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

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Independent Auditor's Report

To the Unitholders of AlAhli REIT Fund (1)

Opinion

We have audited the financial statements of AlAhli REIT Fund (1) (the "Fund"), managed by NCB Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity attributable to unitholders and cash flows for the for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent Auditor's Report

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

Key Audit Matters (continued)

Valuation of investment properties

See note 12 to the financial statements

The Key audit matter	How the matter was addressed in our audit
As at 31 December 2019, the carrying value of the Fund's investments properties is SR 1,589 million (31 December 2018: SR 1,346 million), and its fair value amounted to SR 1,600 million (31 December 2018: SR 1,311 million). 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. The Fund uses valuation reports from the independent valuer engaged by the Fund Manager to evaluate the fair value of properties at the reporting date. We considered this as a key audit matter since the valuation requires significant judgment with respect to the appropriateness of the method used, and any input inaccuracies in this judgement could result in material misstatements of the financial statements disclosure.	Our audit procedures included, - Meeting with the Fund's independent valuers to understand the assumptions and methodologies used in valuing the investment properties and the market evidence used by them to support their assumptions. We also obtained an understanding of the Fund Managers involvement in the valuation process to assess whether appropriate oversight was performed. - Assessing the independence, professional qualifications, competence and experience of the Fund's independent valuers, also ensured the valuers awere certified by the Saudi Authority for Accredited Valuers (TAQEEM). - Assistance by our property valuation specialist in this area to review the assumptions used in valuing the investment properties. - Agreeing observable inputs used in the valuations, such as rental income, occupancy rates, break clauses and lease lengths back to lease agreements for a sample of properties. - Assessing the Fund's disclosures in relation to the judgements inherent in valuing investments properties.

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Independent Auditor's Report

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

Other Information

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

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

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

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

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

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

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

Board of directors are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

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Independent Auditor's Report

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Fund Manager.

- Conclude on the appropriateness of Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Hani Hamzah A. Bedairi
License No. 460

C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Date, 15 March 2020
Corresponding to 20 Rajab 1441H

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

STATEMENT OF FINANCIAL POSTIONS

As at 31 December 2019
Expressed in Saudi Arabian Riyals ‘000 (unless otherwise stated)

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

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

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

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2019

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

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

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

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
Expressed in Saudi Arabian Riyals '000 (unless otherwise stated)

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

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

1 THE FUND AND ITS ACTIVITIES

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

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

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

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

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

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

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

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

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

2 BASIS OF ACCOUNTING

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

3 BASIS OF MEASUREMENT

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

On 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 the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2022 or thereafter.

4 FUNCTIONAL AND PRESENTATION CURRENCY

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

5 ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 16 'Leases'

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

IFRS 16 'Leases' replaces the following standard and interpretations:

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

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

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

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

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

IAS 23 Borrowing Costs

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

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

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

6 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Financial instruments

Recognition and initial measurement

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

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

Financial assets

Classification of financial assets

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

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

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

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

b. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets at fair value through profit or loss

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

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

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

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 recognised 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 recognised in profit or 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 recognised in OCI and are never reclassified to profit or loss. The Fund has no such investments.

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

Derecognition

A financial asset is derecognised when:

• the rights to receive cash flows from the asset have expired, or

• the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

(a) the Fund has transferred substantially all the risks and rewards of the asset, or

(b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset

Impairment of financial assets

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

Impairment of financial assets

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

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

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

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expected credit loss assessment:

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

- financial assets measured at amortised cost

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

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

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

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

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

Model and Framework

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

Macroeconomic weighted average scenarios

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

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Portfolio segmentation

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

Definition of default

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

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

Specific provision

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

Write-off

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

Financial liabilities

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

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

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

Financial liabilities	**IFRS 9 classification**
Due to related parties	Amortised cost
Other liabilities	Amortised cost
Long term loans	Amortised cost

Derecognition

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Modifications of financial assets and financial liabilities

Financial assets

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

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

Financial liability

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

Offsetting of financial instruments

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

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

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

Investment properties

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

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs

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

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

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

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

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

Provisions

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue recognition

Rental income from the lease of investment property

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

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

FRS 15: Revenue from contracts with customers

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

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

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

Zakat and income tax

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

Dividend payable

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

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Equity per unit

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

Units in issue

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

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

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

Foreign currency transactions

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

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

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

7 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

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

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

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

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

7 CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Impairment of investment properties

Investment properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the investment property exceeds its recoverable amount, which is the higher of its fair value less cost to sell and value in use. For the purpose of assessing impairment, investment properties are funded at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an impairment loss subsequently reverses, the carrying amount of the investment property or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the investment property or cash generating unit in prior periods. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive income.

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

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

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

8 CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash at banks	**10,033**	7,193
Cash in hand	**142**	144
	10,175	7,337

9 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

10 RECEIVABLE FROM OPERATING LEASES

Receivable from operating leases comprise of the following:

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

Allowance for doubtful debt

	2019	2018
1 January	**3,259**	-
Provided during the year	**5,607**	3,259
31 December	**8,866**	3,259

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

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

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

11 PREPAYMENTS AND OTHER RECEIVABLES

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

12 INVESTMENT PROPERTIES

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

The Fund acquired Salama Tower on 4th 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.

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

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

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

12 INVESTMENT PROPERTIES (CONTINUED)

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

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

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

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

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

12 INVESTMENT PROPERTIES (CONTINUED)

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

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

Valuation techniques used to derive level 3 of fair value.

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

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

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

13 DEFERRED RENTAL REVENUE

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

14 OTHER LIABILITIES

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

15 ADVANCES FROM LEASES

	31 December 2019	31 December 2018
Advance from customers	**6,106**	4,365
Security tenants	**5,434**	3,670
	11,540	8,035

16 ZAKAT

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

Zakat base

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

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

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

16 ZAKAT (CONTINUIED)

Zakat provision movement is as follows:

	31 December 2019	31 December 2018
1 January	**-**	-
Provided during the year	**1,500**	-
Payments made during the year	**-**	-
31 December	**1,500**	-

17 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

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

Agency fee

The Fund via a master transfer agreement dated 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 Staybridge Suites. The Fund pays a fixed amount of SR 500,000 per annum to APC for the aforementioned agency services.

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

17 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Transactions with related parties

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

Summary of transactions and balances are as follows:

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

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

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

18 BORROWINGS

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

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

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

19 REVENUE FROM PROPERTIES

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

20 OPERATIONAL EXPENSES

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

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

21 SEGMENT REPORTING

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

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

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

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

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

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

22 OPERATING LEASES

As Lessor

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

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

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

24 FINANCIAL RISK MANAGEMENT

24.1 Financial risk factors

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

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

a. Market risk

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

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

24.1 Financial risk factors (continued)

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

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

	31 December 2019		31 December 2018	
Effect on equity	**±10**	± 4,226	±10%	± 5,811

b. Currency risk

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

The management closely and continuously monitors the exchange rate fluctuations.

c. Islamic financing facility cost rate risk

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

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

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

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

	Increase 100 points	**Reduce 100 points**
Islamic financing facility cost	(2,531)	2,531

c. Credit risk

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

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

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

24 FINANCIAL RISK MANAGEMENT (CONTINUED)

24.1 Financial risk factors (continued)

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

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

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

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

d. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

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

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

At 31 December 2019:	**Less than 1 year**	**More than 1 year**
Other Liabilities	**11,976**	**-**
Due to related parties	**20,590**	**-**
Long term borrowings	**-**	**253,050**
	32,566	**253,050**

At 31 December 2018:	Less than 1 year	More than 1 year
Other Liabilities	7,061	-
Due to related parties	11,693	-
	18,754	-

25 FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and at prevailing market conditions regardless if the price is directly identified or estimated using other valuation technique.

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

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

25 FAIR VALUE (CONTINUIED)

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, polices 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, polices and operations to manage these risks and methods used that are different from what have been used in prior years unless otherwise indicated.

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

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

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

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

26 SUBSEQUENT EVENT

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

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

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

27 RECLASSIFICATION

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

28 LAST VALUATION DAY

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

29 APPROVAL OF THE FINANCIAL STATEMENTS

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