

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



KPMG Professional Services

Riyadh Front, Airport Road
P. O. Box 92876
Riyadh 11663
Kingdom of Saudi Arabia
Headquarter

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 30 June 2021 interim condensed financial statements of **Deutsche Gulf Finance** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 June 2021;
- the interim condensed statement of comprehensive income for the three-month and six-month periods ended 30 June 2021;
- the interim condensed statement of changes in equity for the six-month period ended 30 June 2021;
- the interim condensed statement of cash flows for the six-month period ended 30 June 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 30 June 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 Shutairy
License no: 454

Riyadh, 3 August 2021
Corresponding to: 24 Dhul Hijjah 1442H



DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021
(Saudi Arabian Riyals)

		30 June 2021	31 December 2020
	<i>Note</i>	(Unaudited)	(Audited)
ASSETS			
Cash and cash equivalents	7	11,843,884	9,404,961
Other assets	8	79,449,968	67,758,369
Due from an affiliated company	12	4,148,819	4,105,769
Ijara receivables, net	9	2,302,640,386	2,105,762,358
Servicing rights under agency arrangements		33,295,008	15,882,475
Financial assets held at fair value through other comprehensive income – equity instruments		892,850	892,850
Deferred tax asset	6	3,644,431	3,753,049
Property and equipment		31,496,712	31,958,581
Intangible assets		635,617	687,490
TOTAL ASSETS		<u>2,468,047,675</u>	<u>2,240,205,902</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Financing facilities	10	1,684,366,132	1,457,109,849
Due to an affiliated company	12	514,638	514,638
Provision for zakat and income tax	6	9,096,717	13,273,098
Accounts and other payables		406,068	900,673
Dividend payable	16	4,782,822	10,763,638
Accrued expenses and other liabilities	11	73,232,318	69,446,400
Employees' end of service benefits		4,734,805	4,613,064
TOTAL LIABILITIES		<u>1,777,133,500</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		101,742,018	94,412,385
TOTAL EQUITY		<u>690,914,175</u>	<u>683,584,542</u>
TOTAL LIABILITIES AND EQUITY		<u>2,468,047,675</u>	<u>2,240,205,902</u>

The attached notes 1 to 18 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 six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

	<i>Note</i>	For the three-month period ended 30 June		For the six-month period ended 30 June	
		2021	2020	2021	2020
INCOME					
Income from Ijara receivables		41,099,816	39,691,410	80,698,111	74,177,364
Realised gain on sale, settlement or early termination of Ijara receivable		1,567,542	3,801,346	6,229,402	4,031,349
Servicing fee		1,045,227	1,322,650	21,675,076	2,750,940
Other income		29,203	--	83,253	27,363
TOTAL INCOME		43,741,788	44,815,406	108,685,842	80,987,016
EXPENSES					
Financial charges		13,103,316	1,954,181	19,502,233	4,417,207
Employees benefits and compensation	4	9,170,309	10,768,693	19,347,973	20,327,207
Expected credit losses on Ijara receivables		1,700,000	4,827,269	14,957,517	6,041,570
Depreciation		411,429	370,026	805,418	703,122
Amortisation		109,783	58,071	219,567	115,004
Other expenses	5	3,998,782	4,592,072	12,330,942	7,837,986
TOTAL EXPENSES		28,493,619	22,570,312	67,163,650	39,442,096
NET INCOME FOR THE PERIOD BEFORE ZAKAT AND INCOME TAX					
		15,248,169	22,245,094	41,522,192	41,544,920
Zakat and income tax	6	(1,940,283)	(3,225,297)	(5,442,559)	(6,071,403)
NET INCOME FOR THE PERIOD AFTER ZAKAT AND INCOME TAX		13,307,886	19,019,797	36,079,633	35,473,517
Other comprehensive income		--	--	--	--
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		13,307,886	19,019,797	36,079,633	35,473,517

The attached notes 1 to 18 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 six-month period ended 30 June 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	--	--	36,079,633	36,079,633
Dividend declared during the period (<i>Note 16</i>)	--	--	(28,750,000)	(28,750,000)
Other comprehensive income	--	--	--	--
Balance as at 30 June 2021	<u>575,000,000</u>	<u>14,172,157</u>	<u>101,742,018</u>	<u>690,914,175</u>
Balance as at 1 January 2020	575,000,000	8,219,878	69,591,873	652,811,751
Net income for the period	--	--	35,473,517	35,473,517
Dividend declared during the period (<i>Note 16</i>)	--	--	(28,750,000)	(28,750,000)
Other comprehensive income	--	--	--	--
Balance as at 30 June 2020	<u>575,000,000</u>	<u>8,219,878</u>	<u>76,315,390</u>	<u>659,535,268</u>

The attached notes 1 to 18 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 six-month period ended 30 June 2021
(Saudi Arabian Riyals)

		For the six-month period ended 30 June	
	<i>Note</i>	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES			
Net income for the period before zakat and income tax		41,522,192	41,544,920
<i>Adjustments to reconcile net income before zakat and income tax to net cash (used in) / from operating activities:</i>			
Depreciation		805,418	703,122
Amortisation		219,567	115,004
Employees' end of service benefits charge		714,814	533,544
Expected credit losses on Ijara receivables	9	14,957,517	6,041,570
Lease finance cost		33,302	48,473
Modification loss on Ijara receivables, net of unwinding	15	3,985,801	2,069,139
Modification gain on borrowings, net of unwinding	15	<u>(2,610,835)</u>	<u>(14,447,988)</u>
		59,627,776	36,607,784
<i>Net (increase) / decrease in operating assets</i>			
Ijara receivables		(215,821,346)	(365,285,773)
Other assets		(13,111,750)	(34,604,405)
Servicing rights under agency agreement		(17,412,533)	146,547
Due from an affiliated company		(43,050)	(4,123,072)
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts and other payables		(494,605)	(903,267)
Accrued expenses and other liabilities		4,042,404	34,926,499
		(183,213,104)	(333,235,687)
Employees' end of service benefits paid		(593,073)	(187,186)
Zakat and income tax paid	6(b)	(8,090,171)	--
Net cash used in operating activities		<u>(191,896,348)</u>	<u>(333,422,873)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(343,549)	(2,207,562)
Acquisition of intangible assets		(167,694)	(141,065)
Net cash used in investing activities		<u>(511,243)</u>	<u>(2,348,627)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from financing facilities		406,750,093	3,695,273,952
Repayment of financing facilities		(176,882,975)	(3,266,447,054)
Payment of lease liabilities		(289,788)	(258,609)
Dividend paid	16	(34,730,816)	(17,986,362)
Net cash from financing activities		<u>194,846,514</u>	<u>410,581,927</u>
Net increase / (decrease) in cash and cash equivalents		2,438,923	74,810,427
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>11,843,884</u>	<u>110,836,434</u>
Special commission received during the period		65,076,648	59,576,682
Special commission paid during the period		<u>18,698,691</u>	<u>19,319,555</u>
Non-cash supplemental information:			
Right-of-use-asset		1,395,172	1,833,067
Lease liability		<u>1,430,651</u>	<u>1,869,751</u>

The attached notes 1 to 18 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 six-month periods ended 30 June 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 30 June 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 and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

4. EMPLOYEES' BENEFITS AND COMPENSATION

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Employees' salaries and benefits	8,271,096	6,018,470	17,584,074	12,875,207
Employees' health insurance	374,087	829,822	746,386	1,434,203
Others	525,126	3,920,401	1,017,513	6,017,797
	<u>9,170,309</u>	<u>10,768,693</u>	<u>19,347,973</u>	<u>20,327,207</u>

5. OTHER EXPENSES

	For the three-month period ended 30 June		For the six-month period ended 30 June	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Processing and marketing expenses	1,328,820	786,544	4,039,426	1,549,083
Board fees	636,750	678,000	1,273,750	1,103,000
Others	2,033,212	3,127,528	7,017,766	5,185,903
	<u>3,998,782</u>	<u>4,592,072</u>	<u>12,330,942</u>	<u>7,837,986</u>

6. ZAKAT AND INCOME TAX

6(a) Deferred tax asset

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Opening balance	3,753,049	3,347,230
(Utilization) / origination of temporary difference	(108,618)	405,819
Closing	<u>3,644,431</u>	<u>3,753,049</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)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

6. ZAKAT AND INCOME TAX (CONTINUED)

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

	30 June 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:			
- current period (<i>excluding deferred tax</i>)	2,915,688	2,418,253	5,333,941
- prior years	<u>(1,420,151)</u>	--	<u>(1,420,151)</u>
	1,495,537	2,418,253	3,913,790
Payments made during the period	<u>(4,974,498)</u>	<u>(3,115,673)</u>	<u>(8,090,171)</u>
Balance as at end of the period	<u>4,692,744</u>	<u>4,403,973</u>	<u>9,096,717</u>

	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	<u>(4,428,476)</u>	<u>(2,190,599)</u>	<u>(6,619,075)</u>
Balance as at end of the year	<u>8,171,705</u>	<u>5,101,393</u>	<u>13,273,098</u>

6(c) 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 30 June		For the six-month period ended 30 June	
	<u>2021 (Unaudited)</u>	2020 (Unaudited)	<u>2021 (Unaudited)</u>	2020 (Unaudited)
Charge for the period:				
- Current tax and zakat expense for the period	1,943,225	2,897,449	5,333,941	5,389,442
- Deferred tax expense / (income) for the period	<u>(2,942)</u>	327,848	<u>108,618</u>	681,961
Charge for the period	<u>1,940,283</u>	<u>3,225,297</u>	<u>5,442,559</u>	<u>6,071,403</u>

6(d) Status of assessments:

Zakat and income tax declaration for all the years up to 2020 have been filed with the Zakat, Tax and Custom Authorities ("ZATCA") and acknowledgement certificates have been obtained.

During the period ended 30 June 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, except the below.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

6. ZAKAT AND INCOME TAX (CONTINUED)

2010

The Company made payment of SR 3.7 million to ZATCA as part of appeal process in relation to assessment year 2010. During the six-month period ended 30 June 2021, the assessment was finalized with an additional charge of SR 1.4 million, whereas the amount of SR 2.3 million can be utilized against future liabilities with ZATCA. The resultant accounting treatment has been reflected in these financial statements.

7. CASH AND CASH EQUIVALENTS

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
	<i>Note</i>	
Bank balances – current accounts	7(a)	
	11,843,884	9,404,961
	11,843,884	9,404,961

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

8. OTHER ASSETS

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
Advance paid under protest to ZATCA	29,466,658	--
Ijara mawsofa fi athemmah	20,351,223	16,469,701
Financing to customers	9,223,270	25,445,779
Amount paid to ZATCA for years under assessment	8,797,654	10,217,805
Value added tax recoverable	6,110,871	7,423,180
Service fee receivable	1,540,128	3,668,612
Prepaid expenses	1,696,422	1,533,596
Receivable from Real Estate Development Fund	1,225,000	1,225,000
Accelerated tax payment	778,918	1,642,950
Staff receivables	230,845	102,767
Security deposits	28,979	28,979
	79,449,968	67,758,369

9. IJARA RECEIVABLES, NET

	30 June	31 December
	2021	2020
	(Unaudited)	(Audited)
Gross Ijara receivables	3,716,429,419	3,484,308,166
Less: Unearned income	(1,380,928,116)	(1,345,845,413)
	2,335,501,303	2,138,462,753
Less: Allowance for expected credit losses	(32,860,917)	(32,700,395)
Ijara receivables, net	2,302,640,386	2,105,762,358

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

9. IJARA RECEIVABLES, NET (CONTINUED)

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

	30 June 2021 (Unaudited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
Gross Ijara receivables	396,163,628	1,012,654,317	2,307,611,474	3,716,429,419
Less: Unearned income	<u>(164,248,610)</u>	<u>(449,993,731)</u>	<u>(766,685,775)</u>	<u>(1,380,928,116)</u>
	<u>231,915,018</u>	<u>562,660,586</u>	<u>1,540,925,699</u>	<u>2,335,501,303</u>
Less: Allowance for expected credit losses				<u>(32,860,917)</u>
Ijara receivables, net				<u><u>2,302,640,386</u></u>

	31 December 2020 (Audited)			
	Not later than one year	Later than one year but not later than five years	Later than five years	Total
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>	<u>2,138,462,753</u>
Less: Allowance for expected credit losses				<u>(32,700,395)</u>
Ijara receivables, net				<u><u>2,105,762,358</u></u>

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

30 June 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	(7,848,128)	7,306,763	541,365	--
Transfer from lifetime ECL (not credit impaired)	252,980	(2,466,959)	2,213,979	--
Transfer from lifetime ECL (credit impaired)	7,884	--	(7,884)	--
Net re-measurement of loss allowance	6,819,195	(4,270,262)	11,489,513	14,038,446
New Ijara receivables originated during the period	545,427	373,643	--	919,070
Write- Offs	--	--	(14,796,994)	(14,796,994)
Closing balance	<u>2,243,365</u>	<u>13,400,305</u>	<u>17,217,247</u>	<u>32,860,917</u>

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

9. IJARA RECEIVABLES, NET (CONTINUED)

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	8,059,922,	(3,452,653)	7,242,077	14,801,166
New Ijara receivables originated during the period	1,243,610	2,777,796	1,419,977	5,441,383
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, Saudi Real Estate Refinance Company (“SRC”) and Social Development Bank, which are secured by assignment of proceeds from certain financial assets.

11. ACCRUED EXPENSES AND OTHER LIABILITIES

	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Accrued expenses and other liabilities	29,685,761	11,732,574
Amount received from customers	15,971,648	33,244,376
Instalments collected from sold Ijara receivables	13,783,293	12,545,216
Payable to Ministry of Housing	10,822,158	10,041,408
Lease liabilities	1,430,651	1,687,137
Advances from customers – Ijara mawsofa fi athemmah	1,538,807	195,689
	<u>73,232,318</u>	<u>69,446,400</u>

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(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.

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 June</u>		<u>For the six-month period ended 30 June</u>	
		<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
		<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Key management personnel	Employee benefits and compensation:				
	- <i>Remuneration</i>	1,516,962	1,751,432	3,202,258	3,616,844
	- <i>End of service benefit</i>	60,757	56,150	50,860	81,472
	Compensation:				
	- <i>Board fees</i>	636,750	678,000	1,273,750	1,103,000

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>30 June 2021</u>	<u>31 December 2020</u>
			<u>(Unaudited)</u>	<u>(Audited)</u>
Key management personnel	Remuneration payable		959,679	2,080,000
	Employees' end of service benefits		626,127	575,267
Board of Directors	Board fee payable		1,203,873	1,905,000
Gulf Company for Acquisition (affiliated company) – (GCA)	Due from an affiliated company:			
	- <i>Loan</i>	12(a)	3,953,220	3,953,220
	- <i>Other</i>	12(b)	195,599	152,549
			4,148,819	4,105,769
	Due to an affiliated company:			
	- <i>Service fee payable</i>	12(c)	514,638	514,638

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.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

13. SHARE CAPITAL

As at 30 June 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 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.

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

	30 June 2021 (Unaudited)				
	Carrying value	Level 1	Level 2	Level 3	Total
Ijara receivables, net	2,302,640,386	--	--	2,333,396,940	2,333,396,940
Financial asset held at FVOCI - equity instrument	892,850	--	--	892,850	892,850
Total	2,303,533,236	--	--	2,334,289,790	2,334,289,790
	31 December 2020 – (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

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

14. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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 PROGRAM 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 30 June 2021 is the Deferred Payments Program (“DPP”).

As part of the DPP 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 at no additional cost to customer, accordingly.

Further to the above, SAMA on 22 June 2021 announced the extension of the program for three additional months from 1 July 2021 to 30 September 2021, for MSMEs that are still affected by the COVID-19 precautionary measures. SAMA clarified that for this extension MSMEs will be subject to the assessment by the Company to the extent to which these MSMEs are still affected by the COVID-19 precautionary measures, in order to be qualified for the extension in accordance with the DPP guidelines. The Company has performed an assessment to determine the pool of customers eligible for deferment and accordingly has deferred the instalments falling due from 1 July 2021 to 30 September 2021 amounting to SAR 7.13 million and extended the tenure of the applicable loans at no additional costs to the customer. This resulted in the Company recognizing an additional modification loss of 1.88 million.

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 4.66 million for the six-month period ended 30 June 2021 (30 June 2020: SAR 2.13 million).

During the six months period ended 30 June 2021, SAR 0.67 million (30 June 2020: SAR 0.06 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 during the six-month period ended 30 June 2021 (30 June 2020: SR 16.55 million), which have been presented as part of financial charges.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three month and six-month periods ended 30 June 2021
(Saudi Arabian Riyals)

15. SAMA SUPPORT PROGRAM AND INITIATIVES (CONTINUED)

During the six months period ended 30 June 2021, SR 3.92 million (30 June 2020: SR 2.11 million) has been released to the interim condensed consolidated statement of income relating to unwinding of modification gain. Further, as per the clarification from SAMA on 22 June 2021 the Company is not eligible to avail further extensions of its loan repayments under the program.

As at 30 June 2021 the Company is yet to participate in SAMA's faciality guarantee program.

16. DIVIDEND APPROVAL

The shareholders in the General Assembly Meeting held on 20 June 2021 approved the cash dividend of SR 0.5 per share. Dividend amounting to SR 28.75 million has been declared and approved, of which SR 26.36 million has been paid during the period.

17. SUBSEQUENT EVENTS

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

18. 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 June 2021 were approved by the Board of Directors on 3 August 2021 (corresponding to 24 Dhul Hajjah 1442).