

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE
THREE-MONTH PERIOD ENDED 31 MARCH 2022
AND
INDEPENDENT AUDITOR'S REVIEW REPORT

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022

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

We have reviewed the accompanying interim statement of financial position of Gulf Finance Company (the "Company") as at 31 March 2022 and the related interim statement of comprehensive loss for the three-month period then ended, and the interim statements of changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements"). Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

SCOPE OF REVIEW

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the financial statements, which indicates that the Company reported a loss for the three-month period ended 31 March 2022 amounting to SR 15,152,437 (31 March 2021: 1,358,890) and its accumulated losses as of the same date amounts to SR 52,316,489 (31 December 2021: SR 37,164,052) representing 52% (31 December 2021: 37%) of share capital which indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The Company's ultimate shareholder, namely, Shuaa Capital PSC-UAE has furnished its financial commitment to ensure the Company's ability to continue as a going concern. Furthermore, a business plan is put in place by the Company's management exploring various strategic options, including restructuring its portfolio segments and product offerings. Accordingly, the interim condensed financials has been prepared on a going concern basis.

Our conclusion is not modified in respect of this matter.

CONCLUSION

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

For Al-Bassam & Co.



Ahmed Abdulmajeed Mohandis
Certified Public Accountant
License No. 477

27 Ramadan 1443H
28 April 2022G
Riyadh, Kingdom of Saudi Arabia



GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

	Notes	31 March 2022 (Unaudited)	31 December 2021 (Audited)
ASSETS			
Cash and bank balances		5,526,476	19,315,686
Term deposits		86,771,110	86,583,380
Prepayments and other receivables		1,244,638	919,638
Due from shareholder	5	-	-
Net investment in Islamic financing	6	144,522,222	154,755,239
Restricted cash deposits		2,267,000	2,267,000
Investment carried at FVOCI		892,850	892,850
Property and equipment		84,211	75,964
Intangible assets		158,333	89,968
Right-of-use assets		16,457	32,914
TOTAL ASSETS		241,483,297	264,932,639
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	100,000,000	100,000,000
Statutory reserve		994,257	994,257
Accumulated losses		(52,316,489)	(37,164,052)
Actuarial reserve on employees' post-employment Benefits		1,322,632	1,322,632
TOTAL EQUITY		50,000,400	65,152,837
LIABILITIES			
Other payables and accruals		3,068,854	2,190,248
Lease liabilities		-	35,000
Due to a related party	5	376,722	412,094
Provision for zakat	8	286,213	209,164
Financial facilities	9	186,556,206	195,690,025
Employees' post-employment benefits		1,194,902	1,243,271
TOTAL LIABILITIES		191,482,897	199,779,802
TOTAL EQUITY AND LIABILITIES		241,483,297	264,932,639

The accompanying notes 1 to 15 form part of these interim condensed financial statements

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF COMPREHENSIVE LOSS
FOR THE THREE-MONTH PERIOD ENDED 31 March 2022
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended	
		31 March 2022 (Unaudited)	31 March 2021 (Unaudited)
INCOME FROM ISLAMIC FINANCING, NET		5,909,971	4,218,422
OPERATING (EXPENSES) / INCOME			
Finance cost	10	(2,477,982)	(1,131,964)
General and administrative expenses		(3,898,963)	(2,561,813)
Impairment on Islamic financing	6.2	(15,041,553)	(460,587)
Impairment on amount due from shareholder	5	(190,000)	-
Other income / (expense), net	11	623,139	(1,365,228)
NET OPERATING LOSS BEFORE ZAKAT		(15,075,388)	(1,301,170)
Zakat	8	(77,049)	(57,720)
NET LOSS FOR THE PERIOD		(15,152,437)	(1,358,890)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(15,152,437)	(1,358,890)

The accompanying notes 1 to 15 form part of these interim condensed financial statements

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

For the Three-month period ended
31 March 2021

	Share capital	Statutory reserve	Accumulated Losses	Actuarial reserve on post-employment benefits	Total equity
Balance as at 1 January 2021 – (Audited)	100,000,000	994,257	(7,933,496)	457,878	93,518,639
Comprehensive loss for the period	-	-	(1,358,890)	-	(1,358,890)
Balance as at 31 March 2021 (Unaudited)	<u>100,000,000</u>	<u>994,257</u>	<u>(9,292,386)</u>	<u>457,878</u>	<u>92,159,749</u>

For the Three-month period ended
31 March 2022

	Share capital	Statutory reserve	Accumulated Losses	Actuarial reserve on post-employment benefits	Total equity
Balance as at 1 January 2022 (Audited)	100,000,000	994,257	(37,164,052)	1,322,632	65,152,837
Comprehensive loss for the period	-	-	(15,152,437)	-	(15,152,437)
Balance as at 31 March 2022 (Unaudited)	<u>100,000,000</u>	<u>994,257</u>	<u>(52,316,489)</u>	<u>1,322,632</u>	<u>50,000,400</u>

The accompanying notes 1 to 15 form part of these interim condensed financial statements

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
INTERIM STATEMENT OF CASH FLOWS
FOR THE THREE-MONTH PERIOD ENDED 31 March 2022
(All amounts in Saudi Riyals unless otherwise stated)

	Note	For the three-month period ended	
		31 March 2022 (Unaudited)	31 March 2021 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating loss before zakat		(15,075,388)	(1,301,170)
Adjustments for:			
Depreciation of right of use assets		16,457	16,457
Depreciation of property and equipment		8,536	10,249
Amortization of intangibles		6,635	5,000
Impairment on Islamic financing	6.2	15,041,553	460,587
Impairment on amount due from shareholder	5.1	190,000	-
Finance cost	10	2,477,982	1,131,964
Accrued profit on term deposits	11	(187,730)	(184,186)
Modification loss on financial assets	11	309,523	1,903,988
Government grant on SAMA liquidity support	11	(307,074)	-
Provision for employees' post-employment benefits		39,504	74,588
(Increase) / decrease in operating assets			
Prepayments and other receivables		(325,000)	235,300
Due from a related party		(190,000)	(190,000)
Net investment in Islamic financing		(5,118,059)	494,202
(Decrease) / increase in operating liabilities			
Other payables and accruals		878,606	(683,334)
Due to a related party		(35,372)	21,989
Cash (used in) / generated from operating activities		(2,269,827)	1,995,634
Employees' post-employment benefits paid		(87,873)	-
Net cash (used in) / generated from operating activities		(2,357,700)	1,995,634
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(16,783)	-
Purchase of intangible assets		(75,000)	-
Purchase of term deposits		-	(2,000,000)
Profit received on Term Deposits		-	158,642
Net cash used in investing activities		(91,783)	(1,841,358)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of financial facilities		(13,562,763)	(5,035,915)
Proceeds from financial facilities		3,330,968	-
Lease liabilities paid		(35,000)	(35,000)
Finance cost paid		(1,072,932)	(1,004,706)
Net cash generated from financing activities		(11,339,727)	(6,075,621)
Net decrease in cash and cash equivalents		(13,789,210)	(5,921,345)
Cash and cash equivalents at beginning of the period		19,315,686	10,759,206
Cash and cash equivalents at end of the period		5,526,476	4,837,861

The accompanying notes 1 to 15 form part of these interim condensed financial statements

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

1. LEGAL STATUS AND OPERATIONS

Gulf Finance Company ("the Company") is a Saudi closed Joint-Stock Company formed under the laws of the Kingdom of Saudi Arabia and registered under the commercial registration under No. 1010369744 and unified No. 7013624916 on 28 Dhul Qa'adah 1433H (corresponding to 14 October 2012).

On 15 December 2013 and in accordance with article 6 of the implementing regulations of the law of supervision of finance companies, the Company submitted its application to the Saudi Central Bank (SAMA) to obtain its license as a financing company. On 3 Jumada al-Akhirah 1435H (corresponding to 3 April 2014), the Company obtained the preliminary approval on the license from SAMA. On 16 Safar 1436H (corresponding to 8 December 2014) the Company obtained the license from SAMA to engage in the finance lease activities. The principal of activities of the Company includes financial lease, financing production assets to Small and Medium Enterprises (SMEs).

The Company's Head Office is located at the following address:

Gulf Finance Company
Al Hokair Holding Group Building,
Ground Floor, North Ring Road, Al Murooj Area
P.O. Box 240249
Riyadh 11322
Kingdom of Saudi Arabia

The Company's activities as per the commercial registration of the Company include:

(a) Wholesale and retail trade in cars and vehicles, trucks, tankers and heavy equipment, electrical and electronic devices and its spare parts in cash and installment; and

(b) Purchase of land for the construction of buildings and the investment of these buildings by selling or leasing them for the benefit of the Company provided that the real estate shall be outside the boundaries of Makkah and Madinah.

The Company has the following branches:

S. No	Branch	C.R. No.	Date
1	Riyadh	7013624916	26 Jumada Al-Awwal 1434H
2	Jeddah	7001738363	28 Dhul Qada 1433H
3	Dammam*	2050091775	12 Rajab 1434H

*The commercial registration of the branch has been expired. As of 31 March 2022, the branch is not operational.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

2. BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

These interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

The results for the three-month period ended 31 March 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s financial statements for the year ended 31 December 2021.

Assets and liabilities in the interim statement of financial position are presented in the order of liquidity.

2.2. BASIS OF MEASUREMENT

These interim condensed financial statements are prepared under the historical cost method except for the Investments in Equity Instruments measured at fair value;

2.3. FUNCTIONAL AND PRESENTATION CURRENCY

These interim condensed financial statements have been presented in Saudi Riyals (SR) which is the Company’s functional and presentation currency. All financial information presented in SR has been rounded to the nearest SR, unless otherwise mentioned.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

In preparing these interim condensed financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

Going concern

The Company reported a loss for the three-month period ended 31 March 2022 amounting to SR 15,152,437 (31 March 2021: 1,358,890) and its accumulated losses as of the same date amounts to SR 52,316,489 (31 December 2021: SR 37,164,052) representing 52% (December 31, 2021: 37%) of the share capital which indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The Company’s ultimate shareholder, namely, Shuaa Capital PSC– UAE has furnished its financial commitment to ensure the Company’s ability to continue as a going concern. Furthermore, a business plan is put in place by the Company’s management exploring various strategic options, including restructuring its portfolio segments and product offerings. Considering the above the Company’s management is satisfied that it shall continue its operations in the foreseeable future. Accordingly, these interim condensed financial statements have been prepared on the going concern basis and do not include any adjustments, which may be required, if the Company is not able to continue as a going concern.

GULF FINANCE COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

4. NEW AMENDED STANDARDS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE:

There are no new standards issued, however, there are number of amendments to standards which are effective from 1 January 2022 and the details of the same has been explained in annual Financial Statements for the year ended 31 December 2021, but they do not have a material effect on the Company's interim condensed financial statements.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year				For the three-month period ended	
Names of Related Parties	Nature of Relationship	Nature of transactions	Note	31 March 2022 (Unaudited)	31 March 2021 (Unaudited)
Shuaa Capital PSC – UAE	Shareholder – (“Parent Company”)	Finance income		190,000	190,000
		Allocation of software and related cost		18,987	-
Gulf Finance Company PJSC – UAE	Shareholder	Allocation of support services relating to IT software		92,313	(114,329)
		Repayment by Gulf Finance Company		146,672	92,340
Second Coast Company for Commercial Hotels	Affiliate	Profit earned		197,167	193,924
		Modification loss		-	(231,959)
		Write-off*		-	(44,469)
Fifth Coast Company for Commercial Hotels	Affiliate	Net finance provided under Islamic Financing		3,425,303	-
		Profit earned		69,458	130,583
		Modification loss		-	(5,172)
		Write-off*		-	(240,833)
		Rollover fee		-	25,000
First Sabeel Hotels Company	Affiliate	Net finance provided under Islamic Financing		3,425,303	-
		Profit earned		68,506	198,486
		Modification loss		-	(2,462)
		Write-off*		-	(420,574)
		Rollover fee		-	37,500
Raibat Al Yasmin Company for Real Estate Investment and Development	Affiliate	Profit earned		237,500	253,059
		Write-off*		-	(182,613)
		Modification loss		-	(326,006)
Shuaa Cayan City Lights for Development & Real Estate Investment Company	Affiliate	Profit earned		121,399	121,399
		Profit received		-	(536,016)
SHUAA Assets Real Estate Development Company	Affiliate	Net finance provided under Islamic Financing		3,425,303	-
		Profit earned		68,506	-
SHUAA Properties Real Estate Development Co	Affiliate	Net finance provided under Islamic Financing		3,425,303	-
		Profit earned		69,458	-
Key Management Personnel	Executives	Salaries and other short-term employee benefits		863,942	923,595
	Directors	Board Remuneration		25,000	50,000

*These write-offs relate to the unreconciled differences and has been approved by the board of directors.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Balances as at the period-end

		Note	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Due from shareholder				
Shuaa Capital PSC, UAE	Loan to shareholder	5.1	9,333,123	9,143,123
	Provision for impairment		(9,333,123)	(9,143,123)
			-	-
Due to a related party				
Shuaa Capital PSC, UAE	Allocation of software and related cost		376,722	376,722
Gulf Finance Company PJSC, UAE	Allocation of software and related cost		-	35,372
			376,722	412,094

5.1. This represents an unsecured short-term intercompany loan without any asset-backed financing to the Parent Company under an agreement made on 7 February 2019. The loan bears interest of 9.5% per annum and was repayable in 90 days. However, upon the expiry of the term, it was rescheduled by the Company on the request of the Parent Company dated 5 August 2019 for another 180 days and was repayable on 4 November 2019. As at March 31, 2022 the loan has been overdue for more than 720 days. However, full provision for impairment has been recorded.

Furthermore, as disclosed within the annual financial statements for the year ended 31 December 2021 under commitments and contingencies, subsequent to the period ended 31 March 2022 a penalty amounting to SR 250,000 was imposed by SAMA with reference to related party loans. Company has maintained provision for the same in these interim financials statements.

Net investment in Islamic financing

The Company has entered into certain Islamic financing agreements with the related parties. These related parties are special purpose vehicles of Shuaa Capital KSA. Due from these related parties against outstanding Islamic financing are included within net investment in Islamic financing and are given below:

	Beneficial Owner	Note	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Second Coast Company for Commercial Hotels	Dammam Rayhaan Fund I*	5.2	8,083,834	7,886,667
Raibat Al Yasmin Company for Real Estate Investment and Development	Dammam Rayhaan Fund I*	5.2	9,737,500	9,500,000
Shuaa Cayan City Lights for Development & Real Estate Investment Company	Cayan Real Estate Development Fund*	5.2	5,452,182	5,330,783
Fifth Coast Company for Commercial Hotels	SHUAA Saudi Hospitality Fund I*	5.2	3,494,761	-
First Sabeel Hotels Company	Jeddah Centro Fund I*	5.2	3,493,809	-
Shuaa Assets Real Estate Development Company	SHUAA Saudi Hospitality Fund I*	5.2	3,493,809	-
Shuaa Properties Real Estate Development Company	SHUAA Saudi Hospitality Fund I*	5.2	3,494,761	-
Provision for impairment			(37,250,656)	(22,717,450)
			-	-

* These Funds are managed by SHUAA Capital Saudi Arabia that is Ultimately owned by Shuaa Capital PSC – UAE. The disbursement of loans have been done directly to beneficiary accounts.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

5. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

5.2. The following represents the terms and conditions of short-term financing provided to related parties.

Secured – Ijara	Note	Relationship	Effective Interest Rate	Tenure	No. of times Rescheduled	Amount Financed
Second Coast Company for Commercial Hotels	5.3	Affiliates	10%	12 months	6	9,500,000
						9,500,000
Unsecured – Murabaha						
Raibat Al Yasmin Company for Real Estate Investment and Development	5.3	Affiliates	10%	12 months	2	9,500,000
Shuaa Cayan City Lights for Development & Real Estate Investment Company	5.4	Affiliates	10%	12 months	3	3,000,000
Shuaa Cayan City Lights for Development & Real Estate Investment Company	5.4	Affiliates	10%	12 months	3	1,855,944
Fifth Coast Company for Commercial Hotels	5.5	Affiliates	10%	24 months	-	3,425,303
First Sabeel Hotels Company	5.5	Affiliates	10%	24 months	-	3,425,303
SHUAA Assets Real Estate Development Company	5.5	Affiliates	10%	24 months	-	3,425,303
SHUAA Properties Real Estate Development Company	5.5	Affiliates	10%	24 months	-	3,425,303
						28,057,156
						37,557,156

- 5.3. During the year 2021, the Company rescheduled the loan without receiving the principal amount and therefore upon rescheduling the Company downgraded the Customer to Stage 3.
- 5.4. During the year 2021, the Company rescheduled the loan without receiving the accrued profit and therefore upon rescheduling the Company downgraded the Customer to Stage 3.
- 5.5. During the period, the Company has disbursed the amount of loans that was exceptionally approved by the Board of Directors and Credit committee considering the related party relationship of the customers. Post disbursement, the loan was reassessed and downgraded to stage 3 with 100% provision.
- 5.6. All related loans issued during the period and available as at 31 March 2022 were issued in contradiction with SAMA guidelines and accordingly SAMA has imposed penalties amounting to SR 250,000. Company is currently in coordination with the Shuaa group for recoveries of the outstanding exposure.

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

6. NET INVESTMENT IN ISLAMIC FINANCINGS

	31 March 2022	31 December 2021
	(Unaudited)	(Audited)
Gross investment in Islamic financings	214,947,255	211,581,143
Unearned / Deferred Islamic financing income	(28,461,131)	(29,802,247)
Unearned origination fees	(351,775)	(453,083)
Net investment in Islamic financings before provision for impairment	186,134,349	181,325,813
Less: Provision for impairment	(41,612,127)	(26,570,574)
Net investment in Islamic financings	<u>144,522,222</u>	<u>154,755,239</u>

- 6.1.** In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA. As part of the Deferred Payment Program ("DPP"), the Company deferred payments for 6 months to contracts that qualify as MSME with extending the tenure of the facility.

During the period, SAMA further extended the same for an additional 3 months for qualifying MSME. The accounting impact of these changes in terms of the net investment in Islamic Financing has been assessed and account for as per the requirements of IFRS 9 as a modification in terms of the arrangements. Modification loss has been recognized under other income / (expenses) in interim statement of comprehensive loss.

- 6.2.** The movement in the provision for impairment of Islamic financings during the period is as follows:

	For the three-month	For the year
	period ended	ended
	31 March 2022	31 December 2021
	(Unaudited)	(Audited)
Balance at beginning of the period / year	<u>26,570,574</u>	3,772,897
Provided during the period / year	<u>15,041,553</u>	23,581,512
Written off during the period / year	<u>-</u>	(783,835)
Balance at the end of the period / year	<u><u>41,612,127</u></u>	<u><u>26,570,574</u></u>

GULF FINANCE COMPANY
(A Saudi Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2022
(All amounts in Saudi Riyals unless otherwise stated)

7. SHARE CAPITAL

The Company's subscribed and paid-up share capital of SR. 100,000,000 is divided into 10,000,000 equity shares of SR. 10 each fully subscribed and paid, and distributed among shareholders as follows:

Shareholders	31 March 2022 and 31 December 2021			
	Holding %	No. of Shares	Amount	
Shuaa Capital PSC, UAE	92%	9,200,000	92,000,000	92,000,000
Gulf Finance Company PJSC, UAE	5%	500,000	5,000,000	5,000,000
Shuaa 1 for Commercial Brokerage LLC, UAE	1%	100,000	1,000,000	1,000,000
Shuaa 2 for Commercial Brokerage LLC, UAE	1%	100,000	1,000,000	1,000,000
Shuaa 3 for Commercial Brokerage LLC, UAE	1%	100,000	1,000,000	1,000,000
	100%	10,000,000	100,000,000	100,000,000

8. PROVISION FOR ZAKAT

The movement in the provision for zakat is as follows:

	For the three-month period ended 31 March 2022 (Unaudited)	For the year ended 31 December 2021 (Audited)
Balance at the beginning of the period / year	209,164	476,502
Provided during the period / year	77,049	213,452
Payment during the period / year	-	(480,790)
Balance at the end of the period / year	286,213	209,164

STATUS OF ASSESSMENTS

The Zakat returns for the years ended 31 December 2014 till 2017 had been filed and were under review by ZATCA. During the current year, upon finalization of the assessment, demand has been raised by ZATCA of SR 259,618 for the years 2014 till 2017. The first payment of SR 51,923 was made immediately upon receipt of the notice. The remaining amount is payable in equal installments of SR 41,539 from 2019 to 2023 with the first amount paid on 16 December 2019.

The Zakat return for the year ended 31 December 2021 has been filed and are under review with ZATCA. The Company has obtained a certificate from the ZATCA valid until 28 Ramadan 1443H corresponding to 30 April 2022.

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9. FINANCIAL FACILITIES

	Note	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Long-term financial facilities		181,306,661	191,845,530
Finance Cost payable		5,249,545	3,844,495
		<u>186,556,206</u>	<u>195,690,025</u>

Long-term financial facilities

	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Current portion		
Long-term financial facilities	137,247,652	133,311,104
Non-current portion		
Long-term financial facilities	44,059,009	58,534,426
	<u>181,306,661</u>	<u>191,845,530</u>

9.1. Secured financial facilities at amortized cost

	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Murabaha	20,403,000	21,536,500

9.2. The Company obtained bank financial facilities from a local bank for the purpose of financing working capital needs. These bank facilities bear finance costs at market prevailing rates and also have restricted cash deposits. The Company has collateralized certain Islamic financing receivables in order to obtain these financial facilities.

9.3. During the period, the Company has received government financing amounting to SR 3.331 million from SAMA at a zero-profit rate under SAMA liquidity support program. These financings are repayable at the end of 18 months which is discounted using average market prevailing profit rates for similar financing facilities. The present value of these amounts to SR 3.024 million. The difference between financing received and its present value is recorded as a government grant and has been accounted for as per the requirements of IFRS.

9.4. The facility agreements include covenants which, among other things, require the Company to maintain certain financial ratios. As of 31 March 2022, the Company is in compliance with the covenants of the financing agreements.

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10. FINANCE COST

	Note	For the three-month period ended	
		31 March 2022 (Unaudited)	31 March 2021 (Unaudited)
Financing facilities	9		
-Zero interest		2,280,547	1,082,337
-Murabaha		188,060	40,252
Kafala facility charges		9,375	9,375
		<u>2,477,982</u>	<u>1,131,964</u>

11. OTHER INCOME / (EXPENSES), NET

	Note	For the three-month period ended	
		31 March 2022 (Unaudited)	31 March 2021 (Unaudited)
Government grant on SAMA liquidity support	9.3	307,074	-
Finance income on loan to shareholder	5	190,000	190,000
Profit on term deposits		187,730	184,186
Fee and commission		146,550	-
Origination fee		101,308	164,574
Modification loss on financial assets	6.1	(309,523)	(1,903,988)
		<u>623,139</u>	<u>(1,365,228)</u>

12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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. Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The Company's financial assets consist of cash and bank balances, investment, net investment in Islamic financing, restricted cash deposits and other receivables, its financial liabilities consist of trade payables, financial facilities, due to related party and other liabilities.

The Company's management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement

All financial assets and liabilities are measured at amortized cost except investment that are carried at FVOCI. The carrying amounts of all other financial assets and financial liabilities measured at amortized cost approximate to their fair values.

31 March 2022 (Unaudited)	Fair value Level			Total
	1	2	3	
FINANCIAL ASSET				
FVOCI designated				
Investment carried at FVOCI	-	-	892,850	892,850

31 December 2021 (Audited)	Fair value Level			Total
	1	2	3	
FINANCIAL ASSET				
FVOCI designated				
Investment carried at FVOCI	-	-	892,850	892,850

The above financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined:

Financial assets / financial liabilities	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship and sensitivity of unobservable inputs to fair value
Investment carried at FVOCI	Cost	N/A	N/A

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13. ISLAMIC FINANCING RECEIVABLES – SERVICING AND SECURITY AGENCY AGREEMENTS

In accordance with the terms of servicing and security agency agreement, the Company has transferred certain Islamic financing receivables to the Parent Company. The Company does not retain the risk and reward associated with such receivables.

The Company continues to manage these derecognized Islamic financing receivables as a servicer and security agent in accordance with the agency agreements entered into with the Parent Company. The Company is continuing to manage these sold receivables for an agreed fee which is netted-off with the related cost of servicing these Islamic financing receivables sold to Parent Company.

The outstanding position of such off statement of financial position Islamic financing receivables is as follows:

	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Islamic financing receivables transferred to the parent company	<u>21,971,090</u>	<u>21,971,090</u>

14. SUBSEQUENT EVENTS

There have been no other significant subsequent events since the period-ended that would require additional disclosure or adjustment in these interim condensed financial statements.

15. DATE OF AUTHORIZATION FOR ISSUE

These interim condensed financial statements were approved and authorized for issue on 28 April 2022G (corresponding to 27 Ramadan 1443H) by the Board of Directors of the Company.