

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**  
together with the  
**Independent auditor's report**



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## Independent auditor's report

To the Shareholders of Deutsche Gulf Finance

### Opinion

We have audited the financial statements of Deutsche Gulf Finance ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the Regulations for Companies, and the Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Board of Directors, are responsible for overseeing the Company's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent auditor's report

To the Shareholders of Deutsche Gulf Finance (continued)

### Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of the Company.

For KPMG Al Fozan & Partners  
Certified Public Accountants

  
Khalil Ibrahim Al Sedais  
License No.: 371



24 Jumada Al Akhirah 1441H  
Corresponding to: 18 February 2020

**DEUTSCHE GULF FINANCE**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2019**  
**(Saudi Riyals)**

	<u>Note</u>	<u>2019</u>	<u>2018</u> <u>Restated</u>
<b>ASSETS</b>			
Cash and cash equivalents	9	36,026,007	57,615,414
Other assets	10	47,463,935	34,509,667
Due from an affiliated company	17	4,049,702	5,000,880
Ijara receivables, net	11	1,560,142,364	1,389,942,324
Servicing rights under agency arrangements	12	2,957,932	2,092,272
Financial asset held at fair value through other comprehensive income-equity instrument		892,850	892,850
Deferred tax asset	8	3,347,230	4,288,306
Property and equipment	14	30,925,350	22,524,731
Intangible assets	13	334,331	503,090
<b>TOTAL ASSETS</b>		<u>1,686,139,701</u>	<u>1,517,369,534</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Borrowings	15	968,850,391	848,455,835
Due to an affiliated company	17	469,638	424,638
Provision for zakat and income tax	8	11,127,264	15,167,131
Accounts and other payables		1,428,233	2,100,653
Accrued expenses and other liabilities	16	47,841,510	41,693,944
Employees' end of service benefits		3,610,914	2,615,571
<b>TOTAL LIABILITIES</b>		<u>1,033,327,950</u>	<u>910,457,772</u>
<b>EQUITY</b>			
Share capital	18	575,000,000	575,000,000
Statutory reserve	19	8,219,878	3,629,879
Retained earnings		69,591,873	28,281,883
<b>TOTAL EQUITY</b>		<u>652,811,751</u>	<u>606,911,762</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>1,686,139,701</u>	<u>1,517,369,534</u>

The attached notes 1 to 24 form an integral part of these financial statements.

**DEUTSCHE GULF FINANCE**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2019  
(Saudi Riyals)

	<i>Note</i>	<b>2019</b>	<u>2018</u> Restated
<b>INCOME</b>			
Income from Ijara receivables		<b>146,788,201</b>	126,942,464
Realised gain on sale, settlement or early termination of Ijara receivables		<b>7,765,698</b>	11,658,058
Servicing fee		<b>6,073,099</b>	3,231,420
Other income		<b>195,457</b>	74,875
<b>TOTAL INCOME</b>		<b><u>160,822,455</u></b>	<u>141,906,817</u>
<b>EXPENSES</b>			
Financial charges		<b>47,823,149</b>	38,573,587
Employees' benefits and compensation	6	<b>35,104,169</b>	25,212,817
Expected credit losses on Ijara receivables	11	<b>6,274,615</b>	14,733,296
Depreciation	14	<b>896,405</b>	490,698
Amortisation	13	<b>214,359</b>	135,892
Other expenses	7	<b>19,261,462</b>	17,748,126
<b>TOTAL EXPENSES</b>		<b><u>109,574,159</u></b>	<u>96,894,416</u>
<b>NET INCOME FOR THE YEAR BEFORE ZAKAT AND INCOME TAX</b>		<b><u>51,248,296</u></b>	<u>45,012,401</u>
Zakat and income tax	8	<b>5,348,307</b>	8,125,516
<b>NET INCOME FOR THE YEAR AFTER ZAKAT AND INCOME TAX</b>		<b><u>45,899,989</u></b>	<u>36,886,885</u>
Other comprehensive income		--	--
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>45,899,989</u></b>	<u>36,886,885</u>

The attached notes 1 to 24 form an integral part of these financial statements.

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2019**  
**(Saudi Riyals)**

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as at 1 January 2019 – as previously reported</b>	575,000,000	3,629,879	23,993,577	602,623,456
Impact of change in accounting of zakat and income tax (note 8)	--	--	4,288,306	4,288,306
<b>Balance as at 1 January 2019 – as restated</b>	575,000,000	3,629,879	28,281,883	606,911,762
<b>Net income for the year</b>	--	--	45,899,989	45,899,989
<b>Other comprehensive income</b>	--	--	--	--
Transferred to statutory reserve	--	4,589,999	(4,589,999)	--
<b>Balance as at 31 December 2019</b>	<u>575,000,000</u>	<u>8,219,878</u>	<u>69,591,873</u>	<u>652,811,751</u>
<b>Balance as at 1 January 2018 – as previously reported</b>	575,000,000	--	(8,713,614)	566,286,386
Impact of change in accounting of zakat and income tax (note 8)	--	--	3,738,491	3,738,491
<b>Balance as at 1 January 2018 – as restated</b>	575,000,000	--	(4,975,123)	570,024,877
<b>Net income for the year</b>	--	--	36,886,885	36,886,885
<b>Other comprehensive income</b>	--	--	--	--
Transferred to statutory reserve	--	3,629,879	(3,629,879)	--
<b>Balance as at 31 December 2018 – as restated</b>	<u>575,000,000</u>	<u>3,629,879</u>	<u>28,281,883</u>	<u>606,911,762</u>

The attached notes 1 to 24 form an integral part of these financial statements.

**DEUTSCHE GULF FINANCE**  
(A Saudi Closed Joint Stock Company)  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2019  
(Saudi Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year before zakat and income tax		51,248,296	45,012,401
<i>Adjustments to reconcile net income before zakat and income tax to net cash (used in) / from operating activities:</i>			
Amortisation	13	214,359	135,892
Depreciation	14	896,405	490,698
Employees' end of service benefits charge		1,110,224	1,091,343
Expected credit losses on Ijara receivables	11	6,274,615	14,733,296
Special commission expense on lease liabilities		111,117	--
Gain on disposal of property & equipment		(11,476)	(21,000)
Property and equipment - written off		--	2,192,505
		<u>59,843,540</u>	<u>63,635,135</u>
<b>Net (increase) / decrease in operating assets</b>			
Ijara receivable		(176,474,655)	(7,702,055)
Advances, prepayments and other receivables		(12,954,268)	(22,469,863)
Servicing rights under agency arrangements		(865,660)	--
Due from an affiliated company		951,178	(1,017,915)
<b>Net increase / (decrease) in operating liabilities</b>			
Trade and other payables		(672,419)	1,859,805
Accrued expenses and other liabilities		4,036,501	12,999,079
Due to an affiliated company		45,000	45,000
<b>Net cash (used in) / generated from operations</b>		<u>(126,090,783)</u>	<u>47,349,186</u>
Employees' end of service benefits paid		(114,881)	(731,117)
Zakat and income tax paid	8	(8,447,098)	(3,281,957)
<b>Net cash (used in) / generated from operating activities</b>		<u>(134,652,762)</u>	<u>43,336,112</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	14	(6,784,942)	(5,154,279)
Acquisition of intangible assets	13	(45,600)	(463,388)
Investment in equity instrument		--	(892,850)
Proceeds from sale of property and equipment		11,476	21,000
<b>Net cash used in investing activities</b>		<u>(6,819,066)</u>	<u>(6,489,517)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Proceeds from borrowings	15	6,808,419,318	4,572,017,496
Repayment of borrowings	15	(6,688,024,762)	(4,650,803,483)
Payment of lease liabilities		(512,135)	--
<b>Net cash generated from / (used in) financing activity</b>		<u>119,882,421</u>	<u>(78,785,987)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(21,589,407)</u>	<u>(41,939,392)</u>
Cash and cash equivalents at beginning of the year		57,615,414	99,554,806
<b>Cash and cash equivalents at end of the year</b>	9	<u>36,026,007</u>	<u>57,615,414</u>
Special commission received during the year		117,267,954	139,872,762
Special commission paid during the year		46,539,463	40,923,425
<b>Non-cash supplemental information:</b>			
Right-of-use-assets		2,059,405	--
Lease liabilities		(2,111,065)	--

The attached notes 1 to 24 form an integral part of these financial statements.

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**

**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 Arabian Monetary Authority’s (“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***

These financial statements have been prepared:

- (a) in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”); and
- (b) in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in accordance with IFRS as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to zakat and income tax) and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 18 July 2019, SAMA instructed the finance companies in the Kingdom of Saudi Arabia to account for the zakat and income tax in the statement of profit or loss. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by SOCPA (collectively referred to as “IFRS as endorsed in KSA”).

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with the International Accounting Standard 8 “Accounting Policies, Changes in Accounting Estimates and Errors” including the effects of this change, which are disclosed in this note.

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**

**2. BASIS OF PREPARATION (CONTINUED)**

***Basis of measurement***

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

***Functional and presentational currency***

The financial statements are presented in Saudi Riyals, which is the functional and presentation currency of the Company.

***Change in the accounting for zakat and income tax:***

As mentioned above, the basis of preparation has been changed for the year ended 31 December 2019 as a result of the issuance of latest instructions from SAMA dated 18 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 18 July 2019, the zakat and income tax shall be recognized in the statement of profit or loss. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in this note. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 8.13 million. The change has had no impact on the statement of cash flows for the year ended 31 December 2018.

***Zakat and income tax***

***Income tax:***

The income tax expense or credit for the period is the tax payable on the current year’s taxable income, based on the applicable income tax rate in the Kingdom of Saudi Arabia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the Kingdom of Saudi Arabia where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

***IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**

**2. BASIS OF PREPARATION (CONTINUED)**

***Zakat and income tax (continued)***

***Deferred tax:***

Deferred tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

***Zakat:***

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”). Zakat expense is charged to the profit or loss. Zakat is not accounted for as an income tax and as such no deferred tax is calculated relating to zakat.

***Effect of change in accounting of zakat and income tax:***

The change in the accounting treatment for zakat and income tax has the following impact on the line items of the statements of income, statement of financial position and changes in equity:

For the year ended 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of changes in equity	Provision for zakat and income tax (retained earnings)	8,675,331	(8,675,331)	--
Statement of profit or loss	Zakat and income tax expense	--	8,125,516	8,125,516

As at 31 December 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of financial position	Deferred tax asset	--	4,288,306	4,288,306
Statement of financial position	Retained earnings	23,993,577	4,288,306	28,281,883

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**

**2. BASIS OF PREPARATION (CONTINUED)**

*Effect of change in accounting of zakat and income tax (continued):*

As at 1 January 2018:

Financial statement impacted	Account	Before restatement	Effect of restatement	As restated
Statement of financial position	Deferred tax asset	--	3,738,491	3,738,491
Statement of financial position	Retained earnings	(8,713,614)	3,738,491	(4,975,123)

**3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS**

***IFRS 16 “Leases”:***

The Company adopted IFRS 16 “Leases” which is the standard that replaces the existing guidance on leases, which was included in IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

Effective 1 January 2019 the Company has adopted a new accounting standard, the impact of the adoption of this standard is explained below:

**Before 1 January 2019, the Company followed the below accounting policy for leases in which the Company was a lessee:**

***Operating leases***

Where the Company was a lessee, rental payments were recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

**Accounting policy applicable on and after 1 January 2019:**

On initial recognition at inception of the contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

***Right of Use Assets***

The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurement of the lease liability.

Generally, right of use assets would be equal to the lease liability. However, if there are additional costs such as site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the right of use assets’ value.

**DEUTSCHE GULF FINANCE**  
**(A Saudi Closed Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2019**

**3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)**

*Lease Liability*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

After the commencement date, Company measures the lease liability by:

1. Increasing the carrying amount to reflect interest on the lease liability.
2. Reducing the carrying amount to reflect the lease payments made and;
3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

*Lease Liability (continued)*

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company's statement of financial position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was measured at the amount of lease liability, using the interest rate at the time of first time application. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

IFRS 16 transition disclosures also requires the Company to present the reconciliation of the off-balance sheet lease obligations as of 31 December 2018 are reconciled as follows to recognise the lease liabilities as of 1 January 2019:

**RECONCILIATION OF LEASE LIABILITIES**

	1 January <u>2019</u>
Off-balance sheet lease obligations as of 31 December 2018	2,051,923
Current leases with a lease term of 12 months or less & low-value leases	<u>(1,182,562)</u>
Operating lease obligations as of 1 January 2019 (Gross without discounting)	869,361
<b>Operating lease obligations as of 1 January 2019 (net, discounted)</b>	<b><u>800,000</u></b>
<b>Lease liabilities due to initial application of IFRS 16 as 1 January 2019</b>	<b><u>800,000</u></b>

As of 1 January 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 0.8 million is included in the "Property and equipment".
- Lease liability of SR 0.8 million is included in the "Accrued expenses and other liabilities".

As of 31 December 2019, the Statement of Financial Position is impacted by IFRS 16 as follow:

- Right-of-use asset of SR 2.1 million is included in the "Property and equipment".
- Lease liability of SR 2.1 million is included in the "Accrued expenses and other liabilities".

**DEUTSCHE GULF FINANCE**  
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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

	<u>2019</u>	<u>2018</u>
<b>Maturity Analysis – Contractual undiscounted cash flows</b>		
Less than one year	517,218	289,788
One to five years	1,426,938	1,762,135
More than five years	528,511	--
<b>Total undiscounted lease liabilities at 31 December</b>	<u>2,472,667</u>	<u>2,051,923</u>
<b>Lease liabilities included in the statement of financial position at 31 December</b>	<u>2,111,065</u>	<u>--</u>

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous year financial statements, except for the policies in note 2 and 3.

The following are the significant accounting policies followed in the preparation of these financial statements:

**a) *Cash and cash equivalents***

Cash and cash equivalents consist of cash in hand, bank balances in current accounts, short-term deposits with original maturity of 90 days or less from the date of investment and cash on hand.

**b) *Intangible Assets***

Intangible assets acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three years.

**c) *Property and equipment***

Property and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Company and cost of the asset can be reliably measured.

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Leasehold improvements are amortised on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. Expenditure for repair and maintenance are charged to the statement of profit or loss and other comprehensive income. Improvements that increase the value or materially extend the life of the related assets are capitalised.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The carrying amount of an item of property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in the statement of profit or loss and other comprehensive income when the item is de-recognised.

The estimated useful lives of the assets for calculation of depreciation are as follows:

Leasehold improvements	Over the shorter of the useful life or 5 to 10 years
Building	35 years
Equipment and motor vehicles	3 years
Furniture and fixtures	5 years

***Capital work in progress***

Capital work in progress includes building under improvements for which it is probable that future economic benefits will flow to the Company and the cost can be measured reliably. Typically, these are items that have not yet been brought to the location and/or condition necessary for it to be capable of operating in the manner intended by management.

**d) *Ijara receivables***

Ijara receivables represent assets transferred under finance lease comprising Islamic lease agreement and the present value of the lease payments is recognised as a receivable and disclosed under "Ijara receivables". The difference between the gross receivables and the present value of the receivables is recognised as unearned Ijara income. Ijara income is recognised over the term of the Ijara using the net investment method, which reflects a constant periodic rate of return.

**e) *Impairment***

The Company recognizes loss allowance for expected credit losses ("ECL") on Ijara receivables. The Company measures loss allowance at an amount equal to life time ECL, except for the following which are measured as 12-month ECL:

- Ijara receivables that are determined to have low credit risk at the reporting date; and
- Ijara receivables on which credit risk has not increased significantly since their initial recognition

The Company considers Ijara receivables to have low credit risk when their exposure with days past due ("DPD") is 60 days or less. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

***Significant increase in credit risk***

To determine whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company compares the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date. The Company assess for significant increase in credit risk ("SICR") at a facility level and the main indicators for SICR are as follows:

- Real estate financing facilities with principal and commission which are past due by more than 60 days;
- restructured facilities due to credit risk over the last 12 months;
- facilities in watch-list;

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Impairment (continued)***

- high risk events/attributes of customers (bankruptcy or other similar events); or
- any counter party identified by the senior management / board as having SICR and enhanced monitoring is required.

The Company consider exposures with 60+ DPD as having Significant Increase in Credit Risk and will accordingly be taken as Stage 2. The Company classifies its Ijara receivables into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: For Ijara receivables where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Company recognises an allowance based on the 12-month ECL and income is calculated on the gross carrying amount of asset (i.e. without deduction of credit allowance). All accounts at origination would be classified as Stage 1 only exceptions are Purchased or Originated Credit Impaired (POCI) assets (if any).

Stage 2: For Ijara receivables where there has been a significant increase in credit risk since initial recognition but are not credit-impaired (i.e. there is no objective evidence of impairment), the Company recognises an allowance for the lifetime ECL. With respect to portfolio held by the Company, all the exposures are moved to stage 2 where the customer is 60+ DPD (Principal or commission payments) as of reporting date.

In addition, the account tagged as watch list / restructured as of reporting date, including being tagged as watch list / restructured in last 12 months, are classified in stage 2. Further, any counterparty identified by senior management / board as having SICR and for which enhanced monitoring is required, will also be subject to stage 2 ECL calculation.

Stage 3: For credit-impaired (i.e. there is objective evidence of impairment at reporting date) financial instruments, the Company recognises the lifetime ECL. Default identification process i.e. 120+ DPD more (obligors already defaulted) is used as stage 3.

*Credit risk Days Past Due (DPD) Buckets*

The Company allocates each exposure to a credit risk DPD buckets using qualitative and quantitative factors that are indicative of risk of default. Credit risk DPD buckets are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk DPD bucket at initial recognition based on available information about the counterparty. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk DPD buckets.

*Definition of default*

The Company uses 120+ DPD on principal and commission repayments as a hard stop default definition along with certain other unlikeliness-to-pay (UTP) indicators defined in risk management policies.

*Credit-impaired Ijara receivables*

At each reporting date, the Company assesses whether Ijara receivables are credit-impaired. An Ijara receivable is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the Ijara receivables have occurred.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*e) Impairment (continued)*

Evidence that an Ijara receivable is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a Ijara by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Ijara that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, an Ijara that is overdue for 90 days or more is considered impaired.

*Incorporation of forward looking information*

The Company incorporates forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs. The Company considers forward-looking information such as macroeconomic factors (e.g. GDP growth, net debt and net lending) and economic forecasts. Given the nature of Company's exposure and availability of historical statistical information, the Company derives Point-in-Time (PIT) PD using Through the Cycle (TTC) PD calculated through Loss rate estimation method. The Company uses the Vasicek model to link the TTC PDs with forward looking economic factors to derive PIT PD estimate for each DPD bucket.

*Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

- i. Probability of default ("PD");
- ii. Loss given default ("LGD");
- iii. Exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models using historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical models (loss rate estimation method), and assessed to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between DPD buckets, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the Ijara receivables. For real estate financing secured by property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor. Due to the size of the Company's portfolio, there is insufficient

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Impairment (continued)***

*Measurement of ECL (continued)*

historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to regulator guidelines.

Where the exposure is 100% or more collateralized (i.e. the value of the collateral after haircut is equal to or greater than the exposure), the Company imposes a LGD floor (recovery cap) for real estate financing.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of Ijara receivables is its gross carrying amount.

*Write-off*

Ijara receivables is written off (either partially or in full) when there is no realistic prospect of recovery. However, Ijara receivables that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

*Presentation of allowance for ECL in the statement of financial position*

Impairment allowances for ECL of Ijara receivables are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

*Property valuation*

To mitigate its credit risks on Ijara receivables, the Company seeks to use property, where possible. The property comes in various forms of real estate. Property, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of property affects the calculation of ECLs.

Real estate property, is valued by independent valuers appointed by the Company.

*Property repossessed*

The Company policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value less cost to sell for non-financial assets at the repossession date in, line with the Company policy.

*Modifications of Ijara receivables*

If the terms of Ijara receivables are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original Ijara receivables are deemed to have expired. In this case, the original Ijara receivables is derecognized and a new Ijara receivables is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the Ijara receivables. In this case, the Company recalculates the gross carrying amount of the Ijara receivables and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Financial instruments***

All financial assets and financial liabilities are initially recognized on the trade date i.e. the date which the Company becomes party to the contractual provisions of the instrument. Financial assets comprises of cash and cash equivalents, due from an affiliated company and other receivables. Financial liabilities comprises of borrowings, due to an affiliated company, accounts and other payables and other liabilities.

***Classification of financial assets***

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or fair value through profit or loss ("FVTPL").

***Financial Asset at amortised cost***

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

No financial assets are classified as FVOCI and FVTPL in these financial statements.

***Business model assessment***

The Company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Assessments whether contractual cash flows are solely payments of principal and profit*

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. 'Profit' is the consideration for the time value of money, the credit and other basic lending risk associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

*Classification of financial liabilities*

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

*De recognition*

*Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In certain transactions, the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing. Ijara originated by the Company and subsequently disposed-off to third parties are derecognised when the rights to receive the contractual cash flows and substantially all of the risks and rewards of ownership of the financial asset are transferred. An intangible asset is recognised and classified as servicing rights under agency agreements in respect of any obligation to service the transferred lease whereby the servicing fee adequately covers the related costs. These assets are accounted for in accordance with accounting policy on intangible assets. The resulting gain or loss on the transaction is recognized in the statement of profit and loss and other comprehensive income under income from agency arrangements.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*De recognition (continued)*

*Financial asset (continued)*

the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*

Financial liabilities are classified as measured at amortised cost using the effective yield method. Finance expense and foreign exchange gains and losses are recognised in profit or loss and other comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss and other comprehensive income.

*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 must be accessible to by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

***Statutory reserve***

As required by Saudi Arabian Regulations for Companies and the Company's By-laws, 10% of the income for the year (after zakat and income tax and after deducting losses brought forward) should be transferred to the statutory reserve. This reserve is not available for distribution. As per the By-laws, the Company may resolve to discontinue such transfers when the reserve totals 30% of the capital. The statutory reserve can be transferred to offset the accumulated losses with the approval from the shareholders' of the Company.

***Accrued expenses and other payables***

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed by the supplier or not.

***Provisions***

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

***Value Added Tax ("VAT")***

The Company collects VAT from its customers for qualifying services provided, and make VAT payments to its vendors for qualifying payments. On a monthly basis, net VAT remittances are made to the GAZT representing VAT collected from its customers, net of any recoverable VAT on payments. Unrecoverable VAT is borne by the Company and is either expensed or in the case of property, equipment, and intangibles payments, is capitalized and either depreciated or amortized as part of the capital cost.

***Income / expenses recognition***

Income from Ijara contracts and borrowing costs are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the gross carrying amount of the financial assets or the amortized cost of the financial liability.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

***Measurement of amortized cost and income***

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Measurement of amortized cost and income (continued)*

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

*Fee income*

Fee income and expense that are integral part of the effective interest rate on a financial assets or financial liability are included in the effective interest rate.

Other fee income and expense are recognized as the related services are performed and received.

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of profit and other costs that an entity incurs in connection with the borrowing of funds.

*Other expenses*

Expenses are recognized in the statement of profit or loss and other comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over the accounting period. Expenses are presented using the nature of expense method.

*Operating leases*

Operating lease, where the Company is lessee, there payments are recognised as expenses in the statement of profit or loss on a straight-line method basis over the lease contract period.

*Employees' end of service benefits*

The Company operates a defined benefit plan for employees in accordance with Saudi Labor Law as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia. The cost of providing the benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements for actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date the Company recognises related restructuring costs

Interest cost is calculated by applying the discount rate to the net defined benefit liability. The Company recognises the following changes in the net defined benefit obligation in the statement of income of profit or loss:

- Service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine-settlements
- Net interest expense or income

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**(Saudi Riyals)**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Foreign currencies*

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial reporting date. All differences are taken to the statement of comprehensive income.

**5. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used judgements, estimates and assumptions are as follows:

*i) Allowance for expected credit losses on Ijara receivables*

When determining whether the risk of default on Ijara receivables has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward looking information. In particular, management judgement is required in determining the impairment of financial instrument. These estimates are based on assumptions about a number of factors and actual results may differ, resulting future changes to the allowance for expected credit loss.

*ii) Servicing rights under agency arrangements*

An intangible asset is recognised for servicing rights under agency arrangements (acquired by the Company pursuant to sale of originated leases to third parties or as consideration for financing arrangements services) at the present value of net future cash flows under the agency arrangements. The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

**6. EMPLOYEES' BENEFITS AND COMPENSATION**

	<b>For the year ended 31 December</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
Employees' salaries and benefits	<b>27,891,854</b>	20,032,983
Commission	<b>3,447,773</b>	2,478,626
Employees' health insurance	<b>1,861,644</b>	1,308,214
Others	<b>1,902,898</b>	1,392,994
	<b><u>35,104,169</u></b>	<b><u>25,212,817</u></b>

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**7. OTHER EXPENSES**

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018</b>
Processing and marketing expenses	3,971,106	2,940,257
Takaful expenses	3,616,854	2,632,675
Professional fee	2,520,352	1,220,519
Rent	2,019,166	3,053,654
Executive Board fee	1,514,224	1,575,500
Utilities	689,315	663,198
Travel and lodging	308,442	336,200
Cleaning services	280,453	310,036
Sharia Board fee	170,000	170,000
Property and equipment write-off	-	2,171,504
Others	4,171,550	2,674,583
	<b>19,261,462</b>	<b>17,748,126</b>

**8. ZAKAT AND INCOME TAX**

**8(a) Deferred tax asset**

	<b>For the year ended 31 December</b>	
	<b>2019</b>	<b>2018 Restated</b>
Opening balance	4,288,306	3,738,491
(Utilization) / Origination of temporary difference	(941,076)	549,815
Closing	<b>3,347,230</b>	<b>4,288,306</b>

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.

<b>2019</b>	<b><u>Opening deferred tax</u></b>	<b><u>Recognised in P&amp;L</u></b>	<b><u>Closing deferred tax</u></b>
<i>Deductible temporary difference</i>			
Allowance for expected credit losses	1,799,257	(508,866)	1,290,391
Unadjusted losses	2,406,727	(248,597)	2,158,130
End of service benefit	152,331	57,969	210,300
<b>Total</b>	<b>4,358,315</b>	<b>(699,494)</b>	<b>3,658,821</b>
<i>Taxable temporary difference</i>			
Depreciation of property and equipment	(70,009)	(241,583)	(311,591)
<b>Total</b>	<b>(70,009)</b>	<b>(241,583)</b>	<b>(311,591)</b>
<b>Net of deductible and taxable temporary difference</b>	<b>4,288,306</b>	<b>(941,076)</b>	<b>3,347,230</b>

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**8. ZAKAT AND INCOME TAX (CONTINUED)**

<u>2018 - Restated</u>	<u>Opening</u> <u>deferred tax</u>	<u>Recognised</u> <u>in P&amp;L</u>	<u>Closing</u> <u>deferred tax</u>
<i>Deductible temporary difference</i>			
Allowances for expected credit losses	941,190	858,067	1,799,257
Unused losses	2,676,801	(270,074)	2,406,727
End of service benefit	131,351	20,980	152,331
Total	<u>3,749,342</u>	<u>608,973</u>	<u>4,358,315</u>
<i>Taxable temporary difference</i>			
Depreciation of property and equipment	(10,851)	(59,158)	(70,009)
Total	<u>(10,851)</u>	<u>(59,158)</u>	<u>(70,009)</u>
Net of deductible and taxable temporary difference	<u>3,738,491</u>	<u>549,815</u>	<u>4,288,306</u>

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

	<u>For the year ended 31 December 2019</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	12,078,151	3,088,980	15,167,131
Charge / (reversal) for the year:			
- current year	3,638,259	2,989,448	6,627,707
- prior year	(2,220,476)	--	(2,220,476)
	<u>1,417,783</u>	<u>2,989,448</u>	<u>4,407,231</u>
Payments made during the year	(5,707,221)	(2,739,877)	(8,447,098)
Balance as at end of the year	<u>7,788,713</u>	<u>3,338,553</u>	<u>11,127,264</u>
	<u>For the year ended 31 December 2018</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	7,963,943	1,809,814	9,773,757
Charge for the year:			
- current year	3,190,479	3,090,791	6,281,270
- prior years	2,394,061	--	2,394,061
	<u>5,584,540</u>	<u>3,090,791</u>	<u>8,675,331</u>
Payments made during the year	(1,470,332)	(1,811,625)	(3,281,957)
Balance as at end of the year	<u>12,078,151</u>	<u>3,088,980</u>	<u>15,167,131</u>

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**8. ZAKAT AND INCOME TAX (CONTINUED)**

**8(c) Zakat and income tax expense**

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

	<i>Note</i>	<b>For the year ended 31 December</b>	
		<b>2019</b>	<b>2018</b>
		<u>2019</u>	<u>Restated</u>
Charge / (reversal) for the year:			
- Current tax and zakat for the year	<i>8(b)</i>	<b>6,627,707</b>	6,281,270
- Prior years	<i>8(b)</i>	<b>(2,220,476)</b>	2,394,061
- Deferred tax for the year	<i>8(a)</i>	<b>941,076</b>	(549,815)
Charge / (reversal) for the year		<b>5,348,307</b>	8,125,516

**8(d) Status of assessments:**

Zakat and income tax declaration for all the years up to 2018 have been filed with the GAZT and acknowledgement certificates have been obtained.

The Company has paid a total amount of SR 10.2 million to GAZT as part of the appeal process for the years 2010 to 2012 which the Company believes will be recovered once the appeals are decided in Company's favour.

**2010**

The Company has made payment of SR 3.7 million to GAZT as part of appeal process in relation to assessment year 2010. The Company has appealed against this assessment before the Higher Appeal Committee ("HAC") on allowing the deduction of Ijara receivables. The HAC resolution was in favor of the Company. However, GAZT issued the amended assessment whereby GAZT did not reflect the HAC resolution. The Company filed a rectification request and the GAZT replied that they transferred the case to the Board of Grievance. A hearing date is yet to be set.

**2011 to 2012**

The Company has made payment of SR 6.5 million to GAZT as part of appeal process in relation to assessment years 2011-2012.

During the year ended 31 December 2019, the Company signed the settlement agreement with GAZT in respect of assessment from 2011 to 2012. Pursuant to this settlement agreement, the Company was liable to pay SR 0.9 million against the provision of SR 3.1 million. The Company has paid the amount and the remaining provision is reversed in these financial statements. The Company is awaiting refund of SR 6.5 million paid as part of the appeal process.

**2014 to 2017**

During the year ended 31 December 2019, the Company signed the settlement agreement with GAZT in respect of assessment from 2014 to 2017. Pursuant to this settlement agreement, the Company is liable to pay SR 4.3 million in six instalments. Out of these instalments, the Company has paid two instalments of SR 0.85 and SR 0.68 million. The remaining provision of SR 2.77 million is included in these financial statements.

**2018**

Furthermore, under the same settlement agreement the Company has agreed the computation method of the zakat for the year 2018 with the GAZT and the Company has paid SR 3.19 million in that respect by 30 April 2019.

**2019**

The Company has recorded zakat provision for 2019 in accordance with the new zakat regulations issued on 17 March 2019.

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**9. CASH AND CASH EQUIVALENTS**

	<u>2019</u>	<u>2018</u>
Bank balances – current accounts	36,026,007	57,615,414
	36,026,007	57,615,414

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

9(b) As at 31 December 2019, the bank balance include an amount of SR 9.20 million (2018: SR 11.22 million) collected by the Company from the sold financial assets on behalf of the buyers of previously sold financial assets. (Refer note 16(b)).

**10. OTHER ASSETS**

	<u>2019</u>	<u>2018</u>
Financing to customers	19,890,622	14,361,995
Value added tax recoverable	10,286,203	6,477,692
Amount paid to GAZT for years under assessment <i>Note 8(d)</i>	10,217,805	10,217,805
Prepaid expenses	2,081,274	902,112
Accelerated income tax payment	2,054,907	--
Service fee receivables	1,448,164	939,268
Receivables from Real Estate Development Fund	1,225,000	1,400,000
Staff receivables	194,660	106,816
Receivables from Ministry of Housing	36,321	--
Security deposits	28,979	103,979
	47,463,935	34,509,667

**11. IJARA RECEIVABLES, NET**

	<u>2019</u>	<u>2018</u>
Gross Ijara receivables	2,715,827,555	2,416,970,473
Less: Unearned income	(1,126,022,742)	(996,134,318)
	1,589,804,813	1,420,836,155
Less: Allowance for expected credit losses	(29,662,449)	(30,893,831)
Ijara receivables, net	1,560,142,364	1,389,942,324

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**11. IJARA RECEIVABLES, NET (CONTINUED)**

**11(a)** The maturity of the Ijara receivables held as follows:

	2019			<u>Total</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>	
Gross Ijara receivables	261,133,184	1,035,671,979	1,419,022,392	2,715,827,555
Less: Unearned income	(121,502,696)	(509,565,397)	(494,954,649)	(1,126,022,742)
	<u>139,630,488</u>	<u>526,106,582</u>	<u>924,067,743</u>	<u>1,589,804,813</u>
Less: Allowance for expected credit losses				(29,662,449)
<b>Ijara receivables, net</b>				<u><u>1,560,142,364</u></u>

	2018			<u>Total</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>	
Gross Ijara receivables	222,448,780	762,442,640	1,432,079,053	2,416,970,473
Less: Unearned income	(106,035,999)	(382,391,673)	(507,706,646)	(996,134,318)
	<u>116,412,781</u>	<u>380,050,967</u>	<u>924,372,407</u>	<u>1,420,836,155</u>
Less: Allowance for expected credit losses				(30,893,831)
<b>Ijara receivables, net</b>				<u><u>1,389,942,324</u></u>

**11(b)** Expected credit loss allowance on Ijara receivables are as follows:

	2019			<u>Total</u>
	<u>12 Month ECL</u>	<u>Lifetime ECL (not credit impaired)</u>	<u>Lifetime ECL (credit impaired)</u>	
Opening balance	6,243,581	13,335,509	11,314,741	30,893,831
Transfer from 12 Month ECL	(3,271,611)	2,412,797	858,814	--
Transfer from Lifetime ECL (not credit impaired)	560,441	(2,068,378)	1,507,937	--
Transfer from Lifetime ECL (credit impaired)	69,851	497,684	(567,535)	--
Net re-measurement of loss allowance	490,069	(6,862,820)	13,729,964	7,357,214
Ijara receivables that have been derecognized during the year	(671,082)	(310,044)	(1,120,975)	(2,102,101)
New Ijara receivables originated during the year	654,035	331,067	34,400	1,019,502
Write-offs	--	--	(7,505,997)	(7,505,997)
<b>Closing balance</b>	<u>4,075,284</u>	<u>7,335,815</u>	<u>18,251,350</u>	<u>29,662,449</u>

In 2019, new Ijara receivables amounting to SR 452 million (2018: SR 394 million) contributed to increase in loss allowance of SR 0.6 million (2018: SR 0.8 million) for stage 1 customers. Further, new Ijara receivables amounting to SR 5 million (2018: SR 8 million) contributed to increase in loss allowance of SR 0.3 million (2018: SR 0.5 million) for stage 2 customers. Furthermore, existing Ijara receivables amounting to SR 177 million (2018: SR 204 million) contributed to increase in loss allowance of SR 13.7 million (2018: SR 4.1 million) for credit impaired customers.

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**11. IJARA RECEIVABLES, NET (CONTINUED)**

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2019 and that are still subject to the enforcement is SR 6.5 million.

	2018			Total
	12 Month ECL	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	
Opening balance	2,831,281	5,528,780	7,800,474	16,160,535
Transfer from 12 Month ECL	(350,339)	233,981	116,358	--
Transfer from Lifetime ECL (not credit impaired)	111,821	(947,274)	835,453	--
Transfer from Lifetime ECL (credit impaired)	354,108	484,064	(838,172)	--
Net re-measurement of loss allowance	2,380,080	7,480,283	4,135,768	13,996,131
Ijara receivables that have been derecognized during the year	(114,908)	(88,923)	(377,425)	(581,256)
New Ijara receivables originated during the year	801,722	466,752	49,947	1,318,421
Closing balance	<u>6,013,765</u>	<u>13,157,663</u>	<u>11,722,403</u>	<u>30,893,831</u>

**11(c) Credit quality and expected credit loss allowance of Ijara receivables are as follows:**

The days past due of customer which are not credit impaired as at 31 December are as follows:

	<u>2019</u>	<u>2018</u>
<i>1-30 days</i>	<b>149,458,540</b>	161,278,875
<i>31 – 60 days</i>	<b>106,890,816</b>	93,361,302
<i>61 – 90 days</i>	<b>43,929,496</b>	62,581,029
<i>91 – 120 days</i>	<b>3,488,820</b>	14,519,422
	<u><b>303,767,672</b></u>	<u>331,740,628</u>

The fair value of collaterals, based on independent appraisals, held against impaired Ijara receivables as at 31 December was SR 225,423,285 million (2018: 244,833,897 million).

The title deeds of the properties for which financing have been provided are held by Gulf Company for Acquisition ("the Affiliated Company"). The fair value of financial assets is based on transaction price at which the Company has affected the sales. These are not traded in an active market and consequently the fair value is dependent on secondary market transactions (note 24).

The Company in the ordinary course of financing holds collaterals as security to mitigate credit risk. These collaterals comprises of real estate. The collaterals are held against financing facilities and are managed against relevant exposures at their net realisable values. Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary. Because of the Company's focus on credit worthiness of its customers, the Company does not routinely update the valuation of collateral held against all Ijara. Valuation of collateral is updated when the customer is put on the watch list and then the receivable is monitored more closely. The fair values of collateral based on the appraisal at the time of origination of the financial assets, held by the Company for each category are as follows:

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**11. IJARA RECEIVABLES, NET (CONTINUED)**

	<u>2019</u>	<u>2018</u>
<i>Current</i>	2,130,009,334	1,809,584,982
<i>30 days</i>	311,829,629	309,175,542
<i>31 – 60 days</i>	231,739,986	182,035,160
<i>61 – 90 days</i>	102,097,937	122,606,758
<i>91 – 120 days</i>	14,560,988	23,493,532
<i>&gt; 120 days</i>	225,423,285	244,833,897
	<u>3,015,661,159</u>	<u>2,691,729,871</u>

The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivables to value ratio is calculated by dividing the gross amount of the financing to fair value of the underlying property at the time of origination of the Ijara. The gross amount of financing used in calculating this ratio excludes unearned income.

	<u>2019</u>	<u>2018</u>
Less or equal to 50%	433,746,341	349,688,115
51-70%	528,731,750	606,427,000
71-85%	422,661,999	370,273,669
86-95%	204,664,723	94,447,371
<b>Total exposure</b>	<u>1,589,804,813</u>	<u>1,420,836,155</u>

**12. 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. No credit risk is assumed by the Company throughout the period of servicing.

*Assumptions and their sensitivity involved in the calculation of servicing rights under agency arrangements are as follows:*

*Discount rates*

Discount rate represents the current market assessment of the risks specific to the Company, taking into consideration Company's incremental borrowing rate.

*Servicing costs*

The Company assesses the cost of servicing including staff and other costs, to arrive at a base rate per contract.

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**13. INTANGIBLE ASSETS**

	<b>Software</b>	
	<b><u>2019</u></b>	<b><u>2018</u></b>
<i>Cost:</i>		
At the beginning of the year	6,529,650	6,066,262
Additions during the year	45,600	463,388
At the end of the year	6,575,250	6,529,650
 <i>Accumulated amortisation:</i>		
At the beginning of the year	6,026,560	5,890,668
Charge for the year	214,359	135,892
At the end of the year	6,240,919	6,026,560
<i>Net book value:</i>		
<i>At 31 December</i>	334,331	503,090

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**14. PROPERTY AND EQUIPMENT**

	<u>Land</u>	<u>Building</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Building development work in progress</u>	<u>Right of use assets*</u>	<u>Total 2019</u>
<b>Cost:</b>								
At the beginning of the year	12,250,000	--	923,142	3,460,893	8,404,511	9,850,781	--	34,889,327
Impact of adoption of IFRS 16	--	--	--	--	--	--	800,000	800,000
Additions during the year	--	--	429,218	80,024	489,487	5,786,213	1,712,082	8,497,024
Transfer from CWIP	--	12,384,382	--	824,460	--	(13,208,842)	--	--
Disposals during the year	--	--	--	(18,360)	--	--	--	(18,360)
At the end of the year	<b>12,250,000</b>	<b>12,384,382</b>	<b>1,352,360</b>	<b>4,347,017</b>	<b>8,893,998</b>	<b>2,428,152</b>	<b>2,512,082</b>	<b>44,167,991</b>
<b>Accumulated depreciation:</b>								
At the beginning of the year	--	--	697,651	3,457,593	8,209,352	--	--	12,364,596
Charge for the year	--	84,340	116,439	56,247	186,702	--	452,677	896,405
Disposals during the year	--	--	--	(18,360)	--	--	--	(18,360)
At the end of the year	--	<b>84,340</b>	<b>814,090</b>	<b>3,495,480</b>	<b>8,396,054</b>	--	<b>452,677</b>	<b>13,242,641</b>
<b>Net book value:</b>								
At 31 December 2019	<b>12,250,000</b>	<b>12,300,042</b>	<b>538,270</b>	<b>851,537</b>	<b>497,944</b>	<b>2,428,152</b>	<b>2,059,405</b>	<b>30,925,350</b>

\*Right of use assets comprise of rental premises occupied by the Company's branches.

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**14. PROPERTY AND EQUIPMENT (CONTINUED)**

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Building development work in progress</u>	<u>Total 2018</u>
<b>Cost:</b>						
At the beginning of the year	12,250,000	4,102,694	3,731,888	8,566,113	4,745,000	33,395,695
Additions during the year	--	--	--	48,498	5,105,781	5,154,279
Disposals during the year	--	(3,179,552)	(270,995)	(210,100)	--	(3,660,647)
At the end of the year	12,250,000	923,142	3,460,893	8,404,511	9,850,781	34,889,327
<b>Accumulated depreciation:</b>						
At the beginning of the year	--	1,566,226	3,567,997	8,207,819	--	13,342,042
Charge for the year	--	242,742	40,627	207,329	--	490,698
Disposals during the year	--	(1,111,317)	(151,031)	(205,796)	--	(1,468,144)
At the end of the year	--	697,651	3,457,593	8,209,352	--	12,364,596
<b>Net book value:</b>						
<b>At 31 December 2018</b>	<b>12,250,000</b>	<b>225,491</b>	<b>3,300</b>	<b>195,159</b>	<b>9,850,781</b>	<b>22,524,731</b>

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**15. BORROWINGS**

These represent borrowings from local commercial banks and Saudi Real Estate Re-finance Company ("SRC") which are secured by assignment of proceeds from certain financial assets. The movement in the borrowings balance for the years ended 31 December is as follows:

	<u>2019</u>	<u>2018</u>
Balance at the beginning of the year	848,455,835	927,241,822
Proceeds during the year	6,808,419,318	4,572,017,496
Repayment during the year	<u>(6,688,024,762)</u>	<u>(4,650,803,483)</u>
Balance at the end of the year	<u>968,850,391</u>	<u>848,455,835</u>

**16. ACCRUED EXPENSES AND OTHER LIABILITIES**

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Accrued expenses		22,274,904	18,299,779
Amount received from customers	16(a)	14,247,991	12,174,825
Instalments collected from sold Ijara receivables	16(b)	9,207,550	11,219,340
Lease liabilities	16(c)	<u>2,111,065</u>	--
		<u>47,841,510</u>	<u>41,693,944</u>

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

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

**16(c)** This represents amount of lease liability as per IFRS 16 for the rented offices of the Company. Following are the classification and maturity analysis of lease liabilities into current and non-current:

	<u>2019</u>	<u>2018</u>
Current	425,355	--
Non-current	<u>1,685,710</u>	--
	<u>2,111,065</u>	--

**Maturity analysis (discounted)**

	<u>2019</u>	<u>2018</u>
Not later than 1 year	425,355	--
Later than 1 year and not later than 5 years	1,185,729	--
Later than 5 years	<u>499,981</u>	--
	<u>2,111,065</u>	--

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**17. RELATED PARTIES TRANSACTIONS AND BALANCES**

The Company carries out transactions with related parties who are defined as related parties in the International Accounting Standard – IAS 24 “Related party Disclosures” in the ordinary course of its business.

Key Management Personnel (“KMP”) are those having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Company’s KMP includes the Board of Directors (including executive and non-executive directors) and selected key employees who meet the above criteria.

Close family members (“CFMs”) of KMP are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the Company. CFMs may include the domestic partners and children of KMP, the children of KMP’s domestic partner and parents, grandparents, brothers and sisters, grandchildren and other dependents of KMP and the KMP’s domestic partner.

The Company’s shareholders and all their affiliates are considered as related party 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 term approved by the Company’s management.

The following are the details of significant related party transactions during the years ended 31 December:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Key management personnel	Short-term employment benefits:			
	- Remuneration		3,958,768	3,526,585
	- Bonus		1,779,756	200,000
	- Board fees		1,684,224	1,745,500
	End of service benefits		245,370	116,513
Gulf Company for Acquisition – An affiliated company	Service fee	17(c)	45,000	45,000

The following related party balances are included in the statement of financial position as at 31 December:

<u>Related party</u>	<u>Nature of balance</u>	<u>Note</u>	<u>2019</u>	<u>2018</u>
Key management personnel	Board fees payable		2,186,667	2,336,157
	Bonus payable		1,779,756	1,479,984
	Employees end of service benefits		380,261	134,891
Gulf Company for Acquisition – An affiliated company	Due from an affiliated company:			
	- Loan	17(a)	3,953,220	3,953,220
	- Others	17(b)	96,482	1,047,660
			4,049,702	5,000,880
	Due to an affiliated company:			
	- Service fee payable	17(c)	469,638	424,638

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**17. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)**

- 17(a)** This represents an interest-free loan to the Affiliated Company which is repayable on demand with no fixed repayment date. This loan is categorised in stage 1.
- 17(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 the Affiliated Company.
- 17(c)** This represents service fee charged by the Affiliated Company in relation to holding customers title deeds on behalf of the Company.

**18. SHARE CAPITAL**

As at 31 December 2019, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2018: 57,500,000 shares) of SR 10 each.

**19. STATUTORY RESERVE**

In accordance with the Company's By-laws, the Company is required to transfer at least 10% of net income to a statutory reserve until such reserve equals 30% of its paid up capital as a minimum. This reserve is not available for distribution.

**20. RISK MANAGEMENT**

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, Ijara receivables, other receivables, financial instrument held at FVOCI, due from an affiliated company, borrowings, due to an affiliated company, accounts and other payables and other liabilities.

The Company's activities expose it to a variety of financial risks: market risk (including special commission rate risks), credit risk, liquidity risk and operational risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out under policies approved by the Board of Directors. The oversight of risk management is done by the Credit and Risk Committee established by the Company's Board of Directors.

There are no financial instruments which are off-settled in these financial statements. The Company has exposure to the following risks from its financial instruments:

**(i) *Special commission rate risk***

Special commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in market special commission rates. The Company is subject to variations in the fair value of its financial instruments and the net special commission income arising from changes to special commission rate on its real estate financing and borrowings, which are generally priced on SIBOR.

The sensitivity to a +/- 15 basis points change in special commission rates on real estate financing, with all other variables constant on the Company's income for the year is SR +/- 2,340,214 (2018: SR +/- 2,084,913).

The sensitivity to a +/- 15 basis points change in special commission rates on bank borrowings, with all other variables constant on the Company's income for the year is SR -/+ 1,453,276 (2018: SR -/+ 1,272,684).

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**20. RISK MANAGEMENT (CONTINUED)**

**(ii) *Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations and arises principally from the Company's Ijara receivables. The Company has established procedures to manage credit exposure including evaluation of customers' credit worthiness, formal credit approvals, obtaining collateral such as title of assets.

Furthermore, all the Ijara receivables are allowed for the maximum term of 360 months. As per such policy, an Ijara is not granted unless the borrower meets certain basic requirements, which are set out below:

- Age limit at the time of funding and contractual maturity
- Income earned
- Debt to income ratio
- Maximum finance to value ratio of 95% (at inception)

The Company monitors its real estate financing on a weekly basis. Furthermore, all real estate financing are backed by the legal titles of those properties which are registered in the name of the Affiliated Company.

In case of real estate financing past due for six months, the Company takes legal actions against the borrower and collects the receivable by selling the property against which the financing is provided. The Company has had proven success in completing this process and recovering its dues.

*Modified financial assets*

The contractual terms of a Ijara may be modified for a number of reasons, including changing market conditions and other factors not related to credit deterioration of the customer. An existing Ijara whose terms have been modified may be derecognized and the renegotiated Ijara recognized as a new Ijara at fair value in accordance with the accounting policy set out in the note 4.

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Company renegotiates Ijara to customers in financial difficulties (referred to as 'forbearance activities') to maximize collection opportunities and minimize the risk of default. Under the Company's forbearance policy, Ijara forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of Ijara covenants. Both retail and non-retail Ijara are subject to the forbearance policy. The Company's Executive Committee regularly reviews reports on forbearance activities.

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**20. RISK MANAGEMENT (CONTINUED)**

**(ii) *Credit risk (continued)***

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired /in default. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

*Incorporation of forward looking information*

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Company experts and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two more economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by International Monetary Fund.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2019 included the following key indicators.

<b>Economic Indicators</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Gross domestic product	<b>Upside 15%</b>	Upside 15%
Net lending	<b>Base case 70%</b>	Base case 70%
Net debt	<b>Downside 15%</b>	Downside 15%

Predicted relationships between the key indicators and default and loss rates on portfolio of financial assets have been developed based on analyzing historical data over 3 years.

The table below reflects the maximum gross exposure to credit risk for the components on the statement of financial position:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	<b>36,026,007</b>	57,516,414
Ijara receivable	<b>1,560,142,364</b>	1,389,942,324
Other receivables	<b>33,109,949</b>	23,282,934
Due from an affiliated company	<b>4,049,702</b>	5,000,880
	<b><u>1,633,328,022</u></b>	<u>1,475,742,552</u>

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**20. RISK MANAGEMENT (CONTINUED)**

**(ii) *Credit risk (continued)***

*Credit quality by class of financial assets*

The Company manages the credit quality of financial assets based on its internal credit policy. The credit quality of real estate financing is given in note 11(c).

*Financial assets pledged as collateral*

Financial assets are pledged as collateral for borrowing purpose under terms that are usual to enter into agreement. At 31 December 2019, the pledged Ijara receivables were SR 1,132,896,991, (2018: SR 968,508,661).

*Concentration of credit risk*

The Company monitors the concentration of credit risk by sectors. As at 31 December, an analysis of risk concentration by sectors for its Ijara receivables is given below:

	<u>2019</u>	<u>2018</u>
Government sector	494,697,560	398,253,079
Private sector	476,290,818	425,098,322
Self employed	174,838,156	191,326,094
Commercial sector	173,308,657	139,108,805
Semi-government	109,799,570	104,021,260
Military	82,889,624	69,677,505
Expatriate	72,520,816	87,413,300
Real Estate Development Fund	5,459,612	5,937,790
	<u>1,589,804,813</u>	<u>1,420,836,155</u>

**(iii) *Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company manages its liquidity risk by ensuring that bank facilities are available.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December, based on contractual undiscounted repayment obligations. The contractual maturities of financial liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

<u>2019</u>	<u>On</u> <u>demand</u>	<u>Less than</u> <u>3 months</u>	<u>3-12</u> <u>months</u>	<u>1-5</u> <u>Years</u>	<u>Total</u>
Borrowings	--	37,847,641	335,513,397	599,531,269	972,892,307
Other liabilities	--	20,853,383	3,119,376	1,955,449	25,928,208
Accounts and other payables	--	1,428,233	--	--	1,428,233
Due to an affiliated company	--	--	--	469,638	469,638
<b>Total</b>	<b>--</b>	<b>60,129,257</b>	<b>338,632,773</b>	<b>601,956,356</b>	<b>1,000,718,386</b>

The Company's financial liabilities comprise borrowings amounting to SR 968,850,391 as of 31 December 2019 (2018: SR 848,455,835). For amount due to an affiliated company, the Company has an implicit understanding with the affiliated company that their respective payable balance would be repaid at the Company's discretion based on usage and requirements of funds.

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**20. RISK MANAGEMENT (CONTINUED)**

*iv) Liquidity risk (continued)*

<u>2018</u>	<u>On demand</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Total</u>
Borrowings	--	34,958,902	266,639,147	550,030,102	851,628,151
Other liabilities	--	13,884,705	9,509,460	--	23,394,165
Accounts and other payables	--	2,100,653	--	--	2,100,653
Due to an affiliated company	--	--	--	424,638	424,638
<b>Total</b>	--	<b>50,944,260</b>	<b>276,148,607</b>	<b>550,454,740</b>	<b>877,547,607</b>

The table below shows an analysis of financial assets and financial liabilities according to when they are estimated to be recovered or settled.

<u>2019</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	36,026,007	--	36,026,007
Other receivables	33,109,949	--	33,109,949
Ijara receivable, net	139,630,488	142,051,876	1,560,142,364
Financial asset held at fair value through other comprehensive income-equity instrument	--	892,850	892,850
Due from an affiliated company	96,482	3,953,220	4,049,702
<b>Total assets</b>	<b>208,862,926</b>	<b>1,425,357,946</b>	<b>1,634,220,872</b>
Borrowings	369,319,122	599,531,269	968,850,391
Due to an affiliated company	--	469,638	469,638
Account and other payables	1,428,233	--	1,428,233
Other liabilities	23,880,897	1,685,709	25,566,606
<b>Total liabilities</b>	<b>394,628,252</b>	<b>601,686,616</b>	<b>996,314,868</b>
<b>Net</b>	<b>(185,765,326)</b>	<b>823,671,330</b>	<b>637,906,004</b>
<u>2018</u>	<u>Less than 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Cash and cash equivalents	57,615,414	--	57,615,414
Other receivables	23,282,934	--	23,282,934
Ijara receivable, net	115,049,858	1,274,892,466	1,389,942,324
Financial asset held at fair value through other comprehensive income-equity instrument	--	892,850	892,850
Due from an affiliated company	984,668	4,016,212	5,000,880
<b>Total assets</b>	<b>196,932,874</b>	<b>1,279,801,528</b>	<b>1,476,734,402</b>
Borrowings	301,598,050	546,857,785	848,455,835
Due to an affiliated company	--	424,638	424,638
Account and other payables	2,100,653	--	2,100,653
Other liabilities	23,394,165	--	23,394,165
<b>Total liabilities</b>	<b>327,092,868</b>	<b>547,282,423</b>	<b>874,375,291</b>
<b>Net</b>	<b>(130,159,994)</b>	<b>732,519,105</b>	<b>602,359,111</b>

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**20. RISK MANAGEMENT (CONTINUED)**

**iv) *Liquidity risk (continued)***

The maturity profiles are based on the contractual maturity and estimated timing of net cash inflows and outflows from the recognized assets and liabilities respectively. The Company's main activity is to provide real estate financing in the form of Ijara and these originated real estate financing (i.e. Ijara receivables) are held within a business model whose objective is achieved by both collecting contractual cash flows and selling. In line with the said business model, the Company sold certain Ijara receivables amounted to SR 165 million in 2019 (2018: SR 314 million), with a right to collect instalments on behalf of the principal for the servicing fees. The outstanding balance of portfolio, which the Company is servicing as at the yearend 2019 amounts to SR 848 million(2018: SR 599 million).

**21. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial assets consist of cash and cash equivalents, investments at FVOCI, Ijara receivables and due from an affiliated company. Financial liabilities consist of bank borrowings, payables and other liabilities.

***Fair value hierarchy***

The Company uses 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 at their fair values as of 31 December based on the fair value hierarchy:

	<b>2019</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Ijara receivables, net</b>	<b>1,560,142,364</b>	--	--	<b>1,837,995,115</b>	<b>1,837,995,115</b>
<b>Financial asset held at FVOCI - equity instrument</b>	<b>892,850</b>	--	--	<b>892,850</b>	<b>892,850</b>
<b>Total</b>	<b>1,561,035,214</b>	--	--	<b>1,838,887,965</b>	<b>1,838,887,965</b>
	<b>2018</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Ijara receivables, net</b>	<b>1,389,942,324</b>	--	--	<b>1,629,975,728</b>	<b>1,629,975,728</b>
<b>Financial asset held at FVOCI - equity instrument</b>	<b>892,850</b>	--	--	<b>892,850</b>	<b>892,850</b>
<b>Total</b>	<b>1,390,835,174</b>	--	--	<b>1,630,868,578</b>	<b>1,630,868,578</b>

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**21. 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 Saudi Inter Bank Offer rates (SIBOR), contractual cash flows and primary origination spreads.

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

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

**22. COMMITMENTS**

The Company has outstanding irrevocable commitment for providing Ijara financing to customers for specified real estate property amounted to SR 12,377,928 (2018: SR 5,724,987).

**23. PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK**

The Company has chosen not to early adopt the following new standards and amendments to IFRS which have been issued but not yet effective for the Company's accounting years beginning on January 1, 2019.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Sale of Contribution of Assets between an Investor and its associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The Company does not anticipate that these will have a significant impact on the Company's financial statements.

**24. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements of the Company for the year ended 31 December 2019 were approved by the Board of Directors on 22 Jumada'II 1441H (corresponding to 16 February 2020).