MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018
TOGETHER WITH THE
<u>INDEPENDENT AUDITOR'S REPORT</u>

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2018

BDO الدكتور محمد العمري وشركاه
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INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Opinion

We have audited the consolidated financial statements of **Middle East Financial Investment Company** (the "Company"), and its subsidiary JESER Real Estate Development Company (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia, and other standards and versions endorsed by Saudi Organization for Certified Public 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the professional code of conduct endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

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Responsibilities of management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs endorsed in the Kingdom of Saudi Arabia, other standards and versions endorsed by SOCPA and Regulations of Companies requirements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Company's/Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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Auditor's responsibilities for the audit of the consolidated financial statements (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

For Dr. Mohamed Al-Amri & Co.

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

Riyadh, on 21 March 2019G
Corresponding to: 14 Rajab 1440H

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Saudi Riyals)

	Notes	31 December 2018	31 December 2017	1 January 2017
ASSETS				
Non-current assets				
Investments	5	**262,135,127**	137,460,963	126,243,209
Property and equipment	6	**1,067,741**	1,018,416	2,436,684
Intangible assets	7	**2,632,477**	3,316,793	1,537,849
Deferred tax asset	8	**1,110,898**	802,156	708,938
Due from related parties	9	**80,980,556**	84,315,341	94,924,864
Investment in associate	10	**-**	2,310,640	3,771,325
Total non-current assets		**347,926,799**	229,224,309	229,622,869
Current assets				
Cash and cash equivalents	11	**11,720,193**	19,585,903	28,019,931
Investments		**-**	12,049,918	16,172,899
Margin loans		**-**	-	11,999,392
Murabaha receivables	12	**13,602,000**	15,032,333	10,166,667
Deposit against letter of guarantee, net	19	**8,986,850**	17,973,700	17,973,700
Due from related parties	9	**72,882,879**	19,000,000	7,200,000
Accrued income and other assets, net	13	**50,974,197**	20,916,270	27,353,250
Total current assets		**158,166,119**	104,558,124	118,885,839
TOTAL ASSETS		**506,092,918**	333,782,433	348,508,708
EQUITY				
Share capital	14	**400,000,000**	400,000,000	400,000,000
Statutory reserve	15	**12,153,025**	8,553,886	8,553,886
Accumulated losses		**(58,017,487)**	(91,243,707)	(76,665,776)
Unrealized loss on investments		**(97,061)**	(86,902)	(36,255)
TOTAL EQUITY		**354,038,477**	317,223,277	331,851,855
LIABILITIES				
Non-current liabilities				
Employees end of service benefits	16	**6,222,046**	5,420,937	5,538,339
Total non-current liabilities		**6,222,046**	5,420,937	5,538,339
Current liabilities				
Short term borrowings	17	**106,992,000**	-	-
Accrued expenses and other liabilities	18	**25,859,740**	5,785,704	4,868,299
Provision for zakat and corporate income tax	19	**12,980,655**	5,352,515	6,250,215
Total current liabilities		**145,832,395**	11,138,219	11,118,514
TOTAL LIABILITIES		**152,054,441**	16,559,156	16,656,853
TOTAL EQUITY AND LIABILITIES		**506,092,918**	333,782,433	348,508,708
CONTINGENCIES AND COMMITMENTS	20			

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018
(Saudi Riyals)

	Notes	31 December 2018	31 December 2017
REVENUES			
Asset management and subscription fees		**34,582,602**	27,720,307
Realized gain/(loss) on investments held at FVTPL		**6,853,204**	(1,378,395)
Unrealized gain on investments held at FVTPL		**45,991,438**	9,290,160
Profit on Murabaha placement		**898,129**	1,207,667
Dividend income		**5,457,377**	1,495,974
Brokerage fee income		**-**	238,790
Commission income		**38,477,450**	252,057
		132,260,200	38,826,560
EXPENSES			
Salaries and employee related expenses		**(31,718,018)**	(26,781,946)
Depreciation	6	**(399,881)**	(464,754)
Amortization	7	**(684,316)**	(393,831)
Rent expenses		**(1,162,907)**	(1,220,308)
Finance cost		**(7,496,571)**	(186,914)
General and administrative expenses	21	**(27,521,107)**	(15,674,211)
		(68,982,800)	(44,721,964)
OPERATING INCOME / (LOSS)		**63,277,400**	(5,895,404)
Other non operating income	22	**19,688,760**	5,214,335
Other non operating expenses	23	**(25,368,528)**	(10,075,073)
		(5,679,768)	(4,860,738)
INCOME / (LOSS) FOR THE YEAR BEFORE ZAKAT AND INCOME TAX		**57,597,632**	(10,756,142)
Zakat and corporate income tax for current and prior years	19	**(21,914,986)**	(4,877,987)
Deferred tax income for the year		**308,742**	93,218
NET INCOME / (LOSS) FOR THE YEAR		**35,991,388**	(15,540,911)
BASIC AND DILUTED EARNING PER SHARE	24	**0.90**	(0.39)

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Saudi Riyals)

	Notes	31 December 2018	31 December 2017
Net income / (loss) for the year		**35,991,388**	(15,540,911)
Items that may not be subsequently re-classified to profit or loss			
Net change on re-measurement of defined benefit liability	16	**833,971**	962,980
Net change on re-measurement of investments measured at fair value through other comprehensive income (FVTOCI)		**(10,159)**	(50,647)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**36,815,200**	(14,628,578)

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018
(Saudi Riyals)

	Share capital	**Statutory reserve**	**(Accumulated loss) /retained earnings**	**Unrealized loss on investments at FVTOCI**	**Total**
Balance as at 1 January 2017	400,000,000	8,553,886	(76,665,776)	(36,255)	331,851,855
Total comprehensive income for the year					
Net loss for the year	-	-	(15,540,911)	-	(15,540,911)
Other comprehensive income / (loss)	-	-	962,980	(50,647)	912,333
			(14,577,931)	(50,647)	(14,628,578)
Balance as at 31 December 2017	400,000,000	8,553,886	(91,243,707)	(86,902)	317,223,277
Balance as at 1 January 2018	**400,000,000**	**8,553,886**	**(91,243,707)**	**(86,902)**	**317,223,277**
Total comprehensive income for the year					
Net profit for the year	**-**	**-**	**35,991,388**	**-**	**35,991,388**
Other comprehensive income / (loss)	**-**	**-**	**833,971**	**(10,159)**	**823,812**
			36,825,359	**(10,159)**	**36,815,200**
Transfer to statutory reserves	**-**	**3,599,139**	**(3,599,139)**	**-**	**-**
Balance as at 31 December 2018	**400,000,000**	**12,153,025**	**(58,017,487)**	**(97,061)**	**354,038,477**

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Saudi Riyals)

	Notes	31 December 2018	31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income / (loss) for the year before Zakat and corporate income tax		**57,597,632**	(10,756,142)
Adjustment for non-cash charges and other items:			
Depreciation	6	**399,881**	464,754
Amortization	7	**684,316**	393,831
Impairment of employee loans	9 & 23	**19,700,000**	-
Impairment of loan to Real Estate Income Fund	23	**4,000,000**	-
(Reversal) / impairment of management fee	23	**(1,429,621)**	4,526,340
Impairment of loan to associate	23	**-**	3,850,000
Loss on disposal of property and equipment		**-**	1,294
Unrealized gain on investments		**(45,991,438)**	(9,290,160)
Realized gains on sale of investments, net		**(6,853,204)**	1,378,395
Share of loss from associate	10	**561,712**	1,460,685
Impairment of associate	10	**1,748,928**	-
Provision for employee benefits	16	**1,674,586**	1,680,524
Changes in operating assets and liabilities:			
Murabaha receivable, net		**1,430,333**	(4,865,666)
Balances with related parties, net		**25,751,906**	(5,040,477)
Accrued income and other assets		**(28,628,306)**	1,910,640
Accrued expenses and other liabilities		**20,074,036**	917,405
Cash generated from / (used in) operations		**50,720,761**	(13,368,577)
Employee benefits paid	16	**(39,506)**	(834,946)
Zakat and Income taxes paid	19	**(5,299,996)**	(5,775,687)
Net cash generated from / (used in) operating activities		**45,381,259**	(19,979,210)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(449,206)**	(733,808)
Purchase of intangibles		**-**	(486,747)
Purchase of investments		**(116,557,921)**	(38,488,828)
Proceeds from sale of investments		**56,768,158**	39,255,173
Net cash used in investing activities		**(60,238,969)**	(454,210)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans to employees	9	**(100,000,000)**	-
Margin financing		**-**	11,999,392
Short term borrowing, net		**106,992,000**	-
Net cash generated from financing activities		**6,992,000**	11,999,392
Decrease in cash and cash equivalents		**(7,865,710)**	(8,434,028)
Cash and cash equivalents at beginning of the year		**19,585,903**	28,019,931
Cash and cash equivalents at end of the year	7	**11,720,193**	19,585,903

The accompanying notes from 1 to 31 form an integral part of these consolidated financial statements.

1. THE GROUP AND ITS OPERATIONS

Middle East Financial Investment Company (the “Company”) is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No.1010237038 issued in Riyadh on Sha’ban 2, 1428 H (corresponding to 15 August 2007) and Ministerial Resolution No.200/K dated Rajab 30, 1428 H (corresponding to 13 August 2007) announcing the formation of the Company.

The objectives of the Company are to participate in financial security activities, dealing as an agent and underwriter, performing management activities to establish and arrange investment funds, managing portfolios, perform arrangement, advisory and custody services for the purposes of the administrative procedures related to the investment funds and portfolio management in accordance with the license of the Capital Market Authority (“CMA”) No. 06029-37 dated 21 Jumada II 1427 H (corresponding to 17 July 2007 G).

The financial year of the Company commences on 1 January and ends on 31 December of each calendar year.

Subsidiary

The Company’s subsidiary, JESER Real Estate Development Company (“Jeser”) is a Saudi Limited Liability Company, which is owned 100% by the Company.

The objectives of the subsidiary are to purchase land for construction of buildings for the purpose of sale or lease; in addition, manage, maintain, develop, buy and own, sell and purchase, and utilize real estate and land for the benefit of the Company. The subsidiary is also permitted to invest in other entities, which engage in similar real estate activities.

Although not legally owned by the Company, the other minority shareholder has assigned his share of investment to the benefit of the Company.

Associate

Medical Tube Industry Company (“the Associate”) was established in 2005 having registered office in the Kingdom of Saudi Arabia, Riyadh that is also the country of incorporation. It is mainly involved in production of medical instruments. The group owns 20% stake in the associate.

2. BASIS OF PREPARATION

2.1 Statement of compliance with IFRS as adopted by SOCPA

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organisation for Certified Public Accountants (SOCPA), and the Regulation of Companies, so far as they relate to the preparation and presentation of the financial statements.

BASIS OF PREPARATION (CONTINUED)

Transition to International Financial Reporting Standards (IFRSs)

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with accounting principles generally accepted in the Kingdom of Saudi Arabia "Saudi GAAP". These financial statements for the period ended 31 December 2018 are the first financial statements of the Group prepared in accordance with IFRSs; therefore, these include some additional disclosures required by IFRS 1 "First-time Adoption of International Financial Reporting Standards" to enable the users to understand how the transition to IFRSs has affected previously reported amounts. An explanation of transition to IFRSs is provided in note 29 to these financial statements.

2.2 Basis of measurement

These consolidated financial statements have been prepared on historical cost basis using the accrual basis of accounting and the going concern concept, except for financial instruments measured at fair value and amortised cost, and investment in associate, which is accounted for under equity method.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Saudi Arabian Riyals (SAR), which is the functional and presentation currency of the Group.

2.4 Basis of consolidation and equity accounting

These consolidated financial statements comprise of the financial statements of the Company and its subsidiary (collectively referred to as "the Group"). The financial statements of the subsidiary is prepared for the same reporting period as that of the Company.

Subsidiary and relationship of control

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.
- Any additional fact and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time decisions need to be made, including voting patterns at previous shareholders' meetings.

BASIS OF PREPARATION (CONTINUED)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All accounting policies of subsidiaries are in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. When Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Associates

Associates are all entities over which the Group has significant influence but no control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method, after initially being recognized at cost.

Equity accounting

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of other comprehensive income of the investee in other comprehensive income. After the share in the investee is reduced to zero, a liability is recognised only to the extent that there is an obligation to fund the investee's operations or any payments have been made on behalf of the investee. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

BASIS OF PREPARATION (CONTINUED)

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate and joint venture are eliminated to the extent of the interest in the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group.

When necessary, adjustments are made to bring the accounting policies of the associate or joint venture in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognises the loss as 'Share of profit of an associate and a joint venture' in the profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

2.5 Standards, interpretations and amendments to existing standards

Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company.

IFRS 16 Leases - New (effective for accounting period beginning on or after 1 January 2019)

IFRS 16 Leases specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Adoption of IFRS 16 will result in the Company recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Company does not recognize related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

After the effective date, instead of recognizing an operating expense for its operating lease payments, the Company will instead recognize interest on its lease liabilities and amortization on its right-of-use assets. The Company has completed an assessment of the impact of adopting IFRS 16 on financial statements and assessed it to be immaterial.

The Company does not expect any other standards issued by the IASB, but not yet effective, to have a material impact on the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these consolidated financial statements unless otherwise stated.

a) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments with original maturities of three months or less from the date of purchase, which are available to the Group without any restriction.

b) Investment properties

Investment properties are those which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged so as to write-off the cost less estimated residual value over their estimated useful lives, using the straight-line method.

c) Property and equipment and intangibles

Property and equipment and intangibles are stated at cost less accumulated depreciation or amortization and impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment and intangibles. All other expenditures are recognized in the consolidated statement of comprehensive income when incurred.

Depreciation and amortization is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of individual item of property and equipment and intangible. The estimated useful lives of the principal classes of assets are as follows:

	Years
Leasehold improvements	7
Furniture and fixtures	5
Office equipment	5
Information technology equipment	4
Network communication equipment	4
Software and licenses	7
Motor vehicles	5

Gains and losses on disposals are determined by comparing disposal proceeds with carrying amount and are included in the profit or loss.

The residual values, useful lives and methods of depreciation of property and equipment and intangibles are reviewed at least at each financial year end and adjusted prospectively, if appropriate.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Employee benefits

The Group's net obligations in respect of defined benefit plan is calculated by estimating the amount of future benefits that employees have earned in the current and prior periods.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential gain for the Group, the recognised gain is limited to the present value of economic benefits available.

Re-measurement of the net defined benefit liability, which comprises actuarial gains and losses is recognized in other comprehensive income. The Group determines the net interest expense on net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligations at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of provisions and benefit payments. Net interest expense and other expense related to these benefits are recognized in the profit or loss.

e) Financial instruments

Financial instruments are recognised when the Group 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 Group determines the classification of its financial assets at initial recognition. The classification depends on the entity'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 either be recorded in the profit or loss or other comprehensive income. For investments in equity instruments, this will depend on whether the Group 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 Group 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 profit or loss as incurred.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group 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 interest 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 interest rate (EIR). Employee and other related party loans are carried at amortized cost.

Equity Instruments

If the Group 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 profit or loss as other income when the Groups' 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 statement of profit or loss as applicable.

iii. De-recognition of financial assets

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

iv. Impairment of financial assets

The Group applies an 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.

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 company expects to receive.

The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Group 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 recognising allowance for expected credit losses in the profit or loss even for receivables that are newly originated or acquired.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Trade receivables are of a short duration, normally less than 12 months and hence the loss allowance measured as lifetime expected credit losses does not differ from that measured as 12 month expected credit losses. The Group uses the practical expedient in IFRS 9 for measuring expected credit losses for trade receivables using a provision matrix based on ageing of receivables.

The Group 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. 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.

v. Income recognition

Financing income

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

When a loan and receivable is impaired, the Group 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 interest income. Interest income on impaired financial asset is recognised using the original EIR.

Dividends income

Dividends receivable from financial instruments are recognised 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 group, and the amount of the dividend can be measured reliably.

Financial liabilities

The Group 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 as financial liabilities at fair value through profit or loss, and
b) Those to be measured at amortized cost.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. Measurement

All financial liabilities are recognised 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.

The Group 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 interest 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 Group's financial liabilities include trade and other payables and accruals while borrowings include bank overdrafts. The Group measures financial liabilities at amortised 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 recognised in the profit or loss.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised 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 Company or the counterparty.

g) Foreign currency translation

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated reporting date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translations of foreign currency transactions are included in the profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Zakat and corporate income tax

The Group's Saudi and GCC shareholders are subject to Zakat in accordance with the Regulations of the General Authority of Zakat and Tax ("GAZT") as applicable in the Kingdom of Saudi Arabia. The zakat charge is computed on the zakat base. An estimate of zakat arising there from is provided as a charge in the profit or loss.

The Group's foreign shareholders are subject to corporate income tax in accordance with Regulations of "GAZT" as applicable in the Kingdom of Saudi Arabia. Corporate income tax is computed on adjusted net income. An estimate of corporate income tax arising thereof is provided as a charge in the profit or loss.

Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

Deferred Taxes

Deferred income taxes are recognized on all major temporary differences between carrying value and tax bases and are recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income tax assets on carry forward losses are recognized to the extent that it is probable that future taxable income will be available against which such carry-forward tax losses can be utilized. Deferred income taxes are determined using tax rates which have been enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

i) Revenue recognition

- Asset management fees are recognized based on the certain agreed percentage of NAV of funds being managed. The Group, as a Fund Manager, charges asset management fees to its Funds on account of management, administration, subscription and custody at the rates agreed under offer documents of each fund.
- Portfolio and other advisory fees, service fees and custodian fees included under other income, are recognized based on the applicable service contract.
- Commission income is recognized on accrual basis.
- Dividends from investments are recognized when right to receive the dividend is established.
- Revenue recognition policies for financial instruments are explained in relevant notes.

j) Expenses

Expenses are measured and recognized as a period cost at the time when they are incurred. Expenses related to more than one financial period are allocated over such periods proportionately.

k) Fiduciary assets

Assets under management:
The Group offers assets management services to its customers, which include management of certain mutual funds and investments. Such assets are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Clients' cash accounts:
Clients' cash accounts are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Use of critical estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual result may differ from these estimates. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are addressed below:

(i) **Impairment reviews**

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management’s expectations of:

a) growth in earnings before commission, tax, depreciation and amortization (EBITDA), calculated as adjusted operating profit before depreciation and amortization;
b) timing and quantum of future capital expenditure;
c) long-term growth rates;
d) selection of discount rates to reflect the risks involved; and
e) quantum of mining reserves expected to be extracted over the period under consideration.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group’s impairment evaluation and hence results.

(ii) Estimation of useful life and residual value

The useful life used to amortize or depreciate intangible assets or property, plant and equipment respectively relates to the expected future performance of the assets acquired and management’s judgement based on technical evaluation of the period over which economic benefit will be derived from the asset. The charge in respect of periodic depreciation is derived after determining an estimate of an asset’s expected useful life and the expected residual value at the end of its life. An asset’s expected life residual value has a direct effect on the depreciation charged in the profit or loss.

The useful lives and residual values of Group’s assets are determined by management based on technical evaluation at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Impairment losses on trade receivables

Trade receivables are stated at their amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are determined using the expected credit loss method. Individual trade receivables are written off when management deems them not to be collectible.

(iv) Measurement of defined benefit obligations

The Group's net obligation in respect of employee benefits is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The present value of the obligation is determined based on actuarial valuation at the consolidated statement of financial position date by an independent actuary using the Projected Unit Credit Method, which recognises each period of service as giving rise to an additional unit of employee benefit entitlement and measures. The obligation is measured at the present value of the estimated future cash flows. In KSA, the discount rates used for determining the present value of the obligation is determined by reference to US bond yields, (as the Saudi Riyal is pegged to the US dollar) adjusted for an additional risk premium reflecting the possibility of the linkage being broken.

(v) Estimate of Zakat, current and deferred corporate income tax

The Group's Zakat and tax charge on ordinary activities is the sum of the total Zakat, current and deferred tax charges. The calculation of the Group's Zakat and total tax charge necessarily involves a degree of estimation and judgment in respect of certain items whose treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits/losses and/or cash flows.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:
- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period
  Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
-

All other assets are classified as non-current.
A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
  Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all liabilities as current except for employee benefit obligations.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

4. DE-CONSOLIDATION OF MEFIC LOCAL EQUITY FUND AND MEFIC FREESTYLE EQUITY FUND

During the year, MEFIC Local Equity Fund, an open-ended investment fund established and managed through an agreement between the Company as Fund Manager and the Fund's investors', was liquidated. Accordingly, the Fund has been consolidated in these financial statements in the current year up to the date of liquidation. The Company held 100% of the net assets of the Fund on the date of liquidation which totaled SR 4,861,841. The operating income from the Fund was SR 2,236,580 that is included in the operating results of the Company in the consolidated statement of profit or loss.

Further, during the year, MEFIC Saudi Freestyle Equity Fund, an open-ended investment fund established and managed through an agreement between the Company as Fund Manager and the Fund's investors', was disposed of. The Company held 100% of the net assets of the Fund on the date of disposal which totaled SR 1,000,000. The Fund was disposed for SR 1,000,000 resulting in gain/loss of SR Nil. Accordingly, the Fund has been consolidated in these financial statements up to the date of disposal.

5. INVESTMENTS

	Notes	31 December 2018	31 December 2017	1 January 2017
Financial assets at fair value through profit or loss				
Mutual funds	**5.1**	**116,077,875**	112,694,523	97,557,290
Discretionary portfolio	**5.2**	**134,232,000**	12,929,214	14,217,689
Foreign equity investments	**5.3**	**20,307**	22,121	1,504,103
Other investments		**-**	-	1,140,647
Financial assets at fair value through other comprehensive income				
Unquoted foreign equity investment	**5.4**	**11,804,945**	11,815,105	11,823,480
		262,135,127	137,460,963	126,243,209

5.1 Mutual Funds

	Carrying value	Fair Value	Unrealized gain	Foreign exchange loss
CAYAN MEFIC Office Tower Fund	18,070,210	**23,838,257**	5,768,047	-
MEFIC Manazel Qurtoba II Fund	5,811,438	**5,814,411**	2,973	-
MEFIC Real Estate Income Fund	603,558	**648,462**	44,904	-
KMEFIC Gulf Gate Fund	4,418,475	**5,080,752**	665,740	(3,463)
MEFIC Private Equity Opportunities Fund	39,864,122	**42,946,197**	3,082,075	-
MEFIC Private Equity Opportunity Fund II	5,630,726	**6,193,229**	562,503	-
MEFIC Private Equity F&B Opportunities Fund	17,075,642	**17,701,273**	625,631	-
MEFIC Porto Development Fund	14,636,771	**13,855,294**	-	(781,477)
As at 31 December 2018	106,110,942	**116,077,875**	10,751,873	(784,940)

5.2 Discretionary portfolio

	Carrying value	Fair Value	Unrealized gain
Bank Al-Jazira	98,992,435	**134,232,000**	35,239,565

The Company in its discretionary portfolio account bought right shares of Bank Al-Jazira constituting 9.4 million shares as at 31 December 2018. Subsequent to the reporting date, 7.08 million of these shares are divested by the Company until 28 February 2019 generating a realized gain of SAR 34.8 million cumulatively since the initial purchase of shares.

5.3 This represents 3,436 (31 December 2017: 3,436) preferred shares held in Ahli United Bank UK Student Accommodation Company.

5.4 This represent investment in unquoted shares of Marsa Al-Seef Investment Company Limited, registered in Cayman Island. The company was established with the principal aim of investing in Marsa Al-Seef project, a real estate development in the Kingdom of Bahrain. The Company has taken an irrevocable option to account for these equity securities at fair value through other comprehensive income. In the absence of latest available financial information as at 31 December 2018, these shares have been fair valued at 31 December 2017. No dividend income from this investment has been recognized in these financial statements.

(Saudi Riyals)

6. PROPERTY AND EQUIPMENT, NET

	Leasehold improvement	Furniture and fixtures	Office equipment	Information technology equipment	Network equipment	Motor vehicles	Work in progress	Total 2018	Total 2017
Cost									
As at 1 January 2018	3,455,169	1,454,566	1,095,781	1,352,602	6,117,616	459,847	98,001	**14,033,582**	14,988,501
Additions	-	-	-	91,066	223,140	-	135,000	**449,206**	733,808
Transferred to intangibles	-	-	-	-	-	-	-	**-**	(1,686,028)
Disposal	-	-	-	-	-	-	-	**-**	(2,699)
As at 31 December 2018	**3,455,169**	**1,454,566**	**1,095,781**	**1,443,668**	**6,340,756**	**459,847**	**233,001**	**14,482,788**	14,033,582
Accumulated depreciation									
As at 1 January 2018	3,091,063	1,340,228	1,012,844	1,252,113	6,081,330	237,588	-	**13,015,166**	12,551,817
Charge for the year	109,002	63,394	38,267	62,518	34,730	91,970	-	**399,881**	464,754
Disposals	-	-	-	-	-	-	-	**-**	(1,405)
As at 31 December 2018	**3,200,065**	**1,403,622**	**1,051,111**	**1,314,631**	**6,116,060**	**329,558**	-	**13,415,047**	13,015,166
Net book value									
As at 31 December 2018	**255,104**	**50,944**	**44,670**	**129,037**	**224,696**	**130,289**	**233,001**	**1,067,741**	
As at 31 December 2017	364,106	114,338	82,937	100,489	36,286	222,259	98,001		1,018,416

(Saudi Riyals)

7. INTANGIBLE ASSETS

	31 December 2018	31 December 2017
Softwares		
Cost		
1 January	**11,874,944**	9,702,169
Additions	**-**	486,747
Transfer from work in progress	**-**	1,686,028
31 December	**11,874,944**	11,874,944
Accumulated amortization		
1 January	**8,558,151**	8,164,320
Charge for the year	**684,316**	393,831
31 December	**9,242,467**	8,558,151
Net Book Value as at		
31 December 2018	**2,632,477**	
31 December 2017		3,316,793

8. DEFERRED TAX ASSET

Deferred tax asset relates to the following:

	31 December 2018	31 December 2017	1 January 2017
Provision for doubtful debts – other assets	**1,023,615**	750,719	626,214
Provision for employees' end-of-service benefits	**68,842**	68,835	68,676
Property and equipment	**17,034**	(18,805)	14,048
Provision for investments	**1,407**	1,407	-
	1,110,898	802,156	708,938

9. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of its activities, the Group transacts business with its related parties. Related parties include its shareholders and their affiliated companies, managed investment funds, the Board of Directors, and key management personnel. Key management personnel are those persons, including a non-executive director, having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The transactions with related parties are carried out on mutually agreed terms approved by the management of the Group.

RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

The significant transactions with related parties during the year and the related amounts are as follows:

Related party	Transactions	**31 December 2018**	31 December 2017
Funds managed by MEFIC	Asset management and subscription fee	**32,772,973**	25,642,439
MEFIC Real Estate Income Fund	Dividend income	**12,000**	42,000
MEFIC Private Equity Opportunity Fund II	Dividend income	**705,350**	-
MEFIC Al Qannas II Fund	Dividend income	**1,350,000**	1,050,000
MEFIC Souq Sharq Fund	Financing income	**18,436,418**	6,240,477
MEFIC REIT	Transaction fee	**11,986,203**	-
	Loan re-structuring fee	**3,280,000**	-
Key management personnel			
Loans to employees	Long term loan	**100,000,000**	-
Interest receivable on employee loans	Finance income	**680,556**	-
Impairment of loans to employees	Impairment charge	**19,700,000**	-
Board of Directors	Board remuneration	**1,154,000**	1,121,000
Chief executive officer and other key management personnel	Annual benefits	**11,963,420**	9,048,550

Balances with related parties

		31 December 2018	31 December 2017	1 January 2017
Non-current portion				
Loan to employees net of impairment	a	**80,300,000**	-	-
Receivable from Souq Sharq Fund	b	**-**	116,767,487	124,727,010
Loans to associate and executives		**3,850,000**	5,850,000	4,650,000
Interest receivable on employee loan	a	**680,556**	-	-
Less: Provision for doubtful debt		**(3,850,000)**	(38,302,146)	(34,452,146)
		80,980,556	84,315,341	94,924,864
Current portion				
Receivable from Souq Sharq Fund	b	**44,652,146**	23,200,000	16,200,000
Less: Provision for doubtful debt	b	**(44,652,146)**	(10,200,000)	(9,000,000)
Receivable from MEFIC Real Estate Investment Traded Fund (REIT)	b	**70,882,879**	-	-
MEFIC Real Estate Income Fund		**6,000,000**	6,000,000	-
Less: Provision for doubtful debt		**(4,000,000)**	-	-
		72,882,879	19,000,000	7,200,000

RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

a) Loan to employees

During the current year the Company extended loan of SAR 100 million (Loan) to three of its Senior Executives (Employees). As per the terms of the loan mutually agreed between the Company and Employees, the loan carries a commission rate of 5% per annum having a 5 years bullet repayment term. This loan was used for acquiring units in MEFIC Real Estate Investment Traded Fund (MEFIC REIT). The Loan is secured against the underlying units acquired in MEFIC REIT by the Employees. Since the only collateral against the secured Loan is the units in MEFIC REIT and MEFIC has no right of recourse to any other assets of the Employees, expecting maximum losses on the recovery of the Loan based on the decline in market value of the underlying units, over the useful life of the Loan, an impairment loss of SAR 19.7 million was booked in the current year. During the year accrued commission on the Loan amounted to SAR 0.68 million.

Outstanding Loan from Employees at the end of the year and related impairment is as follows:

Employee name	Original loan SAR	Impairment SAR	Carrying value SAR
Mr. Ibrahim Abdullah Rashid AlHedaithy	60,000,000	(11,820,000)	**48,180,000**
Mr. Turki Al-Fozan	20,000,000	(3,940,000)	**16,060,000**
Ms. Haifa Al-Obaid	20,000,000	(3,940,000)	**16,060,000**
	100,000,000	19,700,000	**80,300,000**

b) Loan from Souq Sharq Fund

Souq Sharq Fund was liquidated during the year and its outstanding balance after making allowance for doubtful receivables under expected credit loss was transferred to MEFIC Real Estate Investment Traded Fund (REIT).

c) Other related party balances

In addition to above related party balances, following are the balances with related parties at the reporting date:

Name of related party	Balance	**31 December 2018**	31 December 2017	1 January 2017
Funds managed by MEFIC	Accrued management fee	**16,375,997**	14,731,796	13,158,563
MEFIC REIT	Transaction fee	**11,986,203**	-	-
Directors	Accrued board remuneration	**559,000**	1,028,000	1,028,000
Amwal Sports Fund	Accrued performance fee	**-**	-	6,814,232
Associate and Executives	Long-term receivables	**-**	3,925,000	4,650,000
Real Estate Income Fund	Accrued dividend	**48,000**	36,000	36,000
Souq Sharq Fund	Accrued dividend	**-**	-	2,100,000

RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Murabaha receivables

	Notes	31 December 2018	31 December 2017	1 January 2017
Murabaha placement – principal outstanding	12	**9,500,000**	10,000,000	10,000,000
Accrued income on Murabaha placement		**-**	1,000,000	166,667
		9,500,000	11,000,000	10,166,667

This represents Murabaha transaction with Cayan MEFIC Office Tower fund carrying profit rate of 10% p.a.

9.1 Units held in the funds managed by the Group included under investments are as follows:

	31 December 2018	31 December 2017	1 January 2017
	---------------- No. of Units	----------------	
MEFIC Real Estate Income Fund	**60,000**	60,000	60,000
Souq Sharq Fund	**-**	32,550	32,550
Manazel Qurtoba II Fund	**5,000**	5,000	5,000
MEFIC IPO Fund	**-**	-	147,193
CAYAN MEFIC Office Tower Fund	**20,000**	20,000	20,000
Al Qannas II Fund	**-**	15,000	15,000
MEFIC Private Equity Opportunities Fund	**39,691**	10,647	10,647
MEFIC Private Equity Food & Beverage Opportunities Fund	**16,741**	16,741	-
MEFIC Private Equity Opportunities Fund II	**10,000**	-	-
MEFIC Porto Development Fund	**3,229**	-	-

9.2 Percentage holdings in these funds managed by the Group are as follows:

	31 December 2018	31 December 2017	1 January 2017
	---------------- Percentages	----------------	
MEFIC Real Estate Income Fund	**0.62%**	0.62%	0.62%
Souq Sharq Fund	**-**	19.44%	19.44%
Manazel Qurtoba II Fund	**5.00%**	5.00%	5.00%
MEFIC IPO Fund	**-**	-	20.09%
CAYAN MEFIC Office Tower Fund	**31.91%**	31.91%	31.91%
Al Qannas II Fund	**-**	13.00%	13.00%
MEFIC Private Equity Opportunities Fund	**29.92%**	8.00%	8.00%
MEFIC Private Equity Food & Beverage Opportunities Fund	**31.51%**	31.51%	**-**
MEFIC Private Equity Opportunities Fund II	**22.35%**	-	-
MEFIC Porto Development Fund	**13.55%**	-	-

10. INVESTMENT IN ASSOCIATE

	31 December 2018	31 December 2017	1 January 2017
Medical Tube Industry Company			
Balance at the beginning of the year	**2,310,640**	3,771,325	6,077,814
Share of loss for the year	**(561,712)**	(1,460,685)	(1,402,292)
Impairment during the year	**(1,748,928)**	-	(904,197)
Balance at the end of year	**-**	2,310,640	3,771,325

The Group does not foresee any probable economic benefit in associate due to its financial difficulties, therefore full provision is provided during the year ended 31 December 2018.

11. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017	1 January 2017
Cash in hand	**20,000**	20,000	20,000
Cash at banks – current accounts	**11,700,193**	19,565,903	27,999,931
	11,720,193	19,585,903	28,019,931

12. MURABAHA RECEIVABLE

	Notes	**31 December 2018**	31 December 2017	1 January 2017
Murabaha placement – principal	**a**	**13,500,000**	14,000,000	10,000,000
Accrued profit on murabaha placement		**102,000**	1,032,333	166,667
		13,602,000	15,032,333	10,166,667

a) This includes Murabaha receivable from Cayan MEFIC Office tower Fund which is a related party.

13. ACCRUED INCOME AND OTHER ASSETS, NET

	Notes	**31 December 2018**	31 December 2017	1 January 2017
Accrued management fee and other fees		**36,587,331**	23,751,808	24,583,552
Receivable from Clubs for Sport Comany against units of MEFIC Al-Qannas II Fund		**17,000,000**	-	-
Receivable from employees		**3,272,298**	3,500,042	2,655,793
Advance to MEFIC Souq Sharq Fund		**1,998,207**	1,998,207	1,998,207
Dividends receivable		**48,000**	36,000	2,142,000
Prepaid expenses		**780,689**	977,529	1,679,980
Other receivables		**1,866,693**	2,724,847	1,178,885
Less:				
Provision against management fees and performance fees receivable		**(7,785,683)**	(9,278,825)	(4,745,162)
Provision on employee receivable		**(141,798)**	(141,798)	(141,798)
Provision on other receivables		**(653,333)**	(653,333)	-
Provision on advance to MEFIC Souq Sharq Fund		**(1,998,207)**	(1,998,207)	(1,998,207)
		50,974,197	20,916,270	27,353,250

14. SHARE CAPITAL

As at 31 December 2018, authorized, issued and fully paid-up share capital of the Company was SAR 400 million divided into 40 million shares (31 December 2017 and 1 January 2017: 40 million shares) with a nominal value of SAR 10 each.

The shareholding of the Company's issued and fully paid-up share capital was as follows:

	Notes	Ownership percentage	Number of shares	Share capital
GCC shareholder	a	**40%**	**16,000,000**	**160,000,000**
The Arab Investment Company (TAIC)	b	**15%**	**6,000,000**	**60,000,000**
Saudi shareholders		**45%**	**18,000,000**	**180,000,000**
		100%	**40,000,000**	**400,000,000**

(a) GCC shareholders are Ahli United Bank – Kuwait (30%) and Ahli United Bank - Bahrain (10%), a pan MENA banking group (AUB).

(b) TAIC is a closed joint stock company owned by the Arab states and registered in the Kingdom of Saudi Arabia. 58.65% of TAIC is owned by Saudi and GCC shareholders and therefore out of 15% of TAIC's holding in the Company, 8.8% is considered Saudi and GCC shareholding, which is subject to zakat while the remaining 6.2% is considered foreign and subjected to tax liability.

15. STATUTORY RESERVE

In accordance with its by-laws and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to allocate 10% of its net income each year to a statutory reserve. The Company may discontinue such transfers when such reserve reaches 30% of its share capital. Such reserve is not subject to dividend distribution.

16. EMPLOYEE END OF SERVICE BENEFITS

The Company is required to pay post-employment benefits to all employees under Saudi Labor Regulations on termination of their employment. The liability for end of service benefits is estimated through actuarial methods using the projected unit credit method.

16.1 Amounts recognized in consolidated statement of financial position

	Notes	31 December 2018	31 December 2017	1 January 2017
Employee benefits		**6,222,046**	5,420,937	5,538,339

16.2 Reconciliation of employee benefits (present value of defined benefit obligations)

	31 December 2018	31 December 2017
Present value of defined benefit obligations as at 1 January	**5,420,937**	5,538,339
Current service costs	**1,495,262**	1,480,038
Finance charge	**179,324**	200,486
Total charge to consolidated statement of profit or loss	**1,674,586**	1,680,524
Actuarial (gain) / loss from actuarial experience adjustments	**(833,971)**	(962,980)
Total charge to consolidated statement of other comprehensive income	**(833,971)**	(962,980)
Benefits paid during the year	**(39,506)**	(834,946)
Present value of defined benefit obligation as at 31 December	**6,222,046**	5,420,937

16.3 Principal actuarial assumptions

Significant actuarial assumptions used by the Company and its subsidiaries for the valuation of defined benefit obligations are as follows:

	Notes	31 December 2018	31 December 2017	1 January 2017
		----------------------	Percentages	----------------------
Valuation discount rate		4.35%	2.95%	3.25%
Expected rate of increase in salary level		8.00%	8.00%	8.00%

16.4 Sensitivity analysis of actuarial assumptions

The impact of changes in sensitivities on present value of defined benefit obligation is as follows:

Actuarial assumptions	Notes	31 December 2018	31 December 2017	1 January 2017
Valuation discount rate				
- Increase by 0.5%		**5,975,407**	5,207,382	5,280,325
- Decrease by 0.5%		**6,487,909**	5,689,389	5,818,414
Expected rate of increase in salary level				
- Increase by 1%		**6,393,747**	5,580,205	5,699,711
- Decrease by 1%		**6,060,596**	5,306,465	5,387,581

17. SHORT TERM BORROWINGS

	Notes	31 December 2018	31 December 2017	1 January 2017
Ahli United Bank B.S.C (AUB)	a	**96,992,000**	-	-
Arab National Bank	b	**10,000,000**	-	-
		106,992,000	-	-

a) This represents drawdown of SAR 200 million against Term Loan Facility with Ahli United Bank B.S.C (AUB) for the purpose of acquiring right shares of Bank Al Jazira (BAJ). The tenure of the facility is one year.

The finance facility is secured by way of by a legally binding pledge over BAJ shares and other MEFIC Funds with a market value equivalent to maximum 60% of outstanding loan at time of initial drawdown and any kind of dividend bonus or capital repayment accruing from these assets. The rate of interest is equal to base rate plus 2.5% on the outstanding loan. Base rate is equal to three months SAIBOR determined at the beginning of each interest period. During the year, the effective mark-up rate was 4.48-5.58% (31 December 2017: nil).

This finance facility is subsequently repaid in February 2019. An amount of SAR 103 million was repaid during 2018.

b) This is an overdraft facility obtained from a local bank and carries interest rate equal to base rate plus 3% on the outstanding loan. Base rate is equal to three months SAIBOR determined at the beginning of each interest period. During the year, the effective interest rate was at 5.19% to 6.25%.

18. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2018	31 December 2017	1 January 2017
Payable on purchase of investment	**12,594,336**	-	-
Accrued employees' salaries and other benefits	**5,547,659**	620,917	852,483
Commission and placement fee payable	**3,458,257**	937,379	735,202
Accrued professional fee	**1,740,062**	1,823,625	1,330,808
Interest payable	**288,160**	-	-
Software license fee payable	**-**	599,247	**-**
Communication and networking charges	**300,167**	182,301	115,103
Accrued IT maintenance expense	**241,652**	128,350	48,678
Accrued insurance premium	**111,031**	11,250	115,960
Accrued rent expense	**-**	-	223,121
Payable to GOSI	**144,028**	140,526	147,715
Accrued Board members' fee	**559,000**	1,028,000	1,028,000
Withholding tax payable	**69,084**	4,780	3,526
VAT payable	**371,804**	-	-
Accrued maintenance expenses	**37,125**	37,125	23,850
Accrued security service expenses	**12,000**	12,000	24,000
Others	**385,375**	260,204	219,853
	25,859,740	5,785,704	4,868,299

19. PROVISION FOR ZAKAT AND CORPORATE INCOME TAX

The Group has recognized provision for Zakat and Income tax for the year in accordance with Saudi Arabian Zakat and Income Tax Regulations and recognized in the consolidated statement of profit or loss.

Breakup of provision for Zakat and Income tax in the consolidated statement of financial position is as follows:

	Notes	31 December 2018	31 December 2017	1 January 2017
Provision for Zakat	a	**12,761,340**	5,264,981	6,146,767
Provision for corporate income tax	b	**219,315**	87,534	103,448
		12,980,655	5,352,515	6,250,215

Breakup of provision for Zakat and corporate income tax in the consolidated statement of profit or loss is as follows:

	Notes	31 December 2018	31 December 2017
Provision for Zakat for current year and prior years	a	**21,748,294**	5,264,981
Prior year Zakat charge / (reversal)	a	**1,371**	(420,485)
Provision for Income tax for current year	b	**166,692**	33,540
Prior year Income tax charge	b	**(1,371)**	(49)
		21,914,986	4,877,987

(a) The movement in the provision for Zakat for the year ended 31 December is as follows:

For the year ended 31 December 2018	**Notes**	**Company**	**Subsidiary**	**Total**
As at 1 January		**1,530,176**	**3,734,805**	**5,264,981**
Excess provision during the year		**1,198**	**173**	**1,371**
Paid during the year		**(1,531,478)**	**(3,734,978)**	**(5,266,456)**
Additional provision against prior years assessment	**c**	**6,096,126**	**-**	**6,096,126**
Charge for the year		**3,901,584**	**2,763,734**	**6,665,318**
As at 31 December		**9,997,710**	**2,763,734**	**12,761,340**

For the year ended 31 December 2018	**Notes**	**Company**	**Subsidiary**	**Total**
Provision against Zakat guarantee	**c**	**8,986,850**	**-**	**8,986,850**
As at 31 December		**8,986,850**	**-**	**8,986,850**

For the year ended 31 December 2017	**Company**	**Subsidiary**	**Total**
As at 1 January	2,197,763	3,949,004	6,146,767
(Reversal of excess provision) / prior year charge during the year	(420,745)	260	(420,485)
Paid during the year	(1,777,018)	(3,949,264)	(5,726,282)
Charge for the year	1,530,176	3,734,805	5,264,981
As at 31 December	1,530,176	3,734,805	5,264,981

PROVISION FOR ZAKAT AND CORPORATE INCOME TAX (CONTINUED)

Components of zakat base

The following are the significant components of the Zakat base of the Saudi and GCC shareholders for the year ended 31 December:

2018	**Company**	**Subsidiary**
Share capital	**400,000,000**	**100,000,000**
Accumulated loss	**(91,243,707)**	**(17,056,133)**
Statutory reserve	**8,553,886**	**7,460,206**
Adjusted net income for the year	**16,531,738**	**1,044,114**
Provisions	**18,672,887**	**47,258,838**
Property and equipment, net	**(3,447,576)**	**-**
Long-term investments	**(196,405,710)**	**2,299,404**
Long term loans	**135,192,000**	**(22,563,582)**
Long term receivables subject to tax at subsidiary/associate level	**(111,122,595)**	**-**
Payable against the purchase of investment	**12,594,336**	**-**
Deferred tax asset	**(215,761)**	**(586,395)**
Dividend income from Saudi companies	**(3,008,000)**	**-**
Impairment of investment in associate	**(1,748,928)**	**-**
Others	**(17,973,700)**	**-**
	166,378,870	**117,856,452**
Zakat at 2.5% of 93.8% Saudi Holding	**3,901,584**	**2,763,734**

2017	**Company**	**Subsidiary**
Share capital	400,000,000	100,000,000
Accumulated profit	7,658,966	47,914,690
Statutory reserve	9,058,281	6,763,414
Adjusted net (loss) / income for the year	(12,871,707)	2,704,869
Provisions	3,357,530	2,403,752
Property and equipment, net	(3,874,895)	-
Long-term investments	(124,688,874)	(33,519,970)
Impairment of investment	(113,455)	-
Long term receivables subject to tax at subsidiary/associate level	(195,299,419)	33,000,000
Others	(17,973,714)	-

Some of these amounts have been adjusted in arriving at the Zakat charge for the year.

(b) The movement in the provision for corporate income tax for the year ended 31 December is as follows:

2018	**Company**	**Subsidiary**	**Total**
As at 1 January	**53,994**	**33,540**	**87,534**
Prior year charge / (reversal)	**(1,371)**	**-**	**(1,371)**
Payment during the year	**-**	**(33,540)**	**(33,540)**
Charge for the year	**153,745**	**12,947**	**166,692**
As at 31 December	**206,368**	**12,947**	**219,315**

PROVISION FOR ZAKAT AND CORPORATE INCOME TAX (CONTINUED)

2017	**Company**	**Subsidiary**	**Total**
As at 1 January	53,994	49,454	103,448
Payment during the year	-	(49,405)	(49,405)
Prior year charge	-	(49)	(49)
Charge for the year	-	33,540	33,540
As at 31 December	53,994	33,540	87,534

(c) Status of assessments

The Company
The Company has submitted its zakat and corporate income tax returns for financial years from 2007 through 2017 with the General Authority for Zakat and Tax ("GAZT"). The Company received zakat assessments for the years from 2007 to 2011 raising additional demand of SAR 19.64 million. The Company paid SAR 1.67 million of the additional liability and filed an appeal against the remaining liability to Higher Appeal Committee (HAC); a bank guarantee of SAR 17.97 million was submitted to GAZT as required by the zakat and corporate income tax laws of the Kingdom of Saudi Arabia.

The above additional exposure was on account of disallowance of certain long-term investments by GAZT. The Company has formally contested these assessments and is awaiting a response from HAC. A provision of SAR 8.98 million is provided in the current year against this guarantee on prudent basis. This provision is made without prejudice to the merit of the pending legal case and rights of each party remain the same until a settlement is reached between GAZT and the Company.

During the year, the Company received Zakat assessments for the years 2012 and 2013 raising additional demand of SAR 12.19 million. The additional exposure was on account of disallowance of certain long-term investments, provision of doubtful debts, inter-company loans and other disallowances by GAZT. The basis of this additional aggregate Zakat liability is also being contested by the Company. A provision of SAR 6.09 million is provided in the current year against this assessment on prudent basis. This provision is included in current year charge and is made without prejudice to the merit of the pending legal case and rights of each party remain the same until a settlement is reached between GAZT and the Company.

The Company believes that the ultimate outcome of these appeals filed and actions taken by the Company cannot be determined reliably at this stage.

The Subsidiary
The Subsidiary has filed its Zakat and corporate income tax returns for the years from establishment date up to and including the financial year 2017 with the General Authority of Zakat and Tax (the "GAZT"), and has received restricted certificate up to the year 2017. However, the Subsidiary has not yet received the assessments from GAZT for any of these years.

20. CONTINGENCIES AND COMMITMENTS

Contingent liabilities

There were no contingencies as at the reporting date except for the Zakat and corporate income tax assessment under consideration as disclosed in relevant notes of the financial statements.

Commitments

MEFIC Real Estate Investment Traded Fund (REIT), a Fund managed by MEFIC has guaranteed an annual dividend of 5% to its initial cash subscribers. Any deficiency in the annual dividend is guaranteed by MEFIC up to a rate of 2% of the deficient amount.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended	
	31 December 2018	31 December 2017
Co-underwriting commission	**11,055,000**	-
Professional fee	**7,086,147**	2,492,746
Repairs and maintenance expense	**798,308**	1,213,322
Subscriptions	**1,286,025**	434,791
Loan structuring fees	**1,250,000**	-
Commission and placement fee	**-**	7,284,519
Board member's fee	**605,000**	1,121,000
Marketing and advertising	**2,486,328**	536,650
Travel expense	**356,974**	478,454
Communication expense	**-**	324,979
Insurance expense	**318,921**	329,584
Publication, printing and stationery	**128,481**	156,356
CMA and license renewal fee	**-**	302,000
Tadawul fee	**-**	85,803
Utilities	**448,893**	205,934
Office cleaning expense	**259,198**	263,017
Security service expense	**144,000**	144,000
Bank charges	**14,853**	10,558
Management Fee Rebate	**537,881**	-
Withholding tax	**483,538**	37,415
VAT expense	**58,080**	-
Others	**203,480**	223,779
	27,521,107	15,644,907

22. OTHER NON OPERATING INCOME

	For the year ended	
	31 December 2018	31 December 2017
Financing income	**19,653,745**	5,040,477
Other income	**35,015**	173,858
	19,688,760	5,214,335

23. OTHER NON OPERATING EXPENSES

		For the year ended	
	Notes	**31 December 2018**	31 December 2017
Impairment charge on employee loan	9a	**19,700,000**	-
Impairment of loan to Real Estate Income Fund	9	**4,000,000**	-
Impairment of investment in associate	10	**1,748,928**	-
(Reversal) / impairment of management fee	13	**(1,429,621)**	4,526,340
Impairment of loan to associate	9	**-**	3,850,000
Share of loss from equity accounted investee	10	**561,712**	1,460,685
Foreign exchange loss / income		**787,509**	(308,740)
Impairment of rent receivable		**-**	433,333
Others		**-**	113,455
		25,368,528	10,075,073

24. EARNINGS / (LOSS) PER SHARE

Earnings / (loss) per share is calculated by dividing net income or loss for the year by the weighted average number of shares outstanding during the year ended 31 December 2018 and 2017.

25. FIDUCIARY ASSETS

Assets under management:
These represent the mutual funds' assets and investments managed by the Group on behalf of its customers, which amount to **SAR 3,859,061,012** as at 31 December 2018 (31 December 2017: SAR 2,691,414,277 and 1 January 2017: SAR 2,274,699,088). Consistent with the Group's accounting policy, such balances are not included in the Group's consolidated financial statements.

Clients' cash accounts:
Pursuant to the CMA's Authorized Persons Regulations requiring Client money segregation, the Group holds Clients' money in Omnibus accounts at a local bank to carry out its dealing, managing and custody activities. The Group is holding clients' cash accounts, which amounts to **SAR Nil** as at 31 December 2018. (31 December 2017: Nil and 1 January 2017: SAR 58,720,646). Consistent with the Group's accounting policy, such balances are not included in the Group's consolidated financial statements.

26. SEGMENT INFORMATION

The Group operates solely in the Kingdom of Saudi Arabia. For management purposes, the Group is organized into business units based on services provided and has the following reportable segments:

Corporate
Corporate manages future corporate development and controls all treasury related functions. All proprietary investments are included within this business segment, which also comprise strategy and business development, legal and compliance, finance, operations, human resources and client relation management.

Asset management
Asset management services include management of certain mutual funds and investments on behalf of the Group's customers.

Management monitors the operating results of the operating segments separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

The Group does not track liabilities by business segment and these are accordingly disclosed as corporate liabilities.

Real Estate

Real Estate division deals with managing investment properties and devising strategies for profit maximization for capital appreciation of properties and generating rental incomes.

Private Equity and investment banking

The Group invests in private unquoted companies and makes strategies for their turnaround and to be sold in future years generating income for the Group.

Brokerage

The Group had a brokerage line of service, which was discontinued during the prior year.

(Saudi Riyals)

SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2018	Corporate	Asset management	Real Estate	PE&IB	Total
Revenues					
Total revenues	108,818,291	8,228,491	23,288,095	11,614,083	151,948,960
Expenses					
Salaries and employee related expenses	(7,977,019)	(11,179,311)	(6,071,441)	(6,490,247)	(31,718,018)
Depreciation expenses	(166,998)	(95,732)	(96,292)	(40,859)	(399,881)
Amortization expenses	(285,784)	(163,825)	(164,785)	(69,922)	(684,316)
Rent expense	(470,665)	(343,983)	(226,796)	(121,463)	(1,162,907)
Interest expense	(4,416,054)	-	(3,080,517)	-	(7,496,571)
General and administrative expenses	(22,798,149)	-	(2,570,379)	-	(25,368,528)
Other non- operating expenses	(13,357,952)	(2,627,442)	(8,954,377)	(2,581,336)	(27,521,107)
Total expenses	(49,472,621)	(14,410,293)	(21,164,587)	(9,303,827)	(94,351,328)
Segment profit	59,345,670	(6,181,802)	2,123,508	2,310,256	57,597,632
Zakat and corporate income tax					(21,606,244)
Net income for the year					35,991,388

SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017	Corporate	Asset management	Real Estate	PE&IB	Brokerage	Total
Total revenues	15,329,096	7,921,837	13,861,579	6,689,593	238,790	44,040,895
Expenses						
Salaries and employee related expenses	(5,637,854)	(9,756,882)	(5,521,631)	(4,105,369)	(1,760,210)	(26,781,946)
Depreciation expenses	(210,873)	(58,805)	(39,203)	(37,232)	(118,640)	(464,754)
Amortization expenses	(178,694)	(49,831)	(33,221)	(31,551)	(100,535)	(393,831)
Rent expense	(452,496)	(324,585)	(224,582)	(135,335)	(83,310)	(1,220,308)
Interest expense	(186,914)	-	-	-	-	(186,914)
General and administrative expenses	(9,204,339)	(3,196,124)	(1,678,038)	(797,225)	(798,485)	(15,674,211)
Other non operating expenses	(5,548,733)	(195,293)	(4,331,047)	-	-	(10,075,073)
Total expenses	(21,419,903)	(13,581,520)	(11,827,722)	(5,106,712)	(2,861,180)	(54,797,037)
Segment profit	(6,090,807)	(5,659,683)	2,033,857	1,582,881	(2,622,390)	(10,756,142)
Zakat and corporate income tax						(4,784,769)
Net income for the year						(15,540,911)

27. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk).

a. Credit risk

Credit risk is the risk that one party of a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group has established procedures to manage credit exposure including evaluation of borrowers' credit worthiness, formal credit approvals, assigning credit limits, obtaining collaterals such as managing borrowers' portfolios. Individual margin loan contracts generally are for terms not exceeding twelve months.

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

The Group's policy over credit risk is to minimize exposure to counter parties with perceived higher risk of default by dealing only with counter parties that are evaluated to be credit worthy based on risk assessment procedures performed, Know Your Customer (KYC) and compliance procedures conducted prior to accepting a customer. The Group extends financing to non-related party customers after obtaining adequate collaterals in the form of approved securities as to ensure adequate customer liquidity to meet repayment obligations and mitigate credit risk. For related party transactions, the Company obtains Board approval where the transactions are significant, in accordance with Capital Market Authority Implementing Regulations.

Credit risk is monitored on a daily basis for adequacy of collateral coverage in accordance with the applicable risk management policy and if required, additional margin calls are issued to customers to pledge additional assets and customer portfolios are fully / partly liquidated to ensure compliance with the applicable risk management policy.

b. Commission rate risk

Commission rate risk is the uncertainty of future earnings resulting from fluctuations in commission rates. The risk arises when there is a mismatch in the assets and liabilities, which are subject to commission rate adjustment within a specified period. The Group`s assets are subject to fixed rate commission income. The Group does not have any commission bearing liabilities. The Group`s future earnings are not exposed to commission rate risk.

c. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, Kuwaiti Dinar, Sterling Pound and US Dollars. Management monitors the fluctuations in currency exchange rates and believes that the Group is not exposed to significant foreign exchange risk.

d. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can arise by market disruptions, which may cause certain sources of funding to be unavailable. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Group's future commitments.

FINANCIAL RISK MANAGEMENT (CONTINUED)

e. Categories of financial assets and financial liabilities

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

	Notes	**31 December 2018**	31 December 2017	1 January 2017
Financial assets				
Financial assets at amortized cost:				
Accrued income and other assets (excluding prepayments)		**50,193,508**	19,938,741	25,673,270
Due from related parties		**153,863,435**	103,315,341	102,124,864
Murabaha receivables		**13,602,000**	15,032,333	10,166,667
Cash and cash equivalents		**11,720,193**	19,585,903	28,019,931
Total financial assets at amortized cost		**229,379,136**	157,872,318	165,984,732
Financial assets at fair value through OCI:				
Unquoted foreign equity investment		**11,804,945**	11,815,105	11,823,480
Financial assets at fair value through profit or loss:				
Mutual funds		**116,077,875**	112,694,523	97,557,290
Discretionary portfolios		**134,232,000**	12,929,214	14,217,689
Listed equity securities		**-**	12,049,918	16,172,899
Foreign equity investments		**20,307**	22,121	1,504,103
Other investments		**-**	-	1,140,647
Total financial assets at fair value through profit or loss		**250,330,182**	137,695,776	130,592,628
Financial liabilities				
Financial liabilities at amortised cost:				
Employees-end-of-service benefits		**6,222,046**	5,420,937	5,538,339
Short term borrowing		**106,992,000**	-	-
Accrued and other expenses, except for prepayments		**25,859,740**	5,785,704	4,868,299
Total financial liabilities at amortised cost		**139,073,786**	11,206,641	10,406,638

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Determination of fair value and fair value hierarchy

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy.

This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

The table below presents the financial instruments based on the fair value hierarchy:

As at 31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTOCI:				
Unquoted foreign equity investment	**-**	**-**	**11,804,945**	**11,804,945**
Total financial assets at FVTOCI	**-**	**-**	**11,804,945**	**11,804,945**
Financial assets at FVTPL:				
Mutual funds	**116,077,875**	**-**	**-**	**116,077,875**
Discretionary portfolios	**134,232,000**	**-**		**134,232,000**
Foreign equity investments	**-**	**-**	**20,307**	**20,307**
Total financial assets at FVTPL:	**250,309,875**		**20,307**	**250,330,182**
Total financial assets	**250,309,875**	**-**	**11,825,252**	**262,135,127**

As at 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTOCI:				
Unquoted foreign equity investment	-	-	11,815,105	11,815,105
Total financial assets at FVTOCI	-	-	11,815,105	11,815,105
Financial assets at FVTPL:				
Mutual funds	112,694,523	-	-	112,694,523
Discretionary portfolios	12,929,214	-		12,929,214
Listed equity securities	12,049,918	-	-	12,049,918
Foreign equity investments	-	-	22,121	22,121
Total financial assets at FVTPL:	137,673,655	-	22,121	137,695,776
Total financial assets	137,673,655	-	11,837,226	149,510,881

FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The valuation of each publicly traded investment is based upon the closing market price of that stock as of the valuation date, less a discount if the security is restricted. Fair values of private equity investments and mutual funds classified in Level 3 are determined based on the investees' latest reported net assets values as at the date of statement of financial position taking into account the fair value of underlying investments by the fund. Fair values of other investments (including sukuks) classified in Level 3 are determined based on discounted cash flows, which incorporate assumptions regarding an appropriate credit spread. The carrying values of all other financial assets and liabilities approximate their fair values.

Transfer between fair value hierarchies

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement. There were no transfers in between levels during the year ended December 31, 2018 and 2017.

29. FIRST TIME ADOPTION OF IFRS

The consolidated financial statements for the year ended 31 December 2018 are the first consolidated financial statements, the Group has prepared in accordance with IFRS.

This note explains the principal adjustments made by the Group in restating its SOCPA consolidated financial statements, including the consolidated statement of financial position as at 31 December 2017 and as at 1 January 2017.

First-time adoption exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application of IFRSs. The Group has applied mandatory exceptions as set out below.

Mandatory exemptions adopted by the Group

The Group has used estimates under IFRS that are consistent with those applied under previous SOCPA standards (with adjustment for accounting policy differences) unless there is an objective evidence that those estimates were in error.

Optional exemptions adopted by the Group

The Group has elected to apply IFRS retrospectively to all balances due from related parties that carry interest lower than market rate of interest and has not availed any optional exemptions in this matter.

FIRST TIME ADOPTION OF IFRS (CONTINUED)

29.1 Reconciliation of consolidated statement of financial position as at 1 January 2017 (date of transition to IFRS)

	Notes	Previous GAAP balances as at 1 January 2017	IFRS transition adjustments and reclassifications	IFRS balances as at 1 January 2017
ASSETS				
Non-current assets				
Investments	a, b	136,012,808	(9,769,599)	**126,243,209**
Due from related parties	c, d	147,053,906	(52,129,042)	**94,924,864**
Investment in associate		3,771,325	-	**3,771,325**
Property and equipment	i	3,974,533	(1,537,849)	**2,436,684**
Intangible assets	i	-	1,537,849	**1,537,849**
Deferred tax asset	j	-	708,938	**708,938**
Total non-current assets		290,812,572	(61,189,703)	**229,622,869**
Current assets				
Cash and cash equivalents	b	26,794,381	1,225,550	**28,019,931**
Investments		16,172,899	-	**16,172,899**
Margin loans		11,999,392	-	**11,999,392**
Murabaha receivables		10,166,667	-	**10,166,667**
Deposits against letter of guarantee		17,973,700	-	**17,973,700**
Due from related parties	c, d, g	16,200,000	(9,000,000)	**7,200,000**
Accrued income and other assets, net	e, g	32,092,412	(4,739,162)	**27,353,250**
Total current assets		131,399,451	(12,513,612)	**118,885,839**
TOTAL ASSETS		422,212,023	(73,703,315)	**348,508,708**
EQUITY				
Share capital		400,000,000	-	**400,000,000**
Statutory reserve	k	9,058,281	(504,395)	**8,553,886**
Accumulated losses	29.5	7,658,966	(84,324,742)	**(76,665,776)**
Unrealized gain / (loss) on investments	f	(9,025,015)	8,988,760	**(36,255)**
TOTAL EQUITY		407,692,232	(75,840,377)	**331,851,855**
LIABILITIES				
Non-current liabilities				
Employees end of service benefits	l	3,401,277	2,137,062	**5,538,339**
Total non-current liabilities		3,401,277	2,137,062	**5,538,339**
Current liabilities				
Accrued expenses and other liabilities		4,868,299	-	**4,868,299**
Provision for zakat and corporate income tax		6,250,215	-	**6,250,215**
Total current liabilities		11,118,514	-	**11,118,514**
TOTAL LIABILITIES		14,519,791	2,137,062	**16,656,853**
TOTAL EQUITY AND LIABILITIES		422,212,023	(73,703,315)	**348,508,708**

FIRST TIME ADOPTION OF IFRS (CONTINUED)

29.2 Reconciliation of consolidated statement of financial position as at 31 December 2017

	Notes	Previous GAAP balances as at 31 December 2017	IFRS transition adjustments and reclassifications	IFRS balances as at 31 December 2017
ASSETS				
Non-current assets				
Investments	a, b	135,075,793	2,385,170	**137,460,963**
Due from related parties	c, d	134,403,905	(50,088,564)	**84,315,341**
Investment in associate		2,310,640	-	**2,310,640**
Property and equipment	i	4,335,209	(3,316,793)	**1,018,416**
Intangible assets	i	-	3,316,793	**3,316,793**
Deferred tax asset	j	-	802,156	**802,156**
Total non-current assets		276,125,547	(46,901,238)	**229,224,309**
Current assets				
Cash and cash equivalents	b	19,124,837	461,066	**19,585,903**
Investments		12,049,918	-	**12,049,918**
Murabaha receivables		15,032,333	-	**15,032,333**
Deposits against letter of guarantee		17,973,700	-	**17,973,700**
Due from related parties	c, d, g	31,125,000	(12,125,000)	**19,000,000**
Accrued income and other assets	e, g	30,195,094	(9,278,824)	**20,916,270**
Total current assets		125,500,882	(20,942,758)	**104,558,124**
TOTAL ASSETS		401,626,429	(67,843,996)	**333,782,433**
EQUITY				
Share capital		400,000,000	-	**400,000,000**
Statutory reserve	k	9,058,281	(504,395)	**8,553,886**
Accumulated losses	29.5	(11,086,230)	(80,157,477)	**(91,243,707)**
Unrealized gain/(loss) on investments	f	(11,083,133)	10,996,231	**(86,902)**
TOTAL EQUITY		386,888,918	(69,665,641)	**317,223,277**
LIABILITIES				
Non-current liabilities				
Employees-end-of-service benefits	l	3,599,292	1,821,645	**5,420,937**
Total non-current liabilities		3,599,292	1,821,645	**5,420,937**
Current liabilities				
Accrued expenses and other liabilities		5,785,704	-	**5,785,704**
Provision for zakat and corporate income tax		5,352,515	-	**5,352,515**
Total current liabilities		11,138,219	-	**11,138,219**
TOTAL LIABILITIES		14,737,511	1,821,645	**16,559,156**
TOTAL EQUITY AND LIABILITIES		401,626,429	(67,843,996)	**333,782,433**

FIRST TIME ADOPTION OF IFRS (CONTINUED)

29.3 Reconciliation of consolidated statement of profit or loss for the year ended 31 December 2017

	Notes	Previous GAAP balances as at 31 December 2017	IFRS transition adjustments and reclassifications	IFRS balances as at 31 December 2017
REVENUES				
Asset management and subscription fees	b	28,096,657	(376,350)	**27,720,307**
Realized gain/(loss) on investments	b	(1,027,460)	(350,935)	**(1,378,395)**
Unrealized gain/(loss) on investments	n	(433,471)	9,723,631	**9,290,160**
Profit on murabaha placement		1,207,667	-	**1,207,667**
Dividend income	b	1,092,000	403,974	**1,495,974**
Brokerage fee income		238,790	-	**238,790**
Commission income		252,057	-	**252,057**
		29,426,240	9,400,320	**38,826,560**
EXPENSES				
Salaries and employee related expenses	l	(26,134,382)	(647,564)	**(26,781,946)**
Depreciation expenses		(464,754)	-	**(464,754)**
Amortization expenses		(393,831)	-	**(393,831)**
Rent expenses		(1,220,308)	-	**(1,220,308)**
Interest expense		(186,914)	-	**(186,914)**
Other general and administrative expenses	b	(15,643,360)	(30,851)	**(15,674,211)**
		(44,043,549)	(678,415)	**(44,721,964)**
OPERATING INCOME		(14,617,309)	8,721,905	**(5,895,404)**
Other non-operating income	c , n	4,373,833	840,502	**5,214,335**
Other non-operating expenses	n	(3,623,733)	(6,451,340)	**(10,075,073)**
LOSS FOR THE YEAR BEFORE ZAKAT AND CORPORATE INCOME TAX		(13,867,209)	3,111,067	**(10,756,142)**
Zakat and corporate income tax for the year	m	-	(4,877,987)	**(4,877,987)**
Deferred tax income			93,218	**93,218**
NET LOSS FOR THE YEAR		(13,867,209)	(1,673,702)	**(15,540,911)**
BASIC AND DILUTED LOSS PER SHARE		(0.35)	(0.04)	**(0.39)**

(Saudi Riyals)

FIRST TIME ADOPTION OF IFRS (CONTINUED)

29.4 Reconciliation of consolidated statement of other comprehensive income for the year ended 31 December 2017

	Notes	Previous GAAP balances as at 31 December 2017	IFRS transition adjustments and reclassifications	IFRS balances as at 31 December 2017
Net income / (loss) for the year		(13,867,209)	(1,673,702)	**(15,540,911)**
Items that may not be subsequently re-classified to profit or loss				
Net change on re-measurement of defined benefit liability		-	962,980	**962,980**
Net change on re-measurement of investments measured at fair value through other comprehensive income (FVTOCI)		-	(50,647)	**(50,647)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(13,867,209)	(761,369)	**(14,628,578)**

FIRST TIME ADOPTION OF IFRS (CONTINUED)

29.5 Reconciliation of (accumulated losses) / retained earnings as at 31 December 2017 and 1 January 2017 (date of transition).

	Notes	31 December 2017	1 January 2017
Total equity under Previous GAAP (SOCPA)		**(11,086,230)**	**7,658,966**
IFRS transition adjustments			
Net changes in net assets value (NAV) of Souq Sharq Fund owing to IFRS adjustments	a	2,782,716	(8,594,247)
Net changes in fair valuation of rent receivables from Souq Sharq Fund from discounting and unwinding under IFRS 13	c	(3,951,760)	(3,951,760)
Net changes in fair valuation of receivables from Souq Sharq Fund against sale of property from discounting and unwinding under IFRS 13	c	(11,684,658)	(13,725,136)
Loss allowances under expected credit loss model	d	(55,792,450)	(48,141,110)
Reclassification of fair value reserves from equity to profit or loss on account of IFRS 9	f	(10,996,231)	(8,988,760)
Recognition of deferred tax asset under IAS -12	j	802,156	708,938
Reversal of statutory reserve as no profit under IFRS	k	504,395	504,395
Net change in liability of employees benefits on account of actuarial valuation under IAS-19	l	(1,821,645)	(2,137,062)
Total IFRS transition adjustments		**(80,157,477)**	**(84,324,742)**
Total equity under IFRS as at the reporting date		**(91,243,707)**	**(76,665,776)**

29.6 Notes to the reconciliation of equity, and comprehensive income presented above are as follows:

(a) On transition to IFRS, there was an impact of adjustments on the net assets value of the Souq Sharq Fund in which the Group holds investment. This impacted the fair value on which the Group was carrying such investment. The net change on the value of investments is summarized below:

	Notes	31 December 2017	1 January 2017
Statement of financial position			
Net change in fair value of Souk Sharq Fund	i	2,782,716	(8,594,247)
Consolidation of MEFIC Local Equity Fund	(b)	(397,546)	(1,175,352)
		2,385,170	(9,769,599)

FIRST TIME ADOPTION OF IFRS (CONTINUED)

(b) The Group holds investment in MEFIC Local Equity Fund (the "Fund"), which was directly and indirectly wholly owned by the Company. This investment was accounted for as available-for-sale investment under SOCPA. On transition to IFRS, the Fund is accounted for as a subsidiary. The assets and liabilities of the fund are consolidated in the consolidated statement of financial position, along with income and expenses of the fund, which are consolidated in to the consolidated statement of comprehensive income in these consolidated financial statements.

The impacts arising from the change are summarized as follows:

	31 December 2017	1 January 2017
Statement of financial position		
Investments already included under previous GAAP through NAV	12,149,918	11,081,300
Cash and cash equivalents	461,066	1,225,550
Dividend receivable	-	6,000
Intercompany balances – Management fees and other expenses payable	(63,520)	(56,198)
Net consolidation impact	397,546	1,175,352
Net assets of the Fund	12,547,464	12,256,652
Cash and cash equivalents	461,066	1,225,550
Accrued income and other current assets, net		
Dividend receivable	-	6,000
Intercompany balances – Management fees and other expenses payable	(63,520)	(56,198)
	(63,520)	(50,198)

	31 December 2017
Statement of comprehensive income	
Realized loss on sale of investments, net	(350,935)
Unrealized gain on sale of investments, net	644,951
Dividend income	403,974
Other income	24
Intercompany transaction – Asset management and subscription fees	(376,350)
Other general and administrative expenses	(30,852)
Net income of the Fund	290,812

FIRST TIME ADOPTION OF IFRS (CONTINUED)

(c) The Group elected to apply IFRS retrospectively to all balances due to related parties. These receivables carry interest at lower than market rate. The use of amortised cost and effective profit rate method for measuring such receivables and recognizing profit thereon respectively affected both the carrying amount of instruments in the consolidated statement of financial position and the related financing income in the profit or loss. The impact of retrospective adjustment impacted the opening consolidated retained earnings as at 1 January 2017.

The impact arising from the change is summarized as follows:

	Notes	As at 1 January 2017	As at 31 December 2017
Due from related parties – non current			
Receivable from Souk Sharq Fund against investment property	i	(29,725,136)	(27,684,658)
Rent receivable from Souk Sharq Fund	ii	(22,403,906)	(22,403,906)
		(52,129,042)	(50,088,564)
Unwinding of discount on receivable for the year ended 31 December 2017		2,040,477	
Effect of transition as at 31 December 2017		50,088,565	
i) Receivable from Souk Sharq Fund against investment property			
Discounting of receivable		(13,725,136)	(11,684,658)
Loss allowance on account of expected credit losses	(d)	(16,000,000)	(16,000,000)
		(29,725,136)	(27,684,658)
ii) Rent receivable from Souk Sharq Fund			
Discounting of rent receivable – current		(3,951,760)	(3,951,760)
Loss allowance on account of expected credit losses – non current	(d)	(18,452,146)	(18,452,146)
		(22,403,906)	(22,403,906)
Loss allowance on account of expected credit losses – current	(d)	(9,000,000)	(12,125,000)
		(31,403,906)	(34,528,906)

(d) Under SOCPA, all receivable balances were assessed using incurred loss model. Under IFRS, receivable balances were assessed under expected credit loss model allowing for higher provisions of doubtful receivables which were as follows:

	For the year ended 31 December 2017	As at 1 January 2017	As at 31 December 2017
Allowances against:			
Rent receivable from Souq Sharq Fund	-	(27,452,146)	(27,452,146)
Management fee receivable from Souq Sharq and Manazel Qurtaba 2	(4,526,340)	(4,688,964)	(9,215,304)
Receivable from Medical Tube Industry	(1,925,000)	-	(1,925,000)
Sale of investment property from Souq Sharq Fund	-	(16,000,000)	(16,000,000)
Interest receivable	(1,200,000)	-	(1,200,000)
	(7,651,340)	(48,141,110)	(55,792,450)

FIRST TIME ADOPTION OF IFRS (CONTINUED)

(e) Accrued income and other assets were impacted as follows:

Accrued income and other assets, net	**Notes**	**31 December 2017**	**1 January 2017**
Loss allowance on account of expected credit losses	(d)	(9,215,304)	(4,688,964)
Consolidation of Local Equity Fund	(b)	(63,520)	(50,198)
		(9,278,824)	(4,739,162)

(f) Under SOCPA, investments were classified as either “held for trading” or “available for sale” with unrealized gains or losses recognized in either profit or loss or other comprehensive income respectively. Under IFRS, investments can be classified as either “fair value through profit or loss” or at “fair value through other comprehensive income” with unrealized gains or losses recognized in either profit or loss or other comprehensive income respectively, with specific criteria for their classification.

Unquoted foreign equity investment in Marsa Al-Seef Investment Company Limited is the only investment which has been classified at “fair value through other comprehensive income” with corresponding unrealized change in fair value in other comprehensive income. All other unrealized gains or losses are transferred to profit or loss.

	31 December 2017	**1 January 2017**
Fair value reserves as per audited accounts SOCPA	(11,083,133)	(9,025,015)
Unrealized loss on unquoted foreign equity investment	86,902	36,255
	(10,996,231)	(8,988,760)

(g) Under SOCPA, accrued financing income on receivable balances was presented under accrued income and other current assets. On transition to IFRS, accrued financing income on such receivables is presented as part of the carrying amount of due from related parties.

(h) The use of amortised cost and effective profit rate method under IFRS receivable balances resulted in a reclassification adjustment from due from related parties into short term as per the terms of the repayment.

(i) Under SOCPA, the intangibles assets were included in the carrying amount of property and equipment. These intangible assets have been reclassified in the consolidated statement of financial position.

(j) Under SOCPA, the Group did not recognise a deferred tax asset /liability. On transition to IFRS, the Group recognised deferred taxes on temporary differences between the carrying amount of the assets and liabilities in its opening IFRS consolidated statement of financial position and their tax bases. Generally, all adjustments to deferred tax at the date of transition are made to consolidated retained earnings.

(k) Due to impact on profit for the year relating to adjustments on transition to IFRS, the amount transferred to statutory reserves in accordance with Company’s Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia was adjusted.

FIRST TIME ADOPTION OF IFRS (CONTINUED)

(l) Under SOCPA the Group's obligation in respect of employees' post-employment benefits was calculated based on the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date. Under IFRSs, the obligation is determined using the projected unit credit method and actuarial valuations are obtained at each year end.

(m) Under SOCPA, the Group's Zakat and corporate income tax was charged directly to retained earnings in consolidated statement of changes in equity. On transition to IFRS, Zakat and corporate income tax is recognized in consolidated statement of comprehensive income instead.

(n) The adjustments and reclassification in consolidated statement of profit or loss is as follows:

	Notes	31 December 2017
Unrealized gain / (loss) on investments		
Fair value reserves as per audited accounts SOCPA		(2,058,118)
Fair value reserve of investment currently at FVTOCI		50,647
Reclassification of consolidation profit of MEFIC Local Equity Fund	b	(290,812)
Net change in fair value of Souk Sharq Fund	a	8,594,247
Net change in fair value of Souk Sharq Fund	a	2,782,716
		644,951
		9,723,631
Other non-operating expenses		
Management fee receivable from Souq Sharq and Manazel Qurtaba 2	d	4,526,340
Receivable from Medical Tube Industry	d	1,925,000
		6,451,340
Other non-operating income		
Discounting of receivable for the year	c	2,040,477
Interest receivable provision from Souq Sharq	d	(1,200,000)
Other income from MEFIC Local Equity Fund	b	24
		840,502

29.7 There was no material change in consolidated statement of cash flows for the year ended 31 December 2017.

30. REGULATORY CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

The Capital Market Authority (the "CMA") has issued Prudential Rules (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H). According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under these Rules.

In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

Description	**31 December 2018**	31 December 2017
Capital base:		
Tier-1 Capital	**350,294,998**	**386,888,918**
Tier-2 Capital	**-**	**-**
Total capital base (A)	**350,294,998**	**386,888,918**
Minimum Capital Requirement:		
Market risks	**2,280,298**	**327,770**
Credit risks	**251,116,993**	**219,413,664**
Operational risks	**17,245,726**	**11,628,834**
Total minimum capital requirement (B)	**270,643,017**	**231,370,268**
Surplus (C=A-B)	**79,651,981**	**155,518,650**
Capital adequacy ratio (D=A/B)	**1.29**	**1.67**

31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the board of directors on 14 Rajab 1440 H corresponding to 21 March 2019 G.