

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2020
together with the
INDEPENDENT AUDITOR'S REPORT

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2020

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INDEPENDENT AUDITOR'S REPORT

**The Unitholders of
MEFIC Saudi Freestyle Equity Fund
Riyadh, Kingdom of Saudi Arabia**

Opinion

We have audited the financial statements of **MEFIC Saudi Freestyle Equity Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2020 and the statements of profit or loss and other comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA").

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 Fund and Fund Manager in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with its 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 2020. 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:

Valuation of investments at fair value through profit or loss	
Key audit matter	How the matter was addressed in our audit
<p>Investments at fair value through profit or loss comprises a portfolio of equity securities listed on the Tadawul, Kingdom of Saudi Arabia. These instruments are measured at fair value with the corresponding fair value changes recognized in profit or loss.</p> <p>The fair value of these securities is determined through the latest published closing price per share on the reporting date.</p> <p>We considered this as a key audit matter given the significant impact of the valuation on the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • An assessment of the methodology, appropriateness of the valuation technique and inputs used to value the investments at fair value through profit or loss. • Ensuring the shareholding in respective shares through confirmations and custodian statements. • Testing the valuation of investments at fair value through profit or loss at the reporting date against the latest published closing price per share at the reporting from Tadawul.
Refer to note (6f) for the accounting policy and note 8 for relevant disclosure.	

Other information

Management is responsible for the other information. The other information in the annual report comprises Fund Managers' report to unitholders but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and Those Charged With Governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by SOCPA, the requirements of the Investment Fund Regulations as published by Capital Market Authority ("CMA") in the Kingdom of Saudi Arabia and Fund's terms and condition with respect to the preparation and presentation of financial statements, and for such internal control as the management determines is necessary to enable the preparation of the 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 the 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, is 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.
- 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 Manager's/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 the management and Those Charged with Governance 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 Those Charged with Governance 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 Those Charged with Governance, 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.

For Dr. Mohamed Al-Amri & Co.



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



Riyadh, on 25 Sha'ban 1442 H
Corresponding to: 07 April 2021 G

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Saudi Riyals)

	Notes	<u>31 December 2020</u>	<u>31 December 2019</u>
ASSETS			
Cash and cash equivalents	7	36,013	260,648
Dividend receivable		13,679	-
Investments	8	<u>8,457,799</u>	<u>7,005,027</u>
Total assets		<u>8,507,491</u>	<u>7,265,675</u>
LIABILITIES			
Management fees payable	10&11	12,395	10,551
Other expenses payable	10&11	<u>5,932</u>	<u>3,693</u>
Total liabilities		<u>18,327</u>	<u>14,244</u>
Net assets attributable to unitholders		<u>8,489,164</u>	<u>7,251,431</u>
Units in issue – numbers		<u>55,136.3975</u>	<u>53,456.5930</u>
Net assets value - per unit		<u>153.9666</u>	<u>135.6508</u>
Contingencies and commitments	9		

The accompanying notes from 1 to 17 form an integral part of these financial statements.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020
(Saudi Riyals)

	Notes	<u>2020</u>	<u>2019</u>
INCOME			
Realised gain on disposal of investments at fair value through profit or loss	8	155,110	346,023
Unrealised gain on investments at fair value through profit or loss	8	781,707	783,736
Dividends income		172,914	186,665
Other income		116	59
Total income		<u>1,109,847</u>	<u>1,316,483</u>
EXPENSES			
Management fees	10&11	105,079	127,102
Other expenses	10&11	44,485	44,486
Transaction's cost		28,003	12,910
		<u>177,567</u>	<u>184,498</u>
Profit for the year		932,280	1,131,985
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u><u>932,280</u></u>	<u><u>1,131,985</u></u>

The accompanying notes from 1 to 17 form an integral part of these financial statements.

MEFIC SAUDI FREESTYLE EQUITY FUND
 Managed by Middle East Financial Investment Company
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
 For the year ended 31 December 2020
 (Saudi Riyals)

	2020	2019
Net assets value at 1 January	7,251,431	6,753,841
Profit and total comprehensive income for the year	932,280	1,131,985
Changes from unit transactions		
Proceeds from issuance of units	3,219,254	1,361,589
Payments against redemption of units	(2,913,801)	(1,995,984)
Net change from unit transactions	305,453	(634,395)
Net assets value at 31 December	8,489,164	7,251,431

TRANSACTIONS WITH UNITHOLDERS

	2020	2019
	Units	Units
Units at 1 January	53,456.5930	57,834.2275
Units issued during the year	22,447.2177	11,411.2415
Units redeemed during the year	(20,767.4133)	(15,788.8760)
Units at 31 December	55,136.3975	53,456.5930

The accompanying notes from 1 to 17 form an integral part of these financial statements.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Saudi Riyals)

	Notes	2020	2019
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit for the year		932,280	1,131,985
Adjustments for:			
Realised gain on disposal of investments at fair value through profit or loss	8	(155,110)	(346,023)
Unrealized gain on investments at fair value through profit or loss	8	(781,707)	(783,736)
		(4,537)	2,226
Changes in operating assets and liabilities:			
Proceeds from sale of investments at fair value through profit or loss	8	8,158,396	3,670,949
Purchase of investments at fair value through profit or loss	8	(8,674,351)	(5,271,471)
Dividend receivable		(13,679)	-
Management fee payable		1,844	590
Other expenses payable		2,239	207
Net cash used in operating activities		(530,088)	(1,597,499)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Proceeds from subscription of units		3,219,254	1,361,589
Payments against redemption of units		(2,913,801)	(1,995,984)
Net cash generated from / (used in) financing activities		305,453	(634,395)
Net decrease in cash and cash equivalent		(224,635)	(2,231,894)
Cash and cash equivalents at beginning of the year		260,648	2,492,542
Cash and cash equivalents at 31 December	7	36,013	260,648

The accompanying notes from 1 to 17 form an integral part of these financial statements.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Saudi Riyals)

1. THE FUND AND ITS ACTIVITIES

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

The Fund aims to achieve capital growth over the long term through investing primarily in stocks of Shariah compliant companies that are listed on the main and parallel stock market of Saudi Arabia and included in Standard and Poor’s Shariah index.

The Fund commenced its operations on 14 Rabi’ Al-Thani 1439H (corresponding to 1 January 2018G). The approval from Capital Market Authority (“CMA”) for the establishment of the Fund was granted in its letter number 17/3403/5/3 dated 18 Ramadan 1438H (corresponding to 13 June 2017G).

The Fund is required to maintain minimum net assets of SR 10 million however, the Funds registered under CMA received an exemption to meet the said requirement until 31 December 2020 by way of circular dated 29 November 2018. The exemption was further extended till 1 May 2021 by of CMA Circular dated 29 December 2020.

Subsequent to year ended 31 December 2020, the Fund has issued 19,484.7452 units at a rate SR 153.9666 per unit on 4 January 2021 and as a result raised the net asset value from SR 8.5 million to SR 11.5 million.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit.

A novel strain of coronavirus (Covid-19) was first identified at the end of December 2019 and subsequently declared as a pandemic in March 2020 by the World Health Organization (WHO). Covid-19 continues to spread in some regions around the World, including the Kingdom of Saudi Arabia and resulted in travel restrictions and curfew in the cities and hence a slowdown of economic activities and shutdown of many sectors at global and local levels.

The extent to which coronavirus pandemic impacts the Fund’s business, operations, and financial results is uncertain and depends on many factors and future developments, that the Fund may not be able to estimate reliably during the current year. These factors include the virus transmission rate, the duration of the outbreak, precautionary actions that may be taken by governmental authorities to reduce the spread of the epidemic and the impact of those actions on economic activity.

As of the date of the issuance of the financial statements for the year ended 31 December 2020, the management does not believe that the Covid-19 outbreak significantly affects the Fund’s operations. The Company will continue to evaluate the nature and extent of the impact on its business and financial results.

2. REGULATORY FRAMEWORK

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 investment funds operating in the Kingdom of Saudi Arabia.

3. SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)

Subscription / redemption requests are accepted on all days on which the Tadawul (Saudi stock market) is open.

The value of the Fund’s portfolio is determined twice a week on Monday and Thursday (each being a “Valuation Day”). 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 (Fund’s assets minus Fund’s liabilities) by the total number of outstanding Fund units on the next valuation day.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Saudi Riyals)

4. BASIS OF PREPARATION

4.1 Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA"), and requirements of the Investment Fund Regulations as published by the Capital Market Authority (CMA) and the Fund's Terms and Conditions, so far as they relate to the preparation and presentation of the financial statements of the Fund.

4.2 Basis of measurement and going concern assumption

These financial statements have been prepared under the historical cost convention, except for certain financial assets, which are measured at fair value. These financial statements have been prepared following the accruals basis of accounting except for cash flow information.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

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 Saudi Riyal.

4.4 Financial year

The financial year of the Fund commences on 1 January and ends on 31 December of each calendar year, unless otherwise stated.

5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

a. New standards, interpretations and amendments effective in current year

The following are the new standards, interpretations and amendments to standards that are effective in the current year.

Standards	Title	Effective date
IAS 1	Presentation of Financial Statements- Amendments regarding the definition of materiality	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reforms	1 January 2020
IFRS 16	Amendment-to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification	1 June 2020
	Revised Conceptual Framework for Financial Reporting	1 January 2020

IAS 1 - Presentation of Financial Statements

Amendments to its definition of material to make it easier for companies to make materiality judgements. The materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

The amendments are intended to make the definition of material easier to understand and are not intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgements when preparing general purpose financial statements in accordance with IFRS.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Saudi Riyals)

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS
(Continued)

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may not elect to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The Fund does not have a material impact on its financial statements from the above.

b. New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Fund has decided not to adopt early.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals)

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS
(Continued)

The most significant of these are as follows:

Standards	Title	Effective date
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reforms – Phase 2	1 January 2021
IFRS 3	Business Combinations-Amendments updating a reference to the Conceptual Framework	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets - Amendments regarding the costs to include when assessing whether a contract is onerous	1 January 2022
IAS 16	Property, Plant and Equipment - Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use	1 January 2022
IFRS 1	Annual Improvements to IFRS Standards 2018-2020	1 January 2022
IFRS 4	Insurance Contracts-Amendments regarding the expiry date of the deferral approach	1 January 2023
IAS1	Presentation of Financial Statements - Amendments regarding the classification of liabilities	1 January 2023
IFRS 9	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2023
IFRS 17	Insurance Contracts - Amendments to address concerns and implementation challenges that were identified after IFRS 17	1 January 2023

6. SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

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

b) Fund management fee and other expenses

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

c) Provisions

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

d) Zakat and Income Tax

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

e) Net asset value

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

f) 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.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2020
(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial assets

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

(I) Classification

The financial assets are classified in the following measurement categories:

- a) Those to be measured subsequently 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 be recorded in the statement of 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 instrument

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 effective commission rate ("ECR").

Equity Instrument

If the Fund elects 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 statements of comprehensive income as other income when the Fund's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through profit or loss. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gain/ (losses) in the statements of comprehensive income 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 financing for the proceeds received.

MEFIC SAUDI FREESTYLE EQUITY FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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, receivables. An expected credit loss is 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 statements 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 lifetime 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 the practical expedient in IFRSs 9 for measuring expected credit losses for receivables or investments using a provision matrix based on ageing of receivables. The Fund uses historical loss experience and derived loss rates based on the past twelve months and adjust the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions. The loss rates differ based on the ageing of the amounts that are past due and are generally higher for those with the higher ageing.

ii) 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,
- 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 loans and financings are accounted at the fair value determined based on the effective commission rate method ("ECR") after considering the directly attributable transaction costs.

The effective commission rate ("ECR") method is a method of calculating the amortized cost of a debt instrument and of allocating commission charge over the relevant effective commission rate period. The effective commission 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 commission 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 financings, payables etc.

The Fund's financial liabilities include management and other payables. Subsequently, the Fund classifies all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss which are measured at fair value.

MEFIC SAUDI FREESTYLE EQUITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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(Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

(III) De-recognition 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 statements of comprehensive income.

iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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.

g) Revenue recognition

Gains or losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are recognized in statement of comprehensive income. Details on how the fair value of financial instruments is initially and subsequently measured are disclosed in relevant notes to financial statements.

Gains or losses arising from disposal of financial assets carried at fair value through profit or loss are recognized in statement of comprehensive income on the day, transaction of disposal is executed.

h) Critical accounting estimates and judgment

The preparation of these 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.

7. CASH AND CASH EQUIVALENTS

	<u>31 December 2020</u>	<u>31 December 2019</u>
Cash held with custodian	<u>36,013</u>	<u>260,648</u>

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8. INVESTMENTS

	Notes	31 December 2020	31 December 2019
Financial assets - at fair value through profit or loss (FVTPL)			
Listed equity securities	(a)	<u>8,457,799</u>	<u>7,005,027</u>

a) Movement in the equity securities during the year is as follows:

Opening balance	7,005,027	4,274,746
Purchased during the year	8,674,351	5,271,471
Sold during the year	(8,158,396)	(3,670,949)
Realized gain on disposal of investments	155,110	346,023
Unrealized gain on investments	781,707	783,736
Closing balance	<u>8,457,799</u>	<u>7,005,027</u>

b) The classification of investments at FVTPL into industry groups specified by Saudi Stock Exchange is summarized as follows:

<u>Industry group</u>	<u>Market value</u>	<u>market value (%)</u>
	<u>31 December 2020</u>	
Banks	1,777,045	21.01 %
Insurance	227,216	2.69 %
Health care equipment and service	1,201,885	14.21 %
Software and services	240,500	2.84 %
Telecommunication services	1,485,600	17.57 %
Foods	1,097,032	12.97 %
Consumer services	161,330	1.91 %
Materials	1,884,563	22.28 %
Energy	382,628	4.52 %
	<u>8,457,799</u>	<u>100 %</u>

<u>Industry group</u>	<u>Market value</u>	<u>market value (%)</u>
	<u>31 December 2019</u>	
Banks	1,326,919	18.94 %
Insurance	443,250	6.33 %
Health Care Equipment and Service	1,068,431	15.25 %
Retailing	601,344	8.58 %
Transportation	439,971	6.28 %
Foods	728,352	10.40 %
Consumer services	211,833	3.02 %
Utilities	277,879	3.97 %
Materials	1,219,139	17.40 %
Energy	687,909	9.82 %
	<u>7,005,027</u>	<u>100 %</u>

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9. CONTINGENCIES AND COMMITMENTS

There were no material contingencies and commitments at the reporting date.

10. MANAGEMENT FEE AND OTHER CHARGES

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

Subscription fee

The Fund Manager charges each investor a subscription fee of a percentage not exceeding 2% of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

Management fees

Management fees at the rate of 1.75% per annum of the net assets value of the Fund at each respective valuation day and are accrued quarterly.

Other expenses

Other expenses are charged at actual expenses incurred up to a maximum of 0.5% per annum of the net assets value of the Fund at each respective valuation day. The excess from this limit will be borne by the Fund Manager.

11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with its related parties. Related parties of the Fund include the Unitholders, the Fund Manager and other funds managed by 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. Related party transactions and balances are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2020</u>	<u>2019</u>
Middle East Financial Investment Company (the "Fund Manager")	Management fees	105,079	127,102
	Other expenses	44,485	44,486
		As at	
<u>Related party</u>	<u>Nature of transaction</u>	<u>31 December 2020</u>	<u>31 December 2019</u>
Middle East Financial Investment Company (the "Fund Manager")	Management fees payable	12,395	10,551
	Other expenses payable	5,932	3,693

12. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks namely; credit risk and liquidity risk and market risk (including commission rate risk, currency risk and price risk). The Fund's overall risk management policies focuses on the predictability of financial market and seeks to minimize potential adverse effect on the Fund's financial performance. Overall, risks arising from the Fund's financial assets and liabilities are limited. The Fund Manager consistently manages its exposure to financial risk without any material change from previous period in the manner describe in notes below;

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FINANCIAL RISK MANAGEMENT (Continued)

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 only on its bank balance which is maintained with reputed local bank and custodian in the Kingdom of Saudi Arabia. The Fund is consequently not exposed to any significant residual credit risk.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's total credit risk with respect of financial instruments is with a local bank and custodian having satisfactory credit rating.

Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities. 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 liabilities as they fall due under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. As at reporting date, there is no maturity mismatch between financial assets and liabilities that exposes the Fund to liquidity risk.

	Carrying amount	On demand or less than six months	Six to Twelve months	Over one year
<u>Financial liabilities at amortized cost</u>				
Management fees payable	12,395	12,395	-	-
Other expenses payable	5,932	5,932	-	-
As at 31 December 2020	18,327	18,327	-	-

	Carrying amount	On demand or less than six months	Six to Twelve months	Over one year
<u>Financial liabilities at amortized cost</u>				
Management fees payable	10,551	10,551	-	-
Other expenses payable	3,693	3,693	-	-
As at 31 December 2019	14,244	14,244	-	-

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices.

Market risk comprises three types of risk: commission rate risk, currency risk and price risk.

Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect the value of or future cash flow of financial instruments. There are no commission bearing financial instruments held by the Fund. Accordingly, the Fund is not exposed to any commission rate risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund's financial instruments are all denominated in its functional currency, consequently the Fund is not subject to any currency risks.

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FINANCIAL RISK MANAGEMENT (Continued)

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk is managed by the investment manager by diversifying the portfolio and limiting concentration of investments in financial instruments specified in Term and Conditions of the Fund and specified by CMA investment fund regulations.

The internal procedures require the investment manager to manage price risk on a daily basis by monitoring fund's portfolio exposure.

If the price risk is not in accordance with the Fund's investment policy or Investment Fund Regulations, then the Fund Manager is required to rebalance the portfolio within 5 days of such breach.

Financial instruments by category

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	Notes	31 December 2020	31 December 2019
Financial assets			
- at fair value through profit or loss:			
Investments	8	8,457,799	7,005,027
- at amortized cost:			
Cash and cash equivalents	7	36,013	260,648
Dividend receivable		13,679	-
Total financial assets		<u>8,507,491</u>	<u>7,265,675</u>
Financial liabilities			
-at amortized cost:			
Management fees payable	10 & 11	12,395	10,551
Other payable	10 & 11	5,932	3,693
Total financial liabilities		<u>18,327</u>	<u>14,244</u>

13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

	Within 12 months SR	After 12 months SR	Total SR
As at 31 December 2020			
ASSETS			
Investments	8,457,799	-	8,457,799
Cash and cash equivalents	36,013	-	36,013
Dividend receivable	13,679	-	13,679
TOTAL ASSETS	<u>8,507,491</u>	-	<u>8,507,491</u>
LIABILITIES			
Management fees payable	12,395	-	12,395
Other expenses payable	5,932	-	5,932
TOTAL LIABILITIES	<u>18,327</u>	-	<u>18,327</u>

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MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

As at 31 December 2019	Within 12 months SR	After 12 months SR	Total SR
ASSETS			
Investments	7,005,027	-	7,005,027
Cash and cash equivalents	260,648	-	260,648
TOTAL ASSETS	7,265,675	-	7,265,675
LIABILITIES			
Management fees payable	10,551	-	10,551
Other expenses payable	3,693	-	3,693
TOTAL LIABILITIES	14,244	-	14,244

14. FAIR VALUE 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Underlying the definition of fair value is the presumption that the Fund is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

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FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Currently, investment in listed equity securities is the only investment carried at fair value and is designated in level 1. The Fund's other financial assets consist of cash held with custodian which is carried at amortized cost. Its financial liabilities consist of management fee and other liabilities. There was no other material Level 1, 2 or 3 asset or liability during the current and prior year reported.

The carrying values of all other financial assets and liabilities reflected in these financial statements approximate their fair values.

Transfers between fair value hierarchies

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes have occurred. However, there were no transfers between fair value hierarchies during the current or any of the prior periods reported.

15. LAST VALUATION DATE

The last valuation date of the year was 31 December 2020.

16. SUBSEQUENT EVENTS

There have been no significant subsequent events except mentioned in note 1 since the year ended 31 December 2020 that would have a material impact on the financial position of the Fund as reflected in these financial statements.

17. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund's Board on 25 Sha'ban 1442 H corresponding to 07 April 2021 G.
