

TALEEM REIT FUND
(Managed by Saudi Fransi Capital)

**INTERIM CONDENSED FINANCIAL
STATEMENTS (UNAUDITED)
AND INDEPENDENT AUDITOR'S REVIEW
REPORT**

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018



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INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE UNITHOLDERS OF TALEEM REIT FUND (MANAGED BY SAUDI FRANSI CAPITAL)

Introduction:

We have reviewed the accompanying interim condensed statement of financial position of Taleem REIT Fund (the "Fund"), managed by Saudi Fransi Capital (the "Fund Manager") as at 30 June 2018, and the related interim condensed statements of comprehensive income, cash flows and changes in net assets for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed 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 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 that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

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

Other matter:

The financial statements of the Fund for the period from 30 May 2017 to 31 December 2017 were audited by another auditor who expressed an unqualified opinion on those financial statements on 26 February 2018.

For Ernst & Young

Waleed G. Tawfiq
Certified Public Accountant
License No. 437

Riyadh: 27 Dhul Qadah 1439H
(9 August 2018)



**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2018

		30 June 2018 SR	31 December 2017 (See note 6) SR	30 May 2017 (See note 6) SR
ASSETS				
Cash and cash equivalents	7	193,895	5,922,724	-
Investments held at fair value through profit or loss (FVPL)	8	5,805,519	-	-
Net investment in finance lease	9	35,057,139	35,138,399	35,000,000
Other assets	14	5,444,845	3,640,342	-
Investment property	10	250,000,000	250,000,000	250,000,000
TOTAL ASSETS		296,501,398	294,701,465	285,000,000
LIABILITIES				
Management fee payable	12	1,112,964	1,253,218	-
Other liabilities		309,377	108,584	-
TOTAL LIABILITIES		1,422,341	1,361,802	-
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS		295,079,057	293,339,663	285,000,000
Units in issue		28,500,000	28,500,000	28,500,000
Net assets value per unit		10.3537	10.2926	10.0000

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six-month period ended 30 June 2018

		<i>For the six month period ended 30 June 2018</i>	<i>For the period from 30 May 2017 to 30 June 2017 (See note 6)</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
INCOME			
Rental income	11	11,015,030	1,835,838
Finance lease income		1,208,213	201,822
Unrealised gain from investments held at fair value through profit or loss	8	5,519	-
TOTAL INCOME		<u>12,228,762</u>	<u>2,037,660</u>
EXPENSES			
Fund management fees	12	(1,112,964)	(175,685)
Other expenses		(256,404)	(89,395)
TOTAL EXPENSES		<u>(1,369,368)</u>	<u>(265,080)</u>
NET INCOME FOR THE PERIOD		10,859,394	1,772,580
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>10,859,394</u>	<u>1,772,580</u>

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2018

	<i>Note</i>	<i>For the six month period ended 30 June 2018 SR</i>	<i>For the period from 30 May 2017 to 30 June 2017 (See note 6) SR</i>
OPERATING ACTIVITIES			
Net income for the period		10,859,394	1,772,580
Adjustment for:			
Unrealised gain from investments held at FVTPL	8	(5,519)	-
<i>Operating cash flows before working capital changes</i>		<u>10,853,875</u>	<u>1,772,580</u>
Changes in operating assets and liabilities:			
Other assets		(1,804,503)	(520,049)
Management fee payable		(140,254)	175,685
Other liabilities		200,793	89,395
Net cash from operating activities		<u>9,109,911</u>	<u>1,517,611</u>
INVESTING ACTIVITIES			
Recovery of net investment in finance lease		81,260	-
Investments held at FVPL		(5,800,000)	-
Purchase of land and building		-	(17,611)
Net cash used in investing activities		<u>(5,718,740)</u>	<u>(17,611)</u>
FINANCING ACTIVITIES			
Dividends paid	13	(9,120,000)	-
Cash used in financing activities		<u>(9,120,000)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(5,728,829)</u>	<u>1,500,000</u>
Cash and cash equivalents at beginning of the period		<u>5,922,724</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		<u><u>193,895</u></u>	<u><u>1,500,000</u></u>

The accompanying notes 1 to 20 form an integral part of these interim condensed financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

INTERIM CONDENSED STATEMENT OF CHANGES IN NET ASSETS (UNAUDITED)

For the six-month period ended 30 June 2018

	<i>For the six month period ended 30 June 2018 SR</i>	<i>For the period from 30 May 2017 to 30 June 2017 SR</i>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT BEGINNING OF THE PERIOD	293,339,663	285,000,000
CHANGES FROM THE OPERATION		
Net income for the period	10,859,394	1,772,580
Other comprehensive income	-	-
Total comprehensive income	<u>10,859,394</u>	<u>1,772,580</u>
Dividends paid (note 13)	<u>(9,120,000)</u>	<u>-</u>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS AT THE END OF THE PERIOD	<u>295,079,057</u>	<u>286,772,580</u>
UNIT TRANSACTIONS		
Transactions in units for the period ended 30 June are summarised as follows:		
	<i>For the six month period ended 30 June 2018 Units</i>	<i>For the period from 30 May 2017 to 30 June 2017 Units</i>
UNITS AT BEGINNING AND END OF THE PERIOD	<u>28,500,000</u>	<u>28,500,000</u>

The accompanying notes 1 to 20 form an integral part of these interim financial statements.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

At 30 June 2018

1. GENERAL

Taleem REIT Fund ("the Fund") is a closed ended Shariah compliant real estate investment traded fund denominated in Saudi Riyals based on an agreement between Saudi Fransi Capital (the Fund Manager) and investors (the Unitholders). The Fund commenced its operations on 30th May 2017 ("Commencement Date"), which is the first day of listing of Taleem REIT Fund on Saudi Stock Exchange ("Tadawul").

The duration of the Fund is ninety nine years from the date of commencement of operations and can be extended at the sole discretion of the Fund Manager after the approval of the Fund's Board and Capital Market Authority ("CMA").

The Fund's primary investment objective is to invest in constructionally developed real estates qualified to generate periodic return and rental income and distribute ninety percent of the Fund's net profit as dividends to the unitholders at least annually. The Fund can borrow Shariah compliant funds up to 50% of the value of its total assets.

The terms and conditions of the Fund have been approved by the CMA on 12 Sha'aban 1438H (corresponding to 8 May 2017). The Subscription days of the Fund commenced on 14 Sha'aban 1438H (corresponding to 10 May 2017) and ended on 20 Sha'aban 1438H (corresponding to 16 May 2017). The Fund commenced its operations on 4 Ramadan 1438H (corresponding to 30 May 2017).

The Fund Manager of the Fund is Saudi Fransi Capital and KASB Capital is the Custodian for the fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Real Estate Investment Fund Regulations (REIFR) and the Real Estate Investment Traded Funds Instructions (REITF) (the "Regulations") published by Capital Market Authority (CMA), detailing the requirements for real estate funds and REITs within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 Statement of Compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard (IAS), "Interim Financial Reporting" ("IAS 34") as endorsed in KSA. These are also the Fund's first interim condensed financial statements in accordance with International Financial Reporting Standards ("IFRS"), for part of the period covered by the first annual financial statements prepared in accordance with IFRS endorsed in KSA and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to "IFRS as endorsed in KSA"), and accordingly IFRS 1 "First-time Adoption of International Financial Reporting Standards" endorsed in KSA has been applied. Refer to note 6 for further information. The interim condensed financial statements do not include all the information and disclosures required in annual financial statements to be prepared in accordance with IFRS as endorsed in KSA, which would be prepared for the year ending 31 December 2018.

Assets and liabilities in the interim condensed statement of financial position are presented in the order of liquidity.

3.2 Basis of measurement

The interim condensed financial statements have been prepared on a historical cost basis, using the accrual basis of accounting except for financial assets at fair value through profit or loss that are measured at fair value.

The interim results may not be an indicator of the annual results of the operations.

3.3 Functional and presentation currency

These interim condensed financial statements have been presented in Saudi Arabian Riyal (SAR), which is also the functional currency of the Fund. All financial information presented has been rounded to the nearest Saudi Riyal (SAR).

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(CONTINUED)

At 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies for the presentation of these interim condensed financial statements are as follows:

Investment property

Real estate that are held for capital appreciation or / and rental yields are presented as investment properties. Currently, the Fund has recognized land as an investment property.

Investment property is stated at cost less accumulated impairment in value, if any.

The carrying values of investment property are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which the Fund transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. A receivable is recognised at an amount equal to the present value of the finance lease receivables, which are included in the interim condensed financial statements as "net investment in finance leases". The difference between the finance lease receivables and the cost of the leased asset is recorded as an unearned lease finance income.

Impairment of non-financial asset

The Fund assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Fund estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its 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 groups 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 assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 Fund bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Fund's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Fund management fee

Fund management fee is payable at an agreed rate with the Fund Manager. The Fund Manager will charge a management fee of 0.75% of the net book value per annum accrued daily and deducted bi-annually. Net book value is the cost that the Fund pays through amounts raised from investors or through borrowing, in order to acquire or invest in projects or investments within the Fund.

Provisions

A provision is recognised if, as a result of past events, the Fund has present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**

At 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Investment property

Rental income from operating lease is recognized on a straight line basis.

Finance lease income

At the inception of the lease, the total unearned finance income i.e. the excess aggregate minimum lease payments plus residual value (guaranteed and unguaranteed), if any, over the cost of the leased assets, is amortised over the term of the lease, and finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding with respect to the lease.

Cash and cash equivalents

For the purpose of interim condensed statement of cash flows, cash and cash equivalents include cash at bank.

Net asset value per unit

Net asset value per unit as disclosed in the interim condensed statement of financial position is calculated by dividing the net assets of the Fund by the number of units in issue at year end.

Zakat and income tax

Zakat and income tax is the obligation of the Unitholders and is not provided for in these interim condensed financial statements.

Financial instruments

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.

a. Financial assets

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVPL). Financial assets held by the Fund, classified under 'Amortised Cost' are receivables, cash equivalents and amounts due from a related party.

Financial asset held at amortised cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- 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 ('SPPI').

Financial assets held at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVPL:

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains or losses are recognised in interim condensed statement of profit or loss.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**

At 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

a. Financial assets (continued)

Financial assets held at FVOCI (continued)

Equity Instruments

On initial recognition, for an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets held at FVPL

All other financial assets are classified as measured at FVPL. This may include equity held for trading and debt securities not classified neither as amortised cost or FVOCI.

In addition, on initial recognition, the Fund may also irrevocably designate a financial asset at FVPL that otherwise meets the requirements to be measured at amortized cost or at FVOCI, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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. As part of the convergence, the Fund has classified all its investments in funds under FVPL category.

Impairment of financial assets

The Fund recognises a loss allowance for expected credit losses on a financial asset that is measured at amortized cost at each reporting date, at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. When making the assessment, the Fund uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Fund compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if it is determined to have low credit risk at the reporting date.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Fund measures the loss allowance for that financial instrument at an amount equal to 12- month expected credit losses. For receivables, the Fund always measure the loss allowance at an amount equal to lifetime expected credit losses.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the Fund first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The Fund measures expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and the reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the interim condensed statement of profit or loss. Interest income continues to be accrued on the gross carrying amount using the effective rate of interest unless the financial instrument is credit-impaired in which case the special commission income is recognised on reduced carrying amount. The special commission income is recorded as part of finance revenue in the interim condensed statement of profit or loss.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(CONTINUED)

At 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

b. Financial Liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Fund enters into transactions whereby it transfers assets recognised on its interim condensed statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the interim condensed statement of financial position when, and only when, the Fund currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Fair value measurement

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim condensed financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the interim condensed financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**

At 30 June 2018

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 15.

New IFRS, amendments and interpretations issued not yet effective and not early adopted

At the date of authorization of these interim condensed financial statements, the following new and amended IFRS accounting standards, which are applicable to the Fund, were issued by the IASB but not yet effective.

The Fund is currently evaluating the impact that these new accounting standards, amendments and interpretations may have on the interim condensed financial statements.

IFRS 16 – “Leases”

The IASB has issued a new standard for the recognition of leases. This standard will replace:

- IAS 7 – “Statement of Cash Flows”
- IAS 17 – “Leases”
- IFRIC 4 – “Whether an arrangement contains a lease”
- IFRS 17 – “Insurance Contracts”
- SIC 15 – “Operating leases – Incentives”
- SIC-27 – “Evaluating the substance of transactions involving the legal form of a lease”

Under IFRS 16, a lessee is required to:

- recognize all right of use assets and lease liabilities, with the exception of short term (under 12 months) and low value leases, on the statement of financial position. The liability is initially measured at the present value of future lease payments for the lease term. This includes variable lease payments that depend on an index or rate but excludes other variable lease payments. The right of use assets reflects the lease liability, initial direct cost, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provisions for dismantling and restoration.
- recognize depreciation right of use assets and interest on lease liabilities in the statement of profit or loss over the lease term.
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (which the Fund presents in operating activities) in the statement of cash flows.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. The standard is effective from financial year commencing on or after 1 January 2019.

The Fund plans to adopt IFRS 16 from 1 January 2019 and has not yet carried any impact analysis.

IFRS 17 – “Insurance contracts”

The IASB has issued a new standard for the recognition of insurance contracts. This standard will replace IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts.

The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

The standard applies to annual periods beginning on or after 1 January 2021, with earlier application permitted if IFRS 15, ‘Revenue from contracts with customers’ and IFRS 9, ‘Financial instruments’ are also applied. The standard will not have an impact on the Fund’s financial statements as the Fund has no insurance related transactions.

**TALEEM REIT FUND
(MANAGED BY SAUDI FRANSI CAPITAL)**

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**

At 30 June 2018

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's interim condensed financial statements in conformity with the IFRS as endorsed in KSA requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the interim condensed financial statements continue to be prepared on the going concern basis.

Investment in finance lease

The following are the critical assumptions that have been made in the process of applying the Funds's accounting policies for the net investment in finance lease that have a significant effect on the amounts recognised in the interim condensed financial statements:

- (1) the present value of the finance lease receivable amounts to substantially all of the fair value of the leased asset at the inception of the lease; and
- (2) the lease term of the assets covers major part of the economic life of the leased asset.

Impairment of non-financial assets

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 to sell and its value in use. The fair value less costs to sell 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 for 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 projects' useful lives and do not include restructuring activities that the Fund is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being 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.

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6. FIRST-TIME ADOPTION OF IFRS

The interim condensed financial statements for the period ended 30 June 2018 are the first financial statements of the Fund prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia. For periods up to and including the period ended 31 December 2017, the Fund prepared its interim condensed financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

Accordingly, the Fund has prepared the interim condensed financial statements that comply with International Accounting Standard 34, "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia. Applicable as at 30 June 2018, together with the comparative periods as at 30 May 2017 and as at 31 December 2017. This note explains the principal adjustments made by the Fund in restating its previous statements of statements of assets and liabilities as at 30 May 2017 and 31 December 2017 which had been prepared in accordance with the requirements as per SOCPA accounting standards.

This note explains the principal adjustments made by the Fund in restating its interim condensed financial statements prepared in accordance with SOCPA accounting standards, including the statement of financial position as at 30 May 2017 and the financial statements for the year ended 31 December 2017.

Estimates

The estimates at 30 May 2017 and at 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA accounting standards (after adjustments to reflect any differences in accounting policies).

Reconciliation between SOCPA accounting standards and IFRS as endorsed in KSA

The Fund noted no transition adjustments to statement of financial position (termed as "Balance Sheet" as per SOCPA accounting standards) and statement of comprehensive income (termed as "Statement of Income" as per SOCPA accounting standards) except for the following:

- a.) Change in recognition of rental income to a straight line basis over the lease term (after taking into account contractually agreed future rent escalations). Previously under SOCPA accounting standards, contractually agreed future rent escalations were not accounted for when recording rent revenue. This resulted in following adjustments:
1. *For the period from 30 May 2017 to 30 June 2017:*
Increase in rent income, net income for the period and total comprehensive income by SR 520,049.
 2. *At 30 June 2017:*
Increase in other assets, total assets and net assets attributable to unitholders by SR 520,049.
 3. *For the period from 30 May 2017 to 31 December 2017:*
Increase in rent income, net income for the period and total comprehensive income by SR 3,640,342.
 4. *At 31 December 2017:*
Increase in other assets, total assets and net assets attributable to unitholders by SR 3,640,342.

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7. CASH AND CASH EQUIVALENTS

	<i>30 June 2018</i> SR	<i>31 December 2017</i> SR	<i>30 May 2017</i> SR
Cash at bank	<u>193,895</u>	<u>5,922,724</u>	<u>-</u>

This cash is deposited in current account maintained with Banque Saudi Fransi under the name of Fund Manager (Saudi Fransi Capital). No interest is receivable on this balance.

The management has conducted a review as required under IFRS 9 and based on such assessment, the management believes that there is no need for any significant impairment loss against the carrying value of cash and cash equivalents.

8. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments as at the reporting date comprise of investments in mutual funds.

	<i>30 June 2018</i> SR	<i>31 December 2017</i> SR	<i>30 May 2017</i> SR
<i>Investments held at fair value through profit or loss</i>			
Al Badr Murabaha Fund	<u>5,805,519</u>	<u>-</u>	<u>-</u>

Following is the movement in investments during the period:

	<i>30 June 2018</i> SR	<i>31 December 2017</i> SR	<i>30 May 2017</i> SR
<i>Cost:</i>			
At beginning of the period / year	-	-	-
Additions during the period / year	<u>5,800,000</u>	<u>-</u>	<u>-</u>
At end of the period / year	<u>5,800,000</u>	<u>-</u>	<u>-</u>
<i>Investment revaluation reserve:</i>			
At beginning of the period / year	-	-	-
Changes in fair value during the period / year	<u>5,519</u>	<u>-</u>	<u>-</u>
At end of the period / year	<u>5,519</u>	<u>-</u>	<u>-</u>
Net investments at end of the period / year	<u>5,805,519</u>	<u>-</u>	<u>-</u>

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At 30 June 2018

9. NET INVESTMENT IN FINANCE LEASE

	30 June 2018 SR	31 December 2017 SR	30 May 2017 SR
<i>a) Net investment in finance lease consist of:</i>			
Gross investment in finance lease (see (b) below)	78,638,537	79,928,010	81,217,485
Less: Unearned finance income (see (c) below)	(43,581,398)	(44,789,611)	(46,217,485)
	<u>35,057,139</u>	<u>35,138,399</u>	<u>35,000,000</u>
<i>b) The future minimum lease payments to be received consist of:</i>			
Within one year	2,578,947	2,578,947	1,934,211
After one year but not more than five years	10,638,158	10,573,684	10,476,974
Five years onwards	65,421,432	66,775,379	68,806,300
	<u>78,638,537</u>	<u>79,928,010</u>	<u>81,217,485</u>
<i>c) The maturity of unearned finance income are as follows:</i>			
Within one year	(2,429,018)	(2,434,049)	(2,028,978)
After one year but not more than five years	(9,583,478)	(9,617,224)	(9,662,269)
Five years onwards	(31,568,902)	(32,738,338)	(34,526,238)
	<u>(43,581,398)</u>	<u>(44,789,611)</u>	<u>(46,217,485)</u>

Finance income earned on the finance lease during the period was SR 1.2 million (For the period from 30 May 2017 to 30 June 2017: SR 0.2 million). The total finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Fund's net investment outstanding with respect to the lease.

The management has conducted a review as required under IFRS 9, which included taking into account numerous variables. Based on the assessment, the management believes that there is no need for any significant impairment loss against the carrying value of net investment in finance lease at the reporting date.

The finance lease represents the building portion of the acquired property (refer note 10).

10. INVESTMENT PROPERTY

The Fund has acquired the land and building leased out to "Tarbiah Islamiah School" for a consideration of SAR 285,000,000 (Saudi Riyal Two Hundred and Eighty Five Million) on 29 Shabaaan 1438 corresponding to 25 May 2017. The said property is held in the name of "Rabwa Taleem Real Estate Company" which is owned by the KASB Capital ("Custodian of the Fund"). Rabwa Taleem Real Estate Company is holding the property in its name for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the property.

The Investment Property represents the land portion of the acquired property. The land is located in the Umm-al-Hamam district in Riyadh City and covers an area of 45,666.94 square meters on Al-Takhassusi Street.

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At 30 June 2018

11. RENTAL INCOME

	<i>For the six month period ended 30 June 2018</i>	<i>For the period from 30 May 2017 to 30 June 2017</i>
	<i>SR</i>	<i>SR</i>
Lease rental income on investment property	11,015,030	1,835,838

The operating lease relates to the land which is leased out for a remaining lease term of 25.2 years. The lease provides for tenant to pay the base rent, with provisions for contractual increases in base rent over the term of the lease.

Future rental commitments (to be received) at 30 June, under the operating lease is as follows:

	<i>30 June 2018</i>	<i>30 June 2017</i>
	<i>SR</i>	<i>SR</i>
Not later than one year	18,421,053	17,105,263
Later than one year and less than five years	75,986,842	75,065,789
Later than five years	467,295,942	486,638,047
	561,703,837	578,809,099

12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include Saudi Fransi Capital ("the Fund Manager"), Banque Saudi Fransi (the Bank and the shareholder of the Fund Manager), KASB Capital ("Custodian"), Funds' Board of Directors (BOD), affiliates of the Fund Manager and the Unit holders of the Fund are related parties.

In the ordinary course of its activities, the Fund transacts business with related parties. The related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are approved by the Fund Board.

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At 30 June 2018

12. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Transactions with related parties during the period are as follows:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction, debit (credit)</i>		<i>Balance, debit (credit)</i>		
		<i>For the six month period ended 30 June 2018</i>	<i>For the period from 30 May 2017 to 30 June 2017</i>	<i>30 June 2018</i>	<i>31 December 2017</i>	<i>30 June 2017</i>
		SR	SR	SR	SR	SR
<i>Affiliates</i>						
Funds under management	Asset management fees (note "a" below)	1,112,964	175,685	(1,112,964)	(1,253,218)	(175,685)
	Custody fee (note "b" below)	55,502	12,989	(55,502)	(83,584)	(12,989)
Board of directors	Board fees to independent board members	4,959	1,402	(9,959)	(5,000)	(1,402)

- a. As per the Terms and Conditions of the Fund, the Fund Manager charges management fee calculated at annual rate of 0.75% of the net book value. This is accrued daily and paid on semi-annual basis.
- b. As per the Terms and Conditions of the Fund, the Fund Manager charges custody fee calculated at annual rate of 0.0375% of the net book value. This is accrued daily and paid on semi-annual basis.

The Fund maintained cash with Saudi Fransi Capital at SAR 193,895 (31 December 2017: 5,922,724; 30 May 2017: nil). This cash is deposited in current account maintained with Banque Saudi Fransi under the name of fund manager (Saudi Fransi Capital).

The Fund has entered into lease agreement with one of its unit holder and currently all the revenues recognised in the financial statements are from the said lease agreement.

13. DIVIDENDS

During the period, the Fund has paid dividends amounting to SR 9.12 million (31 December 2017: SR 4.56 million). Dividend per share amounted to SR 0.32 per unit (31 December 2017: SR 0.16 per unit). Subsequent to period end, the Funds' Board has approved and paid dividends amounting to SR 4.56 million (SR 0.16 per unit).

14. OTHER ASSETS

This represents the difference between the accumulated rental income at the reporting date (after taking into account contractually agreed future rent escalations) and the accumulated amount of rent due under the contract as at the reporting date.

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15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund's financial assets consist of bank balance, investment held at FVPL and net investment in the finance leases; its financial liabilities consist of fund management fee payable and other liabilities.

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

SR	Carrying value	Level 1	Level 2	Level 3	Total
<i>30 June 2018</i>					
<u>Financial assets measured at fair value</u>					
Financial assets at FVPL	5,805,519	5,805,519	-	-	5,805,519

The Fund believes that the fair value of net investment in finance lease is approximately equal to its carrying value because the lease relates to a specialized nature of asset whereby the carrying value of net in finance lease plus guaranteed residual value, if any, is the best proxy of its fair value. Management has classified this in level 3 of the fair value hierarchy.

The Fund will monitor the fair value on a regular basis in line with the relevant legislation.

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16. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTY ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared are based on the market value obtained. However, in accordance with International Accounting Standards 40 ("IAS 40"), Investment properties are carried at cost less accumulated depreciation and impairment if any in these financial statements. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's books.

The valuation of the investment property (the "property") is carried out by Olat Properties Management and ValuStrat Consulting. Some of the individuals involved at the valuation from the appraiser's side are licensed by the Saudi Authority for Accredited Valuers (TAQEEM). Management has used the average of the two valuations for the purposes of disclosing the fair value of the properties. The properties were valued taking into consideration number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost method, residual value method and the discounted cash flow method.

	<i>30 June 2018 SR</i>	<i>31 December 2017 SR</i>	<i>30 June 2017 SR</i>
Estimated fair value of investment property	250,000,000	250,432,529	250,432,529
Book value of investment property	250,000,000	250,000,000	250,000,000
Estimated fair value in excess of book value	-	432,529	432,529
Units in issue (numbers)	28,500,000	28,500,000	28,500,000
Share per unit in estimated fair value in excess of book value	-	0.0152	0.0152

Below is an analysis of the properties fair value versus cost:

Net asset value

	<i>30 June 2018 SR</i>	<i>31 December 2017 SR</i>	<i>30 June 2017 SR</i>
Net assets value as per the financial statements	295,079,057	293,339,663	286,772,580
Estimated fair value in excess of book value	-	432,529	432,529
Net asset value based on fair valuation	295,079,057	293,772,192	287,205,109

Net asset value per unit

	<i>30 June 2018</i>	<i>31 December 2017</i>	<i>30 June 2017</i>
Net assets value per unit as per the financial statements	10.3537	10.2926	10.0622
Estimated fair value in excess of book value	-	0.0152	0.0152
Net asset value per unit based on fair valuation	10.3537	10.3078	10.0774

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16. EFFECT OF NET ASSET VALUE IF INVESTMENT PROPERTY ARE FAIR VALUED (continued)

Fund's investment in the building has been classified as finance lease in accordance with IFRS as endorsed in KSA. The fair value of the net investment in finance lease has been determined based on the market interest rates. As of the reporting date, carrying value of the net investment in finance lease approximates fair value.

Had the fair value of the building been determined with reference to its market value instead of interest rates, the valuation may have been higher from the fair value of the lease.

17. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 30 June 2018</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	193,895	-	193,895
Financial assets at fair value through profit or loss	5,805,519	-	5,805,519
Net investment in finance lease	149,929	34,907,210	35,057,139
Other assets	-	5,444,845	5,444,845
Investment property	-	250,000,000	250,000,000
TOTAL ASSETS	6,149,343	290,352,055	296,501,398
LIABILITIES			
Management fees payable	1,112,964	-	1,112,964
Accrued expenses and other liabilities	309,377	-	309,377
TOTAL LIABILITIES	1,422,341	-	1,422,341
<i>As at 31 December 2017</i>			
ASSETS			
Cash and cash equivalents	5,922,724	-	5,922,724
Net investment in finance lease	144,898	34,993,501	35,138,399
Other assets	-	3,640,342	3,640,342
Investment property	-	250,000,000	250,000,000
TOTAL ASSETS	6,067,622	288,633,843	294,701,465
LIABILITIES			
Management fee payable	1,253,218	-	1,253,218
Accrued expenses and other liabilities	108,584	-	108,584
TOTAL LIABILITIES	1,361,802	-	1,361,802
<i>As at 30 May 2017</i>			
ASSETS			
Net investment in finance lease	50,131	34,949,869	35,000,000
Investment property	-	250,000,000	250,000,000
TOTAL ASSETS	50,131	284,949,869	285,000,000

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18. RISK MANAGEMENT

Credit risk

Credit risk is the possibility of non-payment by counterparties and financial institutions through which the Fund transacts. The Fund is exposed to credit risk on its bank balance, and net investment in finance lease. The bank balance is maintained with a reputed local bank in the Kingdom of Saudi Arabia. The maximum exposure to the credit risk for the financial assets is their carrying value. Net investment in finance lease is made with a unit holder of the Fund for whom no credit rating is available.

The following table shows the Fund's maximum exposure to credit risk for components of the interim condensed statement of financial position.

	<i>30 June 2018 SR</i>	<i>31 December 2017 SR</i>	<i>30 May 2017 SR</i>
Cash and cash equivalents	193,895	5,922,724	-
Investment held at FVPL	5,805,519	-	-
Finance lease receivable	35,057,139	35,138,399	-
	<u>41,056,553</u>	<u>41,061,123</u>	<u>-</u>

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 fund management, other liabilities and provision for distribution. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued expenses and other liabilities are all due within 12 months. The undiscounted amount of these financial liabilities approximate their carrying values at the reporting date.

The Fund Manager expects to settle its financial liabilities contingent upon receipts of amounts from lease rentals.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign exchange rates. The financial instruments of the Fund i.e. cash, investments held at FVPL and payables are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Market risk

The Fund will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited, to the overall macroeconomic growth of the Kingdom, interest rates, demand-supply of land, availability of financing, investor sentiment, liquidity, legal, foreign exchange rate and regulatory environment.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Fund is subject to interest rate risk or future risks on its interest bearing assets including finance lease receivables.

The Fund does not account for any fixed rate interest bearing financial assets at fair value and therefore, a change in interest rates at the reporting date would not have any affect on the interim condensed financial statements.

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19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Fund Board on 9 August 2018 corresponding to 27 Dhul Qadah 1439H.

20. LAST VALUATION DAY

The last valuation day of the period was 30 June 2018 (For the period from 30 May 2017 to 30 June 2017: 30 June 2017).