

MEFIC Murabaha SAR Fund Semi Annual Report 2018

التقرير النصف سنوي لصندوق ميفك للمرابحة بالريال السعودي 2018 Q2



Article 71(H)

A Top Ten Holdings*

Name of Stock*	% Holding in the stock*
i Sukuk Investment 1	7.17%
ii Murabaha Investment 1	5.80%
iii Murabaha Investment 2	5.66%
iv Sukuk Investment 2	4.53%
v Murabaha Investment 3	4.33%
vi Murabaha Investment 4	4.30%
vii Murabaha Investment 5	4.30%
viii Murabaha Investment 6	4.30%
ix Murabaha Investment 7	4.24%
x Sukuk Investment 3	3.24%

* Stock holdings as at Apr 01, 2018

F Standard Measure of Risk

i Standard Deviation – Fund	0.39%
ii Standard Deviation -Benchmark	0.03%

** the information in based on the Jun 30, 2018

***Annualized return

B Fee Details

Name	% of Total NAV
i Management Fees	0.5%
ii Other Fees	0.0%
iii Total Expenses Ratio	0.5%

C Profit Distribution

D Dealing Expenses in the Fund

E Fund Manager Investment in the Fund

H Fund Borrowing %

	Amount	%
C Profit Distribution	Nil	0.00%
D Dealing Expenses in the Fund	Nil	0.00%
E Fund Manager Investment in the Fund	Nil	0.00%
H Fund Borrowing %	Nil	0.00%

G Fund & Index Performance (Q2 2018)***

	YTD	Benchmark	Alpha
	1.89	1.50	0.39

Annex 5

A Investment fund information

i Name of the Fund	MEFIC SAR MURABAHA FUND
ii Investment Objective	To provide capital increase and liquidity through investment in low risk money market instruments which are shariah compliant and provide a return above 3 month SAIBOR
iii Policy & Procedure	Terms & Conditions Available on Tadawul Website
iv Distribution of Income & Gain Policy	No Distribution of Dividend
v Statement of Fund Report	Fund Annual Financial Report as of 30 Jun 2018 is available on Tadawul website and available on request to investors at free of charge

B Fund Performance Table

	1 Year	3 Year	5 Year	Inception
Return	2.11%	2.26%	2.18%	1.76%

	2011	2012	2013	2014	2015	2016	2017	Q1 2018
Annualized Return	0.33%	1.15%	1.63%	2.3%	1.39%	2.80%	2.38%	1.89%

	2013	2014	2015	2016	2017	1H 2018
NAV	86,838,046	361,810,636	570,959,702	292,987,318	399,066,956	275,296,746
Unit Price	103.08	105.47	106.94	109.94	112.56	113.62
NAV High	103.08	105.48	106.94	109.94	112.56	113.62
NAV Low	101.43	103.07	105.47	106.94	109.94	112.56
Number of Units	842,395	3,430,437	5,338,989	2,664,906	3,545,365	2,423,005
Expense Ratio	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Income distribution	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

C Fund Fees and Expenses

	2013	2014	2015	2016	2017	1H 2018
Management Fee	477,495	826,260	2,359,443	2,157,684	2,530,956	990,227
Other Expense	0	0	524	1,528	0	0
Total Expense Ratio	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

D Fund Manager Information

MEFIC Murabaha SAR Fund Semi Annual Report 2018

التقرير النصف سنوي لصندوق ميفك للمرابحة بالريال السعودي 2018 Q2



Name & Address	MEFIC Capital, 7758 King Fahed Road Olaya Riyadh 12333
Investment Activities	MEFIC Capital is an Authorized Person regulated by CMA with License # 37-060209. MEFIC Capital's investment management business focuses on the management of public-listed funds, private placements, and real estate funds. MEFIC offers broad range of investment products to meet the varying investment needs and risk profiles of both institutional and retail investors. As at 31-Dec-2016, MEFIC had assets under management (AUM) of SAR 2.2bn, and MEFIC funds outperformed benchmarks during the period under review.
Investment Fund Performance	The fund generated an annualized return of 1.89% as compared to benchmark return of 1.50%, Alpha of +0.39
Material Changes	None

E Custodian Information

Name & Address	Albilad Capital, King Fahd Branch Rd, Riyadh 12313.
Custodian Responsibilities	All necessary measures regarding custody and safe keeping of assets for unit holders.
Custodian Opinion	According to the agreement with the custodian, they are not required to provide a statement of opinion on the following: <ul style="list-style-type: none">• issued, transferred and redeemed the units in accordance with the provisions of the Investment Funds Regulations and the fund's Terms and Conditions;• valued and calculated the price of units in accordance with the provisions of the Investment Funds Regulations , the fund's Terms and Conditions and the information memorandum;• breached any of the investment restrictions, limitations and borrowing powers applicable to the Investment fund Regulations.

F Auditor Information

Name & Address	BDO Dr. Mohamed Al-Amri & Co. P.O. Box 8736, Riyadh 11492, Kingdom of Saudi Arabia
Auditor Opinion	Based on our(BDO Dr. Mohamed Al-Amri & Co.) review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
UNAUDITED CONDENSED INTERIM FINANCIAL
STATEMENTS FOR THE SIX MONTHS PERIOD ENDED
30 JUNE 2018
together with the
INDEPENDENT AUDITOR'S REVIEW REPORT

MEFIC SAUDI RIYAL MURABAHA FUND
Managed By Middle East Financial Investment Company
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REVIEW REPORT
For the six months period ended 30 June 2018

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**INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED INTERIM
FINANCIAL STATEMENTS**

To: **The Unitholders of
MEFIC Saudi Riyal Murabaha Fund
Riyadh, Kingdom of Saudi Arabia**

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **MEFIC Saudi Riyal Murabaha Fund** ("the Fund") as at 30 June 2018 and the related condensed interim statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the six months period then ended, together with a summary of significant accounting policies and other explanatory notes from 1 to 14.

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

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

Scope of Review

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

Conclusion

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

For Dr. Mohamed Al-Amri

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



Riyadh, on: 1 Thul Hijjah 1439 (H)
Corresponding to: 12 August 2018 (G)

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

	30 June 2018	31 December 2017	1 January 2017
Notes	Unaudited	Audited	Audited
ASSETS			
Cash and cash equivalents	7 190,052,670	307,619,372	76,557,787
Murabaha placements	8 39,348,303	132,348,289	167,688,634
Investments	9 46,025,632	102,597,065	48,869,343
Total assets	275,426,605	542,564,726	293,115,764
LIABILITIES			
Management fee payable	10 123,675	231,852	128,445
Other payable	6,184	-	-
Redemption money payable	-	143,265,917	-
Total liabilities	129,859	143,497,769	128,445
Net assets attributable to the Unitholders	275,296,746	399,066,957	292,987,319
Units in issue (numbers)	2,423,004.57	3,545,364.55	2,664,905.83
Net assets value – per unit	113.62	112.56	109.94

The accompanying notes from 1 to 14 form an integral part of these condensed interim financial statements.

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

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
INCOME			
Profit on Murabaha placements		3,279,244	5,234,203
Commission income on investments		1,916,859	1,808,115
Unrealized gain on investments	9(a)	135,968	141,996
Realized loss on investments		(561,953)	(7,564)
Other investment related expenses		(242,158)	(337,546)
Total income		<u>4,527,960</u>	<u>6,839,204</u>
EXPENSES			
Management fee	10	(990,228)	(1,190,523)
Bank charges		(664)	-
Total expenses		<u>(990,892)</u>	<u>(1,190,523)</u>
Operating profit for the period		3,537,068	5,648,681
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>3,537,068</u>	<u>5,648,681</u>

The accompanying notes from 1 to 14 form an integral part of these condensed interim financial statements.

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

	<u>2018</u>	<u>2017</u>
Net assets value at 1 January	399,066,957	292,987,318
Net income for the period	3,537,068	5,648,681
Changes from unit transactions		
Proceeds from issuance of units	249,623,417	409,295,925
Payment against units redeemed	(376,930,696)	(183,693,317)
Net change from unit transactions	(127,307,279)	225,602,608
Net assets value at 30 June	275,296,746	524,238,607
 UNIT TRANSACTIONS		
	<u>2018</u>	<u>2017</u>
	Units	
Units at 1 January	3,545,364.55	2,664,905.83
Units issued during the period	2,211,155.00	3,702,003.52
Units redeemed during the period	(3,333,514.98)	(1,655,701.24)
Units at 30 June	2,423,004.57	4,711,208.11

The accompanying notes from 1 to 14 form an integral part of these condensed interim financial statements.

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
 For the six months period ended 30 June 2018
 (Saudi Riyals)

	<u>2018</u>	<u>2017</u>
CASHFLOW FROM OPERATING ACTIVITIES		
Net income for the period	3,537,068	5,648,681
<i>Adjustments:</i>		
Amortization of premium/discount on investments	168,344	(247,850)
Unrealized gain on investments	(135,968)	(141,996)
Realized loss on investments	561,953	7,564
<i>Changes in operating assets and liabilities</i>		
Murabaha placements	92,999,986	(151,878,546)
Accrued special commission income	-	(1,849,270)
Redemption money payable	(143,265,917)	-
Management fee payable	(108,177)	91,388
Other payable	6,184	-
Purchase of investments	-	(58,607,937)
Proceed from disposal of investments	55,977,104	6,365,736
Net cash generated from / (used in) operating activities	9,740,577	(200,612,230)
CASHFLOW FROM FINANCING ACTIVITIES		
Proceeds from subscription of units	249,623,417	409,295,925
Payments against redemption of units	(376,930,696)	(183,693,317)
Net cash (used in) / generated from financing activities	(127,307,279)	225,602,608
Net (decrease) / increase in cash and cash equivalent	(117,566,702)	24,990,378
Cash and cash equivalent at the beginning of the period	307,619,372	16,557,787
Cash and cash equivalent at the end of the period	190,052,670	41,548,465

The accompanying notes from 1 to 14 form an integral part of these condensed interim financial statements.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

MEFIC Saudi Riyal Murabaha Fund (“the Fund”) is an open-ended investment fund established and managed through an agreement between the Middle East Financial Investment Company (the “Fund Manager”) and the investors (the “Unitholders”).

The objective of the Fund is to achieve capital increase and the provision of liquidity through investment in low-risk Murabaha based trade transactions that are compliant with Shariah principles and to achieve a return above the benchmark return, which is three months SIBOR.

The Fund commenced its operations on 26 Rabi’ Awwal 1432 H (corresponding to 1 March 2011 G). The approval from Capital Market Authority (“CMA”) for the establishment of the Fund was granted in its letter number 7481/5 dated 21 Ramadan 1431 H (corresponding to 31 August, 2010 G).

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.

2. REGULATORY AUTHORITY

The Fund is governed by the Investment Funds Regulations (the “Regulations”) issued by CMA as amended up to 16 Sha’ban 1437 H (corresponding to 23 May 2016 G) detailing requirements for the investment funds operating in the Kingdom of Saudi Arabia.

3. SUBSCRIPTION / REDEMPTION

Subscription / redemption requests are accepted on all days on which Tadawul is open.

The value of the Fund’s portfolio is determined daily. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets (fair value of the Fund’s assets minus fund’s liabilities) of the fund by the total number of outstanding fund units on that day.

4. BASIS OF PREPARATION

4.1 *Statement of compliance*

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

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

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

BASIS OF PREPARATION (Continued)

4.2 Transition to International Financial Reporting Standards (IFRSs)

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

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

The accounting policies used by the management of the Fund in preparation of these condensed interim financial statements are disclosed in note 5. The Fund has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 12 to these condensed interim financial statements.

4.3 Basis of measurement

These financial statements have been prepared under the going concern concept and the historical cost convention using the accrual basis of accounting except for investments which are measured at fair value.

4.4 Functional and presentation currency

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

5. SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at banks and highly liquid investments with original maturity of three months or less from the date of maturity, which are available to the Fund without any restriction.

b) Murabaha placements

Murabaha placements are fixed deposit investments placed with various banks and are stated at amortized cost value determined on cost plus accrued commission basis.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue recognition

Commission income on Murabaha placements is recognized on accrual basis over the period of the contract based on the principal amounts outstanding and agreed rate of commission. Revenue recognition on other financial assets is explained in relevant notes to financial assets.

d) Management fee

Management fee is charged to condensed interim statement of income at rate agreed with the Fund Manager. It is calculated on each valuation day at an annual percentage of the Fund's net assets value.

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) Zakat / Income tax

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

g) Subscription and redemption of units

Units subscribed and redeemed are recorded at the net asset value per unit on the valuation day for which the subscription request and redemption applications are received.

h) Net asset value

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

i) Critical accounting estimates and judgment

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

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

j) Financial instruments

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

Financial assets

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Classification

The financial assets are classified in the following measurement categories:

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

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

ii. Measurement

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

Debt Instruments

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

- a) The asset is held within a business model with the objective of collecting the contractual cash flows, and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and commission on the principal outstanding.

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

Equity Instruments

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

iii. De-recognition of financial assets

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

iv. Impairment of financial assets

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

v. Income recognition

Commission income

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

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

Dividends income

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

Financial liabilities

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

i. Classification

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured at fair value through profit or loss, and
- b) Those to be measured at amortized cost.

ii. Measurement

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the six month period ended 30 June 2018
(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

iii. Derecognition of financial liabilities

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

k) Offsetting of financial instruments

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

l) Trade date accounting

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

All other financial assets and liabilities (including assets and liabilities designated at fair value through income statement) are initially recognized on trade date at which the Fund becomes a party to the contractual provisions of the instrument.

6. FUND MANAGEMENT FEE

The Fund Manager charges the Fund, a management fee at the rate of 0.5% per annum of the Fund’s net asset value, which is calculated on daily basis and payable monthly.

The Fund Manager is also entitled to recover certain expenses incurred on behalf of the Fund within limits mentioned in terms and conditions of the Fund. The Fund Manager has waived its fee towards other expenses of the Fund.

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
 For the six month period ended 30 June 2018
 (Saudi Riyals)

7. CASH AND CASH EQUIVALENTS

	30 June 2018 Unaudited	31 December 2017 Audited
Cash held with custodian	75,000	4,140,663
Cash at banks	7,362,516	48,040,979
Short-term Murabaha placements	182,615,154	255,437,730
	190,052,670	307,619,372

8. MURABAHA PLACEMENTS

	30 June 2018 Unaudited	31 December 2017 Audited
Murabaha placements – principal amount	38,488,024	130,000,000
Accrued profit on Murabaha placements	860,279	2,348,289
	39,348,303	132,348,289

9. INVESTMENTS

	Notes	30 June 2018 Unaudited	31 December 2017 Audited
Financial assets at fair value through profit or loss	9(a)	9,700,787	9,564,820
Financial assets at amortized cost	9(b)	36,324,845	93,032,245
		46,025,632	102,597,065

a) Financial assets at fair value through profit or loss

Investment held at fair value through profit or loss is as follows:

30 June 2018	Carrying value	Fair value	Unrealized gain
MEFIC Murabaha Plus Fund (8,724.14 units)	9,564,820	9,700,787	135,967
	Carrying value	Fair value	Unrealized gain
31 December 2017			
MEFIC Murabaha Plus Fund (8,724.14 units)	9,266,624	9,564,820	298,196

b) Financial assets at amortized cost

	Maturity date	Coupon rate	30 June 2018 Unaudited	31 December 2017 Audited
Turfin 3.95 Sukuk	5/2/2018	3.950%	-	35,436,160
Tufika 5.375 Sukuk	24/4/2019	5.375%	25,017,487	25,191,021
Darala 5.75 Sukuk	24/5/2018	5.750%	-	15,871,720
Darala 6.5 Sukuk	28/5/2019	6.500%	11,307,358	11,302,168
Turksk 4.489 Sukuk	25/11/2024	4.489%	-	5,231,176
			36,324,845	93,032,245

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10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties of the Fund include the Unitholders, the Fund Manager and other funds managed by the Fund manager. In the ordinary course of its activities, the Fund transacts business with the Fund Manager. Related party transactions are in accordance with the terms and conditions of the Fund. All transactions with related parties are carried out based on mutually agreed prices under formal agreement.

The transactions with related parties for the period are as follows:

<u>Related Party</u>	<u>Nature of transaction</u>	<u>30 June 2018</u>	<u>30 June 2017</u>
Middle East Financial Investment Company (<i>Fund Manager</i>)	Management fee	943,074	1,190,523

The above transactions resulted in the following balance due to related party:

<u>Related Party</u>	<u>Balance</u>	<u>30 June 2018 Unaudited</u>	<u>31 December 2017 Audited</u>
Middle East Financial Investment Company (<i>Fund Manager</i>)	Management fee payable	123,675	231,852

As at 30 June 2018 the Fund has investment of SR 9.7 million (31 December 2017: SR 9.56 million) in MEFIC Murabaha Plus Fund, a fund managed by the Fund Manager.

11. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Financial instruments by category and their fair values

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

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

Currently, investments in Murabaha Plus Fund amounting to SR 9.7 million (31 December 2017: 9.56 million) is the only financial asset at fair value and classified under level 3. The carrying values of all other financial assets and liabilities reflected in these condensed interim financial statements approximate their fair values. There was no other material Level 1, 2 or 3 asset or liability during the current period and preceding year.

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

MEFIC SAUDI RIYAL MURABAHA FUND
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FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

Financial Risk Management

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

- credit risk;
- liquidity risk; and
- market risk (including currency risk and interest rate risk).

Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Fund is exposed to credit risk on its bank balance and financial assets. Bank balance and financial assets are maintained with reputed local banks having satisfactory credit ratings. Therefore the Fund Manager believes that the Fund is not exposed to any significant residual credit risk.

Liquidity risk

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

Market risk

Currency risk

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

Commission rate risk

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

12. EFFECT OF TRANSITION TO IFRSs

Transition to IFRSs has not affected the reported financial position, financial performance and cash flows of the Fund at 31 December 2017, 1 January 2017 or for the period ended 30 June 2017. Consequently, no transition note reconciling the previous statements reported under Saudi generally accepted accounting principles and the same statements as reported under IFRS is not necessary, as both reported statements are the same. However, as the financial statements for all periods up to and including the year ended 31 December 2017 did not contain an explicit and unreserved statement of compliance with IFRSs, the management has applied the guidance given in "IFRS 1 First-time Adoption of International Financial Reporting Standards" in preparing these condensed interim financial statements.

13. LAST VALUATION DAY

The last valuation date of the period was 30 June 2018 (2017: 31 December 2017).

14. APPROVAL OF CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved by the Fund Board on 1 Thul Hijjah' 1439 H corresponding to 13 August 2018 G.

MEFIC SAR MURABAHA FUND

Half Yearly Performance Report

As of 30 Jun 2018

Fund Board of Directors

FUND OBJECTIVE

The main objective of the fund is to achieve capital preservation and the provision of liquidity through investment in low-risk Murabaha based trade transactions that are compliant with Shariah principles and achieve a return above the benchmark of SIBOR 3 months.

MONEY MARKET REVIEW – 1H18

Kingdom of Saudi Arabia (KSA) looked towards the international debt market in 1H18 to fund their fiscal budget deficit owing to low oil price environment. Within less-than-three-years, the KSA government has managed to build a robust yield curve, supported by strong investor appetite in both primary and secondary market. The KSA curve is indeed now one of the most active sovereign curves in the GCC & EM.

KSA issued US\$11bn worth of sovereign bonds with three tranches of 7 year, 12 year and 31 year.

Interest Rates in KSA continued to increase during 1H18 with three-month Saudi Interbank Offered Rate (SAIBOR) increasing from 1.90% in Jan-2018 to 2.59% in Jun-2018, up 37% during the period. Less availability of liquidity in the banking system coupled with interest rate hikes by US Federal Reserve's bank pushed the rates up throughout 1H2018.

On the global front, Federal Reserve Bank of US considered the two (2) rate hikes in 1H18 one in March and another in June. The move had little impact on local KSA markets as it was largely priced-in. Going forward, odds for further two rate hikes are stronger during 2H2018.

FUND PERFORMANCE TABLE

Performance	1M	3M	YTD	1Y	Since Inception
Fund	0.20%	1.80%	1.94%	2.10%	13.83%
Fund Performance					
Annualized Return					1.86%
Standard Deviation					0.04%

FUND FINANCIAL STATEMENTS

The audited financial statements for the fund have been prepared & uploaded on the Tadawul Website, within the specified time frame, in compliance with the IFR.

BOARD MEETING DISCUSSION – KEY TAKEAWAYS

1. MEFIC Murabaha SAR Fund maintained the top ranking during the year 2017. The fund generated 2.4% return, which is well above the 3 months SAIBOR rate.
2. The reason for the performance is that we have invested in Sukuk which matured less than a year's return and in banks outside the Kingdom. We are keen not to invest in countries with economic problems, so we went to banks that give good returns with little risk. SAIBOR & LIBOR, which gave us the opportunity to build centers and benefited from, which reflected the performance in the positive.
3. 2017 Financial Statements has been uploaded on the site.
4. It is confirmed to the Fund Board, in accordance the Article 13 of IFR, that the Fund has no conflict of interest.

APPROVALS

1. It was mentioned that we have signed the master custody agreement with AlBilad Capital; T&C was updated and announced in Tadawul /MEFIC site.
2. Fund T&C has been converted into new IFR format and uploaded.
3. The replacement of the board member Amrith Mukkamala with Khloud Al Ghati, and T&C of all funds were updated to reflect the replacement and approved by the CMA.