

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE-MONTH PERIOD ENDED
31 MARCH 2021
together with the
INDEPENDENT AUDITOR'S REVIEW REPORT



KPMG Professional Services

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Commercial Registration No 1010425494

كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

Independent auditor's review report on the interim condensed financial statements

To the shareholders of Deutsche Gulf Finance

Introduction

We have reviewed the accompanying 31 March 2021 interim condensed financial statements of **Deutsche Gulf Finance** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 31 March 2021;
- the interim condensed statement of comprehensive income for the three-months period ended 31 March 2021;
- the interim condensed statement of changes in equity for the three-months period ended 31 March 2021;
- the interim condensed statement of cash flows for the three-months period ended 31 March 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as 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 the 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 the International Standards on Auditing that are 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 31 March 2021 interim condensed financial statements of **Deutsche Gulf Finance** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

KPMG Professional Services

Nasser Ahmed Al Shitairy
License no: 454

Riyadh, 26 April 2021
Corresponding to: 14 Ramadan 1442H



DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 31 March 2021
(Saudi Arabian Riyals)

		As at 31 March 2021 <u>(Unaudited)</u>	As at 31 December 2020 <u>(Audited)</u>
	<i>Note</i>		
ASSETS			
Cash and cash equivalents	7	9,424,193	9,404,961
Other assets	8	99,455,518	67,758,369
Due from an affiliated company	12	4,123,019	4,105,769
Ijara receivables, net	9	2,119,306,485	2,105,762,358
Servicing rights under agency arrangements		34,574,435	15,882,475
Financial assets held at fair value through other comprehensive income – equity instruments		892,850	892,850
Deferred tax asset	6	3,641,489	3,753,049
Property and equipment		31,783,594	31,958,581
Intangible assets		745,401	687,490
TOTAL ASSETS		<u>2,303,946,984</u>	<u>2,240,205,902</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Financing facilities	10	1,493,954,633	1,457,109,849
Due to an affiliated company	12	514,638	514,638
Provision for zakat and income tax	6	16,663,814	13,273,098
Accounts and other payables		948,790	900,673
Dividend payable		10,763,638	10,763,638
Accrued expenses and other liabilities	11	70,030,916	69,446,400
Employees' end of service benefits		4,714,266	4,613,064
TOTAL LIABILITIES		<u>1,597,590,695</u>	<u>1,556,621,360</u>
EQUITY			
Share capital	13	575,000,000	575,000,000
Statutory reserve		14,172,157	14,172,157
Retained earnings		117,184,132	94,412,385
TOTAL EQUITY		<u>706,356,289</u>	<u>683,584,542</u>
TOTAL LIABILITIES AND EQUITY		<u>2,303,946,984</u>	<u>2,240,205,902</u>

The attached notes 1 to 17 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 period ended 31 March 2021
(Saudi Arabian Riyals)

	For the three-month period ended 31 March		
	<i>Note</i>	<u>2021</u>	<u>2020</u>
INCOME			
Income from Ijara receivables		39,598,295	34,485,954
Realised gain on sale, settlement or early termination of Ijara receivables		4,661,860	230,003
Servicing fee		20,629,849	1,428,290
Other income		54,050	27,363
TOTAL INCOME		<u>64,944,054</u>	<u>36,171,610</u>
EXPENSES			
Financial charges		6,398,917	2,463,026
Employees benefits and compensation	4	10,177,664	9,558,514
Expected credit losses on Ijara receivables	9	13,257,517	1,214,301
Depreciation		393,989	333,096
Amortisation		109,784	56,933
Other expenses	5	8,332,160	3,245,915
TOTAL EXPENSES		<u>38,670,031</u>	<u>16,871,785</u>
NET INCOME FOR THE PERIOD BEFORE ZAKAT AND INCOME TAX		<u>26,274,023</u>	<u>19,299,825</u>
Zakat and income tax	6	3,502,276	2,846,106
NET INCOME FOR THE PERIOD AFTER ZAKAT AND INCOME TAX		<u>22,771,747</u>	<u>16,453,719</u>
Other comprehensive income		--	--
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>22,771,747</u>	<u>16,453,719</u>

The attached notes 1 to 17 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 three-month period ended 31 March 2021
(Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2021	575,000,000	14,172,157	94,412,385	683,584,542
Net income for the period	--	--	22,771,747	22,771,747
Balance as at 31 March 2021	<u>575,000,000</u>	<u>14,172,157</u>	<u>117,184,132</u>	<u>706,356,289</u>
Balance as at 1 January 2020	575,000,000	8,219,878	69,591,873	652,811,751
Net income for the period	--	--	16,453,719	16,453,719
Balance as at 31 March 2020	<u>575,000,000</u>	<u>8,219,878</u>	<u>86,045,592</u>	<u>669,265,470</u>

The attached notes 1 to 17 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 three-month period ended 31 March 2021
(Saudi Arabian Riyals)

	For the three-month period ended 31 March		
	<i>Note</i>	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the period before zakat and income tax		26,274,023	19,299,825
<i>Adjustments to reconcile net income before zakat and income tax to net cash used in operating activities:</i>			
Depreciation		393,989	333,096
Amortisation		109,784	56,933
Employees' end of service benefits charge		511,527	308,424
Expected credit losses on Ijara receivables	9	13,257,516	1,214,301
Special commission expense on lease liabilities		17,967	24,864
Modification loss on Ijara receivables		2,543,267	2,091,084
Modification gain on financing facilities		(5,283,728)	(9,058,541)
		<u>37,824,345</u>	<u>14,269,986</u>
<i>Net (increase) / decrease in operating assets</i>			
Ijara receivables		(29,344,911)	(189,737,091)
Other assets		(31,697,149)	(2,385,814)
Servicing rights under agency agreement		(18,691,960)	72,621
Due from an affiliated company		(17,250)	(3,000)
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts and other payables		48,118	(665,863)
Accrued expenses and other liabilities		856,337	24,461,451
Net cash used in operations		<u>(41,022,470)</u>	<u>(153,987,710)</u>
Employees' end of service benefits paid		(410,325)	(36,314)
Net cash used in operating activities		<u>(41,432,795)</u>	<u>(154,024,024)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(219,002)	(932,152)
Acquisition of intangible assets		(167,695)	(57,065)
Net cash used in investing activities		<u>(386,697)</u>	<u>(989,217)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financing facilities		182,574,153	2,434,028,131
Repayment of financing facilities		(140,445,641)	(2,306,322,071)
Payment of principal portion of lease liabilities		(289,788)	(129,304)
Net cash from financing activities		<u>41,838,724</u>	<u>127,576,756</u>
Net increase / (decrease) in cash and cash equivalents		<u>19,232</u>	<u>(27,436,485)</u>
Cash and cash equivalents at beginning of the period		9,404,961	36,026,007
Cash and cash equivalents at end of the period	7	<u>9,424,193</u>	<u>8,589,522</u>
Special commission received during the period		32,781,642	23,405,989
Special commission paid during the period		4,693,868	11,015,318
Non-cash supplemental information:			
Right-of-use-asset		1,510,513	1,946,236
Lease liability		1,415,315	2,006,625

The attached notes 1 to 17 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 period ended 31 March 2021
(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 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).

2. BASIS OF PREPARATION

Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 31 March 2021 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”).

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2020.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended 31 March 2021
(Saudi Arabian Riyals)

4. EMPLOYEES' BENEFITS AND COMPENSATION

	For the three-month period ended 31 March	
	2021	2020
Employees' salaries and benefits	9,312,978	8,465,633
Employees' health insurance	372,299	604,381
Others	492,387	488,500
	10,177,664	9,558,514

5. OTHER EXPENSES

	For the three-month period ended 31 March	
	2021	2020
Processing and marketing expenses	2,710,606	1,471,405
Executive Board fee	594,500	396,666
Sharia Board fee	42,500	28,334
Professional fee	8,438	445,010
Others	4,976,116	904,500
	8,332,160	3,245,915

6. ZAKAT AND INCOME TAX

6.1 Deferred tax asset

	31 March 2021 (Unaudited)	31 December 2020 (Audited)
Opening balance	3,753,049	3,347,230
(Utilization) / origination of temporary difference	(111,560)	405,819
Closing	3,641,489	3,753,049

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)
For the three-month period ended 31 March 2021
(Saudi Arabian Riyals)

6. ZAKAT AND INCOME TAX (CONTINUED)

6.2 The movement in zakat and income tax is as follow:

	31 March 2021 (Unaudited)		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the period	8,171,705	5,101,393	13,273,098
Charge for the period – excluding deferred tax	1,861,322	1,529,394	3,390,716
Balance as at end of the period	10,033,027	6,630,787	16,663,814

	31 December 2020 (Audited)		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	7,788,713	3,338,553	11,127,264
Charge for the year	4,811,468	3,953,441	8,764,909
Payments made during the year	(4,428,476)	(2,190,599)	(6,619,075)
Balance as at end of the year	8,171,705	5,101,393	13,273,098

6.3 Zakat and income tax expense

Breakup of zakat and income tax expense in the statement of comprehensive income is as follows:

	For the three-month period ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
Charge for the period:		
- Current tax and zakat for the period	3,390,716	2,491,993
- Deferred tax expense for the period	111,560	354,113
Charge for the period	3,502,276	2,846,106

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended 31 March 2021
(Saudi Arabian Riyals)

6. ZAKAT AND INCOME TAX (CONTINUED)

6.4 Status of assessments:

Zakat and income tax declaration for all the years up to 2019 have been filed with the GAZT and acknowledgement certificates have been obtained.

During the period ended 31 March 2021, 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 2020.

7. CASH AND CASH EQUIVALENTS

	<i>Note</i>	31 March 2021 (Unaudited)	31 December 2020 (Audited)
Bank balances – current accounts	7(a)	<u>9,424,193</u>	<u>9,404,961</u>
		9,424,193	9,404,961

7(a) This represents cash with banks having sound credit ratings, as rated by the international rating agencies.

8. OTHER ASSETS

	<i>Note</i>	31 March 2021 (Unaudited)	31 December 2020 (Audited)
Financing to customers		24,559,340	25,445,779
Advance paid to GAZT	15	29,466,658	--
Ijara mawsofa fi athemmah		18,428,324	16,469,701
Amount paid to GAZT for years under assessment		10,217,805	10,217,805
Value added tax recoverable		7,692,959	7,423,180
Service fee receivable		2,112,489	3,668,612
Prepaid expenses		3,882,084	1,533,596
Accelerated tax payment		1,642,950	1,642,950
Receivable from Real Estate Development Fund		1,225,000	1,225,000
Staff receivables		198,930	102,767
Security deposits		28,979	28,979
		<u>99,455,518</u>	<u>67,758,369</u>

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended 31 March 2021
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9. IJARA RECEIVABLES, NET

	31 March 2021 (Unaudited)	31 December 2020 (Audited)
Gross Ijara receivables	3,482,528,282	3,484,308,166
Less: Unearned income	<u>(1,332,060,880)</u>	<u>(1,345,845,413)</u>
	2,150,467,402	2,138,462,753
Less: Allowance for expected credit losses	<u>(31,160,917)</u>	<u>(32,700,395)</u>
Ijara receivables, net	<u><u>2,119,306,485</u></u>	<u><u>2,105,762,358</u></u>

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

	<u>31 March 2021 (Unaudited)</u>			
	<u>Not later than one year</u>	<u>Later than one year but not later than five years</u>	<u>Later than five years</u>	<u>Total</u>
Gross Ijara receivables	339,544,573	1,002,718,324	2,140,265,385	3,482,528,282
Less: Unearned income	<u>(157,602,378)</u>	<u>(456,741,995)</u>	<u>(717,716,507)</u>	<u>(1,332,060,880)</u>
	<u>181,942,195</u>	<u>545,976,329</u>	<u>1,422,548,878</u>	2,150,467,402
Less: Allowance for expected credit losses				<u>(31,160,917)</u>
Ijara receivables, net				<u><u>2,119,306,485</u></u>

	<u>31 December 2020 (Audited)</u>			
	<u>Not later than one year</u>	<u>Later than one year but not later than five years</u>	<u>Later than five years</u>	<u>Total</u>
Gross Ijara receivables	313,903,741	1,073,040,618	2,097,363,807	3,484,308,166
Less: Unearned income	<u>(145,136,677)</u>	<u>(497,122,120)</u>	<u>(703,586,616)</u>	<u>(1,345,845,413)</u>
	<u>168,767,064</u>	<u>575,918,498</u>	<u>1,393,777,191</u>	2,138,462,753
Less: Allowance for expected credit losses				<u>(32,700,395)</u>
Ijara receivables, net				<u><u>2,105,762,358</u></u>

DEUTSCHE GULF FINANCE
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9. IJARA RECEIVABLES, NET (CONTINUED)

9(b) Expected credit loss allowance on Ijara receivables, net are as follows:

31 March 2021 – (Unaudited)	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	(2,669,188)	2,614,766	54,422	--
Transfer from lifetime ECL (not credit impaired)	187,245	(1,703,496)	1,516,251	--
Transfer from lifetime ECL (credit impaired)	4,937	--	(4,937)	--
Net re-measurement of loss allowance	2,738,114	(2,168,680)	12,688,082	13,257,516
Write-offs	--	--	(14,796,994)	(14,796,994)
Closing balance	<u>2,727,115</u>	<u>11,199,710</u>	<u>17,234,092</u>	<u>31,160,917</u>

31 December 2020 – (Audited)	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
Opening balance	4,075,284	7,335,815	18,251,350	29,662,449
Transfer from 12 Month ECL	(11,004,572)	7,618,798	3,385,774	--
Transfer from lifetime ECL (not credit impaired)	74,518	(2,325,270)	2,250,752	--
Transfer from lifetime ECL (credit impaired)	17,245	502,634	(519,879)	--
Net re-measurement of loss allowance	9,303,532	(674,857)	8,662,054	17,290,729
Write-offs	--	--	(14,252,783)	(14,252,783)
Closing balance	<u>2,466,007</u>	<u>12,457,120</u>	<u>17,777,268</u>	<u>32,700,395</u>

10. FINANCING FACILITIES

These represent financing facilities from local commercial banks, financial institutions and Saudi Real Estate Refinance Company (“SRC”), which are secured by assignment of proceeds from certain financial assets.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	Note	31 March 2021 (Unaudited)	31 December 2020 (Audited)
Accrued and other expenses		28,016,461	33,244,376
Amount received from customers	<i>11a</i>	14,967,516	11,732,574
Instalments collected from sold Ijara receivables	<i>11b</i>	14,322,106	12,545,216
Payable to Ministry of Housing		10,432,158	10,041,408
Lease liabilities	<i>11c</i>	1,415,315	1,687,137
Advances from customers – Ijara mawsofa fi athemmah		877,360	195,689
		<u>70,030,916</u>	<u>69,446,400</u>

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11. ACCRUED EXPENSES AND OTHER LIABILITIES (CONTINUED)

11(a) This majorly represents down payment received from the customers, which is not paid to the seller of the 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.

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.

Key Management Personnel ("KMP") are those having responsibility for planning, directing and controlling the activities of the Company.

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 31 March</u>	
		<u>2021</u> <u>(Unaudited)</u>	<u>2020</u> <u>(Unaudited)</u>
Key management personnel	Employee benefits and compensation:		
	- <i>Remuneration</i>	1,685,296	1,865,412
	- <i>End of service benefit</i>	(9,897)	25,322
Board of Directors	Compensation:		
	- <i>Board fees</i>	637,000	425,000

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>31 March</u>	<u>31 December</u>
			<u>2021</u> <u>(Unaudited)</u>	<u>2020</u> <u>(Audited)</u>
Key management personnel	Remuneration payable		595,000	2,080,000
	Employees' end of service benefits		565,370	575,267
Board of Directors	Board fees payable		630,123	1,905,000
Gulf Company for Acquisition (affiliated company) – (GCA)	Due from related parties:			
	- <i>Loan</i>	12(a)	3,953,220	3,953,220
	- <i>Other</i>	12(b)	169,799	152,549
			4,123,019	4,105,769
	Due to related parties:			
	- <i>Service fee payable</i>	12(c)	514,638	514,638

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12. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

- 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 deeds are 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.

13. SHARE CAPITAL

As at 31 March 2021, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2020: 57,500,000 shares) of SR 10 each.

14. 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 related parties, 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.

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

	31 March 2021 (Unaudited)				Total
	Carrying value	Level 1	Level 2	Level 3	
Ijara receivables, net	2,119,306,485	--	--	2,179,152,302	2,179,152,302
Financial asset held at FVOCI - equity instrument	892,850	--	--	892,850	892,850
Total	2,120,199,335	--	--	2,180,045,152	2,180,045,152

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14. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	31 December 2020 – (Audited)				Total
	Carrying value	Level 1	Level 2	Level 3	
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.

15. SAMA SUPPORT PROGRAMS AND INITIATIVES

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 31 March 2021 is the deferred payments program.

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Company is required to defer payments on lending facilities to those companies that qualify as MSME. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 30 June 2021, and increasing the facility tenors accordingly. The Company continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

The accounting impact of above changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 10.81 million of which SAR 2.77 million has been recorded in current quarter which have been presented as part of net financing income. During the three months period ended 31 March 2021, SAR 0.23 million has been charged to the statement of income relating to unwinding of modification losses.

Furthermore, in accordance with the PSFSP, the banks and SRC allowed the Company to defer its loan repayments, which were due in the period from 15 March 2020 to 30 June 2021. This resulted in modification gain of SR 6.53 million in the period ended 31 March 2021 which have been presented as part of financial charges. During the three months period ended 31 March 2021 SR 1.27 million has been released to the interim condensed consolidated statement of income relating to unwinding of modification losses.

As at 31 March 2021 the Company is yet to participate in SAMA’s facility guarantee program.

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16. SUBSEQUENT EVENTS

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

17. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements of the Company for the period ended 31 March 2021 were approved by the Board of Directors on 14 Ramadan 1442H (corresponding to 26 April 2021).