
- Update the summary of profiles of the members of the Fund board of directors and the funds supervised by the directors.
- Update the date of availability of the financial statements to be in accordance with the Real Estate Investment Traded Funds Instructions

Dividends:

Dividends for the first half of 2020 were distributed in August 2020 whereas dividends for the second half were distributed in February 2021.

Conflict of Interest:

- In January 2020, the Fund appointed Al-Andalus Property Company, a related party, as the operator of AlAndalus Mall.
- In November 2020, the Fund acquired land measuring 9,669 square meters from Al-Andalus Property Company, a related party.

RISK ASSESSMENT REPORT

AIAhli REIT Fund Risk Assessment Report

Fund Name	AIAhli REIT Fund (1)
Fund Term	99 years, extendable for additional periods
Country	Kingdom of Saudi Arabia
Risk Level	High
Date of Review	March 2021

RISK	RISK DESCRIPTION	RISK MITIGATION
<p>Income Distribution Risk</p>	<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 & Conditions (T&C).</p> <p>Moreover, as per the T&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"> The Fund's approach to mitigate this risk, is to ensure that the underlying assets are performing well and generating the expected cash flows. 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. Al Andalus Mall Hotel: The Fund Manager is seeking top expertise to run the hotel efficiently and to insure a sustainable income from the property. Salama Tower: The 18 floor office building is fully leased for 5 years to one primary tenant (head lease). Qbic Building: high-end mixed-use commercial retail strip (showrooms, shops, office units and restaurants). The property is fully leased to one primary tenant the Ministry of Housing for a term of 3 years from 25 February 2020. <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"> 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. 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.

Exit Risk

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.

- 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.
- 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.

Credit Risk

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.

- For bank balances, the Fund's policy is to enter into financial instrument contracts only with reputable counterparties.
- 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.

Concentration Risk**Portfolio Concentration:**

The Fund invests in 3 Real Estate assets located in Jeddah and one asset located in Riyadh. 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.

Clients/ Tenants Concentration:

The Fund is well diversified in terms of client base and main contributors to its rental income. As of 31st December 2020. The top 5 largest rental revenue account for 34% over all fund's properties, also the mall top 5 rental revenue represent 22% of the property total revenue.

- In its effort to further diversify the Fund's asset base, the Fund Manager has completed multiple acquisitions in Jeddah and Riyadh during 2019 & 2020. The Fund's asset breakdown is as follows:

Assets	Concentrations		
	2020	2019	2018
Shopping Mall	63%	72%	85%
Hotel	11%	12%	15%
Office Plaza	13%	-	-
Office Tower	13%	16%	-

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.

Valuation Risk

The risk that the market value of the Fund is materially lower than its Net Asset Value. This might be due to an overvaluation of the underlying assets.

- The Fund Manager manages this risk by:
 - Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition.
 - 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.
- 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 to make sure that they are not overstating the fair value of the assets.
- 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.

Liquidity Risk

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.

- The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise.
- The Fund enjoys a Credit facility that can be used to meet new acquisition requirements.
- The Fund Manager always keeps a liquidity buffer by placing some money in liquid assets.

Profit Rate Risk

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.

- Over the last year, the Fed stance was more towards reducing interest rates which is reflected in the downward trend of the SAIBOR.
- The Fund Manager does not foresee significant increases in SAIBOR, if any, over the next year.



Leverage Risk

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.

- The Fund Manager was able to negotiate and secure a financing agreement with favorable terms in order to guarantee optimal returns to the unitholders.
- The facility has a 5-year grace period, during which, the Fund will only pay interest/profit (no principal repayment). This would reduce the financial burden on the Fund during its investment phase.
- 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.

Fund Manager Risk

Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.

- The Fund Manager has set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly.
- The Fund Manager relies on the expertise of its highly experienced investment team to act in the best interest of unitholders and to achieve the Fund's long term growth aspirations.
- In case where certain functions/ activities are outsourced to 3rd party service provider, the Fund Manager ensures that proper due diligence is performed on the 3rd party provider and that the latter accepts and adheres to the Fund Manager's terms of business.

Country Risk

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.

- The Fund is fully invested in Saudi Arabia.
- 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.

Economic Risk

The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.

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.

Asset UnderPerformance Risk

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 2020, the Fund has SAR 1 million as a general provision for potential doubtful debts. The property manager continues to monitor this to ensure that all outstanding amounts are recovered.

- The Fund Manager has followed a number of mitigation strategies which include:
- Sign long term contracts with anchor tenants.
- Ensure that the Mall enjoys a strong diversified tenant mix.
- Always assess the best potential ways to operate the Hotel.
- Sign a long term head lease contract with a reputable company for the office tower and plaza.
- Asset and tenant diversification of the Fund.

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.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally, at the Fund's service provider and from external factors such as natural disasters.

- The Fund is managed by NCB Capital which has excellent track record and experience in asset management.
- In order to ensure compliance with best practices, certain key activities that require subject matter expertise have been outsourced to experienced and reputable service providers with strong track record.

AlAndalus Property Company was appointed as the operator of AlAndalus Mall. The company is considered to be one of the most prominent malls management companies in KSA with long positive track record.

- The Salama Tower and Qbic Plaza were triple-net leased (NNN) to one primary tenant each.
- 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.



Compliance Risk	<p>Failure of the Fund to adhere to laws, rules and regulations.</p> <p>This risk includes: Legal, Regulatory and Sharia Compliance risks.</p>	<p>The Fund Manager continues to monitor the Fund's compliance against regulations and its Terms and Conditions and will take all necessary actions to fulfill and meet those requirements.</p>
Structural Damage Risk	<p>Structural damage lead by adverse events, where it could risk the income generating ability of the damaged property.</p>	<ul style="list-style-type: none"> ● The Fund Manager maintained a preventative maintenance on a regular basis. ● The Triple Net leased properties, annual inspection by the Fund Manager/ disclosure by the anchor tenant. ● Property insurance in place for all the assets of the Fund.
COVID-19 Pandemic	<p>The recent outbreak of the novel coronavirus (COVID-19) in many countries and Saudi Arabia had adversely impacted global commercial activity including Real Estate sector. The social distancing and national lockdown measures affected the performance of a number of assets (namely the Mall and Hotel).</p> <p>The COVID-19 pandemic and any other outbreak of any infectious disease or any other serious public health concern, together with any resulting quarantines imposed, could have a negative impact on economic and market conditions and trigger a period of global economic slowdown which could adversely affect the performance of the Partnership's investments.</p>	<p>The Fund Manager follows a number of mitigation strategies to reduce, to some extent, the impact of such events:</p> <ul style="list-style-type: none"> ● Long term contracts with anchor tenants. ● Asset class and geographic diversification. ● Active management and monitoring of the Fund's cash flow position to make sure it is able to meet its obligation and to anticipate unexpected events. ● Active monitoring and communication (either directly or through our partners) with all the tenants of the Fund during period of crisis. ● Strict adherence to preventive measures and other government rules.



FINANCIAL STATEMENTS



ALAHLI REIT FUND (1)

Managed by NCB Capital Company



FINANCIAL STATEMENTS

For the year ended 31 December 2020

Together with

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS



ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the year ended at 31 December 2020

Independent auditors' report on the financial statements to the unitholders	35 - 38
Statement of financial position	39
Statement of profit or loss and other comprehensive income	40
Statement of changes in net assets (equity) attributable to unitholders	41
Statement of cash flows	42
Notes to the financial statements	43 - 69





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

Telephone +966 11 874 8500
Fax +966 11 874 8600
Internet www.kpmg.com/sa

License 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 2020, the statements of profit or loss and other comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows 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 2020, 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 of 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

The key audit matter

As at 31 December 2020, the carrying value of Fund's investment properties aggregated to SR 1,844.2 million (31 December 2019: SR 1,589.5 million) and the fair values of these properties amounted to SR 1,885.1 million (31 December 2019: SR 1,600.2 million).

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.

In accordance with the requirements of relevant accounting standards, the Fund is required to assess indicators of impairment on its investment properties at each reporting date. In case such indicators are identified, the recoverable of such investment properties are required to be determined.

As part of its assessment of impairment indicators, the Fund reviews both internal and external indicators of impairment including but not limited to net cash flows, operating losses, physical condition of its properties and adverse market changes or conditions. The Fund also uses the valuation reports from the independent valuers engaged by the Fund Manager to evaluate the recoverable amounts of properties at the reporting date.

We considered this as a key audit matter since the assessment of recoverable amounts, where required, involves the exercise of significant judgment and estimates.

Refer to the summary of significant accounting policies note 4 relating to impairment of investment properties, note 5 which contains the significant accounting judgment, estimates and assumptions relating to impairment and note 10 relating to investment properties.

How the matter was addressed in our audit

Our audit procedures in response to the assessed risk of material misstatement in assessing impairment in the investment properties comprised of:

- Obtaining an understanding of the process adopted by the Fund Manager in identifying the impairment in investment properties.
- Obtaining an understanding of the valuation approach adopted by the Fund manager. We held correspondence with the Fund's independent valuers through the Fund Manager to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by the independent valuers to support their assumptions. We also obtained an understanding of the involvement of the Fund manager's valuation process to assess whether appropriate oversight has occurred.
- Assessing valuers' credentials, their independence, professional qualifications, competence, experience and ensured that they are certified from Saudi Authority for Accredited Valuers (TAQEEM).
- Assessing the value in use of investment properties determined by the Fund Manager.
- Involving our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties.
- Comparing the recoverable amounts of the investment properties with their carrying values to check whether recognition of any impairment loss is required.
- Assessing the adequacy of the disclosures in the financial statements.



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 the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable provisions of the Real Estate 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.

Those charged with governance, the Fund's Board, is responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 Manager's internal control.

Independent Auditor's Report

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

Riyadh on:
Date: 4 Sha'ban 1442H
Corresponding to: 17 March 2021



ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

STATEMENT OF FINANCIAL POSITIONS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	NOTE	31 DEC 2020	31 DEC 2019
ASSETS			
Current Assets			
Cash and cash equivalents	6	6,478	10,175
Investment at fair value through profit or loss	7	-	42,264
Receivable from operating leases	8	50,030	35,004
Due from related parties	16	-	2,461
Prepayments and other receivables	9	2,717	14,985
Total Current Assets		59,225	104,889
Non-Current Assets			
Investment properties	10	1,844,178	1,589,485
Total Non-Current Assets		1,844,178	1,589,485
Total Assets		1,903,403	1,694,374
LIABILITIES			
Current Liabilities			
Due to related parties	16	21,765	20,590
Unearned rental income	11	25,060	28,097
Other liabilities	12	7,214	11,976
Advances from operating leases	13	12,740	11,540
Provision for Zakat	15	1,159	1,500
Total Current Liabilities		67,938	73,703
Non-Current Liabilities			
Borrowings	14	514,995	253,050
Total Non-Current Liabilities		514,995	253,050
Total Liabilities		582,933	326,753
Net assets (equity) attributable to the unitholders		1,320,470	1,367,621
Units in issue in thousands (number)		137,500	137,500
Net assets (equity) per unit (SAR)		9.60	9.95
Net assets (equity) per unit fair value (SAR)	20	9.90	10.16

The accompanying notes 1 to 27 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

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Revenue from properties	18	141,310	151,696
Operational expenses	19	(42,378)	(44,379)
Depreciation & amortization	10	(22,916)	(18,119)
Impairment loss on investment properties	10	(25,000)	-
Impairment loss on operating lease receivables	8	(1,000)	(5,607)
Gross Profit		50,016	83,591
Management fees		(17,399)	(14,824)
Professional fees		(500)	(480)
Board fees		(100)	(100)
Tawadul fees		(700)	(700)
Custody fees		(446)	(344)
Shariah fees		(24)	(24)
Other expenses		(2,473)	(2,012)
Net operating profit		28,374	65,107
Gain on investment at fair value through profit or loss	7	361	885
		28,735	65,992
Finance cost		(12,673)	(4,467)
Profit before Zakat		16,062	61,525
Zakat	15	(1,338)	(1,500)
Profit for the year		14,724	60,025
Other comprehensive income for the year		-	-
Total comprehensive income for the year		14,724	60,025

The accompanying notes 1 to 27 form an integral part of these financial statements

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

STATEMENT OF CHANGES IN NET ASSETS EQUITY ATTRIBUTABLE TO UNITHOLDERS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	31 DECEMBER 2020	31 DECEMBER 2019
Net assets (equity) attributable to unitholders at the beginning of the year	1,367,621	1,396,971
Total comprehensive income for the year	14,724	60,025
Unit transactions during the year		
Proceeds from issuance of units	-	-
Dividend paid during the year (note 22)	(61,875)	(89,375)
Net assets (equity) attributable to unitholders at the end of the year	1,320,470	1,367,621

The accompanying notes 1 to 27 form an integral part of these financial statements

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

STATEMENT OF CASH FLOWS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

	NOTE	31 DECEMBER 2020	31 DECEMBER 2019
Cash flow from operating activities			
Profit before the Zakat		16,062	61,525
<i>Adjustment for non-cash items:</i>			
Depreciation & amortization	10	22,916	18,119
Impairment loss on investment properties	10	25,000	-
Finance cost		12,673	4,467
Impairment loss on operating lease receivables	8	1,000	5,607
Unrealised gain on investment at fair value through profit or loss		-	(885)
Realised gain on disposal of investment at fair value through profit	7	(361)	
		77,290	88,833
<i>Changes in:</i>			
Receivable from operating leases		(16,026)	(13,249)
Due from related parties		2,461	5,031
Prepayments and other receivables		12,268	(10,726)
Due to related parties		1,175	8,897
Unearned rental income		(3,037)	1,669
Other liabilities		(3,408)	3,205
Advances from operating leases		1,200	3,504
		71,923	87,164
Zakat paid	15	(1,679)	-
Net cash generated from operating activities		70,244	87,164
Cash flow from investing activities			
Purchase of investment properties	10	(302,609)	(261,977)
Disposal of investment at fair value through profit or loss	7	42,264	16,733
Proceeds from gain on disposal of investment at fair value	7	361	-
Net cash flows used in investing activities		(259,984)	(245,244)
Cash flows from financing activities			
Dividend paid	22	(61,875)	(89,375)
Proceeds from loan	14	261,028	253,050
Finance cost paid		(13,110)	(2,757)
Net cash generated from financing activities		186,043	160,918
Net change in cash and cash equivalents		(3,697)	2,838
Cash and cash equivalents at the beginning of the year		10,175	7,337
Cash and cash equivalents at end of the year		6,478	10,175

The accompanying notes 1 to 27 form an integral part of these financial statements

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | 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.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

2. BASIS OF ACCOUNTING

2.1 Statement of Compliance

These financial statements have been prepared in accordance with international Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by Saudi Organization for Certified Public Accountants ("SOCPA") and to comply with the related Implementing Regulations issued by CMA and the Fund's terms and conditions.

2.2 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 31st 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 to choose between fair value model and revaluation model to measure property (under IAS 16 and investment property (under IAS 40) for the financial periods starting from the calendar year 2023 or thereafter.

2.3 Impact of Coronavirus (Covid-19) Outbreak

The Fund's operations have been affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain. The COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. The Fund is closely monitoring the situation and has activated its business continuity planning and other risk management practices to manage the business disruptions COVID-19 outbreak has caused to its operations and financial performance. As of 31 December 2020, the Fund has recorded impairment loss on account of investment properties amounting to SAR 25 million (see note 10).

As the COVID-19 outbreak continues to evolve, it is difficult to forecast its full extent and duration of the economic impact as of now. The Fund Manager is currently monitoring the situation and its impact on the Fund's operations, cash flows and financial position. Despite the above adjustment, the management believes, based on their assessment, that the Fund has sufficient liquidity available to continue to meet its financial commitments for the foreseeable future as and when they become due.

2.4 Presentation and Functional Currency

The presentation and functional currency of the Fund is Saudi Riyals (SAR).

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

3. AMENDMENTS TO STANDARDS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are no new standards issued, however, the adoption of the following amendments to the existing standards had no significant financial impact on the financial statements of the Fund on the current period or prior periods and is expected to have no significant effect in future periods:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Pronouncements Issued and Not Yet Effective

The following pronouncements are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these financial statements;

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018 - 2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- IFRS 17 Insurance Contracts.
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1).

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash at bank, cash at hand, cash held in investment accounts, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments

Recognition and initial measurement

Receivables from operating leases are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized 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).

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 FVTOCT 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.

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 recognized in the statement of profit or loss.

Financial Assets	IFRS 9 Classification
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
Other assets	Amortised cost

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Measurement

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

Financial Assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial Assets at Amortized Cost	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 recognized in profit or cost loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	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.
Equity Investments at FVOCI	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 recognized in OCI and are never reclassified to profit or loss. The Fund has no such investments.

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 derecognized 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 recognize 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 recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at FVTPL.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized for the first category while 'lifetime expected credit losses' are recognized 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.

Expected credit loss assessment for operating lease receivables:

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 of the Kingdom of Saudi Arabia (the country in which it renders the services), 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 modeling 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.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Presentation of Impairment

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to receivables from operating leases are presented separately in the statement of profit or loss and other comprehensive income.

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.

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 realizing security (if any is held); or
- The customer is more than 455 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.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of the asset is reduced using the above model and the loss is recognized 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 realized 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 recognized the previously recognized impairment loss is increased or reduced. If a write-off is later recovered, the recovery is recognized 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 recognized 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	IFRS 9 Classification
Due to related parties	Amortised cost
Other liabilities	Amortised cost
Borrowings	Amortised cost

Derecognition

The Fund derecognizes a financial liability when its contractual obligations are discharged or canceled or expired.

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 derecognized and a new financial asset is recognized at fair value.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognizes the amount adjusting the gross carrying amount as modification gain or loss in the statement of profit or loss.

Financial Liability

The Fund derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognized 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 recognized amounts and there is an intention to settle on a net basis, to realize 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 amortization.

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.

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 expenditures that are 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 capitalized borrowing costs.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Impairment of Non-Financial Assets

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

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or 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 recognized 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 recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

Provisions

A provision is recognized 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 recognized for future operating losses,

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

Revenue Recognition

The fund's revenue mainly comprises of revenue from operating leases and revenue from hotel operations.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rental revenue from lease of investment properties

As a lessor:

When the fund acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the fund makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to the ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the fund considers certain indicators such as whether the lease is for the major part of the economic life of the asset. The fund has assessed that all of its leases are operating leases. Properties leased out under operating leases are included in investment property in the statement of financial position. Rental income from operating leases is recognized on a straight-line basis over the lease term. When the Fund provides incentives to its tenants, the cost of incentives is recognized over the lease term, on a straight-line basis, as a reduction of rental income.

Revenue from hotel operations:

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 under IFRS 15.

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 assets (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.

Net Assets (Equity) Per Unit

The net assets (equity) per unit is calculated by dividing the net assets (equity) attributable to the unitholders included in the statement of financial position by the numbers of units outstanding at the year end.

Units in Issue

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets (equity). 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 (equity) in the event of the Fund's liquidation.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (equity) 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 (equity) or the change in the fair value of the recognized and unrecognized net assets (equity) 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 recognized 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.

5. 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:

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements. Judgment 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 on receivables against 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 analyzed.

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.

Impairment 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 10,

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 properties recognized by the Fund.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

6. CASH AND CASH EQUIVALENTS

	31 DECEMBER 2020	31 DECEMBER 2019
Cash at Banks	6,401	10,033
Cash in Hand	77	142
	6,478	10,175

7. INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	31 DECEMBER 2020		31 DECEMBER 2019	
	Cost	Fair Value	Cost	Fair Value
Investment in mutual fund managed by the Fund Manager (a related party)				
AlAhli Saudi Riyal Trade Fund	-	-	41,566	42,264

During the year, the Fund has recognized a net gain of SR 361 thousand (2019: SR 885 thousand) from the disposal of these investments.

8. RECEIVABLES FROM OPERATING LEASES

Receivables from operating leases comprise of the following:

	31 DECEMBER 2020	31 DECEMBER 2019
Receivables from operating leases	59,896	43,870
Less: Impairment loss on receivables from operating leases	(9,866)	(8,866)
Receivables from operating leases – net	50,030	35,004

The movement in impairment loss on receivables from operating leases is as follows:

	2020	2019
Opening balance	8,866	3,259
Provided during the year	1,000	5,607
Closing balance	9,866	8,866

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

Year	Total	Past Due and Impaired					
		1 to 90 days	From 91 to 180 days	From 181 to 270 days	From 271 to 265 days	From 366 to 455 days	More than 455 days
2020	59,896	10,864	28,014	6,343	2,028	2,479	10,168
2019	43,870	21,883	8,307	3,906	1,172	4,969	3,633

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

9. PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
Input value added tax	1,609	12,495
Prepaid expenses	952	773
Other balances	156	1,717
	2,717	14,985

10. INVESTMENT PROPERTIES

10.1 The Fund owns the following investment properties:

Name of The Property	Nature of Property	Purchase Price
AlAndalus Mall, Jeddah (notes 10.1.1, 10.1.2)	Mall	1,195,686
AlAndalus Mall Hotel, Jeddah (note 10.1.1)	Hotel	200,000
Salama Tower, Jeddah (note 10.1.3)	Office	255,000
Qbic Plaza, Riyadh (note 10.1.4)	Office	250,000

- 10.1.1** The Fund acquired AlAndalus Mall and AlAndalus Mall Hotel at the Fund's inception against cash consideration of SR 405 million (representing 30% of the total purchase values of SR 1,350 million) and by issuing units in the Fund valuing SR 945 million to AlAndalus Property Company ("APC"), the previous owner.
- 10.1.2** The Fund acquired a land measuring 9,669 square meters adjacent to AlAndalus Mall on 9 November 2020 against cash consideration of SR 45.7 million for the purpose of expanding AlAndalus Mall.
- 10.1.3** The Fund acquired Salama Tower on 4 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.
- 10.1.4** The Fund acquired Qbic Plaza on 22 June 2020 against cash consideration of SR 250 million and financed the acquisition through additional Islamic financing. The property is leased for a net lease amount of SR 21.6 million per annum, for a period of 3 years.
- 10.1.5** The Fund's properties are held under the custody of Sandoog 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 values of the properties.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

10. INVESTMENT PROPERTIES (CONTINUED)

10.2 At 31 December 2020, investment properties represent the properties that were initially recognized at their cost and are subsequently measured at cost less accumulated depreciation. The break up of the cost of investment properties is as follows:

	Land	Buildings	Furniture & Fixture	Computer & Hardware	Office Equipment	Motor Vehicles	Construction in Progress	Total
Cost:								
Balance at 1 January 2020	865,804	739,903	8,860	2,039	7,141	-	5,215	1,628,962
Additions during the year	149,489	149,573	155	78	136	33	3,145	302,609
Balance at 31 December 2020	1,015,293	889,476	9,015	2,117	7,277	33	8,360	1,931,571

Accumulated Depreciation

Balance at 1 January 2020	-	(34,590)	(2,134)	(446)	(2,307)	-	-	(39,477)
Depreciation charged for the year	-	(20,495)	(1,052)	(222)	(1,146)	(1)	-	(22,916)
Impairment loss	-	(25,000)	-	-	-	-	-	(25,000)
Balance at 31 December 2020	-	(80,085)	(3,186)	(668)	(3,453)	(1)	-	(87,393)

Net book value at 31 December 2020	1,015,293	809,391	5,829	1,449	3,824	32	8,360	1,844,178
Net book value at 31 December 2019	865,804	705,313	6,726	1,593	4,834	-	5,215	1,589,485

AlAndalus Mall and AlAndalus Mall Hotel is held under security against the Islamic Financing Facility obtained from NCB amounting to SR 650 million. The carrying value of AlAndalus Mall and AlAndalus Mall Hotel aggregates to SR 1,342 million as at 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 values by appointing two independent evaluators who determined the market values in conformity with the International Valuation Standards Council's International Valuation Standards. 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 which is an allowed treatment under the IFRS.

Based on the valuations performed by valuers as of 31 December 2020, the Fund has recognized an impairment loss to the carrying values of certain investment properties, amounting to SR 25 million. (Refer to Note 2.3 for the underlying factors that resulted in impairment).

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

10. INVESTMENT PROPERTIES (CONTINUED)

10.3 Market values

10.3.1 The assumptions used in determining the fair values of the investment properties are as follows:

Description	Valuation Approach	Key Assumptions	Market Value	
			As at 31 December 2020	As at 31 December 2019
Evaluator: ValuStrat				
AlAndalus Mall	Discounted cash flows	Discount rate: 11% Exit yield rate: 8.50%	1,195,000	1,176,800
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.5% Exit yield rate: 9%	153,000	164,000
Salama Tower	Discounted cash flows	Discount rate: 11.5% Exit yield rate: 9%	258,400	264,000
Qbic Plaza	Discounted cash flows	Discount rate: 11% Exit yield rate: 8.5%	259,000	-
			1,865,400	1,604,800
Evaluator: Knight Frank				
AlAndalus Mall	Discounted cash flows	Discount rate: 10.75% Exit yield rate: 8.75%	1,259,050	1,171,600
AlAndalus Mall Hotel	Discounted cash flows	Discount rate: 11.25% Exit yield rate: 9.25%	148,600	170,100
Salama Tower	Discounted cash flows	Discount rate: 10.25% Exit yield rate: 8.25%	244,000	253,860
Qbic Plaza	Discounted cash flows	Discount rate: 10.00% Exit yield rate: 8%	253,070	-
			1,904,720	1,595,560

The average fair value measurements of investment properties have been categorized as level 3 fair values based on inputs to the valuation techniques used. The table shows the breakdown as at 31 December 2020 and 31 December 2019:

Average fair value measurement at 31 December 2020			
	Using quoted prices from active markets for identical assets (level 1)	Other unobservable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	-	-	1,885,060
Average fair value measurement at 31 December 2019			
	Using quoted prices from active markets for identical assets (level 1)	Other unobservable key inputs (level 2)	Other unobservable key inputs (level 3)
Investment properties	-	-	1,600,180

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

11. UNEARNED RENTAL INCOME

	31 DECEMBER 2020	31 DECEMBER 2019
Opening balance	28,097	26,429
Invoices issued during the year	138,273	143,933
Revenue recognized during the year	(141,310)	(142,265)
Closing balance	25,060	28,097

12. OTHER LIABILITIES

	31 DECEMBER 2020	31 DECEMBER 2019
Trade payables	3,154	2,697
Finance cost payable	359	1,710
Accrued expenses and others	3,701	7,569
	7,214	11,976

13. ADVANCES FROM OPERATING LEASES

	31 DECEMBER 2020	31 DECEMBER 2019
Advances from tenants	5,820	6,106
Security deposits from tenants	6,920	5,434
	12,740	11,540

14. BORROWINGS

	31 DECEMBER 2020	31 DECEMBER 2019
Opening balance	253,050	-
Financing facility utilized during the year	261,028	253,050
Amortization of loan arrangement	917	-
Closing balance	514,995	253,050

On 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, Al Andalus Mall and Al Andalus Mall Hotel, 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 SAR 255 million as the first tranche from the Islamic financing facility. During the year, the Fund utilized further SAR 263 million. The tenor of 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. The Islamic financing facility carries commission rate of SAIBOR plus 1.75% per annum.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

15. ZAKAT

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

	2020	2019
Net Zakat positive base (A)		
Net assets (equity)	1,305,746	1,375,000
Provisions	8,866	3,259
Borrowings	514,995	253,050
Net adjusted profit	46,360	60,000
Zakat base positive	1,875,967	1,691,309
Zakat base negative (B)		
Investments properties	1,844,178	1,589,485
Other deductions	-	66,044
	1,844,178	1,655,529
Net positive zakat base	31,789	35,780
Net adjusted profit	46,360	60,000
Zakat charge at 2.5%	1,159	1,500

Zakat provision movement is as follows:

	2020	2019
Opening balance	1,500	-
Charge:		
- For the year	1,159	1,500
- In respect of prior years	179	-
	1,338	1,500
Payments made during the year	(1,679)	-
Closing balance	1,159	1,500

Zakat assessment status

The Fund has filed its zakat returns with the General Authority of Zakat and Tax (GAZT) for the years up till 2019. However, final assessments are yet to be finalized by GAZT.

16. RELATED PARTY TRANSACTIONS AND BALANCES

The related parties of the Fund comprise of the following and the Fund transacts with these parties in its ordinary course of business:

Name of entity	Relationship
NCB Capital Company	Fund Manager and Unitholder
National Commercial Bank (NCB)	Shareholder of the Fund Manager
Alandalus Property Company (APC)	Unitholder & Mall Operator

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

16. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

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 the 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 25th 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 AlAndalus Mall Hotel. The Fund pays a fixed amount of SR 500,000 per annum to APC for the aforementioned agency services.

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.

Related party	Nature of transactions	2020	2019
Alandalus Property Company	Rent collected on behalf of the Fund	7,988	26,304
	Funds received	10,449	31,533
	Funds paid	8,336	262
	Management fee charged	8,845	-
	Agency fees charged	500	500
NCB Capital Company	Management fees charged	17,399	14,824
	Transaction cost capitalized to investment properties	3,959	-
	Payments made during the year	15,189	6,959
National Commercial Bank	Management fees charged	26	-
	Payments made during the year	26	-

The above-mentioned transactions give rise to the following amounts due from/ due (to) related parties at the balance sheet date:

a) Due from related party

Related Party	2020	2019
Alandalus Property Company	-	2,461

b) Due to related parties

Related Party	2020	2019
Hamat Property Company	-	5,503
NCB Capital	20,993	14,824
Alandalus Property Company	772	263
	21,765	20,590

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

17. INVESTMENT PROPERTIES (CONTINUED)

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

Retail Sector: This includes AlAndalus Mall.

Hospitality Sector: This includes AlAndalus Mall Hotel

Office Sector: This includes Salama Tower and Qbic Plaza

The summary of the financial position and financial performance of these segments is as below:

For the year ended	31 December 2020				31 December 2019			
	Mall	Hotel	Office	Total	Mall	Hotel	Office	Total
Total revenue	101,711	8,566	31,033	141,310	125,376	16,889	9,431	151,696
Operational expenses	(26,269)	(15,575)	(534)	(42,378)	(28,777)	(15,226)	(376)	(44,379)
Depreciation & amortization	(10,315)	(5,525)	(7,076)	(22,916)	(10,318)	(5,714)	(2,087)	(18,119)
Impairment loss	-	(25,000)	-	(25,000)	-	-	-	-
Impairment loss on receivables from operating leases	(1,000)	-	-	(1,000)	(5,607)	-	-	(5,607)
Gross profit	64,127	(37,534)	23,423	50,016	80,674	(4,051)	6,968	83,591
As of	31 December 2020				31 December 2019			
	Mall	Hotel	Office	Total	Mall	Hotel	Office	Total
Total assets	1,228,815	157,282	513,024	1,903,403	1,185,203	188,947	265,367	1,694,374
Total revenue	54,967	1,340	507,332	582,933	49,177	5,374	272,202	326,753

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

18. REVENUE FROM PROPERTIES

	31 DECEMBER 2020	31 DECEMBER 2019
AlAndalus Mall	101,711	125,376
AlAndalus Mall Hotel	8,566	16,889
Qbic Plaza	11,783	-
Salama Tower	19,250	9,431
	141,310	151,696

19. OPERATIONAL EXPENSES

	31 DECEMBER 2020	31 DECEMBER 2019
AlAndalus Mall	26,269	28,777
AlAndalus Mall Hotel	15,575	15,226
Qbic Plaza	216	-
Salama Tower	318	376
	42,378	44,379

20. EFFECT ON NET ASSETS (EQUITY) PER UNIT IF INVESTMENT PROPERTIES ARE FAIR VALUED

	31 DEC 2020	31 DEC 2019
Fair value of investment properties	1,885,060	1,618,486
Less: Carrying value of investment properties	1,844,178	1,589,485
Increase in net assets (equity)	40,882	29,001
Units in issue in thousands (number)	137,500	137,500
Additional net assets (equity) per unit based on fair value	0.30	0.21
Net assets (equity) attributable to unitholders before fair value adjustment	1,320,470	1,367,621
Increase in net assets (equity)	40,882	29,001
Net assets (equity) attributable to unitholders after fair value adjustment	1,361,352	1,396,622
Net Assets Attributable to each unit		
Net assets (equity) per unit (SAR) before fair value adjustment	9.60	9.95
Increase in net assets (equity) per unit (SAR) based on fair value	0.30	0.21
Net assets (equity) attributable to unitholders after fair value adjustment	9.90	10.16

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

21. OPERATING LEASES

As a lessor

The maturity analysis of undiscounted lease payments to be received in future years is as follows:

	31 DECEMBER 2020	31 DECEMBER 2019
Up to one year	117,800	93,779
1 year to 5 years	210,209	147,146
More than 5 years	92,928	110,615
	420,937	351,540

22. DIVIDEND DISTRIBUTION

On 16 March 2020 and 17 August 2020, the Fund's board approved the distribution of dividend for the year ended 31 December 2019 and period ended 30 June 2020 amounted to SR 0.325 per unit and 0.125 per unit respectively. The same was paid on 29 March 2020 and 31 August 2020 respectively.

23. FINANCIAL RISK MANAGEMENT

23.1 Financial Risk Factors

The Fund is subject 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, certain other current assets, long-term debt, trade payables, accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. A financial asset and liability is offset and net amount is reported in the financial statements, when the Fund has a legally enforceable right to set off the recognized amount 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, The Fund is not exposed to any market risk as of 31 December 2020.

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 and hence the Fund is not exposed to any significant current risk.

c. Commission Rate Risk

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

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Fund's commission rate risks arise mainly from its borrowings and short-term deposits, which are at fixed rate of commission and are not subject to re-pricing on a regular basis.

The Fund's commission rate risks arise mainly from its borrowings, which are at variable commission rate and the sensitivity analysis as follows:

	Balance as at 31 December 2020			
	Income Statement		Statement of Owners Net assets (Equity)	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(5,149)	5,149	(5,149)	5,149
Cash-flow sensitivity (net)	(5,149)	5,149	(5,149)	5,149

	Balance as at 31 December 2019			
	Income Statement		Statement of Owners Net assets (Equity)	
	Increase 100 points	Reduce 100 points	Increase 100 points	Reduce 100 points
Islamic financing facility cost	(2,531)	2,531	(2,531)	2,531
Cash-flow sensitivity (net)	(2,531)	2,531	(2,531)	2,531

d. 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 in respect of its receivables from lessees under operating leases, investment at fair value through profit or loss, cash and cash equivalents, due from related parties and other debit balances.

	31 DECEMBER 2020	31 DECEMBER 2019
Cash and cash equivalents	6,478	10,175
Investment at fair value through profit or loss	-	42,264
Receivables from operating leases, gross	59,896	43,870
Due from related parties	-	2,461
	66,374	98,770

The carrying amounts of financial assets represents the maximum credit exposure on these assets.

Credit risk on receivables and bank balances is limited as:

- Cash balances are held with local banks having sound credit ratings:
- Financial position of related parties is stable.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Fund has receivables from lessees against operation leases in the Kingdom of Saudi Arabia. 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 objective that the Fund's exposure to bad debts is not significant.

e. 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.

At 31 December 2020:	Less than 1 year	More than 1 year
Other liabilities	7,214	-
Due to related parties	21,765	-
Borrowings	-	514,995
	28,979	514,995

At 31 December 2019:	Less than 1 year	More than 1 year
Other liabilities	11,976	-
Due to related parties	20,590	-
Borrowings	-	253,050
	32,566	253,050

24. 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

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

24. 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, balances of related parties, accruals and other payables approximate to their carrying values because of the short terms nature of the financial instruments.
- The Fund's management estimated the fair value for long-term debt, 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
2020				
Financial instruments- FVTPL	-	-	-	-
2019				
Financial instruments- FVTPL	-	-	42,263	-

25. SUBSEQUENT EVENT

On 9 February 2021, the Fund Board approved to pay a dividend of SR 44.688 million (i.e. SR 0.325 per unit) to the Fund's unitholders. The dividend has been paid subsequent to the announcement.

ALAHLI REIT FUND (1)

(Managed by NCB Capital Company)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2020 | Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

26. LAST VALUATION DAY

The last valuation day for the period was 31 December 2020.

27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 2 Sha' ban 1442H (corresponding to 15 March 2021).

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 authorized 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

