

**ALAHLI REIT FUND (1)**  
**(Managed by NCB Capital Company)**  
**CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**For the six months period ended 30 June 2019**  
Together with  
**Independent auditors' report on review of interim financial statements**

**ALAHLI REIT FUND (1)**  
(Managed by NCB Capital Company)  
**CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) AND**  
**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**For the six- months period ended 30 June 2019**

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# Independent auditor's report on review of condensed interim financial statements

To the Unitholders of AL AHLI REIT FUND 1 managed by NCB Capital Company

## Introduction

We have reviewed the accompanying 30 June 2019 condensed interim financial statements of **Al Ahli REIT Fund (1) (the "Fund")** managed by **NCB Capital Company (the "Fund Manager")** which comprises:

- the condensed statement of financial position as at 30 June 2019;
- the condensed statement of profit or loss and other comprehensive income for six month period ended 30 June 2019;
- the condensed statement of changes in equity attributable to the Unitholders for the six month period ended 30 June 2019;
- the condensed statement of cash flows for the six month period ended 30 June 2019; and
- the notes to the condensed interim financial statements.

The Fund Manager is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

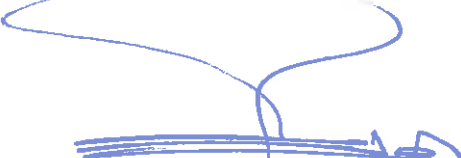
# Independent auditor's report on review of condensed interim financial statements

To the Unitholders of AL AHLI REIT FUND 1 managed by NCB Capital Company (continued)

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2019 condensed interim financial statements of **Al Ahli REIT Fund (1) (the "Fund")** are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

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



**Hani Hamzah A. Bedairi**  
License No.: 460

Date: 29 Dhual-Qa'dah 1440 H  
Corresponding to: 29 July 2019



**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)****As at 30 June 2019**

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

	Notes	30 June 2019 (unaudited)	31 December 2018 (audited)
<b>ASSETS</b>			
Cash and cash equivalents		8,459	7,337
Investment at fair value through profit or loss	8	49,963	58,112
Due from a related party	11	4,316	7,690
Rent receivable		23,088	22,997
Prepayments and other receivable		6,054	1,196
Other assets		2,087	2,866
<b>Current assets</b>		<b>93,967</b>	<b>100,198</b>
Investment properties	9	1,336,580	1,345,627
<b>Non-Current assets</b>		<b>1,336,580</b>	<b>1,345,627</b>
<b>Total assets</b>		<b>1,430,547</b>	<b>1,445,825</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Due to related parties	11	10,382	11,693
Other liabilities		15,803	10,732
Deferred rental revenue	10	21,338	26,429
<b>Total Liabilities</b>		<b>47,523</b>	<b>48,854</b>
<b>Equity attributable to Unitholders</b>		<b>1,383,024</b>	<b>1,396,971</b>
<b>Units in issue in thousands (number)</b>		<b>137,500</b>	<b>137,500</b>
<b>Net assets value per unit (SAR)</b>		<b>10.0584</b>	<b>10.1598</b>

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Fund manager

The attached notes from 1 to 15 are an integral part of these condensed interim financial statements.

**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME (UNAUDITED)****For the six months period ended 30 June 2019**

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

	<b>For the six months period ended 30 June 2019 (unaudited)</b>	<b>For the period from 25 December 2017 to 30 June 2018 (unaudited)</b>
Revenue from properties	70,409	75,599
Operational expenses	(20,477)	(19,318)
Depreciation	(10,675)	(10,673)
<b>Gross profit</b>	<b>39,257</b>	<b>45,608</b>
Management fees	(6,871)	(7,059)
Professional fees	(532)	(863)
Board fees	(50)	-
Tadwaul fees	(374)	(414)
Custody fees	(176)	(205)
Other expenses	(1,083)	(274)
<b>Net operating profit</b>	<b>30,171</b>	<b>36,793</b>
Net gain on investment at fair value through profit or loss	568	342
<b>Profit for the period</b>	<b>30,739</b>	<b>37,135</b>
Other comprehensive income for the period	-	-
<b>Total comprehensive income for the period</b>	<b>30,739</b>	<b>37,135</b>

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Fund manager

The attached notes from 1 to 15 are an integral part of these condensed interim financial statements.

**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS (UNAUDITED)****For the six months period ended 30 June 2019**

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

	For the period from 25 December 2017 to 30 June 2018
<b>Unit transactions during the period</b>	
Proceeds from issuance of units	1,375,000
<b>Total comprehensive income for the period</b>	37,135
<b>Equity attributable to Unitholders at 30 June 2018 (unaudited)</b>	<u>1,412,135</u>
	<b>For the six months period ended 30 June 2019</b>
<b>Equity attributable to Unitholders at 1 January 2019</b>	1,396,971
<b>Total comprehensive income for the period</b>	30,739
<b>Unit transactions during the period</b>	
Dividends paid during the period	(44,686)
<b>Equity attributable to Unitholders at 30 June 2019 (unaudited)</b>	<u>1,383,024</u>

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Fund manager

The attached notes from 1 to 15 are an integral part of these condensed interim financial statements.

**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)****For the six months period ended 30 June 2019**

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

	<b>For the six months period ended 30 June 2019 (Unaudited)</b>	<b>For the period from 25 December 2017 to 30 June 2018 (Unaudited)</b>
<b>Cash flow from operating activities</b>		
Total comprehensive income for the period	30,739	37,135
<i>Adjustment for:</i>		
Depreciation	10,675	10,673
<i>Net changes in operating assets and liabilities:</i>		
Due from a related party	3,374	(48,505)
Rent receivable	(91)	(17,806)
Prepayments and other receivable	(4,858)	(4,203)
Deferred revenue	(5,091)	21,678
Other assets	779	-
Due to related parties	(1,311)	15,223
Other liabilities	5,071	15,336
<b>Net cash generated from operating activities</b>	<b>39,287</b>	<b>29,531</b>
<b>Cash flow from investing activities</b>		
Purchase of investment properties	(1,628)	(420,525)
Investment at fair value through profit or loss	8,149	(38,816)
<b>Net cash generated from/(used in) investing activities</b>	<b>6,521</b>	<b>(459,341)</b>
<b>Cash flow from financing activities</b>		
Dividends paid	(44,686)	-
Proceeds from units sold	-	430,000
<b>Net cash (used in)/generated from financing activities</b>	<b>(44,686)</b>	<b>430,000</b>
Net change in cash and cash equivalent	1,122	190
Cash and cash equivalents at the beginning of the period	7,337	-
<b>Cash and cash equivalents at the end of the period</b>	<b>8,459</b>	<b>190</b>
<i>Non-cash transaction:</i>		
Purchase of investment property against issuance of units	-	945,000

Fund manager

The attached notes from 1 to 15 are an integral part of these condensed interim financial statements.



## **ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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#### **1 THE FUND AND ITS ACTIVITIES**

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

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

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

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

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

The terms and conditions of the Fund were approved by the Capital Market Authority (the "CMA") on 11 Rabi Awal 1439H (corresponding to 29 November 2017). The offering period for the subscription of the units was from 6 December 2017 to 19 December 2017. Unitholders subscribed for the units of the Fund during the offering period and cash was held in collection account of NCB Capital. The cash was transferred to the Bank account of the Fund on its commencement date which was used to purchase the investment property and units were issued to unitholders simultaneously. The Fund commenced its activities on 25 December 2018 (the "inception date"). On the inception date, the Fund issued 137,500 units for SR 1,375 million which was considered as initial capital contribution of the Fund.

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

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

## **ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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#### **2 BASIS OF COMPLIANCE**

These condensed interim financial statements have been prepared for the six-month period ended 30 June 2019 in accordance with requirements of IAS 34 "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the fund's last annual financial statements as at and for the year ended 31 December 2018.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements in accordance with requirements of IFRS endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA").

#### **3 BASIS OF MEASUREMENT**

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

#### **4 FUNCTIONAL AND PRESENTATION CURRENCY**

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

#### **5 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected. The significant accounting judgements and estimates applied in the preparation of these condensed interim financial statements are as follows:

##### **Useful lives of investment properties**

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

##### **Impairment of investment properties**

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

## **ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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#### **5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)**

##### *Impairment of investment properties (continued)*

For the purpose of assessing impairment, investment properties are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount shouldn't exceed the carrying amount that would have been determined, had no impairment loss been recognized for the investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the condensed statement of comprehensive income.

##### *Impairment of financial assets held at amortised cost*

The Fund assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial instrument assets carried at amortised cost. These primarily include rent receivables and due from a related party. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

#### **6 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the fund's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards and amendments effective as of 1 January 2019.

The Fund has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective. The Fund applied IFRS 16 "Leases" from 1 January 2019, and there is no significant effect from applying IFRS 16 on the financial statements.

#### **7 CHANGES IN ACCOUNTING POLICIES**

##### **International Financial Reporting Standard – IFRS-16 "Leases"**

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

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of transactions involving the legal form of a lease.

**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)****For the six months period ended 30 June 2019**

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

**8 INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

	30 June 2019 (Unaudited)		31 December 2018 (audited)	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<i>Investment in mutual fund managed by the Fund Manager</i>				
ALAhli Trade Fund Saudi Riyal (26,558,359 Units) (a related party)	<u>49,578</u>	<u>49,963</u>	<u>57,729</u>	<u>58,112</u>

**9 INVESTMENT PROPERTIES**

The Fund has acquired following properties at inception date of 25 December 2017 against cash consideration of SR 405 million (represents 30% of total purchase value of SR 1,350 million) and issuance of units valuing SR 945 million to AlAndalus Property Company ("APC") – the previous owner.

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

Hamat Property Company, a Saudi limited liability company has been assigned as the operator and leasing manager and mandated to deal with all commercial tenancy on behalf of the Fund.

The title deed of the properties are under the custody of Sandoq Tamkeen Real Estate Company ("SPV"), which is owned by AlBilad Capital (custodian of the Fund). Fund pays the custody fee to the custodian which is equal to 0.025% of the average of the valuation of the properties.

**AL AHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)****For the six months period ended 30 June 2019**

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

**9 INVESTMENT PROPERTIES (CONTINUED)**

<u>Cost:</u>	<u>Land</u>	<u>Buildings</u>	<u>Furniture &amp; Fixture</u>	<u>Computer &amp; Hardware</u>	<u>Office equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Balance at 1 January	812,411	535,364	8,842	2,039	7,055	1,274	1,366,985
Additions during the period	-	-	-	-	-	1,628	1,628
Balance at 30 June 2019	<u>812,411</u>	<u>535,364</u>	<u>8,842</u>	<u>2,039</u>	<u>7,055</u>	<u>2,902</u>	<u>1,368,613</u>
<u>Accumulated depreciation</u>							
Balance at 1 January	-	(18,857)	(1,089)	(235)	(1,177)	-	(21,358)
Depreciation charged for the period	-	(9,432)	(541)	(112)	(590)	-	(10,675)
Balance at 30 June 2019	-	(28,289)	(1,630)	(347)	(1,767)	-	(32,033)
<b>Net book value at 30 June 2019</b>	<u>812,411</u>	<u>507,075</u>	<u>7,212</u>	<u>1,692</u>	<u>5,288</u>	<u>2,902</u>	<u>1,336,580</u>
Net book value at 31 December 2018	812,411	516,507	7,753	1,804	5,878	1,274	1,345,627

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

The valuation of the investment property as at 30 June 2019 is carried out by Knight Frank and ValuStrat Consulting, which are accredited valuers by the Saudi Authority of Accredited Valuers (TAQEEM). Key assumptions for the valuation of investment properties include the discount rate (10.5% to 11.5%), exit yield rate (8.5% to 9%). The management believes estimated fair value of investment properties is approximately close to its carrying value.

**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)****For the six months period ended 30 June 2019**

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

**10 DEFERRED REVENUE**

This represent rental income received in advance in respect of investment properties. Movement in deferred revenue is as follows:

	30 June 2019 <i>(Unaudited)</i>	31 December 2018 <i>(Audited)</i>
Balance at the beginning period	26,429	-
Acquired as part of acquisition	-	25,406
Rent received during the period	57,492	124,332
Adjusted against revenue earned	<b>(62,583)</b>	<b>(123,309)</b>
Balance at the end of the period	<b>21,338</b>	<b>26,429</b>

**11 RELATED PARTY TRANSACTIONS AND BALANCES**

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

**Name of entity****Relationship**

NCB Capital Company

Fund Manager and Unitholder

National Commercial Bank

Shareholder of Fund Manager

AlAndalus Property Company (APC)

Unitholder

Hamat Property Company

Property Operator

Stay Bridge Suites

Hotel brand Owner

**Fund management fee**

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

**Agency fee**

The Fund via a master transfer agreement dated 25 December 2017 appointed APC as property agent. Under the agreement, APC is appointed to exercise, perform and discharge all rights and obligations as an agent. The Fund pays a fixed amount of SR 500,000 per annum, to APC for the aforementioned agency services.

**Transactions with related parties**

During the period from 31 December 2018 to 30 June 2019 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 are approved by the Fund Board.

**AL AHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)****For the six months period ended 30 June 2019**

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

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

Summary of transactions and balances are as follows:

	Transactions during the period ended 30 June 2019 (Unaudited)				Transactions during the period ended 30 June 2018 (Unaudited)				Balance at	
	Management Fee	Mall Operating and other related expenses	Rental received from tenants/ Expenses paid on behalf of the Fund		Management Fee	Mall Operating and other related expenses	Rental received from tenants/ Expenses paid on behalf of the Fund		30 June 2019 (Unaudited)	31 December 2018 (Audited)
<b>Due from related parties:</b>										
AlAndalus Property Company	-	-	12,565	-	-	-	48,505	-	3,366	7,690
StayBridge Suites	-	-	2,601	-	-	-	4,010	-	950	-
	-	-	15,166	-	-	-	52,515	-	4,316	7,690
<b>Due to a related party:</b>										
Hamat Property Company	-	4,243	-	-	-	-	-	-	3,249	4,734
NCB Capital Company	6,871	-	-	-	7,059	-	-	-	6,871	6,959
AlAndalus Property Company	262	-	-	-	-	-	-	-	262	-
	7,133	4,243	-	-	7,059	-	-	-	10,382	11,693

## **ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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## **12 FINANCIAL RISK MANAGEMENT**

### **Financial risk factors**

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

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

Monitoring and controlling risks is primarily set up to be performed based on the limits established by the Fund Board. The Fund has its Terms and Conditions document that set out its overall business strategies, its tolerance of risks and its general risk management philosophy and is obliged to take actions to rebalance the portfolio in line with the investment guidelines.

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

#### **Market risk**

##### **Foreign exchange risk**

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

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

##### **Commission rate risk**

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

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

##### **Price risk**

Price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements.

The price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds. As of the date of condensed statement of financial position, the fund is not exposed to price risk.



**ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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**12 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Financial risk factors – (continued)**

**Credit risk**

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

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

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

**Liquidity risk**

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

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

**Operational risk**

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

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

**Fair value estimation**

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

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

## **ALAHLI REIT FUND (1)**

(Managed by NCB Capital Company)

### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENT (UNAUDITED)**

**For the six months period ended 30 June 2019**

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

## **13 SUBSEQUENT EVENT**

1. On 25 July 2019 NCB Capital has announced that Al Ahli REIT Fund (1) has entered into a purchase agreement to acquire an office tower in Jeddah for SAR 255 million. The process of transferring ownership is expected to be completed within 30 days from the date of signing the purchase agreement. The deal will be financed through the bank facilities available for the Fund.
2. On 29 July 2019 NCB Capital has announced a cash dividend distributions to the Unitholders of Alahli Reit Fund, of SR 0.325 per unit for the period ended 30 June 2019, which represent 3.25% of the initial unit price of.

## **14 LAST VALUATION DAY**

The last valuation day of fund investment properties was on 30 June 2019.

## **15 APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements were approved by the Fund Board on 29 Dhual-Qa'dah 1440 H corresponding to 29 July 2019.