
Board of Directors Report

For the Year Ended 31, Dec, 2018



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Gulf Finance is a Closed Joint Stock Company, incorporated in Jeddah, Kingdom of Saudi Arabia.

Here follows its annual report and audited financial statements of the company for the year ended December 31, 2018.

A. Introduction

Our Vision:

Gulf Finance aims to be the leading Shariah based asset finance partner in Saudi Arabia.

Our Mission:

We combine local market knowledge with international expertise, enabling our customers to grow their businesses through informed credit decisions and on time asset delivery in accordance with Shariah.

Our Values:

To help fulfill our brand promise, we abide by a set of core values. These not only define our priorities, but also guide us how our brand thinks and acts.

People First

We build relationships and a community in the workplace and with our customers by being open, receptive and responding to what people want and need.

Continuously Deliver

We are constantly moving, getting things done and aspire to greatness.

Work Smart

We perform at the highest emotional and intellectual level, and ensure we operate as efficiency as possible to come up with the right answer the first time.

In 2018, Gulf Finance stepped closer to achieving its objective of becoming one of the best performing Shariah compliant Finance companies in the Kingdom of Saudi Arabia by strengthening its position as a trusted asset finance provider underpinned by its core values. Gulf Finance is regulated by the Saudi Arabian Monetary Agency with license number 29/12/2014 dated 16/02/1436H (Corresponding Monday 08/12/2014G).

The table below illustrates the company's shareholders and number of shares, and ownership percentage:

Shareholders	No. of Shares	Value of Shares (SR)	(%)
SHUAA Capital PJSC incorporated in the UAE	9,200,000	92,000,000	92%
Gulf Finance Co PJSE incorporated in the UAE	500,000	5,000,000	5%
SHUAA 1 Commercial Broker LLC	100,000	1,000,000	1%
SHUAA 2 Commercial Broker LLC	100,000	1,000,000	1%
SHUAA 3 Commercial Broker LLC	100,000	1,000,000	1%
Total	10,000,000	100,000,000	100%

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B. CEO Letter

We are pleased to present the Board Report for Gulf Finance for the year ended 31st December 2018 reflecting a challenging year with a focus on collection and attracting good quality business.

In line with the government vision 2030 to focus on enhancing the GDP's contribution generated from Small and Medium Enterprises (SME's) which is the core business of Gulf Finance. We have managed to form a strategic partnership with Small and Medium Enterprises General Authority (SMEA) and Kafalah Program.

We continue to capitalize on our shareholders primarily Shuaa Capital and Abu Dhabi Financial Group strength and support for Gulf Finance to become a leader in SME's financing and become one of the top three installment companies in terms of return on investment.

Personally I would like to express my highest appreciation to the Board of Directors for their continuous support and guidance for the company in addition to a special thanks to the most valuable assets The management of Gulf Finance and staff for their unlimited commitment, drive, and focus.



Atif Al Othri

CEO

C. Financial Highlights

- The company posted net loss of SAR 6.0 Million for the year 2018, posting 2236% decrease in profitability as compared to the previous year net income SAR 0.3 Million. **Loss is due to the continued economic slowdown especially in contraction of new business.**
- Total revenues (finance lease income) for the year ended 31 December 2018 reached SAR 11.7 Million, a decrease of 36% compared to the total revenues (finance lease income) of 2017 SAR 18.3 Million. **Decreased revenues are mainly due to very low new business during the first half of FY2018 and concentrated focus towards recovery the default book.**
- Total Expenses increased to SAR 19.5 Million as compared to SAR 19.4 Million in 2017.
- During year 2018, the company incurred finance charges of SAR 1.4 Million, a decrease of 71% compared to SAR 4.9 Million in 2017 **due to repayment of bank loans. At 31 December 2018, total bank loans increased to SAR 45.3 Million (SAR 45M drawn in 4th Quarter of 2018) from SAR 26.1 Million compared to previous year end.**
- The company made provisions for lease losses of SAR 5.6 Million (SAR 4.1 Million IFRS-9 adoption impact) during the year increasing the accumulated provision to SAR 4.3 Million at the year-end; equal to 3.1% of the net investment in finance lease.
- The net investment in finance lease, before provision, reached to SAR 140 Million as compared to SAR 119 Million at the end of the previous year, an increase of 17%. **This increase is due to the booking of new business during 4th Quarter of year 2018.**

The company's comparative financial highlights are as follows:

SAR' Million	2016	2017	2018	% Increase / Decrease
Net Investment in finance leases	187.1	116.5	135.8	17%
Total Assets	211.6	139.3	152.1	9%
Total Short and long term loans and debt	75.3	26.1	45.3	73%
Shareholder's Equity	106.5	106.5	96.1	-10%
Total Revenues	33.6	19.7	13.5	-32%
Financial Charges	9.4	4.9	1.4	-71%
Other Operating Cost	4.3	3.3	3.1	-10%
General and Administrative Expenses	17.2	13.2	13.4	2%
Impairment of investment in finance lease	2.3	-2	1.6	-181%
Net Income / (Loss)	0.3	0.3	(6.0)	-2,236%

Earnings per share – SAR	0.03	0.03	-0.60
Average Return on Equity (%)	0.27%	0.26%	-5.92%
Average Return on Assets (%)	0.13%	0.16%	-4.12%

D. Strategy

Gulf Finance Corporation goal is to be the leading provider of SME finance in Saudi Arabia. To achieve this, our strategy is clearly focused on providing high-quality and flexible, tailor made financial solutions that enable our clients to develop their businesses. We combine local market knowledge with international expertise, enabling our customers to expand their businesses through informed credit decisions and on time asset delivery in accordance with Sharia.

Why Gulf Finance?

- Strong Local market knowledge backed by international financing expertise
- Informed and Fast Credit decisions
- Shariah based
- Excellence in Customer Service and Administration
- Experienced and professional management Team

E. Business Review

As opposed to 2017, where the main focus company was to stabilize the collection performance to reduce NPL's, in 2018 the company witness significant growth in new business. The company adopted very prudent approach in extending new facilities with focus on collateralized deals.

The Company disbursed business of SAR 112.8 Million for the year 2018 as compared to SAR 9.2 Million for 2017. Total new customers for the year ended December 31, 2018 was 23 as compared to 4 new customers in 2017. New business yield was at 11.78% in 2018 compared to 14.30% in 2017. Some of the key business highlights of 2017 are as follows:

Key Highlights:

Highlights	2018	2017	Comments
New Business Disbursed	SAR 112.8	SAR 9.2 M	SR 103.6M above as compared to 2017
New to GFC Customers	23	4	19 above as compared to 2017
Number of Deals	26	6	20 above as compared to 2017
Weighted Average Profit Rate	11.78%	14.30%	2.52% below as compared to 2017
Average Deal Size	SR 4.33 M	SR 1.5 M	SR 2.83M above as compared to 2017

In 2019, the company will expand into Commodity Murabaha Financing.

Sector Analysis

GFC's sectors are classified on the basis of classification system used by Moody's RA system. It may be noted that the Moody's RA system referenced the NAICS 2012 standard. Any additions or deletions of approved sectors require CEO and may (where necessary) Board approval. Credit & Risk Manager monitors sector exposure and reports to Credit & Risk Committee on quarterly basis

Sector	%
Real Estate and Rental and Leasing	25.82%
Manufacturing	17.28%
Accommodation and Food Services	16.10%
Construction	13.30%
Agriculture, Forestry, Fishing and Hunting	11.00%
Wholesale Trade	6.37%
Transportation and Warehousing	6.18%
Retail Trade	1.88%
Health Care and Social Assistance	0.88%
Professional, Scientific, and Technical Services	0.73%
Administrative and Support and Waste Management	0.35%
Information	0.08%
Other Services (except Public Administration)	0.01%
Arts, Entertainment, and Recreation	0.01%
Educational Services	0.00%
Mining	0.00%

F. Geographical Presence

Gulf Finance Corporation currently has head office based in Jeddah along with branch office operating in Riyadh and plan to expand its operations in Eastern Region.

G. Risk Management

The Company's activities are exposed to a variety of operational and financial risks which mainly include business risk, market risk, credit risk and liquidity risk. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies. The Board established Credit and Risk Committee to oversee the Company's risk management activities.

Operational Risk:

Operational risk is the risk of reduction in earnings and/or value through financial and reputational loss, from inadequate or failed internal processes or system, or from people related or external events. The main areas covered by operational risk are legal, business process, people, change, governance, & customer treatment. The major risk mitigation includes adherence to well-defined operating policies and procedures, hiring qualified personnel, training and development programs, and providing efficient and timely customer services.

Financial Risk:

The Company's activities are exposed to a variety of financial risks which mainly include market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial statements. The Company uses derivatives financial instruments to reduce certain risk exposures. The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

Market Risk:

Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities or currencies and liquidity in the market.

Market risk comprises of three types of risk: foreign exchange risk, interest rate risk and price risk.

Currency Risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. All the Company's transactions and finance lease arrangements are made in Saudi Riyals except for

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payable to shareholders and other transactions with shareholders which are in UAE Dirhams. Accordingly, the Company is not exposed to currency risk as both Saudi Riyals and UAE Dirhams are pegged against US Dollars and are exposed to similar fluctuations.

Interest Rate Risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates is limited as all the Company's financial assets and significant financial liabilities have fixed interest rates.

Price Risk:

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. As at December 31, 2018 and 2017, the Company has no investments that are exposed to price risk.

Credit Risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The risk is generally limited to principal amounts and accrued profit thereon, if any. The Company has established procedures to manage credit exposure including credit approvals, credit limits, collateral and guarantee requirements. The Company also manages risk through a credit department which evaluates customers' credit worthiness and obtains adequate securities where applicable.

All investing transactions are settled / paid for upon delivery. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

The Company monitors the credit quality of the finance lease receivables through diversification of activities to avoid undue concentration of risks with individuals or groups. For such purpose, the Company has established exposure limits for single lessees and business sectors. The Company has an effective rental monitoring system which allows it to evaluate customers' credit worthiness and identify potential problem accounts. An allowance for potential lease losses is maintained at a level which, in the judgment of management, is adequate to provide for potential losses on lease installment that can be reasonably anticipated. The credit quality of receivables can be assessed with reference to their historical performance with no or some defaults in recent history. However, the rating for quality of Company's investments cannot be determined due to the fact that the customer base of the Company consist of small business for which such data is not readily available.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location. Ten largest customers account for 53% (2017: 25%) of outstanding balance of investment in finance lease as at December 31, 2018 and 2017.

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Out of the total assets of Saudi Riyals 152 million (2017: Saudi Riyals 139.3 million) the assets which were subject to credit risk amounted to Saudi Riyals 145.9 million (2017: Saudi Riyals 131.8 million).

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company will be required to pay its liabilities earlier than expected or will face difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's financial liabilities primarily consist of accounts payable, due to related parties, and bank borrowings. Accounts payable, due to related parties and accrued and other liabilities aggregating Saudi Riyals 7.7 million (2017: Saudi Riyals 2.4 million) have a short term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring of due to both current assets and current liabilities.

Capital Risk Management

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its business.

The Company's capital structure consists of net debt (borrowings as detailed in Note 12 and 13 of the audited financial statements offset by cash and bank balances) and equity of the Company. The Company's policy is to maintain a strong capital base well above the minimum requirements to maintain investor, creditor and market confidence and to sustain future development of the business. Further, the Company monitors aggregate amount of financing offered by the Company on the basis of the regulatory requirements of SAMA. SAMA requires Finance Companies engaged in financing other than real estate, to maintain aggregate financing to capital ratio of three times.

H. Internal Control System

Gulf Finance risk management has been properly prepared and efficiently executed. The Company Internal control system is subject to constant evaluations and improvements to allow for the identification of any gaps and meet the required level of effectiveness, key control include:

- Existence of a series of policies and procedures, which are subject to regular updates and reviews by the board members to verify their sufficiency and adequacy.
- Major important decisions are supervised through committees created for this purpose and to protect the safety and quality of the company assets.
- Existence of the departments specialized in the fields of audit, compliance control and risk management.
- Existence of the Audit and Compliance committee in order to contribute to reinforcing the independence of internal and external auditors. The committee receives regular reports about the activities of the departments' subject auditing and compliance. The audit and compliance committee reports its findings to the Board.

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- Regular supervision of the efficiency and sufficiency of the internal control system based on the approval annual audit plan. Aspects of internal control are regularly supervised and tested.
- Great attention is paid to the internal control system results and every identified issue is taken into consideration in order to improve the control.

I. Corporate Governance

Corporate Governance Framework

Gulf Finance has a strong corporate governance structure and assures to maintain this high standard throughout the years.

In 2018, The Board has convened 4 board, 2 Executive Committee, 4 Credit and Risk Committee, 4 Audit and Compliance, and 1 Nomination and Remuneration Committee Meetings.

However, Gulf Finance strives to maintain the highest standard of Corporate Governance throughout the years.

Gulf Finance believes that robust corporate governance is an important source of differentiation and value added to its clients, stakeholders and shareholders to ensure that the Company is being managed in a fair, responsible and transparent manner.

The company's corporate governance structure and unambiguous updated policies and procedures will help the Company grow while maintaining the highest product quality and encourage innovation that in return benefit clients and shareholders.

Below is the Board of Directors of Gulf Finance and the meetings convened during the year:

BOARD OF DIRECTORS 2018



Jassim AlSeddiqi, Chairman

Jassim is the CEO of ADFG. He has been at the helm of the company since its establishment in 2011, transforming it into one of the leading and fastest growing investment management companies in the MENA region. Al Seddiqi is known for his dynamic and innovative approach, having pioneered investment strategies in the region.

Alseddiqi is the Chairman of SHUAA Capital, Gulf Finance House, Eshraq Properties, Khaleeji Commercial Bank and the Entertainer. He also serves on the boards of the following companies: First Abu Dhabi Bank and Abu Dhabi Capital Group, ADNOC Distribution and Dana Gas.

Alseddiqi holds a BSc in Electrical Engineering from the University of Wisconsin-Madison and an MSc in Electrical Engineering from Cornell University.



Mustafa Kheriba, Board Member

Mustafa is the Chief Operating Officer of Abu Dhabi Financial Group and Executive Director of Company's Investment Manager, ADCM Ltd.

Mustafa manages the day to day operations, business development of ADFG and its subsidiary companies. He also oversees deal origination, fundraising activities and directly manages key investments for the group. He also serves on the Board of Integrated Alternative Finance, Spadille Ltd., Northacre, Shuaa Capital, Reem Finance, Intergrated Securities, Khaleeji Commercial Bank, in addition to being Non-Executive Director at Qannas Investments Limited. Mustafa is also currently a Board member and Managing Director of Gulf Finance Company in the UAE, and a Board member .

previously held senior posts in financial services and investment companies in the GCC, USA and Canada. Prior to joining ADFG, he was the Vice President of operations and portfolio Management at Brainnox Investment Management, an in-house private equity division of a German conglomerate based in Dubai, managing the group's investments in Eastern Europe and MENA. Mustafa holds BA from the University of Toronto and an MBA from Ohio Dominican University, where graduated Magna Cum Laude.



Dr. Abdulrahman bin Khalil Tolefat, Independent Board Member

Dr. Tolefat serves as the Chief Executive Officer and Managing Director of Directors at Nomw Capital.

Dr. Tolefat possesses over 18 years of extensive experience in various financial sectors. He is currently the Chairman of the Board of Itqan Financial Services, Company in Bahrain, and previously served as Chairman of Allianz Takaful Company. Prior to that, he held a number of senior positions at the Central Bank of Bahrain. He holds a doctorate Degree in Islamic Finance from the University of Durham in the United Kingdom and a Master's Degree in Business Administration from DePaul University in the United States of America.



Omar Al Jaroudi- Board Member

Omar is a Board Member and Chief Executive Officer of SHUAA Capital KSA, comes with over 32 years of diversified experience in the fields of commercial and investment banking. He started his career in 1984 with the Saudi French Bank initially in commercial banking and later moved to investment banking.

In 1995, he moved on to help setting up Lebanon Invest, an investment bank which was merged in the year 2000 with Banque Audi SAL after which Mr Al Jaroudi joined SHUAA Capital in March 2007. During this period, he amassed vast and diversified experience, both in the region as well as in Europe, in the areas of investment banking, private equity, asset management, local and regional brokerage, and distribution. He also serves on the board of several companies both in the Middle East and Europe.

Mr Al Jaroudi holds a Master's Degree in Economics from Syracuse University in New York and a Bachelor's Degree in Business Administration from the American University of Beirut.



Turki M. Al Nowaiser, Independent Board Member

Turki is the CEO of Eatpreneurs LLC (A specialized F&B company), Managing Director of AlNowaiser Family Office and a Board Member of several companies.

He received his undergraduate degree from The University of Nottingham and a Masters degree from Glasgow Caledonian University in the UK.

Attendance in 2018

Directors of 2018	29 th Jan	30 th April	30 th Jul	1 st Nov
Jassim Al Seddiqi	-	✓	✓	-
Mustafa Kheriba	✓	✓	✓	✓
Omar Al Jaroudi	✓	✓	✓	✓
Abdulrahman Tolefat	✓	✓	✓	✓
Turki Al Nowaiser	✓	✓	-	✓

Management Team



Atif Al Othri, CEO

Mr. Atif AlOthri is the Chief Executive Officer of Gulf Finance since April 2018;. He brings to Gulf Finance 20 years of diversified experience in various sectors of banking, investment and leadership. He gained experience in a wide variety of business within the financing sectors including small & medium enterprise, commercial, and corporate banking.He's leading a team of professionals who are responsible for providing tailor made lending facilities to small & medium business in Saudi Arabia. Gulf Finance provides a wide range of financial leasing products and services, delivered with unmatched convenience and an exceptional client experience. Prior to joining Gulf Finance, Mr. AlOthri was the Deputy Head of Corporate Banking at bank of muscat in Saudi Arabia. Previous roles include Regional Head of Corporate Banking at AlAwwal Bank, Head of Business Banking Kingdom wide at SABB and various leadership and relationship management roles at SABB.



Syed ObeidUllah, Finance & Treasury Manager

Obeidullah has been leading Finance department of Gulf Finance Company since January 2013. He is an experienced Finance Manager with over 20 years of regional experience. Prior to joining GFC, Obeidullah was the Head of Finance at Riyadh Bank auto leasing unit, where he worked for over 3 years.



Abduljalil Shakeel Idrees, Western Region Manager

Abdul Jalil is heading Western Region Business Development team of Gulf Finance since February 2014. Abdul Jalil has 19 Years' experience in Leasing Industry with well-known Finance Companies in KSA. Abdul Jalil has Developed new business relationships to enhance overall business & profitability and managing a portfolio of multi-sector accounts.

Prior to joining Gulf Finance, Abdul Jalill was working in Saudi Orix Leasing as Manager Credit & Marketing. Abdul Jalil holds a Master degree of Business Administration in Finance. Prior to joining GFC, Abduljalil played a critical role with Saudi Orix Leasing Company as Credit and Marketing Manager. He also worked four years for Saudi Pak Leasing Company Limited where he was Branch Manager of the Gulberg Branch and based in Lahore, Pakistan.



Hussain Ghazi, Central Region Manager

Hussain is leading the Business development for the Central Region. He has 16 years of solid working experience being in managerial positions in various companies in the region. Hussain brings with him a wealth of knowledge and experience in various roles including Operations, Credit, Sales and marketing and other roles. He graduated



Dania Ashgar, Head of Compliance

Dania Joined Gulf Finance since the 6th of July 2014 as Head of Compliance.



Adeel Mazhar, Credit & Risk Manager and Acting Head of Operations

Adeel Mazhar has 13+ Years' experience in Leasing & Banking Industry with Well-known Finance Companies in KSA and a Leading International Bank (Citibank). Adeel is currently heading Credit & Risk Department of Gulf Finance. He is very well versed with Credit & Risk Policies and their implementation in the organization. Adeel is Managing the overall Credit & Risk Management functions of the Company addressing Market & Economic Risk, Political & Social Risk, Financial Risk, Operational Risk, Credit Risk and Compliance Risk and reporting these to the Credit & Risk Committee & Board Members. Adeel has Implemented Risk management structure, compliant with SAMA regulations, Gulf Finance requirements and international best practice through Risk Register and Risk Events recording (Enterprise risk management – ERM).

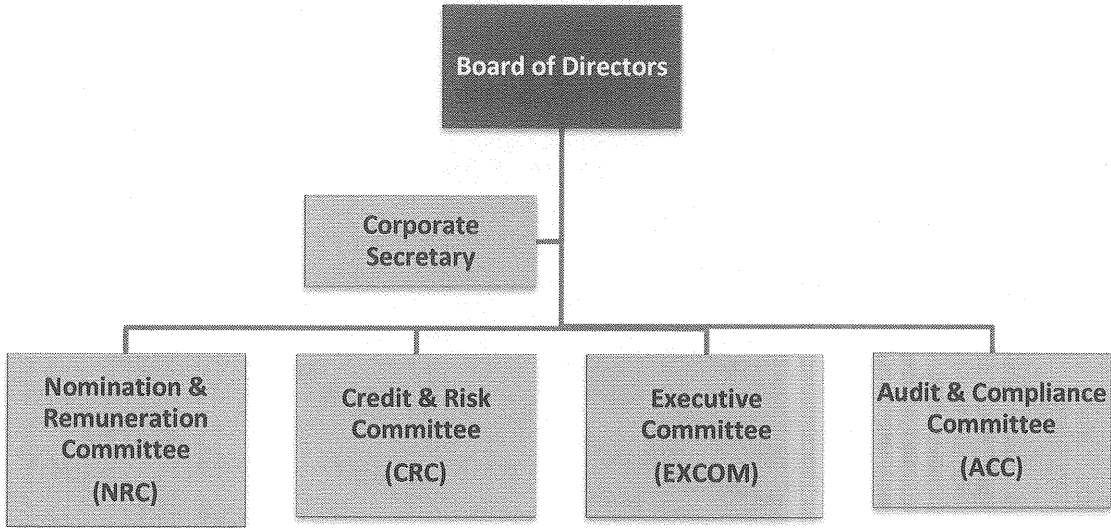


Amer Al Bishi, Collections Manager

Amer has more than 18 years of experience with Alrajhi bank where he held many positions including Accountant, Sales, Customer Service, and recently in Collection.

Prior to joining GFC, Amer was the supervisor of collection department in Aljumaih Company.

Board Sub-Committee Structure



1- Audit and Compliance Committee "ACC"

The principal roles of the Audit and Compliance Committee of the Board ("ACC") are:

1. Monitor the Company's financial statements and recommend them to the Board
2. Appoint the External auditor and Zakat advisor and recommend them to the Board
3. Approve compliance and internal audit plan
4. Review and approve quarterly and annual internal audit reports
5. Review and approve quarterly and annual compliance reports
6. Assure compliance with all laws and regulations within the company.
7. Review Compliance and AML policies and procedures and assure full adherence to them
8. Review IFRS-9 implementation

ACC Members

Name of the Member	Position
Dr. Abdulrahman Tolefat	Chairman of the Committee -Independent Board Member
Turki Al Nowaiser	Member- Board Member
Adil Mustafa	Member - Head of Finance of SHUAA Capital UAE

2- Credit and Risk Committee "CRC"

The main roles of the Credit and Risk Committee of the Board ("CRC") are:

1. Review the key risks (credit, business operations, financial, market, compliance risks).
2. Review collections and overdue analysis.
3. Review sector cap analysis.
4. Review Quarter and annual risk reports
5. Review Credit and Risk policies

CRC Members

Name of the Member	Position
Fawad Khan	Chairman of the Committee – General Manager of SHUAA Capital UAE
Omar Al Jaroudi	Member– Director and CEO of SHUAA Capital KSA
Syed Obeidallah	Member – Finance Manager of the Company

3- Executives Committee "EXCOM"

The primary objectives of the EXCOM are:

1. Oversee the performance of the company (sales and business development).
2. Review and approve business pipeline.
3. Review the budget of the company.
4. Review and Recommend new funding to the Board.
5. Review the strategy of the Company

EXCOM Members

Name of the Member	Position
Fawad Khan	Chairman of the Committee- General Manager of SHUAA Capital UAE
Mustafa Kheriba	Member – Member of the Board
Jassim Al Seddiqi	Member– Chairman of the Board

4- Nomination and Remuneration Committee "NRC"

The principal roles of the Nomination and Remuneration Committee ("NRC") are:

1. Review the company's organization structure and Saudization rate
2. Assure compliance with applicable labor laws
3. Review the performance of executives and employees
4. Developing and annually reviewing the human resources and training policies of the Company,
5. Overseeing the procedures for nomination to the Board,
6. Review annually the ongoing suitability of the Company's policy for remuneration and benefits for senior management, Board of Directors and employees and to ensure that the remuneration and benefits awarded are reasonable and aligned with the performance of the Company and the executive management
7. Recommend to the Board the annual bonus and sales increments of the year.

NRC Members

Name of the Member	Position
Mustafa Kheriba	Chairman of the Committee
Fawad Khan	Member– General Manager of SHUAA Capital UAE
Mohammad Al Sakkaf	Member – Head of HR of SHUAA Capital UAE

J. Human Resources

Highlights:

- Headcount increased to 26 by Dec 2018 from 25 employees by the end of year 2017.
- Saudization increased to 69% versus 68% at the end of year 2017.
- Continuing with Bupa for the fourth year to provide medical coverage to the company's staff.
- Life insurance contract renewed with SABB Takaful with a contribution rate (16K/yr.).

Code of Conduct and Ethics

The code of conduct and ethics outlines the standard of behavior expected from employees of Gulf Finance Corporation. It has been designed to assist employees to understand their responsibilities and obligations and to provide guidance on expected behavior in the workplace especially when faced with an ethical dilemma or conflict of interest at work. The code also aims to assist the company meet its obligations under the regulations of local laws and regulations, safeguard public trust and confidence in the integrity and to outline the professionalism required by all employees with respect to maintaining appropriate standard of conduct, exhibiting fairness, impartiality, honesty and equity in decision making and fostering and protecting the reputation of the company. The code does not seek to encompass all possible scenarios arising from employment with the company. However, it provides a set of principles to guide employees on acceptable and unacceptable behavior. The code should be read in conjunction with the employee handbook.

K. Board Members and Senior Management Compensation

The following details belong to remuneration and compensation paid to Board Members and MANCOM (*Below highlighted value is in SAR 000's*):

Details	Executive Board Members	Non-Executive Members	MANCOM Compensation
Salaries and Compensation	Nil	Nil	3,404
Allowance	Nil	Nil	197
Annual & periodical remuneration	Nil	200	Nil
Incentives	Nil	Nil	Nil
Board Benefits & Compensation	Nil	Nil	Nil

L. Declaration from the Board

The Board Members confirms that;

- The company prepares its financial statements in accordance with International Financial Reporting Standard "IFRS" as required by the finance lease laws and regulations.
- Proper books of accounts have been maintained.
- The company has no existing relationship contracts in which a Board Member, MANCOM Member has a material interest.
- Internal Audit Control was efficiently implemented.
- There is no doubt about ability of the company to continue the business as a going concern.

M. Interest of Board Members and Executive Management

All Board Members of the Company or MANCOM Members, including any person related to them, apart from the remuneration, do not have any interest in the company.

N. Laws and Regulations Applicable

Gulf Finance adhered to the Saudi Companies' Law, Rules & Regulations of Saudi Monetary Agency (SAMA). During 2017, no penalty was incurred on the company by any regulatory authority.

O. Zakat, Tax and Other Government Payments

The below table displays payment done to government bodies during this year (SAR 000's):

Type of Payment	2017	2018
Zakat	66	275
GOSI	386	408
Visas and Passport – Related	28	82
Tax – (Withholding)	271	40

P. External Financial Auditor

M/S PwC appointed as external auditors for the year ended 31 December 2018 for remuneration of SR 280,000 for the annual audit, three quarterly reviews, Qawaem 2018 report upload to MOCI website, group reporting and SAMA annual 2018 prudential certification.

Q. Financial Reporting Standards

The annual audited financial statements for the year ended 31 December 2018 of Gulf Finance Corporation have been prepared in accordance with International Financial Reporting Standards "IFRS" as issued by the International Accounting Standards Board "IASB".

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R. Audited Financials 2018

Gulf Finance Corporation

Financial Statements for the years ending 31 December

All figures in SAR unless stated otherwise

Balance Sheet (SAR)	FY14	FY15	FY16	FY17	FY18	FY19E	FY2020F	FY2021F	FY2022F	FY2023F
Assets										
Cash and cash equivalents	11,223,550	37,856,494	6,689,442	7,599,264	9,503,619	9,508	33,230	17,462	4,940	44,947
Investment in finance lease	119,493,894	195,385,969	187,120,746	116,480,886	135,815,744	227,454,024	362,016,608	456,823,417	532,780,127	633,306,698
Advances, deposits, prepayments and other receivables	4,052,691	5,348,182	5,739,100	8,970,572	3,138,380	4,508,690	5,273,836	5,521,171	5,830,057	6,268,273
Restricted deposits	3,042,456	1,644,456	7,402,343	2,064,050	531,850	4,973,981	5,503,361	5,503,360	0	0
Fixed assets	254,770	4,844,982	4,649,870	3,285,732	2,202,999	1,085,940	3,013,260	2,060,183	1,167,106	244,028
Available-for-sale investment	0	0	0	892,850	0	0	0	0	0	0
Financial asset at fair value through other comprehensive income	0	0	0	0	892,850	892,850	892,850	892,850	892,850	892,850
Total Assets	138,067,361	244,878,083	211,601,501	139,293,354	152,086,442	239,454,373	376,733,145	470,846,444	540,675,081	640,756,897
Liabilities										
Accounts payable	8,268,259	18,593,973	3,416,614	441,786	450,487	899,660	899,660	899,660	899,660	899,660
Due to related parties	984,830	51,014,714	20,413,872	3,170,230	7,274,078	1,774,078	1,774,078	1,774,078	1,774,078	1,774,078
Other liabilities and accruals	4,741,510	8,396,365	5,986,963	3,089,330	3,338,171	8,611,975	8,611,975	8,611,975	8,611,975	8,611,975
Long-term borrowings	22,378,725	62,623,096	75,298,255	26,099,733	45,251,666	126,341,518	200,538,963	223,559,602	267,286,562	334,955,310
Total liabilities	36,373,324	138,588,148	105,115,724	32,801,079	56,315,422	137,627,240	211,824,685	234,845,324	278,582,314	346,241,032
Shareholders' equity										
Share capital	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	100,000,000	150,000,000	200,000,000	200,000,000	200,000,000
Statutory reserve	169,404	628,994	648,578	676,668	676,668	1,276,367	6,024,682	8,134,148	8,153,732	8,153,732
Retained earnings	1,524,633	5,680,941	5,837,199	5,815,607	(4,905,648)	547,767	8,863,778	27,868,971	53,939,034	86,361,932
Total Shareholders' Equity	101,694,037	106,289,935	106,485,777	106,492,275	95,771,020	101,827,134	164,898,461	236,003,120	262,092,767	294,515,665
Total shareholders' equity and liabilities	138,067,361	244,878,083	211,601,501	139,293,354	152,086,442	239,454,373	376,733,145	470,846,444	540,675,081	640,756,897
Check	0	0	0	0	0	0	0	0	0	0
Income Statement (SAR)										
Income from finance lease	17,338,593	24,508,151	32,743,028	18,233,892	12,270,533	22,054,501	34,846,319	49,582,280	59,673,921	70,988,303
Other income	74,747	511,726	835,381	467,454	1,224,085	1,776,365	2,748,793	3,897,232	4,574,813	5,138,303
Total Income	17,413,340	25,019,877	33,578,409	18,701,346	13,494,618	23,830,866	37,595,112	53,479,512	64,448,734	76,106,606
Direct cost										
Opex	(11,297,448)	(16,512,343)	(21,566,190)	(16,496,394)	(16,478,246)	(13,798,022)	(12,380,959)	(12,912,105)	(13,049,685)	(13,738,787)
Net Operating Profit	6,115,892	8,507,534	12,012,219	3,204,952	(2,983,628)	10,032,845	25,214,156	40,567,408	51,399,049	62,367,819
Impairment of investment in finance lease	(1,771,478)	(539,522)	(2,316,958)	1,972,777	(1,501,437)	(1,135,522)	(1,370,721)	(985,123)	(775,808)	(1,028,972)
Loss on disposal of repossessed asset	0	0	0	0	(101,118)	0	0	0	0	0
Finance charges	(1,169,256)	(3,304,133)	(9,408,072)	(4,896,827)	(1,413,159)	(2,269,769)	(9,762,108)	(16,907,626)	(22,933,596)	(27,315,948)
Zakat	(170,000)	(67,881)	(91,347)	0	0	0	0	0	0	0
Net Profit	3,005,158	4,595,868	195,842	280,902	(5,999,342)	6,627,554	14,081,327	22,694,659	27,689,647	34,022,898
Statement of Cash Flows										
Cash flow from operating activities										
Profit before zakat	3,175,158	4,683,879	287,189	280,902	(5,999,342)	6,627,554	14,081,327	22,694,659	27,689,647	34,022,898
Adjustments for:										
Depreciation on property and equipment	149,193	217,311	582,269	594,817	500,062	316,680	287,643	0	0	0
Amortization of intangible assets	0	226,230	836,468	828,267	828,332	800,379	805,037	923,077	923,077	923,077
Impairment and write-off of investment in finance lease	1,771,478	556,466	2,547,087	(1,972,777)	1,501,437	1,135,522	1,370,721	985,123	775,808	1,028,972
Finance charges	1,169,256	3,380,839	9,408,072	5,184,360	1,413,159	2,269,769	9,762,108	16,907,626	22,933,596	27,315,948
Amortization of deferred charges	0	521,571	986,761	512,993	92,370	0	0	0	0	0
Provision for post-employment benefits, net	210,689	335,651	177,146	221,279	201,032	222,969	247,301	274,287	304,219	337,416
Interest income	0	0	(108,299)	(138,575)	0	0	0	0	0	0
Loss on disposal of property and equipment	0	0	860	0	104,143	0	0	0	0	0
Others	0	0	0	0	242,897	(1,796,812)	(1,000,001)	(1,600,000)	(1,600,001)	(1,600,000)
Changes in working capital										
Investment in finance lease	(18,212,740)	(76,448,541)	0	0	0	0	0	0	0	0
Advances, deposits, prepayments and other receivables	537,184	104,509	(104,642)	189,525	5,126,075	(1,369,310)	(765,146)	(247,335)	(308,885)	(438,217)
Restricted deposits	(3,042,456)	0	(5,928,782)	1,687,172	1,532,200	(4,971,511)	0	1	5,503,360	0
Accounts payable	6,652,759	10,285,714	(13,450,455)	(2,974,828)	8,701	449,182	0	0	0	0
Other liabilities and accruals	(1,318,549)	532,187	(2,975,310)	(1,766,654)	1,745,10	5,181,507	(101,259)	(112,309)	(124,565)	(138,158)
Cash generated from / (utilized in) operating activities	(8,908,028)	(55,622,184)	(7,731,556)	2,646,481	5,723,576	8,856,780	24,667,731	39,805,129	56,066,255	81,451,838
Post-employment benefits paid	0	(20,223)	(104,874)	(197,430)	(118,718)	(131,673)	(146,042)	(161,978)	(179,654)	(199,259)
Zakat paid	0	(97,981)	(138,843)	(66,908)	(275,563)	0	0	0	0	0
Finance charges paid	(1,169,256)	(2,543,599)	(8,562,805)	(6,178,005)	(1,413,159)	(2,269,769)	(9,762,108)	(16,907,626)	(22,933,596)	(27,315,948)
Net cash utilized in operating activities	(10,077,284)	(58,283,987)	(16,538,179)	(3,795,862)	3,916,136	6,554,338	14,759,581	22,735,525	32,983,004	33,936,731
Cash flow from investing activities										
Investment in finance lease	0	0	5,718,156	72,612,637	(49,923,114)	(91,638,280)	(159,933,305)	(95,771,932)	(76,732,517)	(101,555,543)
Additions to property and equipment	(97,010)	(1,422,344)	(818,135)	(6,710)	(27,460)	0	0	0	0	0
Additions to intangible assets	0	(3,413,409)	(627,601)	(52,236)	(244,727)	0	(3,000,000)	0	0	0
Available-for-sale investment	0	0	0	(892,850)	0	0	0	0	0	0
Proceeds from disposal of property and equipment	0	0	11,151	25,501	0	0	0	0	0	0
Capital injection	0	0	0	0	0	0	50,000,000	50,000,000	0	0
Cash received on sale of non-performing portfolio	0	0	0	0	24,994,588	0	0	0	0	0
Net cash utilized in investing activities	(97,010)	(4,835,753)	4,283,571	71,660,841	(25,175,212)	(91,638,280)	(88,933,305)	(45,771,932)	(76,732,517)	(101,555,543)
Cash flow from financing activities										
Proceeds from borrowings	30,424,557	63,310,399	68,000,000	0	45,000,000	114,033,610	154,260,002	168,275,002	228,950,000	291,700,000
Repayments during the year	(7,702,750)	(22,798,986)	(55,331,602)	(49,711,515)	(25,940,417)	(32,943,778)	(80,062,557)	(145,254,363)	(185,213,010)	(224,101,282)
Deferred charges paid during the year	(343,082)	(790,613)	(980,000)	0	0	0	0	0	0	0
Due to related parties	(11,822,816)	50,029,884	(30,600,842)	(17,243,642)	4,103,848	(5,500,000)	0	0	0	0
Net cash utilized in financing activities	10,555,909	89,752,684	(18,912,444)	(66,955,167)	21,163,431	75,589,832	74,197,445	23,020,639	43,736,980	67,656,718
Net change in cash and cash equivalents	391,615	26,632,944	(31,167,052)	908,822	1,904,355	(9,494,111)	23,722	(15,768)	(12,522)	39,906
Cash and cash equivalents at beginning of year	10,841,935	11,223,550	37,856,494	6,689,442	7,599,264	9,503,619	9,508	33,230	17,462	4,940
Cash and cash equivalents at end of year	11,223,550	37,856,494	6,689,442	7,599,264	9,503,619	9,508	33,230	17,462	4,940	44,846