

**MIDDLE EAST FINANCIAL INVESTMENT
COMPANY**
(A Saudi Closed Joint Stock Company)
**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019
TOGETHER WITH THE
INDEPENDENT AUDITOR'S REPORT**

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 2019

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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 2019 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to 1 to 31 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 2019, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") endorsed in the Kingdom of Saudi Arabia.

Basis for opinion

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

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 IFRS endorsed in the Kingdom of Saudi Arabia 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.

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 31 March 2020G
Corresponding to: 7 Sha'ban 1441H

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Saudi Riyals)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Investments	5	161,074,366	262,135,127
Property and equipment	6	1,118,032	1,067,741
Intangible assets	7	1,983,007	2,632,477
Deferred tax asset	8	398,909	1,110,898
Due from related parties	9	82,209,233	80,980,556
Investment in associate	10	-	-
Total non-current assets		246,783,547	347,926,799
Current assets			
Cash and cash equivalents	11	18,105,670	11,720,193
Murabaha receivables	12	-	13,602,000
Deposit against letter of guarantee	19	8,986,850	8,986,850
Due from related parties	9	76,882,879	72,882,879
Accrued income and other assets	13	39,944,145	50,974,197
Total current assets		143,919,544	158,166,119
TOTAL ASSETS		390,703,091	506,092,918
EQUITY			
Share capital	14	400,000,000	400,000,000
Statutory reserve	15	12,917,626	12,153,025
Accumulated losses		(49,592,734)	(58,017,487)
Unrealized loss on investments		(103,104)	(97,061)
TOTAL EQUITY		363,221,788	354,038,477
LIABILITIES			
Non-current liabilities			
Employees end of service benefits	16	4,786,626	6,222,046
Total non-current liabilities		4,786,626	6,222,046
Current liabilities			
Short term borrowings	17	-	106,992,000
Accrued expenses and other liabilities	18	7,139,899	25,859,740
Provision for zakat and corporate income tax	19	15,554,778	12,980,655
Total current liabilities		22,694,677	145,832,395
TOTAL LIABILITIES		27,481,303	152,054,441
TOTAL EQUITY AND LIABILITIES		390,703,091	506,092,918
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 2019
(Saudi Riyals)

	Notes	31 December 2019	31 December 2018
REVENUES			
Asset management and subscription fees		18,778,798	34,582,602
Realized net gain on investments held at FVTPL		17,034,337	6,853,204
Unrealized net gain on investments held at FVTPL		3,503,299	45,203,929
Profit on Murabaha placement		132,667	898,129
Dividend income		518,914	5,457,377
Commission income		-	38,477,450
		39,968,015	131,472,691
EXPENSES			
Salaries and employee related expenses		(24,814,803)	(31,718,018)
Depreciation	6	(384,174)	(399,881)
Amortization	7	(649,470)	(684,316)
Rent expenses		(1,171,950)	(1,162,907)
Finance cost		(815,759)	(7,496,571)
General and administrative expenses	21	(7,306,744)	(27,521,107)
		(35,142,900)	(68,982,800)
OPERATING PROFIT		4,825,115	62,489,891
Other non operating income/(expense)-net	22	10,667,329	(4,892,259)
PROFIT FOR THE YEAR			
BEFORE ZAKAT AND INCOME TAX		15,492,444	57,597,632
Zakat and corporate income tax for current and prior years	19	(7,134,447)	(21,914,986)
Deferred tax expense/income for the year		(711,989)	308,742
PROFIT FOR THE YEAR		7,646,008	35,991,388
BASIC AND DILUTED EARNING PER SHARE	23	0.19	0.90

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 COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Saudi Riyals)

	Notes	31 December 2019	31 December 2018
Profit for the year		7,646,008	35,991,388
<i>Items that may not be subsequently re-classified to profit or loss</i>			
Net change on re-measurement of defined benefit liability	16	1,543,346	833,971
Net change on re-measurement of investments measured at fair value through other comprehensive income (FVTOCI)		(6,043)	(10,159)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,183,311	36,815,200

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 2019
(Saudi Riyals)

	Share capital	Statutory reserve	Accumulated losses	Unrealized loss on investments at FVTOCI	Total
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					
Profit for the year	-	-	35,991,388	-	35,991,388
Other comprehensive income	-	-	833,971	(10,159)	823,812
Total comprehensive income	-	-	36,825,359	(10,159)	36,815,200
Transfer to statutory reserve	-	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
Balance as at 1 January 2019	400,000,000	12,153,025	(58,017,487)	(97,061)	354,038,477
Total comprehensive income for the year					
Profit for the year	-	-	7,646,008	-	7,646,008
Other comprehensive income	-	-	1,543,346	(6,043)	1,537,303
Total comprehensive income	-	-	9,189,354	(6,043)	9,183,311
Transfer to statutory reserve	-	764,601	(764,601)	-	-
Balance as at 31 December 2019	400,000,000	12,917,626	(49,592,734)	(103,104)	363,221,788

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 2019
(Saudi Riyals)

	Notes	31 December 2019	31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before Zakat and corporate income tax		15,492,444	57,597,632
Adjustment for non-cash charges and other items:			
Depreciation	6	384,174	399,881
Amortization	7	649,470	684,316
Impairment of employee loans	9 & 22	-	19,700,000
(Reversal) /impairment of loan to Real Estate Income Fund	22	(4,000,000)	4,000,000
Reversal of management fee	22	(2,000,000)	(1,429,621)
Impairment of receivable from MEFIC Cayan Fund	22	331,869	-
Unrealized gain on investments		(3,503,299)	(45,203,929)
Realized gains on sale of investments, net		(17,034,337)	(6,853,204)
Share of loss from associate	10	-	561,712
Impairment of associate	10	-	1,748,928
Finance cost		815,759	7,496,571
Provision for employee benefits	16	1,668,990	1,674,586
Changes in operating assets and liabilities:			
Murabaha receivable, net		13,602,000	1,430,333
Balances with related parties, net		(1,228,677)	25,751,906
Accrued income and other assets		12,698,183	(28,628,306)
Accrued expenses and other liabilities		(18,719,841)	20,074,036
Cash (used in) / generated from operations		(843,265)	59,004,841
Employee benefits paid	16	(1,561,064)	(39,506)
Finance cost paid		(815,759)	(7,496,571)
Zakat and Income taxes paid	19	(4,560,324)	(5,299,996)
Net cash (used in) / generated from operating activities		(7,780,412)	46,168,768
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	6	(434,465)	(449,206)
Purchase of investments		(62,148,187)	(117,345,430)
Proceeds from sale of investments		183,740,541	56,768,158
Net cash generated from / (used in) investing activities		121,157,889	(61,026,478)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans to employees	9	-	(100,000,000)
Short term borrowing, net		(106,992,000)	106,992,000
Net cash (used in) / generated from financing activities		(106,992,000)	6,992,000
Increase/(Decrease) in cash and cash equivalents		6,385,477	(7,865,710)
Cash and cash equivalents at beginning of the year		11,720,193	19,585,903
Cash and cash equivalents at end of the year	11	18,105,670	11,720,193

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)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019
(Saudi Riyals)

1. THE GROUP AND ITS OPERATIONS

Middle East Financial Investment Company (“MEFIC” or 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.

The Company and Jeser constitute the “Group”.

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) endorsed in the Kingdom of Saudi 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..

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

BASIS OF PREPARATION (continued)

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.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

3.1 IFRS issued but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach and principle-based accounting for all insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.	

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

3.2 Impact of adoption of IFRS 16 Leases

IFRS 16 Leases (as issued by the International Accounting Standards Board in January 2016) is effective on or after 1 January 2019, accordingly, the Group has elected to adopt this Standard effective from 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note (2). There was no impact of the adoption of IFRS 16 on the Group financial statements.

4. 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.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2019

SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	<i><u>Years</u></i>
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.

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.

MIDDLE EAST FINANCIAL INVESTMENT COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

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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.

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5. INVESTMENTS

	Notes	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss			
Mutual funds	5.1	133,060,596	116,077,875
Discretionary portfolio	5.2	16,214,868	134,232,000
Foreign equity investments	5.3	-	20,307
Financial assets at fair value through other comprehensive income			
Unquoted foreign equity investment	5.4	11,798,902	11,804,945
		161,074,366	262,135,127

5.1 Mutual Funds

	Fair Value 2019	Additions / (disposals) - net	Unrealized gain/(loss)	Fair Value 2018
CAYAN MEFIC Office Tower Fund	-	(23,838,257)	-	23,838,257
MEFIC Manazel Qurtoba II Fund	5,575,270	-	(239,141)	5,814,411
MEFIC Real Estate Income Fund (Jeser)	695,496	-	47,034	648,462
MEFIC Tower Fund	24,265,773	24,265,773	-	-
MEFIC PORTO Development Fund	13,781,751	-	(73,543)	13,855,294
MEFIC Private Equity Opportunity Fund	57,783,198	13,864,618	972,383	42,946,197
MEFIC Private Equity Opportunity Fund II	6,654,436	-	461,207	6,193,229
MEFIC Private Equity F&B Opportunities Fund	18,568,358	-	867,085	17,701,273
Gulf Gate Fund	5,736,314	-	655,562	5,080,752
	133,060,596	14,292,134	2,690,587	116,077,875

5.2 Discretionary portfolio

	Fair Value 2019	Additions / (disposals) - net	Unrealized gain/(loss)	Fair Value 2018
Equity securities	12,650,388	12,017,796	632,592	-
MEFIC BAJ	3,564,480	(130,847,640)	180,120	134,232,000
	16,214,868	(118,829,844)	812,712	134,232,000

5.3 This represents nil (31 December 2018: 3,436) preferred shares held in Ahli United Bank UK Student Accommodation Company which were sold in the current year.

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 financial information as at 31 December 2019, these shares have been fair valued using financial statements at 31 December 2018 (latest available) and no significant differences are expected. No dividend income from this investment has been recognized in these financial statements.

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6. PROPERTY AND EQUIPMENT

	Leasehold improvement	Furniture and fixtures	Office equipment	Information technology equipment	Network equipment	Motor vehicles	Work in progress	Total 2019
Cost								
As at 1 January 2019	3,455,169	1,454,566	1,095,781	1,443,668	6,340,756	459,847	233,001	14,482,788
Additions	-	40,919	-	8,350	-	-	385,196	434,465
Transferred to intangibles	-	-	-	(4,295)	-	-	-	(4,295)
As at 31 December 2019	3,455,169	1,495,485	1,095,781	1,447,723	6,340,756	459,847	618,197	14,912,958
Accumulated depreciation								
As at 1 January 2019	3,200,065	1,403,622	1,051,111	1,314,631	6,116,060	329,558	-	13,415,047
Charge for the year	102,577	39,127	30,528	53,442	66,530	91,970	-	384,174
Disposals	-	-	-	(4,295)	-	-	-	(4,295)
As at 31 December 2019	3,302,642	1,442,749	1,081,639	1,363,778	6,182,590	421,528	-	13,794,926
Net book value								
As at 31 December 2019	152,527	52,736	14,142	83,945	158,166	38,319	618,197	1,118,032

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6. PROPERTY AND EQUIPMENT, NET (continued)

	Leasehold improvement	Furniture and fixtures	Office equipment	Information technology equipment	Network equipment	Motor vehicles	Work in progress	Total 2019
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
Additions	-	-	-	91,066	223,140	-	135,000	449,206
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
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
Charge for the year	109,002	63,394	38,267	62,518	34,730	91,970	-	399,881
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
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

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(Saudi Riyals)

7. INTANGIBLE ASSETS

	31 December 2019	31 December 2018
Softwares		
Cost		
1 January	11,874,944	11,874,944
Additions	-	-
31 December	11,874,944	11,874,944
Accumulated amortization		
1 January	9,242,467	8,558,151
Charge for the year	649,470	684,316
31 December	9,891,937	9,242,467
Net Book Value as at		
31 December 2019	1,983,007	2,632,477

8. DEFERRED TAX ASSET

Deferred tax asset relates to the following:

	31 December 2019	31 December 2018
Allowance for expected credit losses	306,988	1,023,615
Provision for employees' end-of-service benefits	78,491	68,842
Property and equipment	13,430	17,034
Others	-	1,407
	398,909	1,110,898

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.

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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 2019	31 December 2018
Funds managed by MEFIC	Asset management and subscription fee	16,324,925	32,772,973
MEFIC Tower Fund	Lease arrangement fee	393,873	-
	Facility arrangement fee	700,000	-
	Structuring fee	1,360,000	-
MEFIC Real Estate Income Fund	Dividend income	-	12,000
MEFIC Private Equity Opportunity Fund II	Dividend income	188,183	705,350
MEFIC Al Qannas II Fund	Dividend income	-	1,350,000
MEFIC Souq Sharq Fund	Financing income	-	18,436,418
MEFIC REIT	Structuring fee	-	11,986,203
	Facility/loan arrangement fee	-	3,280,000
Key management personnel			
Loans to employees	Long term loan	-	100,000,000
Interest accrued on employee loans	Finance income	4,990,677	680,556
Interest received on employee loans	Finance income	3,762,000	-
Impairment of loans to employees	Impairment charge	-	19,700,000
Board of Directors	Board remuneration	115,483	605,000
Chief executive officer and other key management personnel	Annual benefits	8,159,958	11,963,420
Balances with related parties			

		31 December 2019	31 December 2018
Non-current portion			
Loan to employees net of impairment	a	80,300,000	80,300,000
Loans to associate and executives		-	3,850,000
Interest receivable on employee loan	a	1,909,233	680,556
Less: Allowance for expected credit losses		-	(3,850,000)
		82,209,233	80,980,556
Current portion			
Receivable from Souq Sharq Fund	b	-	44,652,146
Less: Allowance for expected credit losses	b	-	(44,652,146)
Receivable from MEFIC REIT Fund	b	70,882,879	70,882,879
MEFIC Real Estate Income Fund		6,000,000	6,000,000
Less: Allowance for expected credit losses		-	(4,000,000)
		76,882,879	72,882,879

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RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) Loan to employees

During 2018, the Company extended loans of SAR 100 million (the "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 prior year. During the year accrued commission on the Loan amounted to SAR 4.99 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 2018 and its outstanding balance was transferred to MEFIC REIT Fund. The transferred balance was reduced by allowance for doubtful receivables during 2017. In the current year, the Board of Directors passed a resolution to write off provision for loss allowance on receivables.

The transferred balance of SAR 70,882,879 is expected to be settled during 2020.

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 2019	31 December 2018
Funds managed by MEFIC	Accrued management fee	23,291,214	16,375,997
MEFIC REIT	Structuring fee	11,986,203	11,986,203
Directors	Accrued board remuneration	560,000	559,000
Real Estate Income Fund	Accrued dividend	48,000	48,000

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RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Murabaha receivables

	Notes	31 December 2019	31 December 2018
Murabaha placement – principal outstanding	12	-	9,500,000

This represents Murabaha transaction with Cayan MEFIC Office Tower fund carrying profit rate of 10% p.a. The Murabaha placements were matured in the prior year.

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

	31 December 2019	31 December 2018
	----- No. of Units -----	
MEFIC Real Estate Income Fund	60,000	60,000
Manazel Qurtoba II Fund	5,000	5,000
CAYAN MEFIC Office Tower Fund	-	20,000
MEFIC Tower Fund	24,265	-
MEFIC Private Equity Opportunities Fund	53,487	39,691
MEFIC Private Equity Food & Beverage Opportunities Fund	16,741	16,741
MEFIC Private Equity Opportunities Fund II	10,000	10,000
MEFIC Porto Development Fund	3,229	3,229

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

	31 December 2019	31 December 2018
	----- Percentages -----	
MEFIC Real Estate Income Fund	0.62%	0.62%
Manazel Qurtoba II Fund	5.00%	5.00%
CAYAN MEFIC Office Tower Fund	-	31.91%
MEFIC Tower Fund	42.88%	-
MEFIC Private Equity Opportunities Fund	40.32%	29.92%
MEFIC Private Equity Food & Beverage Opportunities Fund	31.51%	31.51%
MEFIC Private Equity Opportunities Fund II	22.35%	22.35%
MEFIC Porto Development Fund	13.55%	13.55%

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10. INVESTMENT IN ASSOCIATE

	31 December 2019	31 December 2018
Medical Tube Industry Company		
Balance at the beginning of the year	-	2,310,640
Share of loss for the year	-	(561,712)
Impairment during the year	-	(1,748,928)
Balance at the end of year	<u>-</u>	<u>-</u>

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. Moreover, the Group has neither any commitments nor is exposed to any contingencies of Associate.

11. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash in hand	20,000	20,000
Cash at banks – current accounts	18,085,670	11,700,193
	<u>18,105,670</u>	<u>11,720,193</u>

12. MURABAHA RECEIVABLE

	Notes	31 December 2019	31 December 2018
Murabaha placement – principal	a	-	13,500,000
Accrued profit on Murabaha placement		-	102,000
		<u>-</u>	<u>13,602,000</u>

a) This includes Murabaha receivable from Cayan MEFIC Office Tower Fund which is a related party. The Murabaha placement matured in the prior year and received in current year.

13. ACCRUED INCOME AND OTHER ASSETS

	Notes	31 December 2019	31 December 2018
Accrued management fees and other fees		40,002,644	36,587,331
Receivable from Clubs for Sport Company against units of MEFIC Al-Qannas II Fund	b	-	17,000,000
Receivable from employees		2,434,642	3,272,298
Advance to MEFIC Souq Sharq Fund		-	1,998,207
Dividends receivable		48,000	48,000
Prepaid expenses		401,140	780,689
Other receivables		2,114,814	1,866,693
Less:			
Allowance against management fees and other fees receivable		(5,057,095)	(7,785,683)
Allowance on employee receivable	a	-	(141,798)
Allowance on other receivables	a	-	(653,333)
Allowance on advance to MEFIC Souq Sharq Fund	a	-	(1,998,207)
		<u>39,944,145</u>	<u>50,974,197</u>

a) The provisions have been written off by the Board of Directors in current year.

b) Company received the leasehold interest right of the building from Qannas II Fund which was sold at their carrying value to the Sports Club Company.

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ACCRUED INCOME AND OTHER ASSETS (continued)

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The following table details the risk profile of trade receivables based on the provision matrix:

31 December 2019	Trade receivables						Total
	Current	Days past due					
		<30 Days	30–90 Days	90–180 Days	180–360 Days	360 Days or more	
Expected credit loss rate	0%	0%	0%	0%	0%	16.42%	
Accrued management and other fees gross	8,057,784	-	-	-	1,154,824	30,790,036	40,002,644
Expected credit loss	-	-	-	-	-	(5,057,095)	(5,057,095)
Carrying amount	8,057,784	-	-	-	1,154,824	25,732,941	34,945,549

31 December 2018	<u>Trade receivables</u>						<u>Total</u>
	<u>Current</u>	<u>Days past due</u>					
		<u><30 Days</u>	<u>30–90 Days</u>	<u>90–180 Days</u>	<u>180–360 Days</u>	<u>360 Days or more</u>	
Expected credit loss rate	0%	0%	0%	0%	0%	48.15%	
Accrued management fees and other fees gross	8,434,191	-	11,986,204	-	-	16,166,936	36,587,331
Expected credit loss	-	-	-	-	-	(7,785,683)	(7,785,683)
Carrying amount	8,434,191	-	11,986,204	-	-	8,381,253	28,801,648

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14. SHARE CAPITAL

As at 31 December 2019, authorized, issued and fully paid-up share capital of the Company was SAR 400 million divided into 40 million shares (31 December: 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 shareholders	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

	31 December 2019	31 December 2018
Employee benefits	4,786,626	6,222,046

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EMPLOYEE END OF SERVICE BENEFITS (continued)

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

	31 December 2019	31 December 2018
Present value of defined benefit obligations as at 1 January	6,222,046	5,420,937
Current service costs	1,372,711	1,495,262
Finance charge	296,279	179,324
Total charge to consolidated statement of profit or loss	1,668,990	1,674,586
Actuarial gain from actuarial experience adjustments	(1,543,346)	(833,971)
Total charge to consolidated statement of comprehensive income	(1,543,346)	(833,971)
Benefits paid during the year	(1,561,064)	(39,506)
Present value of defined benefit obligation as at 31 December	4,786,626	6,222,046

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:

	31 December 2019	31 December 2018
	----- Percentages -----	
Valuation discount rate	2.90%	4.35%
Expected rate of increase in salary level	4.00%	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	31 December 2019	31 December 2018
Valuation discount rate		
- Increase by 0.5%	(404,778)	(246,639)
- Decrease by 0.5%	452,200	265,863
Expected rate of increase in salary level		
- Increase by 1%	445,219	171,701
- Decrease by 1%	(410,870)	(161,450)

17. SHORT TERM BORROWINGS

	Notes	31 December 2019	31 December 2018
Ahli United Bank B.S.C (AUB)	a	-	96,992,000
Arab National Bank	b	-	10,000,000
		-	106,992,000

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SHORT TERM BORROWINGS (continued)

- a) This represents drawdown of SAR 100 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 was one year but repayment was made before completion of the tenure.

The finance facility is secured by way of 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 2018: 4.48-5.58%).

This finance facility was repaid in the current year.

- b) This was an overdraft facility obtained from a local bank and carried 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%. This finance facility was repaid in the current year.

18. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2019	31 December 2018
Payable on purchase of investment	-	12,594,336
Accrued employees' salaries and other benefits	2,722,026	5,547,659
Commission and placement fee payable	895,390	3,458,257
Accrued professional fee	1,544,556	1,740,062
Interest payable	-	288,160
Communication and networking charges	16,658	300,167
Accrued IT maintenance expense	376,395	241,652
Accrued insurance premium	106,586	111,031
Payable to GOSI	104,925	144,028
Accrued Board members' fee	560,000	559,000
Withholding tax payable	29,308	69,084
VAT payable	506,102	371,804
Accrued maintenance expenses	24,750	37,125
Accrued security service expenses	12,000	12,000
Others	241,203	385,375
	<u>7,139,899</u>	<u>25,859,740</u>

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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 2019	31 December 2018
Provision for Zakat	a	15,058,274	12,761,340
Provision for corporate income tax	b	496,504	219,315
		<u>15,554,778</u>	<u>12,980,655</u>

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

	Notes	31 December 2019	31 December 2018
Provision for Zakat for current year and prior years	a	6,665,944	21,748,294
Prior year Zakat charge	a	-	1,371
Provision for corporate income tax for current year	b	468,503	166,692
Prior year Income tax charge	b	-	(1,371)
		<u>7,134,447</u>	<u>21,914,986</u>

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

For the year ended 31 December 2019	Notes	Company	Subsidiary	Total
As at 1 January		9,997,606	2,763,734	12,761,340
Paid during the year		(1,605,329)	(2,763,681)	(4,369,010)
Charge for the year		4,868,497	1,797,447	6,665,944
As at 31 December		<u>13,260,774</u>	<u>1,797,500</u>	<u>15,058,274</u>

For the year ended 31 December 2019	Notes	Company	Subsidiary	Total
Provision against Zakat guarantee				
As at 31 December		<u>8,986,850</u>	<u>-</u>	<u>8,986,850</u>

For the year ended 31 December 2018		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		6,096,126	-	6,096,126
Charge for the year		3,901,584	2,763,734	6,665,318
As at 31 December		<u>9,997,606</u>	<u>2,763,734</u>	<u>12,761,340</u>

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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:

<u>2019</u>	<u>Company</u>	<u>Subsidiary</u>
Share capital	400,000,000	100,000,000
Accumulated loss	(58,017,487)	(1,860,545)
Statutory reserve	12,153,025	9,133,140
Adjusted net income for the year	37,782,474	(48,996,551)
Provisions	43,492,756	47,259,384
Property and equipment, net	(3,063,104)	-
Long-term investments	(160,378,870)	(695,496)
Short term loans	30,000,000	(30,000,000)
Long term receivables subject to tax at subsidiary/associate level	(102,824,273)	-
Deferred tax asset	(524,881)	(586,017)
Dividend income from Saudi companies	(330,731)	-
Others	3,041,416	82,910
	201,330,325	74,336,825
Zakat at 2.5778% of 93.8% Saudi Holding	4,868,497	1,797,447

<u>2018</u>	<u>Company</u>	<u>Subsidiary</u>
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
Short 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 2.5778% of 93.8% Saudi Holding	3,901,584	2,763,734

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

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PROVISION FOR ZAKAT AND CORPORATE INCOME TAX (continued)

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

<u>2019</u>	<u>Company</u>	<u>Subsidiary</u>	<u>Total</u>
As at 1 January	206,368	12,947	219,315
Payment during the year	(178,923)	(12,391)	(191,314)
Charge for the year	468,503	-	468,503
As at 31 December	495,948	556	496,504

<u>2018</u>	<u>Company</u>	<u>Subsidiary</u>	<u>Total</u>
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

(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 8.99 million was provided in the prior year against this guarantee on prudent basis. This provision was 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 or the case is decided in the court of law otherwise.

In 2018, 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 was provided in 2018 against this assessment on prudent basis. This provision was included in prior year charge and was 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 or the case is decided in the court of law otherwise.

During the year, the Company received Zakat/Tax assessments for the year 2018 raising additional demand of SAR 13.06 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/Tax liability is also being contested by the Company and the Company expects a favorable outcome from the proceedings.

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

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PROVISION FOR ZAKAT AND CORPORATE INCOME TAX (continued)

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 2018 with the General Authority of Zakat and Tax (the "GAZT"), and has received restricted certificate up to the year 2018. 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 has guaranteed an annual dividend of up to 2% to initial cash subscribers of MEFIC REIT Fund, if the annual dividend announced by MEFIC REIT Fund falls short of 5%. Any deficiency in the annual dividend is guaranteed by MEFIC up to a rate of 2% of the deficient amount. The amount of additional dividend to be paid for the period up to 31 December 2019 by MEFIC REIT Fund in order to satisfy the annual dividend requirement of 5% is SR 3.75 million which approximates to the corresponding 2% of the deficient amount guaranteed by MEFIC.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended	
	31 December 2019	31 December 2018
Commission expense	445,870	11,055,000
Professional fee	2,928,646	7,086,147
Repairs and maintenance expense	740,136	798,308
Subscriptions	747,193	1,286,025
Loan structuring fees	250,000	1,250,000
Board member's fee	115,483	605,000
Marketing and advertising	181,500	2,486,328
Travel expense	114,293	356,974
Insurance expense	334,562	318,921
Publication, printing and stationery	68,023	128,481
Utilities	410,755	448,893
Office cleaning expense	289,480	259,198
Security service expense	144,000	144,000
Bank charges	50,600	14,853
Management fee rebate	-	537,881
Withholding tax	104,841	483,538
VAT expense	42,824	58,080
Others	338,538	203,480
	7,306,744	27,521,107

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22. OTHER NON OPERATING INCOME/EXPENSE-NET

		For the year ended	
		31 December	31 December
		2019	2018
Financing income		5,000,540	19,653,745
Other income		-	35,015
Foreign exchange loss		(1,342)	-
Impairment charge on the employee Loan	9a	-	(19,700,000)
(Reversal) /impairment of loan to Real Estate Income Fund	9	4,000,000	(4,000,000)
Impairment of investment in associate	10	-	(1,748,928)
Reversal of impairment of management fee		1,668,131	1,429,621
Share of loss from equity accounted investee	10	-	(561,712)
		10,667,329	(4,892,259)

23. 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 2019 and 2018.

24. 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 SR 3,386,889,561 as at 31 December 2019 (31 December 2018: SR 3,859,061,012). 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 SR Nil as at 31 December 2018 (31 December 2018: Nil). Consistent with the Group's accounting policy, such balances are not included in the Group's consolidated financial statements.

25. 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.

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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 (“PE&IB”)

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.

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SEGMENT INFORMATION (continued)

For the year ended 31 December 2019	Corporate	Asset management	Real Estate	PE&IB	Total
Revenues					
Total revenues	23,655,976	6,397,404	6,348,018	8,565,815	44,967,213
Expenses					
Salaries and employee related expenses	5,632,111	7,776,121	5,483,039	5,923,532	24,814,803
Depreciation and amortization expenses	431,678	247,445	248,904	105,616	1,033,643
Rent expense	474,324	346,658	228,560	122,408	1,171,950
Interest expense	770,048	14,100	29,260	2,350	815,758
General and administrative expenses	3,105,676	1,295,904	2,689,146	216,020	7,306,746
Other non- operating expenses/(income)	-	-	(5,668,131)	-	(5,668,131)
Total expenses	10,413,837	9,680,228	3,010,778	6,369,926	29,474,769
Segment profit	13,242,139	(3,282,824)	3,337,240	2,195,889	15,492,444
Zakat and corporate income tax					(7,846,436)
Profit for the year					7,646,008

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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

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26. 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.

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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 2019	31 December 2018
Financial assets			
Financial assets at amortized cost:			
Accrued income and other assets (excluding prepayments)		39,543,005	50,193,508
Due from related parties		159,092,112	153,863,435
Murabaha receivables		-	13,602,000
Cash and cash equivalents		18,105,670	11,720,193
Total financial assets at amortized cost		216,740,787	229,379,136
Financial assets at fair value through OCI:			
Unquoted foreign equity investment		11,798,902	11,804,945
Financial assets at fair value through profit or loss:			
Mutual funds		133,060,596	116,077,875
Discretionary portfolios		16,214,868	134,232,000
Foreign equity investments		-	20,307
Total financial assets at fair value through profit or loss		149,275,464	250,330,182
Financial liabilities			
Financial liabilities at amortised cost:			
Employees-end-of-service benefits		4,786,626	6,222,046
Short term borrowing		-	106,992,000
Other payables		4,529,445	22,976,815
Total financial liabilities at amortised cost		9,316,071	136,190,861

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27. 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 2019	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI:				
Unquoted foreign equity investment	-	-	11,798,902	11,798,902
Total financial assets at FVTOCI			11,798,902	11,798,902
Financial assets at FVTPL:				
Mutual funds	-	695,496	132,365,100	133,060,596
Discretionary portfolios	16,214,868	-	-	16,214,868
Total financial assets at FVTPL:	16,214,868	695,496	132,365,100	149,275,464
Total financial assets	16,214,868	695,496	144,164,002	161,074,366
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	-	648,462	115,429,413	116,077,875
Discretionary portfolios	134,232,000	-	-	134,232,000
Foreign equity investments	-	-	20,307	20,307
Total financial assets at FVTPL:	134,232,000	648,462	115,449,720	250,330,182
Total financial assets	134,232,000	648,462	127,254,665	262,135,127

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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 sukuk) 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, 2019 and 2018.

28. 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 2019	31 December 2018
<u>Capital base:</u>		
Tier-1 Capital	360,839,872	350,294,998
Tier-2 Capital	-	-
Total capital base (A)	360,839,872	350,294,998
<u>Minimum Capital Requirement:</u>		
Market risks	6,116,636	2,280,298
Credit risks	174,056,007	251,116,993
Operational risks	10,513,363	17,245,726
Total minimum capital requirement (B)	190,686,006	270,643,017
Surplus (C=A-B)	170,153,866	79,651,981
Capital adequacy ratio (D=A/B)	1.89	1.29

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29. RECLASSIFICATIONS

Certain reclassifications have been made in the comparative statement of profit or loss to conform to current year presentation.

30. SUBSEQUENT EVENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the globe, causing disruptions to businesses, economic activity and decline in stock market indices in those jurisdictions. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

The Company has received an early redemption of a partial loan upon disposal of 4.4 million units of MEFIC REIT Fund, with the mutual consent of the employees drawing the loan and the Company. Since the units disposed of were the only collateral against the loan partially repaid and there being no other recourse, the corresponding impact of SR 3.45 million has been booked as an impairment on recovered loan accordingly in the month of March.

31. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the board of directors on 2 Sha'ban 1441 H corresponding to 26 March 2020 G.
