

MEFIC Murabaha SAR Fund Annual Report 2017

التقرير السنوي لصندوق ميفك للمرابحة بالريال السعودي ٢٠١٧



Article 71(H)

A Top Ten Holdings

Name of Stock	% Holding in the stock
i Sukuk Investment 1	6.94%
ii Sukuk Investment 2	4.96%
iii Murabaha Investment 1	4.92%
iv Murabaha Investment 2	4.92%
v Murabaha Investment 3	4.88%
vi Murabaha Investment 4	4.86%
vii Murabaha Investment 5	4.22%
viii Murabaha Investment 6	3.92%
ix Murabaha Investment 7	3.92%
x Sukuk Investment 3	3.12%

* Stock holdings as at Oct 01, 2017

F Standard Measure of Risk

i Standard Deviation – Fund	0.40%
ii Standard Deviation -Benchmark	0.02%

** the information in based on the Dec 31, 2017

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

	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 (2017)

	YTD	Benchmark	Alpha
	2.38	1.23	1.15

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 31 Dec 2017 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	2.38%	2.19%	2.10%	1.75%

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

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

C Fund Fees and Expenses

	2014	2015	2016	2017
Management Fee	826,260	2,359,443	2,157,684	2,530,956
Other Expense	0	524	1,528	0
Total Expense Ratio	0.5%	0.5%	0.5%	0.5%

MEFIC Murabaha SAR Fund Annual Report 2017

التقرير السنوي لصندوق ميفك للمرابحة بالريال السعودي ٢٠١٧



D Fund Manager Information

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 2.38% as compared to benchmark return of 1.2%, Alpha of 1.15%
Material Changes	None

E Custodian Information

Name & Address	MEFIC Capital, 7758 King Fahed Road Olaya Riyadh 12333
Custodian Responsibilities	All necessary administrative measures regarding custody of assets; Taking custody & protecting fund assets
Custodian Opinion	MEFIC verifies that the below have been done in accordance with IFR & Funds' Terms and Conditions 1. Issuance, transfer and redemption of the units 2. Valuation and calculated the NAV price of units 3. Not breached any of the investment restrictions, limitations and borrowing powers

F Auditor Information

Name & Address	BDO Dr. Mohamed Al-Amri & Co. P.O. Box 8736, Riyadh 11492, Kingdom of Saudi Arabia
Auditor Opinion	We have audited the financial statements of MEFIC Saudi Riyal Murabaha Fund (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the balance sheet as at 31 December 2017 and the related statements of income, cash flows and changes in net assets attributable to the Unitholders for the year then ended including related notes from 1 to 14 which form an integral part of these financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2017
together with the
INDEPENDENT AUDITOR'S REPORT

MEFIC SAUDI RIYAL MURABAHA FUND
Managed By Middle East Financial Investment Company
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2017

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of **MEFIC Saudi Riyal Murabaha Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the balance sheet as at 31 December 2017 and the related statements of income, cash flows and changes in net assets attributable to the Unitholders for the year then ended including related notes from 1 to 14 which form an integral part of these financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Saudi Arabia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

Impairment of held to maturity investments

As at 31 December 2017, the Fund had held to maturity investments of SR 93.03 million. These investments comprise corporate Sukuk which are subject to the risk of impairment in value due to either adverse market situations and / or liquidity constraints faced by the issuers.

Management considers them to be impaired when there is evidence of a deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

We considered this as a key audit matter since the assessment of impairment requires significant judgment by management and the potential impact of impairment could be material to the financial statements.

On sample basis, we assessed the creditworthiness of counter parties and cash flows from the instrument to consider any defaults based on the terms and conditions of the offering documents of these Sukuk.

Revenue recognition

Revenue includes income from Sukuk and Murabaha placements which are recognized on time-proportion basis over the period of the contract based on the principal amounts outstanding and agreed rate of profit. Revenue recognition is considered a key audit matter as the timing and amount of revenue recognized in a financial period can have a material effect on the financial performance.

INDEPENDENT AUDITOR'S REPORT (CONT.)

We reviewed the revenue recognition accounting policy. We undertook substantive tests of transactions on a sample basis. We tested revenue cut-off at the year end and undertook an analytical review of revenue.

Other Information

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

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and Those Charged with Governance ("TCWG") for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and with the requirements of the Investment Funds Regulations as published by the Capital Market Authority in Kingdom of Saudi Arabia and the Fund's terms and conditions with respect to the preparation and presentation of financial statements and for such internal control as management determines is necessary to enable the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those Charged With Governance, in particular the Fund Board, are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT (CONT.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with TCWG regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

Further we confirm that in our opinion the financial statements comply with the requirements of the Real Estate Investment Funds Regulations as published by the Capital Market Authority in Kingdom of Saudi Arabia and the Fund's terms and conditions with respect to the preparation and presentation of financial statements.

For Dr. Mohamed Al-Amri & Co.

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



Riyadh, on: 26 Jumada II' 1439 (H)
Corresponding to: 14 March 2018 (G)

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
BALANCE SHEET
 As at 31 December 2017
 (Saudi Riyals)

	<i>Notes</i>	2017	2016
ASSETS			
Cash and cash equivalents	7	307,619,372	76,557,787
Murabaha placements	8	132,348,289	167,688,634
Investments	9	102,597,065	48,869,343
Total assets		542,564,726	293,115,764
LIABILITIES			
Management fee payable	10	231,852	128,445
Redemption money payable		143,265,917	-
Total liabilities		143,497,769	128,445
Net assets attributable to the Unitholders		399,066,957	292,987,319
Units in issue (numbers)		3,545,364.55	2,664,905.83
Net assets value – per unit		112.56	109.94

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
STATEMENT OF INCOME
 For the year ended 31 December 2017
 (Saudi Riyals)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>
INCOME			
Profit on Murabaha placements		9,800,315	9,383,022
Special commission income		3,825,359	3,621,186
Unrealized gain on investments held for trading	9(a)	298,196	306,549
Realized gain on investments held to maturity		456,087	559,935
Other investment related expenses		(219,532)	(452,017)
Total income		<u>14,160,425</u>	<u>13,418,675</u>
EXPENSES			
Management fee	10	(2,530,959)	(2,157,684)
Bank charges		(1,660)	(1,528)
Total expenses		<u>2,532,619</u>	<u>(2,159,213)</u>
NET INCOME FOR THE YEAR		<u>11,627,806</u>	<u>11,259,462</u>

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
STATEMENT OF CASH FLOWS
 For the year ended 31 December 2017
 (Saudi Riyals)

	<u>2017</u>	<u>2016</u>
CASHFLOW FROM OPERATING ACTIVITIES		
Net income for the year	11,627,806	11,259,462
<i>Adjustments:</i>		
Amortization of premium on held to maturity investment	-	397,501
Unrealized gain on investments held for trading	(298,196)	(306,549)
Realized gain from held to maturity investment	(456,087)	(559,935)
	10,873,523	10,790,479
<i>Changes in operating assets and liabilities</i>		
Murabaha placements	35,340,345	(37,033,578)
Accrued special commission income	-	628,939
Redemption money payable	143,265,917	-
Management fee payable	103,407	(125,667)
Purchase of held to maturity investments	(70,207,514)	(26,291,359)
Proceed from redemption of held to maturity investments	17,234,075	54,003,200
Net cash generated from operating activities	136,609,753	1,972,014
CASHFLOW FROM FINANCING ACTIVITIES		
Proceeds from subscription of units	522,578,988	439,954,076
Payments against redemption of units	(428,127,156)	(729,185,894)
Net cash generated from / (used in) financing activities	94,451,832	(289,231,818)
Net increase / (decrease) in cash and cash equivalent	231,061,585	(287,259,804)
Cash and cash equivalent at 1 January	76,557,787	363,817,591
Cash and cash equivalent at 31 December	307,619,372	76,557,787

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
 TO THE UNITHOLDERS**
 For the year ended 31 December 2017
(Saudi Riyals)

	<u>2017</u>	<u>2016</u>
Net assets value at 1 January	292,987,319	570,959,675
Net income for the year	11,627,806	11,259,462
Changes from unit transactions		
Proceeds from issuance of units	522,578,988	439,954,076
Payment against units redeemed	(428,127,156)	(729,185,894)
Net change from unit transactions	94,451,832	(289,231,818)
Net assets value at 31 December	399,066,957	292,987,319

UNIT TRANSACTIONS

	<u>2017</u>	<u>2016</u>
	Units	
Units at 1 January	2,664,905.83	5,338,988.60
Units issued during the year	4,715,055.91	4,065,651.76
Units redeemed during the year	(3,834,597.19)	(6,739,734.53)
Units at 31 December	3,545,364.55	2,664,905.83

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(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 value of assets (fair value of the Fund’s assets minus fund’s liabilities) by the total number of outstanding fund units on that day.

4. BASIS OF PREPARATION

4.1 *Statement of compliance*

These financial statements have been prepared and presented in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants (SOCPA), Investment Funds Regulations as published by CMA in Kingdom of Saudi Arabia and the Fund’s terms and conditions.

Transition to International Financial Reporting Standards

Saudi Organization for Certified Public Accountants (SOCPA) has approved a plan for transition to International Financial Reporting Standards (IFRS). Accordingly, the Fund will adopt IFRS for the periods beginning on or after 1 January 2018.

4.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

4.3 *Functional and presentation currency*

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Saudi Riyals)

BASIS OF PREPARATION (Continued)

4.4 Use of estimates and judgment

The preparation of 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 year in which the estimates are revised and future years affected.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted by the Fund and applied consistently throughout all the years presented in these 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, which are available to the Fund without any restriction.

b) *Investments*

Held for trading investments

Investments are classified as “held for trading” if they are purchased for the purpose of resale in short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenses incurred for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognized in the statement of income but excluding dividend income which are separately shown in the statement of income. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

Held to maturity investments

Investments having fixed or determinable payments and fixed maturity that the Fund has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at cost and are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

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.

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2017
 (Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Murabaha placements

Murabaha placements are held to maturity investments placed with various banks and are stated at amortized cost value determined on cost plus accrued profit basis.

d) Revenue recognition

Profit on Murabaha placements is recognized on time-proportion basis over the period of the contract based on the principal amounts outstanding and agreed rate of profit.

e) Management fee

Management fee is charged to 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.

f) Zakat / Income tax

Zakat / income tax is the obligation of the Unitholders and is not provided for in these 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 balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at year-end.

i) Financial instruments

Financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of financial assets and financial liabilities is taken directly to the Statement of Income.

6. FUND MANAGEMENT FEE

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.

7. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
Cash held with custodian	4,140,663	13,577
Cash at banks	48,040,979	16,544,210
Short-term Murabaha placements	255,437,730	60,000,000
	<u>307,619,372</u>	<u>76,557,787</u>

8. MURABAHA PLACEMENTS

	<u>2017</u>	<u>2016</u>
Murabaha placements – principal amount	130,000,000	165,176,050
Accrued profit on Murabaha placements	2,348,289	2,512,584
	<u>132,348,289</u>	<u>167,688,634</u>

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2017
 (Saudi Riyals)

9. INVESTMENTS

	<i>Notes</i>	2017	2016
Held for trading – related party	9(a)	9,564,820	9,266,624
Held to maturity investment – unquoted	9(b)	93,032,245	39,602,719
		102,597,065	48,869,343

a) Held for trading – related party

Held for trading investment as at 31 December is as follows:

<u>2017</u>	Carrying value	Fair value	Unrealized gain
MEFIC Murabaha Plus Fund (8,724.14 units)	9,266,624	9,564,820	298,196
<u>2016</u>	Carrying value	Fair value	Unrealized gain
MEFIC Murabaha Plus Fund (8,724.14 units)	8,960,075	9,266,624	306,549

b) Held to maturity - unquoted

	Maturity date	Coupon rate	2017	2016
Turfin 3.95 Sukuk	5/2/2018	3.950%	35,436,160	7,537,364
Tufika 5.375 Sukuk	24/4/2019	5.375%	25,191,021	10,056,191
Darala 5.75 Sukuk	24/5/2018	5.750%	15,871,720	-
Darala 6.5 Sukuk	28/5/2019	6.500%	11,302,168	-
Turksk 4.489 Sukuk	25/11/2024	4.489%	5,231,176	15,500,543
EIB Sukuk	18/1/2017	4.718%	-	6,508,621
			93,032,245	39,602,719

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 year are as follows:

Related Party	Nature of transaction	2017	2016
Middle East Financial Investment Company (<i>Fund Manager</i>)	Management fee	2,530,959	2,157,684

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

Related Party	Balance	2017	2016
Middle East Financial Investment Company (<i>Fund Manager</i>)	Management fee payable	231,852	128,445

As at 31 December 2017 the Fund has investment of SR 9.56 million (2016: SR 9.26 million) in MEFIC Murabaha Plus Fund, a fund managed by the Fund Manager.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017
(Saudi Riyals)

11. FINANCIAL RISK MANAGEMENT

The Fund maintains position in financial instruments as dictated by its investment policy. The Fund is exposed to the following risks:

Credit risk

Credit risk is a risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to the credit risk on cash and cash equivalents and Murabaha placements which are maintained with financial institutions with good credit rating. Thus the credit risk is not considered significant.

Murabaha profit rate risk

Murabaha profit rate risk is the exposure to fluctuation in prevailing profit rates that may have an adverse effect on the Fund's financial position and cash flows. The Fund's Murabaha placements are based on fixed rates and the fund is not exposed to profit rate fluctuations.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates. The Fund's cash balance held with custodian and sukuk are denominated in US Dollars, the Fund Manager monitors the fluctuations in foreign currency exchange rates and believes that the fund is not exposed to significant foreign currency risk.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Fund Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise financial assets and financial liabilities.

The Fund's financial assets comprise of cash and cash equivalents, Murabaha placements, investments in held for trading and held to maturity securities and its financial liabilities comprise of management fee payable and redemption money payable.

Investment held for trading is carried at fair value and the fair values of other financial instruments are not materially different from their carrying values.

13. LAST VALUATION DAY

The last valuation date of the year was 31 December 2017 (2016: 31 December 2016).

14. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

These annual financial statements were approved by the Fund Board on 26 Jumada II' 1439 H corresponding to 14 March 2018 G.

MEFIC SAR MURABAHA FUND

Annual Performance Report

As of 31 Dec 2017

Fund Board of Directors

FUND OBJECTIVE

The main 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 achieve a return above the benchmark SIBOR 3 months.

MONEY MARKET REVIEW - 2017

Saudi Arabia continued to account for the lion's share of regional total fixed income market issuances that reached a record level of USD 40.6 billion as against around USD 20 billion during 2016. Increase came primarily in terms of Sukuk issuances that reached USD 28.1 billion during 2017 vs. USD 1.7 billion during 2016. Saudi central bank followed the rate hikes by US Federal Reserve bank.

Interest Rates in KSA reversed its course during 2017, where the three-month Saudi Interbank Offered Rate (SAIBOR) fell by 6.8% during 2017 to end at 1.89% as against the level of 2.04% during the start of the year. Availability of ample liquidity in the banking system pushed the rates down throughout 2017.

On the global front, Federal Reserve Bank of US considered the three (3) rate hikes. The move had little impact on local KSA markets as it was largely priced-in. Going forward, odds for further three rate hikes are stronger during 2018.

FUND PERFORMANCE TABLE

Performance	1M	3M	YTD	1Y	Since Inception
Fund	0.17%	0.51%	2.40%	2.40%	12.56%
Fund Performance					
Annualized Return					1.74%
Standard Deviation					0.03%

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 Fund was amongst the best performing funds in 2017.
2. Shahid mentioned to the Fund Board that, the strong performance was driven by active management.
3. The fund performance has been reviewed and it was realized that our Murabaha fund has achieved the second highest performance amongst peer 2016 with a performance 2.8% & in the first position YTD.
4. It was mentioned to the Fund Board that in the category we have been amongst the top performing managers for the last four years.
5. The assets under management have increased to SAR 531mn.
6. It is confirmed to the Fund Board, in accordance the Article 13 of IRF, that the Fund has no conflict of interest.

APPROVALS

1. With regards to the implementation of the recently announced IFR regulations, Money market funds must have a foreseen average of the date of maturity not exceeding (120) calendar days.
2. As per the new regulations, the fund manager is required to have at least 10% of the fund invested in securities that have a maturity period of less than/equal to (7) days or liquidity equaling at least 10% of the fund's NAV.
3. When the regulations are implemented in 1st July 2017, all the funds throughout the Kingdom will be affected in a similar manner.
4. In accordance with part 3 (Custody) and Article 23 (Appointment of Custodian) of the IFRs, the master custody agreement with AlBilad Capital was signed. Currently, MEFIC Murabaha fund is in the migration process to Albilad.
5. The replacement of the board member Abdulaziz AlGhonaim with Amrith Mukkamala, and T&C of all funds were updated to reflect the replacement and approved by the CMA.