

# Board of Directors Report

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For the Year Ended 31, Dec, 2020

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## Annual Report 2020

**Gulf Finance is a Closed Joint Stock Company, located in Riyadh Saudi Arabia.  
Here follows its annual report and audited financial statements of the company for the year ended  
December 31, 2020.**

### CEO Letter

We are pleased to present the Board Report for Gulf Finance for the year ended 31st December 2020 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 continue to strengthen our strategic partnership with Small and Medium Enterprises General Authority (SMEA) and Kafalah Program.

We continue to capitalize on our shareholders primarily Shuaa Capital 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**

## Annual Report 2020

### 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 2020, 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/ش/201412 dated 16/06/1436H (Corresponding Monday 08/12/2014G). License is renewed for the period of 5 years expiring 14/02/1446H.

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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### Financial Highlights

#### A. Financial Highlights

- ❖ The company posted net loss of SAR 5.4 Million for the year 2020, posting 257% decrease in profitability as compared to the previous year net profit of SAR 3.5 Million. The loss is mainly due to the impact of COVID-19 in global market and Oil prices have also witnessed significant volatility during the current period, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown.
- ❖ Total revenues for the year ended 31 December 2020 reached SAR 23.5 Million, an increase of 23% compared to the total revenues of 2019 SAR 19.2 Million.
- ❖ Total Expenses increased to SAR 28.9 Million as compared to SAR 15.7 Million in 2019 mainly due to the SAR 16.24m modification loss on financial assets.
- ❖ During year 2020, the company incurred finance charges of SAR 2.6 Million, as compared to SAR 1.4 Million in 2019. At 31 December 2020, total bank loans increased to SAR 143.7 Million (SAR 58.74M drawn during 2020) from SAR 99.3 Million compared to previous year end.
- ❖ The company made the provisions for lease losses SAR 0.9 Million during the year increasing the accumulated provision to SAR 3.8 Million at the year-end; equal to 2% of the net investment in finance lease.
- ❖ The net investment in finance lease, before provision, reached to SAR 191.9 Million as compared to SAR 170.3 Million at the end of the previous year, an increase of 12.7%. This increase is due to the booking of SAR 40.3m new business during the year 2020.

The company's comparative financial highlights are as follows:

SAR' Million	2019	2020	% Increase / Decrease
Net Investment in finance leases	167.4	188.1	12%
Total Assets	204.6	243.0	19%
Total Short and long term loans and debt	99.3	143.7	45%
Shareholder's Equity	99	93.5	-6%
Total Revenues	19.2	23.5	23%
Financial Charges	1.4	2.6	84%
Other Operating Cost	1.4	13.1	851%
General and Administrative Expenses	13.3	12.0	-10%
Impairment of investment in finance lease	-1.2	0.9	178%
Zakat	0.8	0.4	-57%
Net Income / (Loss)	3.5	(5.4)	-257%

Earnings per share – SAR	0.35	(0.54)
Average Return on Equity (%)	3.55%	-5.63%
Average Return on Assets (%)	1.93%	-2.42%

## 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 Shariah.

### 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

## Business Review

As opposed to 2019, where the company adopted very prudent approach in extending new facilities with focus on collateralized deals; The Company disbursed business of SAR 40.3 Million for the year 2020 as compared to SAR 77.8 Million for 2019. Total new customers for the year ended December 31, 2020 was 7 as compared to 6 new customers in 2019. New business yield was at 10.3% in 2020 compared to 10.16% in 2019. Some of the key business highlights of 2020 are as follows:

### Key Highlights:

Highlights	2020	2019	Comments
New Business Disbursed	SAR 40.3M	SAR 77.8M	Decreased by SAR 37.5M as compared to 2019
New to GFC Customers	7	6	Increased by 1 compared to 2019
Number of Deals	8	21	Decreased by 14 compared to 2019
Weighted Average Profit Rate	10.3%	10.16%	0.21% lower as compared to 2019
Average Deal Size	SR 5.04M	SR 4.09 M	SR 0.95M Higher as compared to 2019

## Annual Report 2020

### 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

Sectors	%
Accommodation and Food Services	23.10%
Agriculture, Forestry, Fishing and Hunting	5.47%
Construction	9.01%
Health Care and Social Assistance	4.52%
Information	2.99%
Manufacturing	15.61%
Professional, Scientific, and Technical Services	0.54%
Real Estate and Rental and Leasing	20.58%
Retail Trade	0.90%
Transportation and Warehousing	9.99%
Wholesale Trade	4.93%
Mining	2.36%
<b>Total</b>	<b>100.00%</b>

### Geographical Presence

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

### 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, profit 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 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 of 31 December 2020 and 2019 the Company has no investments that are exposed to price risk.

## Credit Risk:

The Company monitors the credit quality of the Islamic financing 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' creditworthiness and identify potential problem accounts.



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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 the quality of the 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. The 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.

The Company incorporates forward-looking information into both its assessment of whether the credit risk of a receivable has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Company's credit risk committee 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 global monetary authorities and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by 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.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages its credit risk exposure through diversification of Islamic financing activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or businesses.

### 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 trade payables, due to related parties, financial facilities and other payables and accruals. Trade payables, due to related parties and other payables and accruals aggregating SR 3.7 million (2019: SR 5.1 million) have a short-term maturity. The Company expects to have adequate liquid funds to settle its current liabilities through close monitoring due to both current assets and current liabilities.

### Capital Risk Management

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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 (financial facilities as detailed in Note 20 off-set 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 the 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.

## 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.
- ❖ 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

## Corporate Governance

### Corporate Governance Framework

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

In 2020, The Board has convened 4 board, 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 2020



### **Mustafa Kheriba, Chairman**

Mustafa Kheriba is the Deputy Chief Executive Officer and Group Head of Asset Management.

Mustafa manages the investment activities and business development aspects of the Group. He also oversees deal origination, fund raising activities and directly manages key investments for the Group. He currently serves as Executive Director of Northacre PLC and is also a board member and Managing Director of Gulf Finance Corporation in the United Arab Emirates and the Kingdom of Saudi Arabia. Furthermore, he serves on the board of Khaleeji Commercial Bank, Gulf Finance House, Reem Finance, SALAMA Islamic Arab Insurance Company and ADCorp Ltd.

Mustafa previously held senior posts in financial services and investment companies in the GCC, USA and Canada. He has been named among the top 50 MENA Fund Managers in the annual survey conducted by MENA FM Magazine.

Mustafa holds a BA from the University of Toronto, and an MBA from Ohio Dominican University with Magna Cum Laude honors.



### **Fawad Tariq Khan, Vice Chairman**

Fawad heads the investment banking group at SHUAA Capital psc, the DFM-listed entity and a leading asset management and investment banking platform with c. USD 14 billion in assets under management.

Fawad is responsible for SHUAA Capital's advisory, capital markets and credit business lines.

Fawad also serves on the Board of Directors of Northacre-London and NCM a global FX and commodities platform.

Fawad started his career with Deloitte based out of London before joining the Dubai office where he helped set up its Middle East debt advisory practice.

He holds an MSc in Business Studies from UCD Smurfit Business School and a BSc in Computer Science from University College Cork. Fawad also served with the Irish Reserve Defence Forces in the military police.



### **Omar Al Jaroudi- Board Member**

Omar Al Jaroudi, a Saudi national, 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.

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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.



### **Dr. Abdulrahman bin Khalil Tolefat, Independent Board Member**

Dr. Abdulrahman bin Khalil Tolefat, Independent Board Member, serves as the Chief Executive Officer, Managing Director, and Member of Board of Directors at Nomw Capital. Dr. Tolefat holds a PhD in Islamic Finance from Durham University, an MBA from DePaul University, and a B.Sc in Mathematics from Bahrain University. Dr. Abdulrahman has over 15 years experience in the financial and business sectors especially in Islamic finance, where he held a number of senior positions



### **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 2020

Directors of 2020	28 <sup>th</sup> Jan	28 <sup>th</sup> April	1 <sup>st</sup> Sep	7 <sup>th</sup> Dec
Mustafa Kheriba	✓	✓	✓	✓
Fawad Tariq Khan	–	–	✓	–
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 Manager**

Obeidullah has been leading Finance department of Gulf Finance Company since January 2013. He is an experienced Finance Manager with over 25 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.



### **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 with a Bachelor in Business Administration from King Faisal University.



### **Amer Al Bishi, Collections and Western Region 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.



**Ahmed Almagahslah, Credit Risk Head**

Ahmed is the Credit Risk Head. He has over 15 years of credit and risk experience having worked in Tamweel AlOula, Gulf Lifting Financial leasing, Saudi ORIX Leasing Company, and Alawwal Bank.



**Mohammed Alomari, Compliance Manager.**

Mohammed Alomari joined Gulf Finance as Compliance Manager. He has +8 years in compliance department in financial sector and he has accounting high diploma and bachelor's degree in management. Since also he is certified from SAMA and Certified Anti Money Laundering Specialist. Mohammed has the compliance skills he is very well versed with compliance Policies and their implementation in the organization. Mohammed is currently managing all GFC KSA compliance matters with SAMA also holds other strong professional certificate.



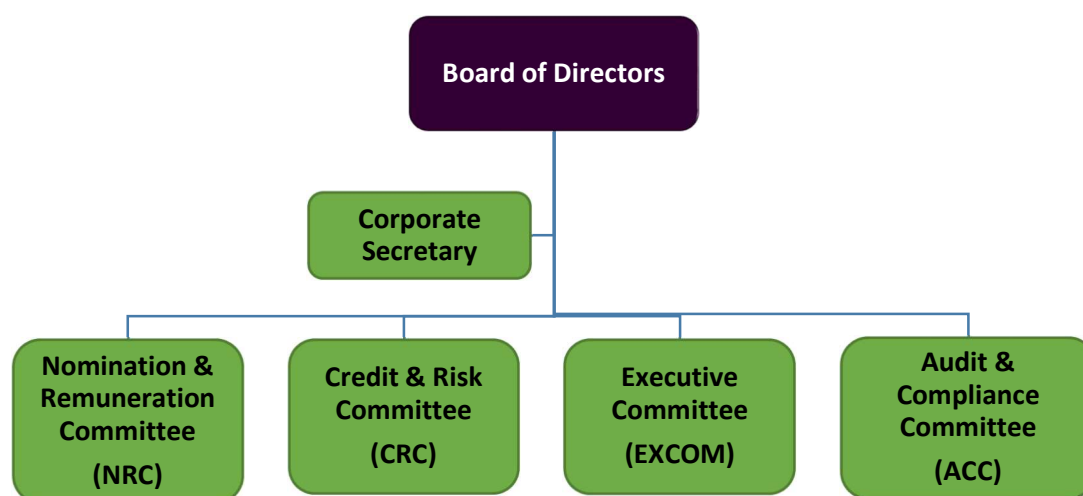
**Mohammed Khalil, Operations Manager**

Mohamed Khalil joined Gulf Finance Corporation Saudi Arabia in August 2018. He has over 8 years of experience in the operations of financial services, capital markets, assets management, investment, and international dealings with large financial services companies in the GCC region.

Mr. Khalil is currently managing operations for all GFC KSA branches. Prior to joining GFC, he was working in various departments such as the international dealing desk, finance, and operations with Mubasher Financial services in the U.A.E and the Kingdom of Bahrain and with Alkhair Capital Saudi Arabia in K.S.A.

Mr. Khalil holds a bachelor's degree in business administration (Financial Management & Accounting), CME-1 (Capital Market Examination), Rules & Regulation under ESCA (Emirates Securities and Commodities Authority), and licensed equity broker by Central Bank of Bahrain.

### 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:



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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 - Member of the Board
Omar Al Jaroudi	Member– Member of the Board
Atif Al Othri	Member – CEO Gulf Finance Saudi Arabia
Syed Obeidullah	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
Mustafa Kheriba	Chairman of the Committee - Member of the Board
Fawad Khan	Member – Member of the Board
Atif Al Othri	Member– CEO Gulf Finance Saudi Arabia

### 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

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Name of the Member	Position
Mustafa Kheriba	Chairman of the Committee - Member of the Board
Fawad Khan	Member– Member of the Board
Mohammad Al Sakka	Member – Head of HR of SHUAA Capital UAE

## Human Resources

### Highlights:

- ❖ Headcount increased to 20 in Dec 2020 from 18 employees by the end of year 2019.
- ❖ Saudization increased to 75% in Dec 2020 versus 67% at the end of year 2019.
- ❖ Continuing with Bupa for the Fifth year to provide medical coverage to the company's staff.
- ❖ Life insurance contract renewed with SABB Takaful with a contribution of (11K/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.

## Board Members and Senior Management Compensation

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

Details	Executive Board Members	Non-Executive Members	MANCOM Compensation
Salaries and Compensation	Nil	Nil	3,048
Allowance	Nil	Nil	Nil
Annual & periodical remuneration	Nil	200	Nil
Incentives	Nil	Nil	Nil
Board Benefits & Compensation	Nil	Nil	Nil

## 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.
- There is no existing relationship of any Board Member and Management Team with the existing customers and suppliers of Gulf Finance; except SHUAA Capital Saudi Arabia, SHUAA Capital PSC UAE and their subsidiaries/SPV's.
- Internal Audit Control was efficiently implemented
- There is no doubt about ability of the company to continue the business as a going concern.

## Interest of Board Members and Executive Management

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

## Laws and Regulations Applicable

Gulf Finance adhered to the Saudi Companies' Law, Rules & Regulations of Saudi Central Bank (SAMA). During 2020,

## Zakat, Tax and Other Government Payments

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

Type of Payment	2019	2020
Zakat	421	920
GOSI	335	643
Visas and Passport – Related	46	58
Tax – (Withholding)	200	88

## External Financial Auditor

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M/S Bassam Ibrahim (PKF) appointed as external auditors for the year ended 31 December 2020, three quarterly reviews, Qawaem 2020 report upload to MOCI website, group reporting and SAMA annual 2020 prudential certification.

## Financial Reporting Standards

The annual audited financial statements for the year ended 31 December 2020 of Gulf Finance Corporation have been prepared in accordance with International Financial Reporting Standards "IFRS" as issued by the International Accounting Standards Board "IASB".

### A. Audited Financials 2020

## STATEMENT OF FINANCIAL POSITION

### AS AT 31 DECEMBER 2020

(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December	
		2020	2019
<b>ASSETS</b>			
Cash and cash equivalents	6	10,759,206	26,626,908
Term deposits	7	33,039,331	-
Prepayments and other receivables	8	1,164,382	1,623,332
Due from a related party	9	8,348,882	5,876,476
Assets repossessed held for sale	10	-	741,000
Net investment in Islamic financing	11	188,127,000	167,423,899
Restricted cash deposits	12	355,720	355,720
Investment carried at FVOCI	13	892,850	892,850
Property and equipment	14	104,374	137,928
Intangible assets	15	80,000	783,605
Right-of-use assets	16	98,741	164,568
<b>TOTAL ASSETS</b>		<b>242,970,486</b>	<b>204,626,286</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	17	100,000,000	100,000,000
Statutory reserve	18	994,257	994,257
Accumulated losses		(7,933,496)	(2,510,478)
Actuarial reserve on End-of-service indemnities		457,878	532,397
<b>TOTAL EQUITY</b>		<b>93,518,639</b>	<b>99,016,176</b>
<b>LIABILITIES</b>			
Other payables and accruals	19	3,452,799	3,872,374
Lease liabilities	16	102,009	166,585

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Due to related party	9	92,340	107,671
Provision for zakat	20	476,502	1,045,050
Financial facilities	21	143,667,099	99,268,837
End-of-service indemnities	22	1,661,098	1,149,593
<b>TOTAL LIABILITIES</b>		<b>149,451,847</b>	<b>105,610,110</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>242,970,486</b>	<b>204,626,286</b>
<b>Contingencies and commitments</b>	23		

### STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020 (All amounts in Saudi Riyals unless otherwise stated)

	Notes	2020	2019
<b>INCOME FROM ISLAMIC FINANCING, NET</b>	24	<b>19,788,090</b>	15,562,862
<b>OPERATING (EXPENSES) / INCOME</b>			
Finance cost	25	(2,563,370)	(1,394,615)
General and administrative expenses	26	(11,286,049)	(12,923,240)
(Impairment) / Reversal on Islamic financing	11.8	(912,369)	1,168,747
Impairment on fair value measurement of assets repossessed held for sale	10	-	(375,556)
Write off of Asset repossessed held for sale	10.1	(741,000)	-
Other expense / income, net	27	(9,356,436)	2,223,834
<b>NET OPERATING (LOSS) / INCOME BEFORE ZAKAT</b>		<b>(5,071,134)</b>	4,262,032
Zakat	20	(351,884)	(811,742)
<b>NET (LOSS) / INCOME FOR THE YEAR</b>		<b>(5,423,018)</b>	3,450,290

**GULF FINANCE COMPANY**  
**(A Saudi Closed Joint Stock Company)**  
**STATEMENT OF COMPREHENSIVE (LOSS) / INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2020**  
**(All amounts in Saudi Riyals unless otherwise stated)**

	Note	2020	2019
NET (LOSS) / INCOME FOR THE YEAR		(5,423,018)	3,450,290
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that will not be reclassified subsequently to profit and loss:</b>			
Actuarial (loss) / gain on End-of-service indemnities	22.3	(74,519)	229,475
<b>Total other comprehensive (loss) / income for the year</b>		<u>(74,519)</u>	<u>229,475</u>
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>		<u><b>(5,497,537)</b></u>	<u><b>3,679,765</b></u>

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2020**

<b><u>31 December 2019</u></b>	<b>Note</b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Accumulated losses</b>	<b>Actuarial reserve on End-of-service indemnities</b>	<b>Total equity</b>
<b>Balance as at 1 January 2019 (Audited)</b>		100,000,000	676,668	(4,905,648)	-	95,771,020
Impact on adoption of IAS 19 employee benefits		-	-	(737,531)	302,922	(434,609)
Impact of change in accounting policy		-	(27,440)	27,440	-	-
<b>Balance as at 1 January 2019 – restated</b>		100,000,000	649,228	(5,615,739)	302,922	95,336,411
Net income for the year		-	-	3,450,290	-	3,450,290
Other comprehensive income		-	-	-	229,475	229,475
Transfer to statutory reserve		-	345,029	(345,029)	-	-
<b>Balance as at 31 December 2019</b>		100,000,000	994,257	(2,510,478)	532,397	99,016,176

<b><u>31 December 2020</u></b>	<b>Note</b>	<b>Share capital</b>	<b>Statutory reserve</b>	<b>Accumulated losses</b>	<b>Actuarial reserve on End-of-service indemnities</b>	<b>Total equity</b>
<b>Balance as at 1 January 2020</b>	17,18	100,000,000	994,257	(2,510,478)	532,397	99,016,176
Net loss for the year		-	-	(5,423,018)	-	(5,423,018)
Other comprehensive loss	22.3	-	-	-	(74,519)	(74,519)
<b>Balance as at 31 December 2020</b>		100,000,000	994,257	(7,933,496)	457,878	93,518,639

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 20**

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net Operating (loss) / income before zakat</b>		<b>(5,071,134)</b>	<b>4,262,032</b>
<b>Adjustments for:</b>			
Depreciation of right of use assets	16.1	65,827	32,913
-Depreciation of property and equipment	14	40,424	189,590
Amortization of intangible assets	15	803,605	1,079,798
Finance cost	25	2,563,370	1,394,615
Impairment / (Reversal) on Islamic financing	11.12	912,369	(1,168,747)
Write off of property and equipment	27	-	401,465
Impairment on fair value measurement of assets repossessed held for sale	10	-	375,556
Write off of Asset repossessed held for sale	10	741,000	-
Provision for operational loss	26	266,910	-
Provision for End-of-service indemnities	22	409,232	428,397
Modification loss on financial assets	27	16,244,645	-
Loss on the fair valuation of initial recognition of financial assets	27	1,548,290	-
Government grant on SAMA liquidity support	27	(995,696)	-
Government grant on SAMA funding for lending program	27	(1,819,795)	-
Modification gain on financial liabilities	27	(2,935,807)	-
Accrued Income on Term Deposits	7	(39,331)	-
<b>(Increase) / decrease in operating assets</b>			
Prepayments and other receivables		192,040	601,342
Due from a related party		(2,472,406)	(5,876,476)
Net investment in Islamic financing		(39,408,405)	(30,209,545)
Restricted cash deposit		-	(25,720)
<b>(Decrease)/increase in operating liabilities</b>			
Other payables and accruals		(419,575)	1,495,946
Due to related party		(15,331)	(7,166,407)
<b>Cash used in operating activities</b>		<b>(29,389,768)</b>	<b>(34,185,241)</b>
Zakat paid	20	(920,432)	(420,811)
End-of-service indemnities paid	22.4	(17,500)	(320,567)
<b>Net cash used in operating activities</b>		<b>(30,327,700)</b>	<b>(34,926,619)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	14	(6,870)	(144,660)
Purchase of Term Deposits	7	(33,000,000)	-
Purchase of intangible assets	15	(100,000)	(244,727)
<b>Net cash used in investing activities</b>		<b>(33,106,870)</b>	<b>(389,387)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from financial facilities		58,676,509	82,856,704
Repayment of financial facilities		(9,962,264)	(28,930,951)



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Finance cost paid		(1,077,377)	(1,451,458)
Lease liabilities paid	16.1	<u>(70,000)</u>	<u>(35,000)</u>
<b>Net cash generated from financing activities</b>		<b><u>47,566,868</u></b>	<b><u>52,439,295</u></b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b><u>(15,867,702)</u></b>	<b><u>17,123,289</u></b>
Cash and cash equivalents at beginning of the year	6	<u>26,626,908</u>	<u>9,503,619</u>
<b>Cash and cash equivalents at end of the year</b>	<b>6</b>	<b><u>10,759,206</u></b>	<b><u>26,626,908</u></b>