MEFIC REAL ESTATE INCOME FUND

Managed by

MIDDLE EAST FINANCIAL INVESTMENT COMPANY

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018

together with the

INDEPENDENT AUDITOR'S REVIEW REPORT

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT
For the six months period ended 30 June 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Unitholders of
MEFIC Real Estate Income Fund
Riyadh, Kingdom of Saudi Arabia

Opinion

We have reviewed the accompanying condensed interim statement of financial position of **MEFIC Real Estate Income Fund** ("the Fund") managed by Middle East Financial Investment Company (MEFIC) as at 30 June 2018 and the related condensed interim statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the six months period then ended, and notes to the condensed interim financial statements from 1 to 11, including a summary of significant accounting policies.

Management is responsible for the preparation and fair presentation of these condensed interim financial statements in accordance with International Accounting Standard 34 ("IAS 34") - "Interim Financial Reporting" endorsed in the Kingdom of Saudi Arabia.

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", endorsed in the Kingdom of Saudi Arabia. A review of condensed interim financial statements 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 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Dr. Mohamed Al-Amri & Co.

Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362

Riyadh, on: 17 Dhul Qa'adah 1439 (H)
Corresponding to: 30 July 2018 (G)

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at 30 June 2018
(Saudi Riyals)

	Notes	**30 June 2018 Unaudited**	31 December 2017 Audited	1 January 2017 Audited
ASSETS				
Cash at bank- current account		**110,825**	131,825	252,200
Receivable under deferred sale agreement	6	**95,000,000**	95,000,000	95,000,000
Accrued commission income	6	**23,588,983**	18,731,638	8,936,441
Total assets		**118,699,808**	113,863,463	104,188,641
LIABILITIES				
Due to related party	6	**6,000,000**	6,000,000	-
Management fee payable	6	**3,926,907**	3,451,953	2,041,109
Dividend payable	6	**1,610,000**	1,610,000	-
Other expenses payable		**226,498**	152,500	158,750
Total liabilities		**11,763,405**	11,214,453	2,199,859
Net assets attributable to the Unitholders		**106,936,403**	102,649,010	101,988,782
Units in issue (numbers)		**9,630,000**	9,630,000	9,630,000
Net assets value - per unit		**11.10**	10.66	10.59

The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

	Notes	2018	2017
INCOME			
Commission income	6	**4,857,345**	4,857,345
EXPENSES			
Management fee	5	**(474,954)**	(1,054,474)
Legal fee		**-**	(150,000)
Other expenses	5	**(94,998)**	(73,750)
Total expenses		**(569,952)**	(1,278,224)
NET INCOME FOR THE PERIOD		**4,287,393**	3,579,121

The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

	2018	2017
Net assets value at 1 January	**102,649,010**	101,988,781
Net income for the period	**4,287,393**	3,579,121
Dividends declared during the period	**-**	(6,741,000)
Net assets value at 30 June	**106,936,403**	98,826,902

TRANSACTIONS WITH UNITHOLDERS

There were no transactions with unitholders during the current and prior period.

	2018	2017
	Units	
Units at 1 January / 30 June	**9,630,000**	9,630,000

The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

MEFIC REAL ESTATE INCOME FUND
Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**4,287,393**	3,579,121
Changes in operating assets and liabilities:		
Accrued commission income	**(4,857,345)**	(4,857,344)
Management fee payable	**474,954**	1,054,474
Other expenses payable	**73,998**	58,749
Net cash used in operating activities	**(21,000)**	(165,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Related party financing	**-**	6,000,000
Dividends paid	**-**	(5,131,000)
Net cash generated from financing activities	**-**	869,000
Net change in cash and cash equivalent	**(21,000)**	704,000
Cash and cash equivalent at beginning of the period	**131,825**	252,200
Cash and cash equivalent at the end of the period	**110,825**	956,200

The accompanying notes from 1 to 11 form an integral part of these condensed interim financial statements.

1. THE FUND AND ITS ACTIVITIES

MEFIC Real Estate Income Fund (the "Fund") is a closed-ended real estate fund established and managed through an agreement between Middle East Financial Investment Company (the "Fund Manager" or "MEFIC") and the Fund Investors (the "Unitholders").

The objective of the Fund is to purchase residential and commercial real estate in the Kingdom of Saudi Arabia on a condition that it is rented in advance with a known annual return, or purchase the right to benefit from it and achieve stable returns for investors of around 8% annually, and distributing a significant portion of it on a yearly basis over the term of the Fund.

The Fund commenced its operations on 18 March 2012 for a term of 4 years starting from the subscription date on 18 February 2012. The approval from Capital Market Authority ("CMA") for the establishment of the Fund was granted in its letter number 4514/5 dated Ramadan 24, 1432 H (corresponding to 24 August 2011). The contractual tenure of the fund was extended for a third consecutive year up to 18 March 2019. The revised terms and conditions of the Fund were announced on 24 April 2018.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund. Furthermore, Unitholders are beneficial owners of the assets of the Fund and any income distribution is made in proportion to their unit holdings in the fund.

2. REGULATORY AUTHORITY

The Fund is governed by Real Estate Investment Funds Regulations issued by CMA on 19 Jumada II 1427 H (corresponding to 15 July 2006 G) detailing requirements for real estate funds operating in the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with "IAS 34 Interim Financial Reporting" as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and the requirements of the Real Estate Investment Funds Regulations as published by CMA and the Fund's terms and conditions, so far as they relate to the preparation and presentation of the financial statements.

This condensed interim financial information is unaudited. The disclosures made in this condensed interim financial information have been limited in accordance with the requirements of "IAS 34 Interim Financial Reporting". This does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual audited financial statements of the Fund for the year ended 31 December 2017.

The comparative statement of financial position presented in this condensed interim financial information has been extracted from the annual audited financial statements of the Fund for the year ended 31 December 2017, whereas the comparative condensed interim statement of comprehensive income, condensed interim statement of changes in net assets attributable to unitholders, and condensed interim statement of cash flows are extracted from the unaudited condensed interim financial information of the Fund for the six months period ended 30 June 2017.

BASIS OF PREPARATION (Continued)

Transition to International Financial Reporting Standards (IFRSs)

For financial periods commencing 1 January 2018, the applicable regulations require the Fund to prepare and present financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA and the requirements of the Real Estate Investment Funds Regulations. As part of this requirement, the Fund has prepared these condensed interim financial statements. In preparing these IFRS financial statements management has applied the guidance given in "IFRS 1 First-time Adoption of International Financial Reporting Standards", since these condensed interim financial statements prepared in accordance with "IAS 34 Interim Financial Reporting" are part of a period covered by its first IFRS financial statements.

Up to and including the year ended 31 December 2017, the Fund prepared and presented statutory financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA and the requirements of the Real Estate Investment Funds Regulations. In these condensed interim financial statements, the term "SOCPA Standards" refers to SOCPA standards before the adoption of International Financial Reporting Standards ("IFRS").

The accounting policies used by the management of the Fund in preparation of these condensed interim financial statements are disclosed in note 4. The Fund has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 10 to these condensed interim financial statements.

3.2 Basis of measurement and going concern assumption

These financial statements have been prepared under the historical cost convention, using the accrual basis of accounting and the going concern concept. The contractual term of the Fund will end on 18 March 2019 (see note 1 above) however, in the opinion of the management, the break up basis and the going concern basis will produce the same results for these financial statements. Accordingly, these financial statements have been prepared on a going concern basis.

3.3 Functional and presentation currency

These financial statements have been presented in Saudi Riyals (SR), which is the functional currency of the Fund. All financial information has been rounded to the nearest Saudi Riyal.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted by the Fund and applied consistently throughout all periods presented in these condensed interim financial statements:

***a)* Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, cash at banks and other short-term highly liquid investments with original maturities of three months or less, which are available to the Fund without any restriction.

***b)* Fund management fee and other expenses**

Fund management fee and other expenses are measured and recognized as a period cost at the time when they are incurred.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) **Provisions**

Provisions are recognized whenever there is present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

d) **Zakat and Income Tax**

Zakat and Income Tax are the obligation of the Unitholders and have not been provided for in these condensed interim financial statements.

e) **Net asset value**

The net assets value per unit disclosed in the condensed interim statement of financial position is calculated by dividing the net assets of the Fund by the number of units in issue at the period-end.

f) **Critical accounting estimates and judgment**

The preparation of these condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant estimates and judgments used in impairment of financial assets are explained in relevant policy of financial instruments.

g) **Financial instruments**

Financial instruments are recognized when the Fund becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Fund determines the classification of its financial assets at initial recognition. The classification depends on the Fund`s business model for managing the financial assets and the contractual terms of the cash flows.

i. Classification

The financial assets are classified in the following measurement categories:

a) Those to be measured at fair value (either through other comprehensive income, or through profit or loss), and

b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in the statement of profit or loss, or statement of other comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income**.**

SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii. Measurement

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income as incurred.

Debt Instruments

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies debt instruments at amortised cost based on the below:

a) The asset is held within a business model with the objective of collecting the contractual cash flows, and

b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and commission on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Employee loans, shareholder loans to joint venture entities are carried at amortized cost.

Equity Instruments

If the Fund has made an irrevocable election to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognized in the profit and loss as other income when the Funds' right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gain/(losses) in the profit and loss as applicable.

iii. De-recognition of financial assets

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of the transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

iv. Impairment of financial assets

The Fund applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., loans, deposits, trade receivables, inter-company receivable.

Expected Credit Losses are the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Fund expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Fund expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognising allowance for expected credit losses in the statement of comprehensive income even for receivables that are newly originated or acquired.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets is measured as either 12-month expected credit losses or life-time expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

The Fund uses historical loss experience and derived loss rates based on the past twelve months and adjusts the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions.

v. Income recognition

Commission income
For all financial assets measured at amortized cost and commission bearing financial assets, commission income is recognized using the effective interest rate (EIR), which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

When a financial asset is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original EIR of the instrument, and continues unwinding the discount as commission income. Commission income on impaired financial asset is recognized using the original EIR.

Dividends income
Dividends receivable from financial instruments are recognized in the profit or loss only when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Fund, and the amount of the dividend can be measured reliably.

Financial liabilities

The Fund determines the classification of its financial liabilities at initial recognition.

i. Classification
The financial liabilities are classified in the following measurement categories:
a) Those to be measured as financial liabilities at fair value through profit or loss, and
b) Those to be measured at amortized cost.

ii. Measurement
All financial liabilities are recognized initially at fair value. Financial liabilities accounted at amortized cost like borrowings are accounted at the fair value determined based on the effective interest rate method (EIR) after considering the directly attributable transaction costs.

The Fund classifies all financial liabilities as subsequently measured at amortized cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value. The effective interest rate ("EIR") method calculates the amortized cost of a debt instrument by allocating commission charge over the relevant effective interest rate period. The effective interest rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings, trade payables etc.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fund's financial liabilities include trade and other payables, borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments. The Fund measures financial liabilities (except derivatives) at amortised cost.

iii. Derecognition of financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

***h)* Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the condensed interim statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

5. MANAGEMENT FEE AND OTHER CHARGES

The Fund Manager charges the following fees as per the terms and conditions of the Fund:

Subscription fee
The Fund Manager charges each investor with a subscription fee of a percentage not exceeding 1.25% of the subscribed amount.

Management fee
The Fund Manager charges the Fund, a management fee at the rate of 2% (30 June 2017: 2%) per annum payable quarterly of the net assets value of the Fund at each valuation day.

Other expenses
The Fund Manager also recovers certain expenses incurred on behalf of the Fund within limits mentioned in the terms and conditions of the Fund.

6. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties of the Fund include Unitholders, the Owner of the compound, the Fund Manager and its related entities. Related party transactions are in accordance with the terms and conditions of the Fund. All transactions with related parties are carried out based on mutually agreed terms under formal agreement.

		For the period ended 30 June	
Name of related party	**Nature of transactions**	**2018**	2017
Abdullah al Blehed Son's Holding Company (the Owner)	Commission income	**4,857,345**	4,857,345
	Management fee	**474,954**	1,054,474
	Financing received	**-**	6,000,000
Middle East Financial Investment Company (the Fund Manager)	Board fee	**15,000**	15,000

The transactions resulted in following balances with related parties at reporting date:

		As at	
Name of related party	**Nature of balance**	**30 June 2018**	31 December 2017
Abdullah al Blehed Son's Holding Company (the Owner)	Receivable under deferred sale agreement	**95,000,000**	95,000,000
	Accrued commission income	**23,588,983**	18,731,638
	Dividend payable	**1,610,000**	1,610,000
Middle East Financial Investment Company (the Fund Manager)	Management fee payable	**3,926,907**	3,451,953
	Financing received	**6,000,000**	6,000,000
	Board fee	**127,500**	112,500

Receivable under deferred sale agreement
On 18 March 2012, the Fund entered into the following three agreements with Abdullah Al Blehed Son's Holding Company (the "Owner") of a residential compound in Riyadh (the "Compound"):

- Agreement to purchase the Compound at a price of SR 95,000,000. The Fund obtained the legal title of the Compound initially in the name of the Managing Director of the Fund Manager, which was transferred to Jeser Real Estate Development Company ("the Custodian"), a subsidiary of the Fund Manager, in its capacity of a custodian of the title on behalf of the Fund. The Custodian, through a letter, has assigned the legal title to the Fund Manager;
- Agreement to sell the Compound back to the Abdullah al Blehed Son's Holding Company after completion of 5 years at the price of SR 95,000,000. This agreement was extended in 2016 for an additional two years; and
- Agreement to lease back the Compound to the Owner at an annual (Hijri year) commission income of SR 9,500,000.

TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Based on above terms, the assets purchased under the agreement to resell at a future specified date are not recognized in the condensed interim statement of financial position. Considering the substance of the transaction, the Fund is not exposed to substantial risks and rewards of the underlying property hence the arrangement does not qualify for classification as either a finance lease or an operating lease of the property. The arrangement is treated as a financing arrangement with deferred settlement date for the principal amount.

Return on such arrangement is recorded as commission income in the Fund's condensed interim statement of comprehensive income on accrual basis.

The fair value of the Compound determined by two approved appraisers as of 30 June 2018 was SR 123,225,674 and SR 116,112,000 respectively (31 December 2017: SR 123,225,674 and SR 121,955,555 respectively).

Related party financing
The Fund has obtained financing of SR 6,000,000 (31 December 2017: SR 6,000,000) from Middle East Financial Investment Company (the Fund Manager). This financing carries no commission and has no definite terms of repayment.

Units held by related parties
The units in issue as at the reporting date include units held by related parties as follows:

Related party	**30 June 2018**	Percentage Holdings
Higher Education Fund	**3,500,000**	36.34%
Sons of Abdullah Mohammed Al Blihed Company	**2,300,000**	23.88%
Abdulaziz Abdulrahman Abdullah Al Mudimigh	**1,800,000**	18.69%
GCCSG	**800,000**	8.31%
Fahad Nasser Fhaid Al Dosari	**700,000**	7.27%
Jeser Real Estate Development Company	**60,000**	0.62%
Ibrahim Abdullah Rashid Al Hedaithy	**15,000**	0.16%

a) No. of units owned by unitholders and their respective holdings in Fund remain unchanged during the current and prior period.

b) As per Real Estate Investment Funds Regulations all unitholders having a unitholding of more than 5% and their affiliates are treated as related parties.

7. CONTINGENCIES

During the prior year, Abdullah al Blehed Son's Holding Company defaulted in payment of commission income and filed a case against the Fund Manager leveling certain charges related to commission income. The case is proceeding before a court and pending the decision of the court the Fund Manager, based on the advice of its legal advisor, believes that the decision of the case will be in favour of the Fund and consequently no additional material adjustments are required in these condensed interim financial statements.

8. DIVIDEND

The Fund Board has not declared any dividend for the current period (2017: SR 6,741,000).

9. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Financial instruments by category and their fair values

Fair value is the amount for which an asset could be exchanged, or a liability be settled between knowledgeable willing parties in an arm's length transaction. The table below shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. The different levels have been defined as follows:

- 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

Currently, there are no financial assets at fair value. The carrying values of all financial assets and liabilities reflected in these condensed interim financial statements approximate their fair values. There was no other material Level 1, 2 or 3 asset or liability during the current period and preceding year.

There were no transfers amongst the levels during the current period and preceding year. The Fund`s policy is to recognise transfer into and transfers out of fair value hierarchy levels as at the end of the reporting periods.

Financial Risk Management

The Fund has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk; and
- market risk (including currency risk and interest rate risk).

Credit risk
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Fund is exposed to credit risk on its bank balance, accrued commission income and receivable under deferred sale agreement, however the bank balance is maintained with reputed local bank in the Kingdom of Saudi Arabia, accrued commission income is secured against unit holding of the owner of compound in the fund itself and the receivable under deferred sale agreement is secured against the title of underlying property, whose fair value exceeds the amount receivable and therefore the Fund Manager believes that the Fund is not exposed to any significant residual credit risk.

Liquidity risk
Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities, which comprise of management fee and other expenses payable. The Fund Manager monitors the liquidity requirements on a regular basis and takes necessary actions to ensure that sufficient funds are available to meet any commitments as they arise.

FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Market risk

Currency risk
Currency risk is the risk that the value of a financial instrument may fluctuate due to change in the foreign exchange rates. The financial instruments of the Fund i.e. cash at bank, receivable under deferred sale agreement, accrued commission income and payables are all denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect the value or future cash flow of financial instruments. The amount of commission on the Fund's financial asset is fixed as per the deferred sale agreement. Accordingly, the Fund is not exposed to any commission rate risk.

10. EFFECT OF TRANSITION TO IFRSs

Transition to IFRSs has not affected the reported financial position, financial performance and cash flows of the Fund at 31 December 2017, 1 January 2017 or for the year ended 2017. Consequently, no transition note reconciling the previous statements reported under Saudi generally accepted accounting principles and the same statements as reported under IFRS is not necessary, as both reported statements are the same. However, as the financial statements for all periods up to and including the year ended 31 December 2017 did not contain an explicit and unreserved statement of compliance with IFRSs, the management has applied the guidance given in "IFRS 1 First-time Adoption of International Financial Reporting Standards" in preparing these condensed interim financial statements.

11. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Fund's Board on XXX 14XXH corresponding to XX July 2018G.