

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30
SEPTEMBER 2022**

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDER OF DEUTSCHE GULF FINANCE (A SAUDI CLOSED JOINT STOCK COMPANY)

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Deutsche Gulf Finance (A Saudi closed joint stock company) (the "Company") as at 30 September 2022, and the related interim condensed statements of income and comprehensive income for the three-month and nine-month periods then ended, and the related interim condensed statements of changes in equity and interim condensed statement of cash flows for the nine-month period then ended and notes which form an integral part of these interim condensed financial statements in accordance with International Financial Reporting Standard 34, "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

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

Conclusion

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

Other Matter

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 Rajab 1443H (corresponding to 1 March 2022). Further, the interim condensed financial statements of the Company for the three and nine months periods ended 30 September 2021 were reviewed by another auditor who expressed an unmodified review conclusion on those interim condensed financial statements on 20 Rabi Al-Awwal 1443H (corresponding to 26 October 2021).

for Ernst & Young Professional Services



Hesham A. Alatiqi
Certified Public Accountant
License No. (523)

Riyadh: 29 Rabi Al-Awwal 1444H
(25 October 2022)



DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 September 2022
(Saudi Arabian Riyals)

| | | 30 September 2022 | 31 December 2021 |
|---|--------------|------------------------------|-----------------------------|
| | <u>Notes</u> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| ASSETS | | | |
| Cash and cash equivalents | 5 | 89,168,621 | 14,406,536 |
| Other assets | 6 | 110,314,792 | 111,559,383 |
| Due from an affiliated company | 12 | 12,805,993 | 4,156,380 |
| Ijara receivables, net | 7 | 2,075,934,216 | 2,356,153,392 |
| Servicing rights under agency arrangements | 8 | 60,455,487 | 50,391,755 |
| Financial assets held at fair value through other comprehensive income – equity instrument | | 892,850 | 892,850 |
| Property and equipment | | 33,324,998 | 31,216,533 |
| Intangible assets | | 1,968,493 | 1,702,296 |
| Deferred tax asset | 10 | - | 3,850,154 |
| TOTAL ASSETS | | <u>2,384,865,450</u> | <u>2,574,329,279</u> |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Financing facilities | 9 | 1,469,729,862 | 1,739,478,886 |
| Due to an affiliated company | 12 | 559,638 | 559,638 |
| Provision for zakat and income tax | 10 | 6,995,813 | 12,948,466 |
| Accounts and other payables | | 1,471,589 | 934,524 |
| Dividend payable | 17 | 748,614 | 395,322 |
| Accrued expenses and other liabilities | 11 | 162,095,021 | 92,722,538 |
| Employees' end of service benefits | | 5,521,174 | 4,743,098 |
| TOTAL LIABILITIES | | <u>1,647,121,711</u> | <u>1,851,782,472</u> |
| EQUITY | | | |
| Share capital | 13 | 575,000,000 | 575,000,000 |
| Statutory reserve | | 20,943,384 | 20,943,384 |
| Retained earnings | | 141,800,355 | 126,603,423 |
| TOTAL EQUITY | | <u>737,743,739</u> | <u>722,546,807</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>2,384,865,450</u> | <u>2,574,329,279</u> |

The attached notes 1 to 19 form an integral part of these interim condensed financial statements.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2022

(Saudi Arabian Riyals)

| | Notes | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|--|-------|--|-------------|---|-------------|
| | | 2022 | 2021 | 2022 | 2021 |
| INCOME | | | | | |
| Income from Ijara receivables | | 43,535,048 | 47,003,807 | 135,393,207 | 127,701,918 |
| Realised gain on sale, settlement or early termination of Ijara receivable | | 2,268,245 | 674,675 | 11,816,829 | 6,904,077 |
| Servicing fees | | 12,636,371 | 20,567,923 | 19,742,607 | 42,242,999 |
| Other income | | - | 4,650 | -- | 87,903 |
| TOTAL INCOME | | 58,439,664 | 68,251,055 | 166,952,643 | 176,936,897 |
| EXPENSES AND ALLOWANCES | | | | | |
| Financial charges | | 19,107,521 | 11,628,139 | 47,512,237 | 31,130,372 |
| Employees benefits and compensation (Reversal) allowance for expected credit losses on Ijara receivables | 14 | 10,485,146 | 10,253,969 | 29,978,167 | 29,601,942 |
| Depreciation | | 474,710 | 407,448 | 1,347,936 | 1,212,866 |
| Amortisation | | 314,032 | 109,784 | 702,407 | 329,351 |
| Other expenses | | 8,707,126 | 15,283,735 | 23,117,543 | 27,614,677 |
| TOTAL EXPENSES AND ALLOWANCES | | 38,165,498 | 45,224,297 | 100,863,912 | 112,387,947 |
| NET INCOME FOR THE PERIOD BEFORE ZAKAT AND INCOME TAX | | 20,274,166 | 23,026,758 | 66,088,731 | 64,548,950 |
| Zakat and income tax | 10 | (2,376,394) | (2,960,584) | (7,766,799) | (8,403,143) |
| NET INCOME FOR THE PERIOD | | 17,897,772 | 20,066,174 | 58,321,932 | 56,145,807 |
| Other comprehensive income | | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | 17,897,772 | 20,066,174 | 58,321,932 | 56,145,807 |

The attached notes 1 to 19 form an integral part of these interim condensed financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
For the nine-month period ended 30 September 2022
(Saudi Arabian Riyals)

| | Share capital | Statutory reserve | Retained earnings | Total |
|--|--------------------------|------------------------------|------------------------------|--------------------|
| Balance as at 1 January 2022 | 575,000,000 | 20,943,384 | 126,603,423 | 722,546,807 |
| Net income and total comprehensive income for the period | - | - | 58,321,932 | 58,321,932 |
| Dividend declared during the period (note 17) | - | - | (43,125,000) | (43,125,000) |
| Balance as at 30 September 2022 | 575,000,000 | 20,943,384 | 141,800,355 | 737,743,739 |
| Balance as at 1 January 2021 | 575,000,000 | 14,172,157 | 94,412,385 | 683,584,542 |
| Net income and total comprehensive income for the period | - | - | 56,145,807 | 56,145,807 |
| Dividend declared during the period (note 17) | - | - | (28,750,000) | (28,750,000) |
| Balance as at 30 September 2021 | <u>575,000,000</u> | <u>14,172,157</u> | <u>121,808,192</u> | <u>710,980,349</u> |

The attached notes 1 to 19 form an integral part of these interim condensed financial statements.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2022

(Saudi Arabian Riyals)

| | | For the nine-month period ended 30 September | |
|---|-------------|---|---------------|
| | <u>Note</u> | <u>2022</u> | <u>2021</u> |
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Net income for the period before zakat and income tax | | 66,088,731 | 64,548,950 |
| <i>Adjustments:</i> | | | |
| Depreciation | | 1,347,936 | 1,212,866 |
| Amortisation | | 702,407 | 329,351 |
| Employees' end of service benefits charge | | 1,050,000 | 936,293 |
| Expected credit losses on Ijara receivables | 7 | (1,794,378) | 22,498,739 |
| Special commission expense on lease liabilities | | 41,407 | 47,978 |
| Modification loss on Ijara receivables, net of unwinding | | - | 5,942,979 |
| Modification gain on borrowings, net of unwinding | | - | (451,340) |
| | | 67,436,103 | 95,065,816 |
| <i>Net (increase) / decrease in operating assets</i> | | | |
| Ijara receivables | | 282,013,554 | (251,957,921) |
| Other assets | | 1,244,591 | (42,905,012) |
| Servicing rights under agency agreement | | (10,063,732) | (35,532,011) |
| Due from an affiliated company | | (8,649,613) | (50,611) |
| Accounts and other payables | | 537,065 | (437,914) |
| Accrued expenses and other liabilities | | 69,541,076 | 37,335,243 |
| | | 402,059,044 | (198,482,410) |
| Employees' end of service benefits paid | | (271,924) | (663,188) |
| Zakat and income tax paid | 10(b) | (9,869,298) | (8,090,171) |
| Net cash flows from (used in) operating activities | | 391,917,822 | (207,235,769) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property and equipment | | (3,456,401) | (420,357) |
| Acquisition of Intangible assets | | (968,604) | (167,694) |
| Net cash flows used in investing activities | | (4,425,005) | (588,051) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from financing facilities | | 667,725,725 | 754,215,420 |
| Repayment of financing facilities | | (937,474,749) | (387,169,627) |
| Payment of lease liabilities | | (210,000) | (499,788) |
| Dividend paid | 17 | (42,771,708) | (34,730,816) |
| Net cash flows (used in) from financing activities | | (312,730,732) | 331,815,189 |
| Net increase in cash and cash equivalents | | 74,762,085 | 123,991,369 |
| Cash and cash equivalents at beginning of the period | | 14,406,536 | 9,404,961 |
| Cash and cash equivalents at end of the period | 5 | 89,168,621 | 133,396,330 |

The attached notes 1 to 19 form an integral part of these interim condensed financial statements.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and nine-month periods ended 30 September 2022

(Saudi Arabian Riyals)

1. CORPORATE INFORMATION

Deutsche Gulf Finance (“the Company”) is a Saudi closed joint stock company established pursuant to a ministerial resolution numbered 3/Q dated 6 Muharram 1431H (corresponding to 23 December 2009) and registered in the Kingdom of Saudi Arabia under commercial registration number 1010280521 dated 9 Safar 1431H (corresponding to 25 January 2010). The Company has a branch in Jeddah registered under commercial registration number 4030245681 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013) and a branch in Al Khobar registered under commercial registration number 2051052773 dated 19 Jumada Thani 1434H (corresponding to 29 April 2013). The registered office of the Company is located at Al Imam Saud Ibn Faysal Road – Al Sahafah District, P.O. Box 75370, Riyadh 13321, Kingdom of Saudi Arabia.

The Company is engaged in real estate financing that includes acquisition, purchase of lands and buildings for the purposes of financing facilities (except in the cities of Makkah and Madina) in accordance with license number 2030114773 dated 2 Dhul-Qadah 1430H (corresponding to 21 October 2009) as obtained from the Saudi Arabian General Investment Authority.

The Saudi Central Bank (“SAMA”) issued the Implementing Regulations of The Law on Supervision of Finance Companies which was published on 24 February 2013 following the Financial Lease Law and the Law on Supervision of Finance Companies (“the Laws”) published on 27 August 2012. The Company was issued a license (number 17/A SH/201405) from SAMA on 20 May 2014 (corresponding to 21 Rajab 1435H).

During the period, one of the existing shareholders of the Company purchased all of the shares of the foreign shareholder that resulted change in type of company from mixed joint stock company to Saudi joint stock company.

2. BASIS OF PREPARATION

Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 30 September 2022 have been prepared in accordance with the International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”).

The interim financial statements do not include all the information and disclosures required in full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2021. In addition, results for the three-month and nine-month periods ended 30 September 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention except for the investment, which is measured at fair value through other comprehensive income (“FVOCI”).

Functional and presentational currency

The interim condensed financial statements are presented in Saudi Arabian Riyals, which is the functional and presentational currency of the Company.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

For the three-month and nine-month periods ended 30 September 2022
(Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. The significant accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 December 2021, except for the new standards and amendments effective from 1 January 2022.

3.2. New standards and amendments to standards

New standards and amendments adopted by the Company

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Various amendments apply for the first time in 2022, but do not have an impact on the interim condensed financial statements of the Company.

- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions extension of the practical expedient (effective for annual periods beginning on or after 1 April 2021).
- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective for annual periods beginning on or after 1 January 2022):
- Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial
- Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in statement of income.
- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial Instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's interim condensed financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities (deferred until accounting periods starting not earlier than 1 January 2024).
- Narrow scope amendments to IAS 1, Practice Statement 2 and IAS 8 (annual periods beginning on or after 1 January 2023).
- Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction (annual periods beginning on or after 1 January 2023).
- IFRS 17, 'Insurance Contracts', as amended in September 2020 (annual periods beginning on or after 1 January 2023).
- A narrow-scope amendment to the transition requirements in IFRS 17 Insurance Contracts (annual periods beginning on or after 1 January 2023).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The significant accounting judgements and estimates used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2021.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**(CONTINUED)**

For the three-month and nine-month periods ended 30 September 2022

(Saudi Arabian Riyals)

5. CASH AND CASH EQUIVALENTS

| | | 30 September 2022 | 31 December 2021 |
|----------------------------------|-------------|------------------------------|---------------------|
| | <i>Note</i> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| Bank balances – current accounts | 5(a) | 89,168,621 | 14,406,536 |
| | | <u>89,168,621</u> | <u>14,406,536</u> |

5(a) This represents cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

6. OTHER ASSETS

| | | 30 September 2022 | 31 December 2021 |
|---|-------------|------------------------------|---------------------|
| | <i>Note</i> | <u>(Unaudited)</u> | <u>(Audited)</u> |
| Advance paid under protest to ZATCA | | 29,446,658 | 29,446,658 |
| Ijara Mawsofa fi Athemmah | 6(a) | 28,766,323 | 25,919,690 |
| Financing to customers | | 22,948,188 | 28,562,486 |
| Amount paid to ZATCA for years under assessment | | 8,797,654 | 8,797,654 |
| Service fee receivables | | 6,757,127 | 8,202,237 |
| Value added tax recoverable | | 6,400,594 | 5,972,845 |
| Prepaid expenses | | 4,219,953 | 1,597,420 |
| Receivables from Real Estate Development Fund | | 1,225,000 | 1,225,000 |
| Accelerated income tax payment | | 958,356 | 1,557,836 |
| Staff receivables | | 325,398 | 248,578 |
| Security deposits | | 28,979 | 28,979 |
| Others | | 440,562 | - |
| | | <u>110,314,792</u> | <u>111,559,383</u> |

6(a) Ijarah mawsufah fi Athemmah is a lease contract under which the Company leases out a property under construction and the lessee is required to pay rent during the construction period.

7. IJARA RECEIVABLES, NET

| | | 30 September 2022 | 31 December 2021 |
|--|--|-------------------------------|------------------------|
| | | <u>(Unaudited)</u> | <u>(Audited)</u> |
| Gross Ijara receivables | | 3,185,524,100 | 3,722,052,210 |
| Less: Unearned income | | <u>(1,079,130,840)</u> | <u>(1,331,740,717)</u> |
| | | 2,106,393,260 | 2,390,311,493 |
| Less: Allowance for expected credit losses | | <u>(30,459,044)</u> | <u>(34,158,101)</u> |
| Ijara receivables, net | | <u>2,075,934,216</u> | <u>2,356,153,392</u> |

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**For the three-month and nine-month periods ended 30 September 2022
(Saudi Arabian Riyals)**7. IJARA RECEIVABLES, NET (CONTINUED)**

7(a) The maturity of the Ijara receivables held is as follows:

| | 30 September 2022 (Unaudited) | | | |
|--|-----------------------------------|---|---------------------------------|----------------------|
| | Not later than <u>one year</u> | Later than one year but not later than five <u>years</u> | Later than <u>five years</u> | <u>Total</u> |
| Gross Ijara receivables | 439,558,405 | 1,103,721,693 | 1,642,244,002 | 3,185,524,100 |
| Less: Unearned income | (143,842,671) | (428,724,036) | (506,564,133) | (1,079,130,840) |
| | <u>295,715,734</u> | <u>674,997,657</u> | <u>1,135,679,869</u> | <u>2,106,393,260</u> |
| Less: Allowance for expected credit losses | | | | (30,459,044) |
| Ijara receivables, net | | | | <u>2,075,934,216</u> |

| | 31 December 2021 (Audited) | | | |
|--|-----------------------------------|---|---------------------------------|----------------------|
| | Not later than <u>one year</u> | Later than one year but not later than <u>five years</u> | Later than <u>five years</u> | <u>Total</u> |
| Gross Ijara receivables | 388,328,741 | 1,416,686,673 | 1,917,036,796 | 3,722,052,210 |
| Less: Unearned income | (151,762,215) | (588,232,434) | (591,746,068) | (1,331,740,717) |
| | <u>236,566,526</u> | <u>828,454,239</u> | <u>1,325,290,728</u> | <u>2,390,311,493</u> |
| Less: Allowance for expected credit losses | | | | (34,158,101) |
| Ijara receivables, net | | | | <u>2,356,153,392</u> |

7(b) Expected credit loss allowance on Ijara receivables is as follows:

| | 12 Month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|--|------------------|---|---|-------------------|
| 30 September 2022 – (Unaudited) | | | | |
| Opening balance | 3,392,270 | 18,829,468 | 11,936,363 | 34,158,101 |
| Transfer from 12 Month ECL | (7,630,087) | 6,030,932 | 1,599,155 | - |
| Transfer from lifetime ECL (not credit impaired) | 445,553 | (5,133,566) | 4,688,013 | - |
| Transfer from lifetime ECL (credit impaired) | 43,084 | 345,547 | (388,631) | - |
| Net re-measurement of loss allowance | 6,718,801 | (5,409,611) | 52,269 | 1,361,459 |
| Ijara receivables that have been derecognized during the period | (738,905) | (1,899,023) | (1,811,659) | (4,449,587) |
| New Ijara receivables originated during the period | 510,547 | 599,306 | 183,897 | 1,293,750 |
| Write- Offs | - | - | (1,904,679) | (1,904,679) |
| Closing balance | <u>2,741,263</u> | <u>13,363,053</u> | <u>14,354,728</u> | <u>30,459,044</u> |

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(CONTINUED)**For the three-month and nine-month periods ended 30 September 2022
(Saudi Arabian Riyals)**7. IJARA RECEIVABLES, NET (CONTINUED)**

| 31 December 2021 – (Audited) | 12 Month ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|------------------|---|---|-------------------|
| Opening balance | 2,466,007 | 12,457,120 | 17,777,268 | 32,700,395 |
| Transfer from 12 Month ECL | (9,056,725) | 7,278,593 | 1,778,132 | - |
| Transfer from lifetime ECL (not credit impaired) | 184,967 | (2,788,718) | 2,603,751 | - |
| Transfer from lifetime ECL (credit impaired) | 18,113 | 1,581,874 | (1,599,987) | - |
| Net re-measurement of loss allowance | 8,957,375 | (2,882,633) | 18,714,261 | 24,789,003 |
| Ijara receivables that have been derecognized during the period | (540,582) | (1,052,868) | (1,236,212) | (2,829,662) |
| New Ijara receivables originated during the period | 1,363,115 | 4,236,100 | 532,655 | 6,131,870 |
| Write-offs | - | - | (26,633,505) | (26,633,505) |
| Closing balance | <u>3,392,270</u> | <u>18,829,468</u> | <u>11,936,363</u> | <u>34,158,101</u> |

8. SERVICING RIGHTS UNDER AGENCY ARRANGEMENTS

The Company enters into arrangements for servicing Ijara receivables on behalf of third parties. Such Ijara receivables represent instruments initially originated by the Company and subsequently sold to third party. The Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivables rentals on behalf of the principals.

9. FINANCING FACILITIES

These represent financing facilities from local lenders at SIBOR plus margin, which are secured by the assignment of proceeds from financial assets.

10. ZAKAT AND INCOME TAX**10(a) Deferred tax asset**

| | <i>Notes</i> | 30 September 2022 (Unaudited) | 31 December 2021 (Audited) |
|---|--------------|--|----------------------------------|
| Opening balance | | 3,850,154 | 3,753,049 |
| (Utilization) / origination of temporary difference | | (265,858) | 97,105 |
| Reversal due to change in income tax status | <i>1</i> | (3,584,296) | - |
| Closing balance | | <u>-</u> | <u>3,850,154</u> |

The deferred tax arises on end of service benefits, allowance for expected credit losses on Ijara receivables, unused losses and depreciation of property and equipment.

DEUTSCHE GULF FINANCE

(A Saudi Closed Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**(CONTINUED)**

For the three-month and nine-month periods ended 30 September 2022

(Saudi Arabian Riyals)

10(b) The movement in zakat and income tax is as follow:

| | <i>Notes</i> | 30 September 2022 (Unaudited) | | |
|---|--------------|--------------------------------------|--------------------|--------------------|
| | | Zakat | Income tax | Total |
| Balance at the beginning of the period | | 6,449,848 | 6,498,618 | 12,948,466 |
| Charge for the period | | 6,581,837 | - | 6,581,837 |
| Payments made during the period | | (6,035,872) | (3,833,426) | (9,869,298) |
| Reversal due to change in income tax status | <i>1</i> | - | (2,665,192) | (2,665,192) |
| Balance as at end of the period | | 6,995,813 | - | 6,995,813 |
| 31 December 2021 (Audited) | | | | |
| | | Zakat | Income tax | Total |
| Balance at the beginning of the year | | 8,171,705 | 5,101,393 | 13,273,098 |
| Charge for the year | | 5,355,967 | 4,512,898 | 9,868,865 |
| Reversal of zakat liability during the year | | (1,420,151) | - | (1,420,151) |
| Payments made during the year | | (5,657,673) | (3,115,673) | (8,773,346) |
| Balance as at end of the year | | 6,449,848 | 6,498,618 | 12,948,466 |

10(c) Status of assessments:

Zakat and income tax declaration for all the years up to 2021 have been filed with the Zakat, Tax and Custom Authorities (“ZATCA”) and acknowledgement certificates have been obtained.

During the period ended 30 September 2022, there has been no change in the status of the Company’s zakat and income tax assessments from the status disclosed in the annual financial statements of the Company for the year ended 31 December 2021.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

| | <i>Notes</i> | 30 September 2022 (Unaudited) | 31 December 2021 (Audited) |
|---|--------------|--|---|
| Payable to seller | <i>11(a)</i> | 44,045,538 | - |
| SAMA deposit, net | <i>17</i> | 30,028,735 | 10,122,402 |
| Instalments collected from sold Ijara receivables | <i>11(b)</i> | 28,532,323 | 14,749,036 |
| Accrued and other expenses | | 21,995,313 | 30,715,939 |
| Provision for VAT | | 11,500,000 | 11,500,000 |
| Payable to Ministry of Housing | | 11,237,158 | 11,237,158 |
| Amount received from customers | | 8,602,583 | 10,222,460 |
| Advances from customers – Ijara Mawsofa fi Athemmah | | 5,071,780 | 2,925,364 |
| Lease liabilities | <i>11(c)</i> | 1,081,591 | 1,250,179 |
| | | 162,095,021 | 92,722,538 |

11(a) Payable to seller arise when the financing arrangement has been agreed with the customer and accordingly financing has been recorded, but the amount is not disbursed due to administrative time required for the transfer of legal title of property.

11(b) This represents amount of instalments collected by the Company on behalf of buyers of previously sold financial assets.

11(c) This represents amount of lease liability as per IFRS 16 for the rented offices of the Company.

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(CONTINUED)**For the three-month and nine-month periods ended 30 September 2022
(Saudi Arabian Riyals)**12. RELATED PARTIES TRANSACTIONS AND BALANCES**

The Company's shareholders, affiliates and key management personnel are considered as related parties of the Company. In the ordinary course of business, the Company enters into transactions with its related parties, which are based on prices and contract terms approved by the Company's management and agreed with the related parties.

Following are the details of significant related party transactions during the period:

| <u>Related party</u> | <u>Nature of transaction</u> | <u>For the three-month period ended 30 September</u> | | <u>For the nine-month period ended 30 September</u> | |
|--------------------------|-------------------------------------|--|--------------------|---|--------------------|
| | | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| | | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| Board of directors | Board fees | 612,500 | 636,750 | 1,837,500 | 1,910,500 |
| Key management personnel | Employee benefits and compensation: | | | | |
| | - <i>Remuneration</i> | 987,297 | 1,871,296 | 3,180,889 | 5,130,887 |
| | - <i>End of service benefits</i> | 61,526 | 56,767 | 151,231 | 98,657 |

The following related party balances are included in the statement of financial position:

| <u>Related party</u> | <u>Nature of balance</u> | <u>Note</u> | <u>30 September 2022 (Unaudited)</u> | <u>31 December 2021 (Audited)</u> |
|--|------------------------------------|-------------|--------------------------------------|-----------------------------------|
| Board of directors | Board fee payable | | 1,790,919 | <u>2,284,373</u> |
| Key management personnel | Remuneration payable | | 1,784,977 | <u>2,780,000</u> |
| | Employees' end of service benefits | | 769,699 | <u>721,617</u> |
| Gulf Company for Acquisitions (affiliated company) – (GCA) | Due from an affiliated company: | | | |
| | - <i>Loan</i> | 12(a) | 3,953,220 | 3,953,220 |
| | - <i>Other</i> | 12(b) | 8,852,773 | 203,160 |
| | | | 12,805,993 | <u>4,156,380</u> |
| | Due to an affiliated company: | | | |
| | - <i>Service fee payable</i> | 12(c) | 559,638 | <u>559,638</u> |

12(a) This represents an interest-free loan to the Affiliated Company which is repayable on demand with no fixed repayment date.

12(b) This represents expenses paid by the Company on behalf of the Affiliated company and cheque received in the name of the Affiliated Company on account of early settlement of Ijara receivables of the Company, as the title deed is in the name of Affiliated Company.

12(c) This represents service fee charged by the Affiliated Company in relation to holding customers title deeds on behalf of the Company.

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For the three-month and nine-month periods ended 30 September 2022
(Saudi Arabian Riyals)

13. SHARE CAPITAL

As at 30 September 2022, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2021: 57,500,000 shares) of SR 10 each.

14. EMPLOYEES' BENEFITS AND COMPENSATION

| | For the three-month period ended 30 September | | For the nine-month period ended 30 September | |
|----------------------------------|--|-------------------|---|-------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Employees' salaries and benefits | 9,129,593 | 9,408,734 | 26,486,402 | 26,992,808 |
| Employees' health insurance | 753,333 | 373,637 | 1,785,900 | 1,120,023 |
| Gosi and other charges | 602,220 | 471,598 | 1,705,865 | 1,489,111 |
| | <u>10,485,146</u> | <u>10,253,969</u> | <u>29,978,167</u> | <u>29,601,942</u> |

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market are accessible by the Company.

Financial instruments mainly comprise of Ijara receivables, other receivables. due to / from Affiliated company, account and other payables and financing facilities.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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15. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

| | 30 September 2022 (Unaudited) | | | | |
|---|-------------------------------|---------|---------|---------------|---------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Ijara receivables, net | 2,075,934,216 | - | - | 2,085,047,672 | 2,085,047,672 |
| Financial asset held at FVOCI - equity instrument | 892,850 | - | - | 892,850 | 892,850 |
| Total | 2,076,827,066 | - | - | 2,085,940,522 | 2,085,940,522 |

| | 31 December 2021 – (Audited) | | | | |
|---|------------------------------|---------|---------|---------------|---------------|
| | Carrying value | Level 1 | Level 2 | Level 3 | Total |
| Ijara receivables, net | 2,105,762,358 | - | - | 2,207,808,927 | 2,207,808,927 |
| Financial asset held at FVOCI - equity instrument | 892,850 | - | - | 892,850 | 892,850 |
| Total | 2,106,655,208 | - | - | 2,208,701,777 | 2,208,701,777 |

The valuation of Ijara receivables is estimated using contractual cash flows discounted at latest variable yield, which is the contracted profit rate for recent transactions. Input into the discounted cash flow techniques includes profit rate for recent transactions and contractual cash flows.

Management assessed that the carrying amount of other financial instruments largely approximate fair value due to either short-term maturities.

There have been no transfers to and from any levels during the period.

16. SAMA SUPPORT PROGRAMS AND INITIATIVES

Private Sector Financing Support Program (“PSFSP”):

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to eligible (Stage 1 and Stage 2) Micro Small and Medium Enterprises (“MSME”) as defined by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. The payment reliefs were considered as short-term liquidity support to address borrowers’ potential cash flow shortages. The accounting impact of the above changes in terms of the credit facilities were assessed and has been treated as per the requirements of IFRS 9 as modification in terms of arrangement. The PSFSP program has ended on March 31, 2022.

In order to compensate the related cost that the Company had incurred under the SAMA and other public authorities program, during 2021 and 2022, the Company received multiple profit free deposits from SAMA of varying maturities, which qualified as government grants and were accounted for as such.

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17. DIVIDEND APPROVAL

The shareholders in the General Assembly Meeting held on 17 May 2022 approved the cash dividend of SR 0.75 per share. Dividend amounting to SR 43.13 million has been declared and approved (2021: SR 28.75 million).

18. SUBSEQUENT EVENT

There were no subsequent events after the interim condensed statement of financial position date which require adjustment to/or disclosure in these interim condensed financial statements.

19. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS BY THE BOARD OF DIRECTORS OF THE COMPANY

These interim condensed financial statements of the Company for the period ended 30 September 2022 were approved by the Board of Directors on 25 Rabi Al-Awwal 1444H (corresponding to 21 October 2022).