

**ARBAH IPO FUND**  
An open-ended mutual fund  
(MANAGED BY ARBAH CAPITAL COMPANY)  
**Condensed Interim Financial Statements (Unaudited)**  
**For the six-month period ended 30 June 2018**  
Together with  
**Independent Auditor's Report**

**ARBAH IPO FUND**  
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**Together with the Independent Auditors' Report**

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**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
1st Floor, Battoyor Tower  
King Saud Road, Al Safa  
P.O. Box 4803  
Al Khobar, 31952  
Kingdom of Saudi Arabia

Telephone +966 13 816 2999  
Fax +966 13 816 2888  
Internet [www.kpmg.com.sa](http://www.kpmg.com.sa)

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# Independent Auditors' Report On Review Of Interim Financial Statements

**To: The Unitholders of  
Arbah IPO Fund  
An open-ended mutual fund  
(Managed by Arbah Capital Company)  
Dammam, Kingdom of Saudi Arabia**

## Report on the Review of the Condensed Interim Financial Statements

### Introduction

We have reviewed the accompanying 30 June 2018 condensed interim financial statements of **Arbah IPO Fund** ("the Fund") managed by Arbah Capital Company ("the Fund Manager") which comprises:

- the condensed statement of financial position as at 30 June 2018;
- the condensed statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2018;
- the condensed statement of changes in net assets attributable to the Unitholders for the six-month period ended 30 June 2018;
- the condensed statement of cash flows for the six-month period ended 30 June 2018; and
- the notes to the condensed interim financial statements.

The Fund Manager is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by Capital Market Authority and the Fund's Terms and Conditions. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

### Scope of review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2018 condensed interim financial statements of **Arbah IPO Fund (“the Fund”)** are not prepared, in all material respects, in accordance with IAS 34, ‘Interim Financial Reporting’ that is endorsed in the Kingdom of Saudi Arabia.

## Other matter

The interim financial statements of the Fund for the six-month period ended 30 June 2017, were reviewed by another auditor who expressed an unmodified conclusion on those interim financial statements on 12 July 2017 and the financial statements for the Fund for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 22 January 2018.

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



**Abdulaziz Abdullah Alnaim**

License no. 394

Al Khobar

Date: 14 August 2018G

Corresponding to: 3 Dhul Hajjah 1439H

**ARBAH IPO FUND**  
**An open-ended mutual fund**  
**(MANAGED BY ARBAH CAPITAL COMPANY)**  
**CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 30 June 2018  
(Expressed in Saudi Arabian Riyals)

	<b>30 June 2018</b>	31 December 2017	1 January 2017
<i>Notes</i>	<b>(Unaudited)</b>	(Audited)	(Unaudited)
<b>ASSETS</b>			
Cash and cash equivalents	7 <b>13,966,951</b>	3,906,117	34,300,605
Dividends receivable	<b>143,400</b>	121,875	37,213
Investments at fair value through profit or loss	8 <b>15,625,749</b>	-	-
Investments held for trading	12 -	44,949,879	49,487,231
Other assets	<b>20,029</b>	11,245	11,163
<b>Total assets</b>	<b><u>29,756,129</u></b>	<u>48,989,116</u>	<u>83,836,212</u>
<b>LIABILITIES</b>			
Accrued expenses	<b>111,319</b>	94,900	163,001
<b>Total liabilities</b>	<b>111,319</b>	94,900	163,001
<b>Net assets attributable to the Unitholders</b>	<b><u>29,644,810</u></b>	<u>48,894,216</u>	<u>83,673,211</u>
<b>Units in issue (numbers)</b>	<b><u>1,680,945</u></b>	<u>2,826,674</u>	<u>4,142,202</u>
<b>Net Assets Value (NAV) attributable to each unit (SAR)</b>	<b><u>17.64</u></b>	<u>17.30</u>	<u>20.20</u>

These condensed interim financial statements appearing on pages 3 to 23 were approved by the Board on 3 Dhul Hajjah 1439H, corresponding to 14 August 2018G and have been signed on its behalf by:

\_\_\_\_\_  
Hassan Khalil Al Masri  
Board member

\_\_\_\_\_  
Sameh Awwad  
Finance Manager

The accompanying notes (1) to (16) from an integral part of these condensed interim financial statements.

**ARBAH IPO FUND****An open-ended mutual fund****(MANAGED BY ARBAH CAPITAL COMPANY)****CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

		<b>For the six-month period ended 30 June</b>	
	<i>Notes</i>	<b>2018 (Unaudited)</b>	<b>2017 (Unaudited)</b>
Dividend income		<b>579,126</b>	762,266
Net gain from investments at fair value through profit or loss	9	<b>753,736</b>	-
Net loss from investments at held for trading	10	<b>-</b>	(7,305,536)
<b>Gross income / (loss)</b>		<b>1,332,862</b>	(6,543,270)
Management and custodian fees	11	<b>(430,768)</b>	(654,078)
Benchmarking indicator fees		<b>(13,144)</b>	(13,035)
Professional fees		<b>(11,550)</b>	(11,000)
Fund board compensation	11	<b>(8,300)</b>	(8,300)
Other general and administrative expenses		<b>(37,625)</b>	(37,500)
<b>Total operating expenses</b>		<b>(501,387)</b>	(723,913)
<b>Net income / (loss) for the period</b>		<b>831,475</b>	(7,267,183)
<b>Other comprehensive income</b>		<b>-</b>	-
<b>Increase / (decrease) in the net assets attributable to the Unitholders</b>		<b>831,475</b>	(7,267,183)

The accompanying notes (1) to (16) from an integral part of these condensed interim financial statements.



**ARBAH IPO FUND**  
**An open-ended mutual fund**  
**(MANAGED BY ARBAH CAPITAL COMPANY)**  
**CONDENSED STATEMENT OF CASH FLOWS**  
For the six-month period ended 30 June 2018  
(Expressed in Saudi Arabian Riyals)

	<b>For the six-month period ended 30</b>	
	<b>June</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from operating activities:</b>		
Net profit / (loss) for the period	<b>831,475</b>	(7,267,183)
Adjustments for:		
Dividend income	<b>(579,126)</b>	(762,266)
Net gain from investments at FVTPL	<b>(753,736)</b>	-
Net loss from investments held for trading	-	7,305,536
	<b>(501,387)</b>	(723,913)
<b>Net changes in operating assets and liabilities:</b>		
Purchase of investments at FVTPL	<b>(67,201,382)</b>	-
Proceeds from sale of investments at FVTPL	<b>97,279,248</b>	-
Purchase of investments held for trading	-	(277,020,188)
Proceeds from investments held for trading	-	279,260,652
Accrued expenses	<b>16,419</b>	(12,846)
Other assets	<b>(8,784)</b>	(15,752)
Dividend received	<b>557,601</b>	662,230
<b>Net cash generated from operating activities</b>	<b>30,141,715</b>	2,150,183
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of units	-	4,031,305
Payments on redemption of units	<b>(20,080,881)</b>	(21,082,833)
<b>Net cash used in financing activities</b>	<b>(20,080,881)</b>	(17,051,528)
<b>Net increase / (decrease) in cash and cash equivalents:</b>	<b>10,060,834</b>	(14,901,345)
Cash and cash equivalents at the beginning of the period	<b>3,906,117</b>	34,300,605
<b>Cash and cash equivalents at the end of the period</b>	<b>13,966,951</b>	19,399,260

The accompanying notes (1) to (16) from an integral part of these condensed interim financial statements.

## **ARBAH IPO FUND**

### **An open-ended mutual fund**

#### **(MANAGED BY ARBAH CAPITAL COMPANY)**

#### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

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### **1. LEGAL STATUS AND PRINCIPAL ACTIVITIES**

- (a) Arbah IPO Fund (the “Fund”) is a Sharia-compliant open-ended mutual investment fund established and managed through a contractual agreement between Arbah Capital Company (the “Fund Manager”) and the Fund’s investors (the “Unitholders”), under the Investment Fund Regulations (“the Regulations”) issued by the Board of the Capital Market Authority (“CMA”). The terms and conditions of the Fund were approved by CMA on 11 Jumada Al Thani 1431H (25 May 2010G). The Fund commenced its operations on 28 Rabie Al Thani 1432H (corresponding to 2 April 2011G).

The objective of the Fund is to achieve return through capital growth over medium to long term by investing mainly in the shares of public companies during the Initial Public Offering (IPO) and rights issue shares in companies listed for not more than five years in the Kingdom of Saudi Arabia. The Fund also seeks to invest in other funds with the same objectives and strategies, whenever possible. The Fund is open ended and it does not distribute dividend to the Unitholders and reinvests all profits realized in the Fund on its strategy in a way that reflects on the Fund’s unit price.

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.

- (b) The Fund is governed by Investment Fund Regulations (the “Regulations”) published by Capital Market Authority (“CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006G) thereafter amended (the “amended regulations”) on 16 Sha’ban 1437H (corresponding to 23 May 2016G), detailing requirements for all funds within the Kingdom of Saudi Arabia. The amended regulations came into effect from 6 Safar 1438H (corresponding to 6 November 2016G).
- (c) The Fund Manager is responsible for the management of the Fund. The Fund Manager charges every subscriber with 2% maximum subscription fees of the subscribed amount. Such fees are not included in these condensed interim financial statements. Moreover, the Fund compensates the Fund manager with management fee at 1.75% and custodian fee (for the period till 29 March 2018) at 0.25% calculated at each evaluation day based on the Net Assets Value (NAV). The Fund Manager may also charge all other general and administrative expenses relating to the management of the Fund with maximum of SAR 75,000 per financial year excluding external auditor’s fees, board remuneration and benchmarking indicator fees.
- (d) The Fund Manager has signed an agreement on 9 Rajab 1439H (corresponding to March 26, 2018G) to appoint Alinma Investment Company (“the Custodian”) as an independent custodian of the Fund’s assets. However, the Fund Manager is in process of transferring the custody of the Fund’s assets to the Custodian. The Custodian is entitled for 0.1% or SR 40,000 minimum of custodian fee and 0.01% or SR 250,000 maximum trading fees. These fees are calculated and accrued at each valuation day based on the Net Assets Value of the Fund and are paid on a monthly basis. The terms and conditions of the Fund has been updated accordingly.

### **2. BASIS OF PREPARATION**

#### **a) Basis of accounting**

These condensed interim financial statements of the Fund have been prepared in accordance with International Accounting Standards (IAS) 34, ‘Interim Financial Reporting’ that is endorsed in the Kingdom of Saudi Arabia.

These are the first International Financial Reporting Standards (“IFRS”) condensed interim financial statements for part of the period covered by the first IFRS annual financial statements of the Fund and IFRS 1 ‘First time adoption of IFRS’ as endorsed in Kingdom of Saudi Arabia, has been applied with 1 January 2017 as date of transition and initial application of IFRS.

## **ARBAH IPO FUND**

**An open-ended mutual fund**

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### **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

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## **2. BASIS OF PREPARATION (CONTINUED)**

### **a) Basis of accounting (continued)**

The Fund has adopted IFRS 9 '*Financial Instruments*' and IFRS 15 '*Revenue from Contracts with Customers*' from 1 January 2018 and accounting policies for these new standards are disclosed in the Note 3 and 4. Significant judgments and estimates relating to impairment are disclosed in the financial risk management note considering IFRS 9 first time adoption.

The condensed interim financial statements do not include all of the information required for full annual financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Fund's financial position and performance since the last annual audited financial statements for the year ended 31 December 2017.

An explanation of how the transition to IFRS as adopted in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA has affected the reported financial position, financial performance and cash flows of the Fund is provided in Note 6.

### **b) Basis of measurement**

These condensed interim financial statements have been prepared on a historical cost convention, except for the investments which are carried at fair value.

### **c) Use of judgments and estimates**

In preparing these condensed interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

## **3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS**

Effective from 1 January 2018 the Fund has adopted two new accounting standards as endorsed in the Kingdom of Saudi Arabia, the impact of the adoption of these standards is explained below:

### **IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and is effective for periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previously issued revenue guidance, which was found across several Standards and Interpretations within IFRS. The main revenue of the Fund is dividend and realized and unrealized gain on investments at FVTPL, therefore the impact of IFRS 15 is not material to the Fund.

### **IFRS 9 – Financial Instruments**

The Fund has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Fund's accounting policies resulting from its adoption of IFRS 9 are summarized below:

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### NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

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### 3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

#### IFRS 9 – Financial Instruments (continued)

##### *Classification of financial assets and financial liabilities*

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Fund classifies financial assets under IFRS 9, see respective section of significant accounting policies.

##### *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model with an 'expected credit loss' model (ECL). IFRS 9 requires the Fund to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Under IFRS 9, credit losses are recognized earlier than under previous accounting standard. For an explanation of how the Fund applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

##### *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Any difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - i. The determination of the business model within which a financial asset is held.
  - ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  - iii. The designation of certain investments in equity instruments not held for trading as FVOCI. For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the issuer's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

##### *Classification of financial assets and financial liabilities on the date of initial application of IFRS 9*

The following table shows the original measurement categories in accordance with previous accounting standard and the new measurement categories under IFRS 9 for the Fund's financial instruments as at 1 January 2018.

**ARBAH IPO FUND****An open-ended mutual fund****(MANAGED BY ARBAH CAPITAL COMPANY)****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

**3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)****IFRS 9 – Financial Instruments (continued)***Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)*

<b>Financial instruments</b>	<b>Original classification</b>	<b>New Classification under IFRS 9</b>	<b>Original carrying value under IAS 39</b>	<b>New carrying value under IFRS 9</b>
Investment in equity securities	Held for Trading	FVTPL	44,949,879	44,949,879
Dividends receivables	Loans and Receivables measured at amortized cost	Amortized cost	121,875	121,875
Cash and cash equivalents	Loans and Receivables measured at amortized cost	Amortized cost	3,906,117	3,906,117
Accrued expenses	Financial liabilities at amortized cost	Amortized cost	94,900	94,900

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Where policies are applicable only after or before 1 January 2018, those policies have been particularly specified.

**a) Foreign currency translation**

Transactions in foreign currencies are translated into SAR at the exchange rate at the dates of the transactions.

Foreign exchange gains and losses arising from translation are included in the statement of profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SAR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognized in profit or loss as net foreign exchange losses, except for those arising on financial instruments at FVTPL, which are recognized as a component of net gain from financial instruments at FVTPL.

**b) Functional currency**

These condensed interim financial statements are presented in Saudi Arabian Riyals (“SAR”), which is also the Fund’s functional currency. All amounts have been rounded to the nearest SAR, unless otherwise indicated.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**c) *Dividend income***

Dividend income is recognized in statement of profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL recognized in profit or loss in a separate line item.

**d) *Zakat and income tax***

Zakat and income tax are the obligations of the Unitholders and are not provided for in these financial statements.

**e) *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.

**f) *Management and custodian fee***

Management fee and custodian fee are recognized in the statement of profit or loss on the annual Net Asset Value (NAV) of the Fund, calculated at each evaluation day as specified in the terms and conditions of the Fund.

**g) *Cash and cash equivalents***

Cash and cash equivalents include cash on hand, bank balances, short-term deposits, demand deposits and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**h) *Financial instruments***

***Policy applicable before 1 January 2018***

***Investments held for trading***

Investment securities purchased for trading are initially recognized at cost on the trade date and are subsequently measured at their market values. The unrealized gains and losses from revaluation of investments held for trading and realized gains and losses from sale of investments held for trading are recognized in the statement of income.

***Financial liabilities***

The Fund classifies its financial liabilities at amortised cost and initially recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective yield method.

***Policy applicable from 1 January 2018***

***Classification of financial assets***

On initial recognition, a financial asset is classified and measured at amortized cost, FVOCI or FVTPL.

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### An open-ended mutual fund

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## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six-month period ended 30 June 2018

(Expressed in Saudi Arabian Riyals)

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *h) Financial instruments (continued)*

###### *i) Financial assets at amortized 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 profit on the principal amount outstanding.

The financial instruments not measured at fair value are short-term financial assets and financial liabilities whose carrying amounts are a reasonable approximation of fair value.

Cash and cash equivalents include cash in hand, deposits with banks and other short term investments in an active market with original maturities of three months or less.

The Fund Manager classify cash and cash equivalents, dividend receivable and other receivables as financial assets at amortized cost.

###### *ii) Financial assets at fair value through other comprehensive income ("FVOCI")*

A financial asset is measured at fair value through FVOCI only if it meets both of the following conditions and is not designated as at FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principle and profit on the principle amount outstanding.

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

The Fund does not have any financial assets that are designated at fair value through other comprehensive income (FVOCI).

###### *iii) Financial assets at fair value through profit or loss ("FVTPL")*

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. Investments in equity and debt securities are classified under this category.

##### *Business model assessment*

The Fund Manager assesses the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund Manager;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

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### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### ***h) Financial instruments (continued)***

##### *Business model assessment (continued)*

- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Fund's original expectations, the Fund does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

##### *Classification of financial liabilities*

Financial liabilities includes management fee payable, accrued expenses and other current liabilities, redemption payable and distribution payable are classified as financial liabilities at amortized cost.

##### *Initial recognition and measurement*

Financial assets at FVTPL are initially recognized on the trade date, which the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated.

Financial assets at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss. Financial assets or financial liabilities not FVTPL are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Net gain from financial assets at FVTPL includes all realized and unrealized fair value changes and foreign exchange differences, but excludes commission and dividend income. Net realized gain from financial assets at FVTPL is calculated using the average cost method.

Financial assets and liabilities at amortized cost are initially measured at fair value including direct and incremental transaction costs and subsequently measured at amortized cost. The amortized cost is the amount at which the financial asset or financial liability is measured on initial recognition, minus principle repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

##### *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

## **ARBAH IPO FUND**

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## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

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#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### ***h) Financial instruments (continued)***

###### *Fair value measurement (continued)*

When available, the Fund measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market as per the official closing price in the related stock exchange where the instrument is traded.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

###### *Derecognition*

The Fund derecognizes a financial asset when the contractual rights to the cash flow from the 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 does not retain control of the financial asset.

On derecognition of the financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognized) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. Any profit in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risk and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and repurchase transactions.

The Fund derecognize a financial liability when its contractual obligations are discharged or cancelled, or expire.

###### *Offsetting*

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

Income and expenses are presented on a net basis for gain and losses from financial instruments at FVTPL and foreign exchange gains and losses.

#### **5. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The amendments and accounting standards issued which are effective for the period beginning on or after 1 January 2019 and earlier application is permitted; however, the Fund has not early adopted these new amendments and standard in preparing these condensed interim financial statements as these do not have material impact on the Fund's condensed interim financial statements.

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**6. FIRST TIME ADOPTION OF IFRS**

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with generally accepted accounting standards as issued by Saudi Organization for Certified Public Accountants (“SOCPA”). These condensed interim financial statements for the six-months period ended 30 June 2018 are the first financial statements of the Fund prepared in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia. In preparing its opening IFRS statement of financial position i.e. on 1 January 2017, the Fund has considered adjustments required however, the numbers reported previously in financial statements prepared in accordance with SOCPA do not need any adjustment and hence considered as it is in opening IFRS statement of financial position.

**7. CASH AND CASH EQUIVALENTS**

	<b>30 June 2018 (Unaudited)</b>	31 December 2017 (Audited)	1 January 2017 (Unaudited)
Bank balance	<b>13,966,951</b>	3,906,117	34,300,605
	<b>13,966,951</b>	3,906,117	34,300,605

**8. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>30 June 2018 (Unaudited)</b>	31 December 2017 (Audited)	1 January 2017 (Unaudited)
Equity securities	<b>13,600,411</b>	-	-
Units of mutual funds	<b>2,025,338</b>	-	-
	<b>15,625,749</b>	-	-

Equity securities have been designated as at FVTPL as they are managed on a fair value basis and their performance is actively monitored.

Investment in mutual funds represents investment in Arbah Saudi Equity Fund, another fund managed by the Fund manager. Arbah Saudi Equity fund aims to achieve capital growth over medium to long term by investing mainly in Saudi listed equities.

Information about the Fund’s exposure to credit and market risks, and fair value measurement, is disclosed in Note 12.

**9. NET GAIN FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>For the six-month period ended 30 June</b>	
	<b>2018 (Unaudited)</b>	2017 (Unaudited)
Realized gain from investments at fair value through profit or loss	<b>355,799</b>	-
Unrealized gain from investments at fair value through profit or loss	<b>397,937</b>	-
	<b>753,736</b>	-

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**10. NET LOSS FROM INVESTMENTS HELD FOR TRADING**

	<b>For the six-month period ended</b>	
	<b>30 June</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
Realized loss from investments held for trading	-	(4,692,841)
Unrealized loss from investments held for trading	-	(2,612,695)
	<b>-</b>	<b>(7,305,536)</b>

**11. RELATED PARTY TRANSACTIONS AND BALANCES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The related parties of the Fund include the Fund Manager, the Fund Board and other funds being managed by the Fund Manager. The Fund transacts with the Fund Manager on the agreed terms and conditions.

**a) Management fee and other expenses**

The Fund is managed and administered by the Fund Manager. The Fund Manager charges the Fund a management fee at 1.75% and 0.25% (note 1c) custodian fees based on the annual net asset value of the fund calculated at each evaluation day.

In addition, the Fund Manager has also the right to collectively charge the Fund, all other expenses related to the management of the Fund, including but not limited to audit fees, custody, fund administration fees etc. subject to the limits set out in the Fund's terms and conditions.

**b) Transactions with related parties**

Related party transactions, approved by the Fund Board for the period are as follows:

<b>Related party</b>	<b>Nature of relationship</b>	<b>Nature of transaction</b>	<b>30 June 2018</b>	<b>30 June 2017</b>
			<b>(Unaudited)</b>	<b>(Unaudited)</b>
Arbah Capital Company	Fund Manager and a unitholder	Management and custodian fees	<b>420,268</b>	654,078
		Subscription for units	-	4,031,305
		Redemption of units	<b>12,365,220</b>	6,078,923
Arbah Saudi Equity Fund	Fund managed by Fund Manager	Purchase of units	<b>1,949,942</b>	-
Fund board	Key management personnel	Board compensation	<b>8,300</b>	8,300

**c) Amounts due to related parties**

As at 30 June 2018, accrued expenses include management and custodian fees amounted to SR 26,667 (31 December 2017: SR 83,900).

**d) As at 30 June 2018, the Fund Manager owns 1,300,000 units amounting to SR 22,919,130 (31 December 2017: 2,000,000 units amounting to SR 34,595,000).**

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## **12. FINANCIAL RISK MANAGEMENT**

### **Risk management**

Risk management is an integral part of the investment and the operational process. Risk management can be distinguished in financial risk management, operational risk management and independent risk measurement. Financial risk management encompasses all elements of the investment process. A number of risk management systems allow Fund to notice any deviations from intended positioning and targets. Operational risk management encompasses the four areas of potential losses: processes, systems, people and external events. Risk measurement is an independent function, which is functionally separated from the operational department and portfolio management.

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

The Fund has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks; and
- operational risk

The Fund primarily aims investing mainly in the shares of public companies during the Initial Public Offering (IPO) and rights issue shares in companies listed for not more than five years in the Kingdom of Saudi Arabia. The nature and extent of the financial instruments outstanding at the statement of financial position date and the risk management policies employed by the Fund are discussed below. The Fund's Terms & Conditions details its investment policies and guidelines that encompass its overall investment strategy, its tolerance for risk and its general risk management philosophy.

The portfolio management team has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the portfolio management team on a regular basis. In instances where the portfolio has diverged from target asset allocations, the Portfolio Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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

#### **a) Market risk**

Market Risk is the risk that changes in market prices – such as profit rates, foreign exchange rates, equity prices and credit spreads – will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's Terms and Conditions.

The Fund's market risk is managed by the investment manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a daily basis by the portfolio manager.

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## 12. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Risk management framework (continued)

#### *Financial instruments and associated risks (continued)*

#### a) Market risk (continued)

##### i) Foreign exchange risk / currency risk

Foreign currency risk arises as the value of future transactions, recognized monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. The Fund is currently not exposed to any significant foreign exchange risk / currency risk as all the investments are made in SAR.

##### ii) Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Fund Manager monitors positions regularly to ensure maintenance of positions within established gap limits. The Fund is not subject to commission rate risk on its investments.

##### (iii) Equity Risk

Equity risk is the risk that the Fund is exposed to the volatility of the fair value of the equity securities it holds. The fair value of individual securities may fluctuate as a result of e.g. company specific news, broad market movements, profit rate risk or foreign currency movements. The Fund Manager continuously monitors the (potential) determinants of the value of the securities held and the total portfolio value. As such, risk management is an integral part of investment management which comprises security selection and portfolio construction. The exposures in various stocks, and economic sectors and country are frequently monitored, measured and managed against the norms which have been defined for those exposures.

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. The Fund's policy is to manage price risk through diversification and selection of securities and other financial instruments within specified limits set by the Fund's terms and conditions. A summary analysis of investments by nature is presented in under this note.

The majority of the Fund's equity investments are publicly traded and overall market position is monitored on a daily basis by Fund's Investment Manager and it is reviewed on quarterly basis by the portfolio management team. The Fund's policy is to manage price risk through diversification and selection of securities.

#### *Exposure*

The Fund Manager monitors the concentration of risk for equity investments based on counterparties and industries. The Fund manages its exposure to price risk by analyzing the investment portfolio by economic sector. The Fund's policy is to concentrate the investment portfolio in sectors where management believes the Fund can maximize the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the significant economic sector concentrations within the investment portfolio.

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

**Risk management framework (continued)**

*Financial instruments and associated risks (continued)*

**a) Market risk (continued)**

<b>30 June 2018 (Unaudited)</b>			
<b>Industry</b>	<b>Cost</b>	<b>Fair value</b>	<b>% of fair value to total equity investment</b>
Commercial and professional service	3,529,680	4,096,400	26.22%
Basic materials	3,352,435	3,351,991	21.45%
Capital goods	2,561,702	2,405,920	15.40%
Transportations	2,142,673	1,985,500	12.70%
Health care	1,691,380	1,760,600	11.27%
	<b>13,277,870</b>	<b>13,600,411</b>	87.04%
Mutual fund	1,949,942	2,025,338	12.96%
	<b>15,227,812</b>	<b>15,625,749</b>	100.00%

  

<b>31 December 2017 (Audited)</b>			
<b>Industry</b>	<b>Cost</b>	<b>Fair value</b>	<b>% of fair value to total equity investment</b>
Commercial and professional service	6,642,094	5,741,586	12.77%
Capital goods	4,292,620	4,317,928	9.61%
Basic materials	7,883,399	7,751,443	17.24%
Transportations	2,994,555	2,948,250	6.56%
Health care	16,950,449	16,431,070	36.55%
Insurance	4,576,688	4,479,900	9.97%
Consumer services	2,067,945	2,011,420	4.47%
Real estate	809,060	830,202	1.86%
Consumer goods	421,428	438,080	0.97%
	<b>46,638,238</b>	<b>44,949,879</b>	100.00%

The Fund Manager monitors and manages the price risk on a regular basis.

The table below sets out the effect on net assets attributable to the Unitholders of a reasonably possible weakening in the individual equity market prices of 1% at 30 June 2018. The estimates are made on an individual investment basis. The analysis assumes that all other variables, remain constant:

	<b>30 June 2018</b>		<b>31 December 2017</b>		<b>1 January 2017</b>	
	%	SAR	%	SAR	%	SAR
Effect on net assets	<b>1%</b>	<b>(136,004)</b>	1%	(449,499)	1%	(494,872)

A strengthening in the individual equity market prices of 1% at 30 June 2018 would have resulted in an equal but opposite effect to the amounts shown above.

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

### **Risk management framework (continued)**

#### ***Financial instruments and associated risks (continued)***

#### **(b) Credit risk**

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from securities held, cash and cash equivalents.

Funds credit risk is monitored on a regular basis by the Fund's portfolio management team. If the credit risk is not in accordance with the investment policies or guidelines of the Fund, then the portfolio manager is obliged to rebalance the portfolio immediately after the determination that the portfolio is not in compliance with the stated investment parameters.

The Fund's activities may give rise to settlement risk. "Settlement risk" as the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.

#### **(c) Liquidity risk**

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

The Fund's terms and conditions provide for subscription and redemption of units on every Saudi business day and it is, therefore, exposed to the liquidity risk of meeting the Unitholder redemptions on these days. The Fund's financial liabilities primarily consist of payables which are expected to be settled within one month from the statement of financial position date.

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

The Fund's investments in listed securities are considered to be readily realizable because they are actively traded on Tadawul.

The Fund manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within short period of time.

#### **(d) Operational risk**

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

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

**Risk management framework (continued)**

***Financial instruments and associated risks (continued)***

**(d) Operational risk (continued)**

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

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team.

**13. FAIR VALUE MEASUREMENT**

***Valuation models***

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Fund values equity securities that are traded on an approved stock exchange at their last reported prices. To the extent that equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy, hence the Fund's equity securities recorded at fair value have been categorized based on fair value hierarchy Level 1.

Listed equity securities and mutual funds are valued using quoted prices in an active market for an identical instrument (Level 1 measurement).

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**13. FAIR VALUE MEASUREMENT (CONTINUED)***Carrying amounts and fair value*

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

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. The following table shows the carrying amounts and fair values of financial instruments and non-financial instruments including their levels in the fair value hierarchy:

<b>30 June 2018 (Unaudited)</b>				
<u>Financial assets at fair value</u>	<u>Carrying Value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value through profit or loss	13,600,411	13,600,411	-	-
Investment in mutual fund	2,025,338	2,025,338	-	-
<u>Financial assets not measured at fair value</u>				
Cash and cash equivalent	13,966,951	-	-	13,966,951
Dividend receivable	143,400	-	-	143,400
<b>Total</b>	<b>29,736,100</b>	<b>15,625,749</b>	<b>-</b>	<b>14,110,351</b>
<u>Financial liabilities not measured at fair value</u>	<u>Carrying Value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Accrued expenses	111,319	-	-	111,319
<b>Total</b>	<b>111,319</b>	<b>-</b>	<b>-</b>	<b>111,319</b>
<b>31 December 2017 (Audited)</b>				
<u>Financial assets at fair value</u>	<u>Carrying Value</u>	<u>Fair value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments held for trading	44,949,879	44,949,879	-	-
<u>Financial assets not measured at fair value</u>				
Cash and cash equivalent	3,906,117	-	-	3,906,117
Dividend receivable	121,875	-	-	121,875
<b>Total</b>	<b>48,977,871</b>	<b>44,949,879</b>	<b>-</b>	<b>4,027,992</b>

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**13. FAIR VALUE MEASUREMENT (CONTINUED)**

*Carrying amounts and fair value*

	31 December 2017 (Audited)			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Financial liabilities not measured at fair value</u>				
Accrued expenses	94,900	-	-	94,900
Total	94,900	-	-	94,900

	1 January 2017 (Unaudited)			
	<u>Carrying Value</u>	<u>Level 1</u>	<u>Fair value Level 2</u>	<u>Level 3</u>
<u>Financial assets at fair value</u>				
Investments held for trading	49,487,231	49,487,231	-	-
<u>Financial assets not measured at fair value</u>				
Cash and cash equivalent	34,300,605	-	-	34,300,605
Dividend receivable	37,213	-	-	37,213
Total	83,825,049	49,487,231	-	34,337,818

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Financial liabilities not measured at fair value</u>				
Accrued expenses	163,001	-	-	163,001
Total	163,001	-	-	163,001

For assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value. During the current year, no financial assets / liabilities have been transferred between level 1 and / or level 2 fair value hierarchy.

**14. EVENTS AFTER THE END OF THE REPORTING PERIOD**

There are no events subsequent to the statement of financial position date which require adjustments of or disclosure in the financial statements or notes thereto.

**15. LAST VALUATION DAY**

The Fund units are valued twice a week (on Sundays and Tuesdays) and valuations are announced on the following business day.

**16. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements were authorized for issue by the Fund Manager on 3 Dhul Hajjah 1439H, corresponding to 14 August 2018G.