

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
Independent Auditors' Report



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Independent auditors' 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 2018, the statements of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, 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 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' 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 as modified by SAMA for the accounting of zakat and income tax, 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 are responsible for overseeing the Company's financial reporting process.

Independent auditors' report

To the shareholders of Deutsche Gulf Finance (Continued)

Auditors' 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 auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

As part of an audit in accordance with ISAs 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 auditors' 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 auditors' 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 **Deutsche Gulf Finance** ("the Company").

For KPMG Al Fozan & Partners
Certified Public Accountants

Khalil Ibrahim Al Sedais
License No.: 371



Riyadh on: 12 Jumada'II 1440H
Corresponding to: 17 February 2019

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Saudi Riyals)

	<u>Notes</u>	<u>2018</u>	<u>2017</u> <u>Restated</u>
ASSETS			
Cash and cash equivalents	9	57,615,414	99,554,806
Advances, prepayments and other receivables	10	34,509,667	14,132,076
Due from related parties	17	5,000,880	3,982,965
Ijara receivable, net	11	1,389,942,324	1,396,973,564
Servicing rights under agency arrangements	12	2,092,272	--
Financial asset held at fair value through other comprehensive income-equity instrument		892,850	--
Intangible assets	13	503,090	175,594
Property and equipment	14	22,524,731	20,053,655
TOTAL ASSETS		<u>1,513,081,228</u>	<u>1,534,872,660</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Short-term borrowings	15	848,455,835	927,241,822
Due to related parties	17	424,638	379,638
Provision for zakat and income tax	8	15,167,131	9,773,757
Accounts and other payables		2,100,653	240,847
Accrued expenses and other liabilities	16	41,693,944	28,694,865
Employees' end of service benefits		2,615,571	2,255,345
TOTAL LIABILITIES		<u>910,457,772</u>	<u>968,586,274</u>
SHAREHOLDERS' EQUITY			
Share capital	18	575,000,000	575,000,000
Statutory reserve	19	3,629,879	--
Retained earnings / (Accumulated losses)		23,993,577	(8,713,614)
TOTAL SHAREHOLDERS' EQUITY		<u>602,623,456</u>	<u>566,286,386</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>1,513,081,228</u>	<u>1,534,872,660</u>

The attached notes 1 to 26 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Saudi Riyals)

	<i>Notes</i>	<u>2018</u>	<u>2017</u> <u>Restated</u>
INCOME			
Income from Ijara receivables		126,942,464	121,066,421
Realised gain on sale, settlement or early termination of Ijara receivable		11,658,058	2,502,036
Servicing fee		3,231,420	1,643,200
Other income		74,875	98,313
TOTAL INCOME		<u>141,906,817</u>	<u>125,309,970</u>
EXPENSES			
Financial charges		38,573,587	43,155,337
Employees benefits and compensation	6	25,212,817	23,987,974
Impairment loss on Ijara receivables	11	14,733,296	1,397,958
Depreciation	14	490,698	1,040,452
Amortisation	13	135,892	128,706
Other general and administrative expenses	7	17,748,126	14,814,285
TOTAL EXPENSES		<u>96,894,416</u>	<u>84,524,712</u>
PROFIT FOR THE YEAR		<u>45,012,401</u>	<u>40,785,258</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>45,012,401</u>	<u>40,785,258</u>
Basic and diluted earnings per share	20	<u>0.78</u>	<u>0.71</u>

The attached notes 1 to 26 form an integral part of these financial statements.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2018
(Saudi Riyals)

	Share capital		Statutory Reserve		Fair value reserve		Retained earnings / (losses)		Total					
	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders	Saudi shareholders	Non-Saudi shareholders				
Balance as at 1 January 2018 <i>(As restated)</i>	407,555,460	167,444,540	575,000,000	--	--	--	8,556,589	(17,270,203)	416,112,049	150,174,337	566,286,386			
Profit for the year	--	--	--	--	--	--	31,904,790	13,107,611	31,904,790	13,107,611	45,012,401			
Transferred to statutory reserve	--	--	3,629,879	--	3,629,879	--	(3,629,879)	--	--	--	--			
Provision for zakat and income tax, net <i>(refer note 8(b))</i>	--	--	--	--	--	--	(5,584,540)	(3,090,791)	(5,584,540)	(3,090,791)	(8,675,331)			
Balance as at 31 December 2018	407,555,460	167,444,540	575,000,000	--	3,629,879	--	31,246,960	(7,253,383)	442,432,299	160,191,157	602,623,456			
Balance as at 1 January 2017 <i>(As previously reported)</i>	407,555,460	167,444,540	575,000,000	--	--	10,463,716	4,298,861	14,762,577	(13,447,406)	(28,994,399)	(42,441,805)	404,571,769	142,749,003	547,320,772
Adjustment <i>(refer note 3)</i>	--	--	--	--	--	(10,463,716)	(4,298,861)	(14,762,577)	--	--	(10,463,716)	(4,298,861)	(14,762,577)	
Balance as at 1 January 2017 <i>(As restated)</i>	407,555,460	167,444,540	575,000,000	--	--	--	(13,447,406)	(28,994,399)	394,108,054	138,450,141	532,558,195			
Profit for the year	--	--	--	--	--	--	28,908,591	11,876,667	28,908,591	11,876,667	40,785,258			
Provision for zakat and income tax, net <i>(refer note 8(b))</i>	--	--	--	--	--	--	(6,904,596)	(152,471)	(6,904,596)	(152,471)	(7,057,067)			
Balance as at 31 December 2017 <i>(Restated)</i>	407,555,460	167,444,540	575,000,000	--	--	--	8,556,589	(17,270,203)	416,112,049	150,174,337	566,286,386			

The attached notes 1 to 26 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 2018
(Saudi Riyals)

	<i>Notes</i>	<u>2018</u>	<u>2017</u> <u>Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		45,012,401	40,785,258
Adjustments for:			
Amortisation	13	135,892	128,706
Depreciation	14	490,698	1,040,452
Employees' end of service benefits charge		1,091,343	650,648
Impairment loss on Ijara receivable	11	14,733,296	1,397,958
Gain on disposal of Property & Equipment		(21,000)	--
Property and equipment - written off		2,192,505	--
		<u>63,635,135</u>	<u>44,003,022</u>
Changes in operating assets and liabilities:			
Ijara receivable		(7,702,055)	114,127,037
Advances, prepayments and other receivables		(21,270,441)	6,473,857
Servicing rights under agency arrangements		(2,092,272)	--
Trade and other payables		1,859,805	(26,767)
Accrued expenses and other liabilities		12,999,079	6,593,510
Due from related parties		(1,017,915)	(29,745)
Due to related parties		45,000	148,705
		<u>47,349,186</u>	<u>171,289,619</u>
Employees' end of service benefits paid		(731,117)	(880,552)
Zakat and income tax paid	8	(3,281,957)	(1,875,703)
Net cash from operating activities		<u>43,336,112</u>	<u>168,533,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	14	(5,154,279)	(17,678,745)
Acquisition of intangible assets	13	(463,388)	(157,500)
Proceeds from the sale of property and equipment		21,000	--
Net cash used in investing activities		<u>(6,489,517)</u>	<u>(17,836,245)</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from short-term borrowings	15	4,572,017,496	7,487,222,892
Repayment of short-term borrowings	15	(4,650,803,483)	(7,557,235,378)
Net cash used in financing activity		<u>(78,785,987)</u>	<u>(70,012,486)</u>
Net (decrease) / increase in cash and cash equivalents		(41,939,392)	80,684,633
Cash and cash equivalents at beginning of the year		99,554,806	18,870,173
Cash and cash equivalents at end of the year	9	<u>57,615,414</u>	<u>99,554,806</u>

The attached notes 1 to 26 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 2018

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 King Fahad Road, P.O. Box 75370, Riyadh 11578, Kingdom of Saudi Arabia.

The Company is engaged in real estate financing and similar financing facilities that includes acquisition, purchase of lands and buildings for the purposes of financing facilities (except in Makkah and Madina), Ijara financing services that relates to real estates, movables and financing facilities guaranteed by mortgage 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 International Financial Reporting Standards (“IFRS”) as modified by the Saudi Arabian Monetary Authority (“SAMA”) for the accounting of zakat and income tax’, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board (“IASB”).
- (b) in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia and the By-Laws of the Company.

Basis of measurement

The financial statements are prepared under the historical cost convention.

Functional and presentational currency

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

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 changes in presentation and accounting of Ijara receivables as mentioned below.

The Company previously classified "Ijara receivables" as "Financial assets held at fair value through other comprehensive income" and accounted for these under IFRS 9. However, as these receivables are being generally treated as leases under IAS 17 and qualifies for such treatment the management has decided to change the presentation and accounting of these receivables accordingly, as it provides more relevant information about effects of Ijara contracts and also aligned with the industry practice.

Accordingly, the Company has changed the classification and measurement Ijara receivables, deferred income and fair value reserve and the impact of this change is explained in note 25 and the accounting policy for ijara receivable is mentioned in 3(d). There was no impact on the impairment and derecognition policy of Ijara receivable which continued to be treated under IFRS 9.

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

a) *Cash and cash equivalents*

Cash and cash equivalents consists 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.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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
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 including 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.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) *Impairment (continued)*

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;
- 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 buckets 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.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Credit-impaired Ijara receivables

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

Evidence that a Ijara receivables 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, a 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 historical LGD data to derive statistically reliable LGD estimates. Therefore, the Company benchmarks LGD to regulator guidelines.

DEUTSCHE GULF FINANCE
(A Saudi Closed Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a 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 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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3. 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 related parties and other receivables. Financial liabilities comprises of borrowings, due to cash related parties, accounts and other payables and other liabilities.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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

The Company measures financial instruments, such as, real estate financing at fair value at each reporting date.

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.

DEUTSCHE GULF FINANCE
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's management determines the policies and procedures for both recurring fair value measurement, such as unquoted equity investments, and for non-recurring measurement, such as assets held for distribution in discontinued operations whenever applicable.

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

DEUTSCHE GULF FINANCE
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 profit or loss and comprehensive income.

Zakat and income tax

Zakat and income taxes are accrued on quarterly basis and are included under liabilities as provision for zakat and income tax. These are charged directly to retained earnings as required by SAMA Circular no. 381000074519 issued in April 2017.

4. 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) Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. (See note 22 (iv)). Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

ii) Impairment of 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 impairment allowance made.

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4. CRITICAL ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS
(CONTINUED)

iii) *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 (note 3). The net present value computation encompasses among others, estimates in respect of discount rate and fair value of services.

5. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

Following is a brief on the relevant new IFRS, effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 – “Leases” applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. There is no major impact on the financial statements of the Company based on following:

Transition to IFRS 16

The Company plans to adopt IFRS 16 on modified retrospective basis. The Company elects to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will, therefore, not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

During 2018, the Company has performed a detailed impact assessment of IFRS 16. There is no major impact on the Company’s financial statements as at 31 December 2018 due to the adoption of IFRS 16.

For other standards, amendments or interpretations effective for annual periods beginning on or after 1 January 2019, the Company does not anticipate that these will have a material impact on the Company’s financial statements.

DEUTSCHE GULF FINANCE
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6. EMPLOYEES' BENEFITS AND COMPENSATION

	For the year ended 31 December	
	<u>2018</u>	<u>2017</u>
Employees' salaries and benefits	19,532,983	16,012,124
Bonus	500,000	3,500,000
Commission	2,478,626	2,026,667
Employees' health insurance	1,308,214	1,382,820
Others	1,392,994	1,066,363
	<u>25,212,817</u>	<u>23,987,974</u>

7. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December	
	<u>2018</u>	<u>2017</u>
Rent	3,053,654	2,756,890
Processing and marketing expenses	2,940,257	1,286,312
Takaful expenses	2,632,675	3,291,011
Property and equipment write-off	2,171,504	--
Executive Board fee	1,575,500	1,650,000
Professional fee	1,220,519	3,575,541
Utilities	663,198	576,279
Travel and lodging	336,200	248,314
Cleaning services	310,036	245,310
Sharia Board fee	170,000	160,000
Others	2,674,583	1,024,628
	<u>17,748,126</u>	<u>14,814,285</u>

8. ZAKAT AND INCOME TAX

Zakat is a levy as defined by the GAZT in the Kingdom of Saudi Arabia on the Saudi shareholders.

Income tax charge for the year has been calculated based on adjusted net income of the Company attributable to Non-Saudi shareholders at the rate of 20% per annum.

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8. ZAKAT AND INCOME TAX (CONTINUED)

a) A summary of the Company's share capital and percentages (%) of ownership are follows:

As of 31 December 2017 and 2018, the authorized, issued and fully paid-in share capital of the Company consists of 57.5 million shares of SR 10 each. The Company's zakat and income tax calculations and corresponding accruals and payments of zakat and income tax are based on the following ownership percentages in accordance with the relevant provisions of the Saudi Arabian Zakat and Income Tax regulations.

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>SR</u>	<u>%</u>	<u>SR</u>	<u>%</u>
Shareholding - subject to zakat	407,555,460	70.88	407,555,460	70.88
Shareholding - subject to income tax	167,444,540	29.12	167,444,540	29.12
	<u>575,000,000</u>	<u>100.00</u>	<u>575,000,000</u>	<u>100.00</u>

b) The movement in zakat and income tax for the year ended 31 December is as follow:

	<u>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			
- For current year	3,190,479	3,090,791	6,281,270
- For 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	<u>(1,470,332)</u>	<u>(1,811,625)</u>	<u>(3,281,957)</u>
Balance as at end of the year	<u>12,078,151</u>	<u>3,088,980</u>	<u>15,167,131</u>
	<u>2017</u>		
	<u>Zakat</u>	<u>Income tax</u>	<u>Total</u>
Balance at the beginning of the year	1,673,458	2,918,935	4,592,393
Charge for the year			
- For current year	1,625,551	1,809,814	3,435,365
- For prior years	3,621,702	--	3,621,702
- Reclassification adjustments	1,657,343	(1,657,343)	--
	<u>6,904,596</u>	<u>152,471</u>	<u>7,057,067</u>
Payments made during the year	<u>(614,111)</u>	<u>(1,261,592)</u>	<u>(1,875,703)</u>
Balance as at end of the year	<u>7,963,943</u>	<u>1,809,814</u>	<u>9,773,757</u>

DEUTSCHE GULF FINANCE
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8. ZAKAT AND INCOME TAX (CONTINUED)

c) Status of assessments:

Zakat and income tax declaration for all the years up to 2017 have been filed with the General Authority of Zakat and Tax ("GAZT") and acknowledgement certificates have been obtained. Further, the Company has received assessments for years 2010 to 2017.

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 "Ijara receivables" and "WHT". The HAC resolution was in favor of the Company. However, GAZT issued the amended assessment whereby GAZT demanded the WHT and applicable delay penalty (i.e. GAZT did not reflect the HAC resolution with respect to this point). 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.

2011-12

The Company has made payment of SR 6.5 million to GAZT as part of appeal process in relation to assessment years 2011-2012. The Company has filed appeal before the HAC against the assessments and the Company is waiting for fixing the date of hearing by the HAC.

The Company believes it is unlikely that the above position of GAZT will be upheld, because the issue of deduction of net investment in finance leases has industry wide implications for leasing, mortgage finance business and any other finance related business where the main assets are receivables; however, based on the recent ongoing discussion with regulators, the Company has recorded an additional zakat provision of SR 2.4 million as its best estimate of probable additional zakat liability.

9. CASH AND CASH EQUIVALENTS

		<u>2018</u>	<u>2017</u>
Bank balances – current accounts	<i>Note 9(a)</i>	57,615,414	34,456,493
Short-term deposit	<i>Note 9(b)</i>	–	65,098,313
		57,615,414	99,554,806

- a) This represents cash with banks who have investment grade credit ratings, as rated by the international rating agencies. As at 31 December 2018, it includes an amount of SR 11.22 million (31 December 2017: SR 3.93 million) collected by the Company from the sold financial assets on behalf of the buyers of previously sold financial assets. (*Refer note 16(b)*)
- b) Short-term deposit is placed with a counterparty, which has investment grade credit rating, as rated by international rating agency. Short-term deposit is denominated in Saudi Riyals and is made for a period of less than 90 days from the date of original acquisition.

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10. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	<u>2018</u>	<u>2017</u>
Amount paid to GAZT for years under assessment <i>Note 8(c)</i>	10,217,805	10,217,805
Financing to customers <i>Note 10(a)</i>	14,361,995	95,887
Value added input tax recoverable	6,477,692	--
Receivable from Real Estate Development Fund	1,400,000	1,725,000
Prepaid expenses	902,112	553,863
Service fee receivable	939,268	454,064
Security deposits	103,979	103,979
Staff receivables	106,816	88,628
Advance against investment	--	892,850
	34,509,667	14,132,076

- a) Financing to customers arise when the financing arrangement has been agreed and cheques are issues but the amount is not transferred due to normal delay in transfer of property.

11. IJARA RECEIVABLE, NET

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u> <u>Restated</u>
Gross Ijara receivables	2,416,970,473	2,347,157,317
Less: Unearned income	(996,134,318)	(934,023,218)
	1,420,836,155	1,413,134,099
Less: Impairment allowance for credit losses	(30,893,831)	(16,160,535)
Ijara receivables, net	1,389,942,324	1,396,973,564

- a) **The maturity of the Ijara receivables held is as follows:**

	2018			
	<u>Not later than one year</u>	<u>Later than one year but not later than five years</u>	<u>Later than five years</u>	<u>Total</u>
Gross Ijara receivables	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)
	116,412,781	380,050,967	924,372,407	1,420,836,155
Less: Impairment allowance for credit losses				(30,893,831)
Ijara receivables, net				1,389,942,324

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11. IJARA RECEIVABLE, NET (CONTINUED)

	2017 - Restated			<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	213,652,404	758,006,188	1,375,498,725	2,347,157,317
Less: Unearned income	<u>(105,047,990)</u>	<u>(361,585,487)</u>	<u>(467,389,741)</u>	<u>(934,023,218)</u>
	<u>108,604,414</u>	<u>396,420,701</u>	<u>908,108,984</u>	1,413,134,099
Less: Impairment allowance for credit losses				<u>(16,160,535)</u>
Ijara receivables, net				<u>1,396,973,564</u>

Ijara receivable have an original term period of 5 to 30 years. The movement in expected credit losses for the Ijara receivable for the years ended 31 December is as follows:

	<u>12 Month ECL</u>	<u>Lifetime ECL (not credit impaired)</u>	<u>Lifetime ECL (credit impaired)</u>	<u>Total</u>
2018				
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	2,973,256	12,833,619
Ijara receivables that have been derecognized during the period	114,908	88923	377,425	581,256
New Ijara receivables originated during the period	801,722	466,752	49,947	1,318,421
Closing balance	<u>6,243,581</u>	<u>13,335,509</u>	<u>11,314,741</u>	<u>30,893,831</u>

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11. IJARA RECEIVABLE, NET (CONTINUED)

b) Credit quality and expected credit loss allowance of Ijara receivables are as follows:

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

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
<i>1-30 days</i>	161,278,875	152,052,820
<i>31 – 60 days</i>	93,361,302	144,340,777
<i>61 – 90 days</i>	62,581,029	67,852,557
<i>91 – 120 days</i>	14,519,422	35,708,497
	<u>331,740,628</u>	<u>399,954,651</u>

The fair value of collaterals, based on independent appraisals, held against impaired Ijara receivables as at 31 December was SR 244,833,897 million (2017: 205,658,194 million).

The title deeds of the properties for which financing have been provided are held by an affiliated company (Gulf Company for Acquisition). 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 Company by each category are as follows:

	<u>2018</u>	<u>2017</u>
<i>Current</i>	1,809,584,982	1,751,868,486
<i>30 days</i>	309,175,542	275,485,983
<i>31 – 60 days</i>	182,035,160	264,003,227
<i>61 – 90 days</i>	122,606,758	119,285,441
<i>91 – 120 days</i>	23,493,532	62,081,340
<i>> 120 days</i>	244,833,897	205,658,194
	<u>2,691,729,871</u>	<u>2,678,382,671</u>

The table below stratifies credit exposures from Ijara receivables into ranges of receivable to value ratio. Ijara receivable 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 and any impairment allowance.

	<u>31 December</u> <u>2018</u>	<u>31 December</u> <u>2017</u>
Less or equal to 50%	349,688,115	327,374,782
51-70%	606,427,000	638,297,672
71-85%	370,273,669	430,328,023
86-100%	94,447,372	17,133,622
Total exposure	<u>1,420,836,155</u>	<u>1,413,134,099</u>

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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 disposed off. In respect of such Ijara receivables, the Company acts in the sole capacity of servicing agent represented by activities such as collection of Ijara receivable rentals on behalf of the principals. No credit risk is assumed by the Company at the inception and 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 direct costs, to arrive at a base rate per contract.

13. INTANGIBLE ASSETS

	<u>2018</u>	<u>2017</u>
<i>Cost:</i>		
At the beginning of the year	6,066,262	5,908,762
Additions during the year	463,388	157,500
At the end of the year	<u>6,529,650</u>	<u>6,066,262</u>
<i>Accumulated amortisation:</i>		
At the beginning of the year	5,890,668	5,761,962
Charge for the year	135,892	128,706
At the end of the year	<u>6,026,560</u>	<u>5,890,668</u>
<i>Net book value:</i>		
<i>At 31 December</i>	<u>503,090</u>	<u>175,594</u>

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14. PROPERTY AND EQUIPMENT

<i>Cost:</i>	<u>Land</u>	<u>Leasehold improvements</u>	<u>Furniture and fixtures</u>	<u>Equipment and motor vehicles</u>	<u>Building improvement work in progress</u>	<u>Total 2018</u>
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
<i>Accumulated depreciation:</i>						
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
<i>Net book value:</i>						
At 31 December 2018	<u>12,250,000</u>	<u>225,491</u>	<u>3,300</u>	<u>195,159</u>	<u>9,850,781</u>	<u>22,524,731</u>

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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 improvement work in progress</u>	<u>Total 31 December 2017</u>
<i>Cost:</i>						
At the beginning of the year	--	3,726,876	3,731,888	8,258,186	--	15,716,950
Additions during the year	12,250,000	375,818	--	307,927	4,745,000	17,678,745
Disposals during the year	--	--	--	--	--	--
At the end of the year	12,250,000	4,102,694	3,731,888	8,566,113	4,745,000	33,395,695
<i>Accumulated depreciation:</i>						
At the beginning of the year	--	1,006,733	3,484,961	7,809,894	--	12,301,588
Charge for the year	--	559,492	83,036	397,924	--	1,040,452
Disposals during the year	--	--	--	--	--	--
At the end of the year	--	1,566,225	3,567,997	8,207,818	--	13,342,040
<i>Net book value:</i>						
At 31 December 2017	12,250,000	2,536,469	163,891	358,295	4,745,000	20,053,655

In 2017, the Company purchased land and building amounting to SR 12.2 million and SR 4.5 million respectively for the purpose of its head office. Considering this, the Company has classified the purchase consideration and building improvement work under capital work in progress. The above purchased land is registered in the name of Gulf Company for Acquisition, an affiliated company. However, since the Company is the beneficial owner, it has been recorded in the Company's books.

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15. SHORT-TERM 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 and pledge of title deeds of underlying real estate assets. These borrowings carry mark-up at commercial rates and are repayable during the year 2018. The movement in the short-term borrowings balance for the years ended 31 December is as follows:

	<u>2018</u>	<u>2017</u>
Balance at the beginning of the year	927,241,822	997,254,308
Proceeds during the year	4,572,017,496	7,487,222,892
Repayment during the year	<u>(4,650,803,483)</u>	<u>(7,557,235,378)</u>
Balance at the end of the year	<u>848,455,835</u>	<u>927,241,822</u>

16. ACCRUED EXPENSES AND OTHER LIABILITIES

	<i>Note</i>	<u>2018</u>	<u>2017</u>
Accrued expenses		12,864,336	15,040,240
Amount received from customers	16 (a)	17,610,268	8,379,658
Instalments collected from sold Ijara receivables	16(b)	<u>11,219,340</u>	<u>5,274,967</u>
		<u>41,693,944</u>	<u>28,694,865</u>

- a) This majorly represents down payment received from the customers, which is not paid to the seller of the property.
- b) This represents amount of instalments collected by the Company on behalf of buyers of previously sold financial assets.

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's 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.

Details of significant transactions and balances with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are disclosed in this note.

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17. RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

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>2018</u>	<u>2017</u>
Key management personnel	Short-term employment benefits:			
	- Remuneration		3,526,585	4,145,759
	- Bonus		200,000	1,400,000
	- Board fees		1,745,500	1,650,000
	End of service benefits		116,513	146,121
Gulf Company for Acquisition – An affiliated company	Service fee	17(a)	45,000	148,705

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>Notes</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
Key management personnel	Board fees payable		2,336,157	2,035,657
	Bonus payable		1,479,984	1,400,000
	Employees' end of service benefits		134,891	509,678
Gulf Company for Acquisition – An affiliated company	Due from related parties:			
	- Loan	17(b)	3,953,220	3,953,220
	- Others	17(c)	1,047,660	29,745
			<u>5,000,880</u>	<u>3,982,965</u>
	Due to related parties:			
	- Service fee payable	17(a)	<u>424,638</u>	<u>379,638</u>

- a) This represents service fee charged by an affiliated company in relation to holding customers title deeds on behalf of the Company.
- b) This represents an interest-free loan to an affiliated company which has no fixed repayment date.
- c) This represents expenses paid by the Company on behalf of its affiliated company and cheque received in the name of GCA on account of early settlement, as the title deed is in the name of GCA.

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18. SHARE CAPITAL

As at 31 December 2018, the authorised, issued and fully paid-up share capital of the Company was divided into 57,500,000 shares (31 December 2017: 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. EARNINGS PER SHARE

The basic and diluted earnings per share are calculated by dividing the net income for the year by weighted average number of outstanding shares at the year-end. The weighted average numbers of shares as of 31 December 2018 is 57,500,000 (31 December 2017: 57,500,000).

21. OPERATING LEASE COMMITMENTS

Payments under operating leases recognised as an expense during the year amounted to SR 3,053,654 (2017: SR 2,756,890). Operating lease payments represent rentals payable by the Company for Riyadh head office, Khobar Branch and Jeddah Branch.

Future minimum lease payments under the operating lease arrangements are as follows:

	31 December <u>2018</u>	31 December <u>2017</u>
Less than one year	258,343	238,759

22. RISK MANAGEMENT

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, Ijara receivables, other receivables, due from related parties, short-term borrowings, due to related parties, accounts and other payables and other liabilities.

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and 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.

The Company has exposure to the following risks from its financial instruments:

(i) *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. During the year, the Company did not undertake any transactions in currencies other than Saudi Riyals and US Dollars. As Saudi Riyals is pegged with US Dollars, no significant currency risk was identified as at the financial reporting date.

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22. RISK MANAGEMENT (CONTINUED)

(ii) *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 short-term borrowings, which are generally priced on the floating 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 total comprehensive income for the year is SR +/- 2,084,913 (2017: SR +/- 2,196,293).

The sensitivity to a +/- 15 basis points change in special commission rates on short-term bank borrowings, with all other variables constant on the Company's total comprehensive income for the year is SR -/+ 1,272,684 (2017: SR -/+ 1,390,863).

(iii) *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 and personal guarantees.

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 90%

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 its 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 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.

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22. RISK MANAGEMENT (CONTINUED)

(iii) *Credit risk (continued)*

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.

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 economic 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 or more additional 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. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

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 2018 included the following key indicators.

GDP
Net Lending
Net Debt

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22. RISK MANAGEMENT (CONTINUED)

(iii) *Credit risk (continued)*

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 the past 3 years.

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

	31 December 2018	31 December <u>2017</u> <u>Restated</u>
Cash and cash equivalents	57,516,414	99,456,493
Ijara receivable	1,389,942,324	1,396,973,564
Other receivables	23,282,934	3,360,408
Due from related parties	5,000,880	3,982,965
	<u>1,475,742,552</u>	<u>1,503,773,430</u>

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(b).

Financial assets pledged as collateral

Financial assets are pledged as collateral for short-term borrowing purpose under terms that are usual to enter into agreement. At 31 December 2018, the pledged Ijara receivable were SR 968,508,661 (2017: SR 1,148,964,684).

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 receivable is given below:

	31 December 2018	31 December <u>2017</u> <u>Restated</u>
Private sector	425,098,322	478,013,255
Government sector	398,253,079	336,702,087
Self employed	191,326,094	203,139,800
Semi-government	104,021,260	121,574,101
Military	69,677,505	109,997,766
Expatriate	87,413,300	101,846,717
Commercial sector	139,108,805	54,596,124
Real Estate Development Fund	5,937,790	7,264,249
	<u>1,420,836,155</u>	<u>1,413,134,099</u>

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22. RISK MANAGEMENT (CONTINUED)

(iv) *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>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>
Short-term borrowings	--	851,628,151	--	--	851,628,151
Other liabilities	--	11,219,340	--	--	11,219,340
Accounts and other payables	--	2,100,655	--	--	2,100,655
Due to related parties	424,638	--	--	--	424,638
Total	424,638	864,948,146	--	--	865,372,784

The Company's financial liabilities comprise short-term borrowings amounting to SR 848,455,835 as of 31 December 2018 (2017: SR 927,241,822). For amount due to related parties, the Company has an implicit understanding with the related parties that their respective payable balance would be repaid at the Company's discretion based on usage and requirements of funds.

31 December 2017-Restated	<u>On demand</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Total</u>
Short-term borrowings	--	929,584,730	--	--	929,584,730
Other liabilities	--	5,274,967	--	--	5,274,967
Accounts and other payables	--	240,847	--	--	240,847
Due to related parties	379,638	--	--	--	379,638
Total	379,638	935,100,544	--	--	935,480,182

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22. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

As at 31 December 2018	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	57,615,414	--	57,615,414
Other receivables	23,282,934	--	23,282,934
Ijara receivable, net	116,412,781	1,273,529,543	1,389,942,324
Servicing rights under agency arrangements	301,755	1,790,517	2,092,272
Due from related parties	984,668	4,016,212	5,000,880
Total assets	198,597,552	1,279,336,272	1,477,933,824
Short-term bank financing	848,455,835		848,455,835
Due to related parties		424,638	424,638
Trade and other payables	2,100,655		2,100,655
Accrued expenses and other liabilities	41,693,944		36,258,501
Total liabilities	892,250,434	424,638	892,675,0729
Net	(693,652,882)	1,278,911,634	585,258,752
As at 31 December 2017- Restated	Less than 12 months	More than 12 months	Total
Cash and cash equivalents	99,554,806	--	99,554,806
Other receivables	3,360,408	--	3,360,408
Ijara receivable, net	108,604,414	1,288,369,150	1,396,973,564
Due from related parties	--	3,982,965	3,982,965
Total assets	211,519,628	1,292,352,115	1,503,871,743
Short-term bank financing	927,241,822	--	927,241,822
Due to related parties	--	379,638	379,638
Trade and other payables	240,846	--	240,846
Accrued expenses and other liabilities	28,694,865	--	28,694,865
Total liabilities	956,177,533	379,638	956,557,171
Net	(744,657,905)	1,291,972,477	547,314,572

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 receivable) 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 part of its financial assets in the current year and in prior years as well.

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23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

Financial instruments comprise of real estate financing and short-term bank financing.

Fair value hierarchy

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

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

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

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

The table below presents the financial instruments at their fair values as of 31 December based on the fair value hierarchy:

	2018			Total
	Level 1	Level 2	Level 3	
Ijara receivable	--	--	1,389,942,324	1,389,942,324
Financial asset held at fair value through other comprehensive income-equity instrument	--	--	892,850	892,850
Total	--	--	1,390,835,174	1,390,835,174
	2017-Restated			Total
	Level 1	Level 2	Level 3	
Ijara receivable	--	--	1,396,973,564	1,396,973,564
Total	--	--	1,396,973,564	1,396,973,564

The value of real estate financing are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best information, the Company's financial instruments qualify for Level 3 disclosure as set out by the IFRS requirements.

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23. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The valuation of Ijara receivable is estimated using contractual cash flows discounted at yield, which is the contracted profit rate plus the prevailing Saudi Inter Bank offer rates (SIBOR). Input into the discounted cash flow techniques includes SIBOR, contractual cash flows and primary origination spreads. The Company's financial instruments comprises facilities granted on floating rate. These facilities are re-priced based on the change in SIBOR, the Ijara contracts allows the Company to change the contracted rate if there is an increase between the contracted rate and the market rate on annual basis.

For other financial instruments, the management assessed that their carrying amounts largely approximate fair value due to the short-term maturities of these instruments.

24. COMMITMENTS

The Company has outstanding commitment for providing Ijara based financing to customers amounting to SR 5,724,987 (31 December 2017: SR 7,878,096) for which agreements have been signed between the Company and customers.

25. CHANGES IN PRESENTATION AND ACCOUNTING TREATMENT OF IJARA RECEIVABLE

As mentioned in note 3, the company has reassessed the classification and presentation of Ijara receivables and has used IAS-17 to present these receivables.

The reclassification has had no impact on the income for the year 2017, however, the net assets as of 31 December 2017 were reduced by SR 16.16 million as impairment on Ijara receivables previously classified in Reserves under IFRS 9 was netted off with Ijara receivables as required under IAS 17.

The following changes were made to comparative information:

Statement of Financial Position

- Financial assets held at fair value through other comprehensive income have been reclassified as "Ijara receivables"
- Deferred income of SR 27.04 million was deducted from Ijara receivables instead of being presented under liabilities
- Fair value reserve of SR 16.16 million was deducted from Ijara receivable rather than being shown under equity.

Statement of profit or loss and other comprehensive income for the year 2017

- Income from financial assets held at fair value through other comprehensive income is reclassified as "Income from Ijara receivables"
- The reclassified amortization of deferred income and fee income of SR 7.98 million and SR 2.86 million respectively have been reclassified to "Income from Ijara receivables".

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2018 were approved by the Board of Directors on 12 Jumada'II 1440H (Corresponding to 17 February 2019).