

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)

CONDENSED INTERIM FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REVIEW REPORT
FOR THE THREE AND NINE MONTHS PERIOD
ENDED
30 SEPTEMBER 2022

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022

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KPMG Professional Services

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Commercial Registration No 2051062328

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

الطابق ١٦، برج البرعش
٦١٨٩ طريق الأمير تركي، الكورنيش
ص.ب ٤٨٠٣
الخير ٣١٤٦ - ٣٤٤١٢
المملكة العربية السعودية
سجل تجاري رقم ٢٠٥١٠٦٢٣٢٨

المركز الرئيسي في الرياض

Independent auditor's report on review of condensed interim financial statements

To the Shareholders of Gulf Lifting Financial Leasing Company

Introduction

We have reviewed the accompanying 30 September 2022 condensed interim financial statements of Gulf Lifting Financial Leasing Company ("the Company"), which comprise:

- the condensed statement of financial position as at 30 September 2022;
- the condensed statements of profit or loss and other comprehensive income for the three-months and nine-months period ended 30 September 2022;
- the condensed statement of changes in shareholders' equity for the nine-months period ended 30 September 2022;
- the condensed statement of cash flows for the nine-months period ended 30 September 2022; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as endorsed in Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 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 financial information 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.

KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (25,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مقفلة، مسجلة في المملكة العربية السعودية، رأسمالها (٢٥,٠٠٠,٠٠٠) ريال سعودي مقفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي للفران وشركاء محاسبين ومراجعون قانونيين" وهي تعتبر عور شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والناتجة لـ كي بي إم جي العالمية المحدودة، شركة الجليزية محدودة بضمان. جميع الحقوق محفوظة.

Commercial Registration of the headquarters in Riyadh is 1010425494.



Independent auditor's report on review of condensed interim financial statements

To the Shareholders of Gulf Lifting Financial Leasing Company (Continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2022 condensed interim financial statements of Gulf Lifting Financial Leasing Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as endorsed in Kingdom of Saudi Arabia.

For KPMG Professional Services

Abdulaziz Abdullah Alnaim

License No: 394



Al Khobar, 28 Rabi Al Awwal 1444H
Corresponding to: 24 October 2022G

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

	Notes	30 September 2022 (Unaudited)	31 December 2021 (Audited)
ASSETS			
Non-current assets			
Net investment in finance leases	3	53,558,010	62,367,112
Investment		892,850	892,850
Intangible assets	4	369,553	337,500
Property and equipment		337,953	309,276
Total non-current assets		55,158,366	63,906,738
Current assets			
Current portion of net investment in finance leases	3	59,161,240	49,370,168
Prepayments and other current receivables	5	3,079,957	3,039,088
Cash and cash equivalents	6	103,519,804	100,516,853
Total current assets		165,761,001	152,926,109
TOTAL ASSETS		220,919,367	216,832,847
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	8	165,800,000	165,800,000
Accumulated losses		(798,417)	(58,630)
TOTAL SHAREHOLDERS' EQUITY		165,001,583	165,741,370
LIABILITIES			
Non-current liabilities			
Employees' end of service benefits		218,735	107,385
Deposits from Saudi Central Bank (SAMA)	12.1	24,497,914	23,761,416
Total non-current liabilities		24,716,649	23,868,801
Current liabilities			
Trade payables		3,910,109	25,285
Accrued expenses and other current liabilities		1,095,218	957,858
Provision for Zakat	9	1,132,735	1,176,429
Due to a related party	7	-	34,270
Deposits from Saudi Central Bank (SAMA)	12.1	24,855,570	24,421,409
Advance from customers		207,503	607,425
Total current liabilities		31,201,135	27,222,676
TOTAL LIABILITIES		55,917,784	51,091,477
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		220,919,367	216,832,847

These financial statements appearing on pages 1 to 15 were approved by the Board of Directors on 28 Rabi Al Awwal 1444H corresponding to 24 October 2022G and have been signed on their behalf by:

 Dr. Faisal Khalil Kanoo Chairman of Board of Directors	 Nair Alsulami Chief Executive Officer	 Ashok Nair Board and Ex-Com member
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The accompanying notes from 1 to 15 appearing on pages 6 to 15 form an integral part of these condensed interim financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

	For the three months period ended 30 September 2022 (Unaudited)	For the three months period ended 30 September 2021 (Unaudited)	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
INCOME				
Income from operations				
Finance lease income	3,386,993	3,475,732	9,988,729	9,329,384
Income from other activities				
Other income	571,437	124,652	1,271,101	415,536
Total income	3,958,430	3,600,384	11,259,830	9,744,920
EXPENSES				
Loss on account of participation to SAMA deferred payment program (note 12.2)	(586,207)	(1,438,411)	(2,291,801)	(3,946,572)
Salaries and other employee related expenses	(2,251,019)	(1,625,270)	(6,171,509)	(4,102,156)
Legal and professional charges	(267,815)	(416,745)	(1,245,109)	(1,005,581)
Rent and related expenses	(100,543)	(204,296)	(339,468)	(472,526)
Depreciation	(34,867)	(24,259)	(100,132)	(84,314)
Amortization (note 4)	-	(25,710)	-	(77,130)
Other general and administrative expenses (note 13)	(320,726)	(566,670)	(783,584)	(1,147,550)
Insurance expense	(164,147)	(206,110)	(475,838)	(526,549)
Impairment of finance lease receivable	-	(945,979)	-	(945,979)
Impairment of advance to suppliers (note 5)	-	-	(360,000)	-
Total expenses	(3,725,324)	(5,453,450)	(11,767,441)	(12,308,357)
Profit / (loss) before Zakat	233,106	(1,853,066)	(507,611)	(2,563,437)
Zakat expense (note 9)	(81,610)	(194,619)	(232,176)	(194,619)
Profit / (loss) for the period	151,496	(2,047,685)	(739,787)	(2,758,056)
Other comprehensive income				
<i>Items that will not be reclassified to profit or loss:</i>				
Re-measurement gain on defined benefit plans	-	-	-	-
Other comprehensive income for the period	-	-	-	-
Total comprehensive income / (loss) for the period	151,496	(2,047,685)	(739,787)	(2,758,056)
Profit / (loss) per share – basic and diluted	0.009	(0.205)	(0.045)	(0.276)

The accompanying notes from 1 to 15 appearing on pages 6 to 15 form an integral part of these condensed interim financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

	Share capital	Additional equity contribution	Accumulated losses	Total
Balance at 1 January 2021	100,000,000	90,644,283	(19,269,466)	171,374,817
Penalty paid to SAMA relating to the year 2020 (note 13.1)	-	-	(400,000)	(400,000)
Loss for the period	-	-	(2,758,056)	(2,758,056)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(2,758,056)	(2,758,056)
Balance at 30 September 2021	100,000,000	90,644,283	(22,427,522)	168,216,761
Balance at 1 January 2022	165,800,000	-	(58,630)	165,741,370
Loss for the period	-	-	(739,787)	(739,787)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(739,787)	(739,787)
Balance at 30 September 2022	165,800,000	-	(798,417)	165,001,583

The accompanying notes from 1 to 15 appearing on pages 6 to 15 form an integral part of these condensed interim financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

	Notes	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
Cash flows from operating activities			
Loss before Zakat		(507,611)	(2,563,437)
<i>Adjustments for:</i>			
- Depreciation		100,132	84,314
- Impairment of advance to suppliers	5	360,000	-
- Loss on account modification of lease contracts payment terms	12.2	1,551,597	4,660,552
- Unwinding of initial gain accounted on profit free SAMA deposits, net	12.2	740,204	(713,980)
- Employees' end of service benefits		120,350	139,509
- Impairment of finance lease receivable		-	945,979
- Write-off of property and equipment		-	10,475
- Amortization	4	-	77,130
<i>Changes in:</i>			
- Net investment in finance lease		(2,533,567)	(31,413,545)
- Prepayments and other current receivables		(400,869)	(263,981)
- Due to related parties		(34,270)	(163,398)
- Trade payables		3,884,824	7,153
- Advance from customers		(399,922)	(2,293,802)
- Accrued expenses and other current liabilities		137,360	181,581
Cash generated from / (used in) operating activities		3,018,228	(31,305,450)
Penalty paid to SAMA	13.1	-	(400,000)
Employees' end of service benefits paid		(9,000)	(132,442)
Zakat paid	9	(275,870)	(232,168)
Net cash generated from / (used in) operating activities		2,733,358	(32,070,060)
Cash flows from investing activities			
Acquisition of property and equipment		(128,809)	(28,180)
Acquisition of intangible assets	4	(32,053)	(281,250)
Net cash used in investing activities		(160,862)	(309,430)
Cash flows from financing activities			
Deposits received from SAMA	12.1	16,236,275	18,275,016
Repayment of deposits to SAMA	12.1	(15,805,820)	(12,518,326)
Net cash from financing activities		430,455	5,756,690
Net increase / (decrease) in cash and cash equivalents		3,002,951	(26,622,800)
Cash and cash equivalents at beginning of the period		100,516,853	122,684,153
Cash and cash equivalent at end of the period	6	103,519,804	96,061,353

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
CONDENSED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

	Notes	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
SUPPLEMENTARY INFORMATION			
Non-cash transactions:			
Unwinding of initial gain accounted on profit free SAMA deposits, net	12.2	740,204	(713,980)
Loss on account modification of lease contracts payment terms	12.2	1,551,597	4,660,552
Impairment of advance to suppliers	5	360,000	-

The accompanying notes from 1 to 15 appearing on pages 6 to 15 form an integral part of these condensed interim financial statement

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

1. CORPORATE INFORMATION

Gulf Lifting Financial Leasing Company (“the Company”) previously known as “Gulf Lifting Rental Company” is a Saudi Closed Joint Stock Company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company is registered in Dammam under commercial registration number 1/50030896 dated 19 Shaban, 1416H corresponding to 10 January 1996G and operating under company license number 47/A Sh/201708 dated 14 Dhul Qa’dah 1438H corresponding to 6 August 2017G issued by Saudi Central Bank (“SAMA”).

The Company is engaged in the finance leasing business. The Company is effectively a wholly owned subsidiary of Yusuf Bin Ahmed Kanoo Company Limited.

In 2013, a new Finance Lease Law was enacted in the Kingdom of Saudi Arabia, whereby, only licensed companies are allowed to conduct finance lease business in the Kingdom of Saudi Arabia. Accordingly, the shareholders of the Company (i) filed application with relevant authorities to secure license to conduct finance lease business; (ii) increased the capital of the Company from SR 40 million to SR 100 million as required by the law; and (iii) resolved to transfer all the business activities and related assets and liabilities at carrying amount of operating lease business to a shareholder effective from 1 January 2013. During 2016, the Company received initial approval of the acceptance of application from the Saudi Central Bank (SAMA).

During 2016, the shareholders of the Company resolved to change the name of the Company from Gulf Lifting Rental Company to Gulf Lifting Financial Leasing Company. Further, the Company was converted from Limited Liability Company into a Closed Joint Stock Company in accordance with Ministerial Resolution number 287/Q dated 27 Dhul Qa’dah 1437H, corresponding to 30 August 2016. The legal formalities associated with the change in name and legal status of the Company were completed during 2016.

In view of the change in legal status, the shareholders also resolved to (i) convert statutory reserve and retained earnings to additional equity contribution at 30 August 2016 amounting to SR 90.65 million and (ii) transfer the assets, liabilities and activities of the Company to Closed Joint Stock Company.

The Company has received license from SAMA for practice of finance lease business in Kingdom of Saudi Arabia on 14 Dhul Qa’dah 1438H corresponding to 6 August 2017G.

During 2021, the Company has increased its share capital from SR 100 million to SR 165.8 million (Refer note 8).

2. BASIS OF PREPARATION, SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

2.1 Statement of compliance

These condensed interim financial statements (“Interim Financial Statements”) have been prepared in accordance with IAS 34 “Interim Financial Reporting” that is endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”), and should be read in conjunction with the Company’s last annual financial statements as at and for the year ended 31 December 2021 (“Last Annual Financial Statements”). They do not include all of the information required for a complete set of IFRS financial statements. However, changes in accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

2.2 Basis of preparation

These condensed interim financial statements have been prepared on a historical cost basis, using going concern assumption, except for investment which is measured at fair value and employees’ end of service benefits which is measured at projected unit credit method.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

2. BASIS OF PREPARATION, SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

2.3 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These condensed interim financial statements are presented in Saudi Riyals (SR) which is the Company's functional and presentation currency. All financial information presented in Saudi Riyals has been rounded to the nearest Riyal, unless otherwise stated.

2.4 Significant accounting judgments, estimates and assumptions

In preparing these condensed interim financial statements, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2021.

2.5 Standards, new pronouncements and interpretations:

a) New and revised standards with no material effect on the condensed financial statements.

The following new or revised standards adopted during the period which did not have significant impact on the condensed interim financial statements.

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018–2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

b) New and revised standards issued but not yet effective.

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's condensed interim financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

The Company's management decided not to choose the early adoption of the following new and revised standards and interpretations issued which will become effective for the period commencing after 1 January 2023.

- Classification of liabilities as current or non-current (Amendments to IAS 1), effective for annual periods beginning on or after 1 January 2023.
- IFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2023.
- Amendments to IFRS 17, effective for annual periods beginning on or after 1 January 2023.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2), effective for annual periods beginning on or after 1 January 2023.
- Definition of Accounting Estimate (Amendments to IAS 8), effective for annual periods beginning on or after 1 January 2023.
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes), effective for annual periods beginning on or after 1 January 2023.
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) with effective annual period yet to be determined.

The above-mentioned standards are not expected to have a significant impact on the Company's condensed interim financial statements.

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

2. BASIS OF PREPARATION, SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

2.6 Accounting policies

The accounting policies used in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2021.

A number of other new standards and interpretations as mentioned in note 2.5 (a) are effective from 1 January 2022 but they do not have a material effect on the Company's financial statements.

3. NET INVESTMENT IN FINANCE LEASES

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Gross investment in finance lease	135,525,824	135,853,575
Less: Unearned lease finance income	(18,904,373)	(20,214,094)
Net investment in finance leases	116,621,451	115,639,481
Impairment of finance lease receivable	(3,902,201)	(3,902,201)
	112,719,250	111,737,280
Current maturity	(59,161,240)	(49,370,168)
Non-Current maturity	53,558,010	62,367,112

3.1 The movement in the impairment of finance lease receivable was as follows:

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Balance at the beginning of the period / year	3,902,201	16,570,840
Allowance for the period / year	-	2,819,465
Write-off during the period / year	-	(15,488,104)
Balance at the end of the period / year	3,902,201	3,902,201

During the year end 31 December 2021, the Company written off SR 15,488,104 in respect of receivable from three delinquent customers.

3.2 The maturity of the gross investment in finance leases as at 30 September 2022 is as follows:

	Gross investment in finance leases (Unaudited)	Unearned lease finance income (Unaudited)	Net investment in finance leases (Unaudited)
Not later than one year	69,862,011	10,700,771	59,161,240
One to two years	35,789,711	5,437,484	30,352,227
Two to three years	19,680,068	2,134,858	17,545,210
Three to four years	10,194,034	631,260	9,562,774
	135,525,824	18,904,373	116,621,451

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

3. NET INVESTMENT IN FINANCE LEASES (Continued)

The maturity of the gross investment in finance leases as at 31 December 2021 is as follows:

	Gross investment in finance leases (Audited)	Unearned lease finance income (Audited)	Net investment in finance leases (Audited)
Not later than one year	60,391,939	11,021,771	49,370,168
One to two years	43,393,497	5,928,985	37,464,512
Two to three years	20,330,046	2,429,954	17,900,092
Three to four years	8,187,549	728,737	7,458,812
Four to five years	3,550,544	104,647	3,445,897
	<u>135,853,575</u>	<u>20,214,094</u>	<u>115,639,481</u>

4. INTANGIBLE ASSETS

Intangible assets represent licenses for computer software and asset under development for ERP software implementation expenses. The Company capitalized SR 32,053 as work in progress for ERP software implementation expenses for nine months period ended 30 September 2022 (nine months period ended 30 September 2021, the Company capitalized SR 281,250 as work in progress for ERP software implementation expenses). Amortization charge for three and nine months period ended 30 September 2022 amounted to SR Nil (three and nine months period ended 30 September 2021: SR 25,710 and SR 77,130 respectively).

5. PREPAYMENTS AND OTHER RECEIVABLES

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Prepaid expenses	420,271	304,874
Accrued profit on murabaha investments	158,983	95,268
VAT receivable	1,521,004	971,249
Advance to suppliers	1,196,315	1,004,000
Others	143,384	663,697
	<u>3,439,957</u>	<u>3,039,088</u>
Impairment of advance to suppliers	(360,000)	-
	<u>3,079,957</u>	<u>3,039,088</u>

6. CASH AND CASH EQUIVALENTS

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Bank balances	23,519,804	14,978,692
Murabaha investments	80,000,000	85,538,161
	<u>103,519,804</u>	<u>100,516,853</u>

Murabaha investments represent placements with banks having original maturity of less than three months and carry profits rates ranging from 2.35% to 2.60% per annum. (31 December 2021: 0.55% to 0.70%).

GULF LIFTING FINANCIAL LEASING COMPANY
(CLOSED JOINT STOCK COMPANY)
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2022
(Expressed in Saudi Riyals)

7. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties represent shareholders, directors and key management personal of the Company, and entities controlled or significantly influenced by such parties.

Amount due from/to related parties are disclosed in the statement of financial position.

Transactions with related parties mainly include collections on behalf of the Company, certain expenses and services which are undertaken at mutually agreed terms and conditions. These transactions are approved by management of the following entities and Board of Directors of the Company.

Transactions with related parties:

	Relationship	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
Yusuf Bin Ahmed Kanoo Company Limited	Shareholder		
Expenses paid on behalf of the Company		2,540	31,048
Payments made to the related party		36,810	8,083,758
Purchase of equipment		-	7,935,000
Kanoo Travel	Other related party		
Purchase of travel tickets		-	5,431
Payments made to the related party		-	51,119

Key management personnel compensation comprised of the following transactions:

	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
<u>Transactions:</u>		
Compensation of key management personnel	1,526,083	1,143,952
Board and audit committee remuneration	293,000	171,000
	1,819,083	1,314,952

Employees' end of service benefits includes an amount pertaining to key management personnel.

The above mentioned significant transactions with related parties resulted in the following balances:

Due to related parties:

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Yusuf Bin Ahmed Kanoo Company Limited	-	34,270

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8. SHARE CAPITAL

The pattern of shareholding as of 30 September 2022 and 31 December 2021 is as follows:

	Percentage of ownership	Number of Shares	Amount SR
Yusuf Bin Ahmed Kanoo Company Limited	94	15,585,200	155,852,000
Ali Abdulla Kanoo	1	165,800	1,658,000
Ali Abdulaziz Kanoo	1	165,800	1,658,000
Saud Abdulaziz Kanoo	1	165,800	1,658,000
Bader Abdulaziz Kanoo	1	165,800	1,658,000
Faisal Khalid Kanoo	1	165,800	1,658,000
Ahmed Fawzi Kanoo	1	165,800	1,658,000
	100	16,580,000	165,800,000

During the year 2021, the Company has increased its share capital from SR 100 million to SR 165.8 million. The increase of SR 65.8 million were given effect by transferring additional equity contribution amounting to SR 90.6 million and absorption of accumulated losses amounting to SR 24.8 million. The Company obtained shareholders' approval for capital increase on 29 December 2021 in its extra ordinary general meeting. During February 2022, the Company obtained updated commercial register and bye laws effecting increase in share capital.

9. ZAKAT

a) Zakat charge for the period:

The Company is subject to Zakat in accordance with the regulations of the General Authority for Zakat, Tax, and Customs Authority ("ZATCA"). Zakat expense is charged to the statement of profit or loss and other comprehensive income.

Zakat charge for nine months period ended 30 September comprises of the following:

	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
Zakat charge for the period	232,176	194,619

b) Provision for Zakat:

Movements in provision for Zakat for nine months period ended 30 September and for the year ended 31 December are as follows:

	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)	For the year ended 31 December 2021 (Audited)
Balance at beginning of the period/year	1,176,429	1,132,728	1,132,728
Charge for the period/year	232,176	194,619	275,869
Payments during the period/year	(275,870)	(232,168)	(232,168)
Balance at end of the period/year	1,132,735	1,095,179	1,176,429

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9. ZAKAT (Continued)

c) Zakat assessment status:

The Company has submitted its Zakat declarations with the General Authority for Zakat, Tax, and Customs Authority (“ZATCA”) up to the year 2021. The Company has obtained its Zakat certificate for the year ended 31 December 2021, which is valid up to 30 April 2023.

The ZATCA issued a Zakat assessment for the year 2016 through a letter dated 11 March 2019 (ref: 026000039227) with an additional liability of Zakat amounting to SR 1,607,005. The Company filed an objection letter against the ZATCA’s assessment for the year 2016 on 6 May 2019 and received a rejection letter on 16 September 2019. Pursuant to the receipt of the rejection letter on 14 October 2019, the Company filed an appeal against the rejection to the General Secretariat of Tax Committees - Committee for Resolution of Tax Violations and Disputes and received a rejection ruling on 30 August 2020. Pursuant to the receipt of the rejection on 29 September 2020, the Company filed an appeal to the General Secretariat of Tax Committees - Appellate Committee for Tax Violations and Disputes Resolution (ACTVDR) who issued a ruling on 13 July 2021 rejecting the Company’s appeal. The Company submitted a reconsideration request against the rejection to the ACTVDR on 10 August 2021. During February 2022, the request for hearing was accepted and the hearing was initially scheduled on 22 September 2022. The relevant authority communicated that the hearing is postponed and the new date will be notified in due course. As on the date of reporting, the Company is awaiting for the rescheduled hearing date. The management of the Company has assessed its position and as per their assessment it is highly likely that the case will be settled in favor of the Company. Subsequent to 30 September 2022, the Company received a pre-assessment for year 2017 and ZATCA proposed an additional liability of SR 1.1 million. The Company has submitted response to ZATCA and will provide further information if requested, however till date final assessment has not yet issues by ZATCA. The management of the Company has assessed its position and as per their assessment it is highly likely that the assessment will be settled in favor of the Company, in case of pre-assessment is finalized.

10. FINANCIAL INSTRUMENTS

The Company’s principal financial assets include cash and cash equivalents, finance lease receivable and certain other receivables and equity investment. The Company’s principal financial liabilities comprise trade payables, other payables and due to a related party. The main purpose of these financial liabilities is to finance the Company’s operations.

Fair value hierarchy

When measuring the fair value of an asset or a liability, the Company uses observable market 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.

All financial assets and financial liabilities are measured at amortized cost except for equity investment which is classified under FVOCI. As at reporting date, the fair values of all financial assets and financial liabilities measured at amortized cost approximates their carrying values.

11. CONTINGENCIES AND COMMITMENTS

The Company has no commitments and contingent liabilities as at 30 September 2022 (31 December 2021: Nil).

12. COVID-19 IMPACT AND RESPONSE

The global economy is recovering faster than it was expected at the beginning of the year, and the number of people vaccinated against COVID-19 is increasing. In addition, protective measures and contact restrictions are relaxed. However, uncertainties remain with the prospect of further COVID outbreaks as a result of new variants.

In response to the spread of the Covid-19 and its resulting potential disruptions to the social and economic activities in Saudi Arabia, management had proactively assessed its impacts on its operations and took a series of preventive measures, including the creation of on-going crisis management teams and processes, to ensure the health and safety of its employees, customers and the wider community as well as to ensure the continuity its services. Further, management has implemented active prevention programs and contingency plans in order to minimize the impact of risks related to COVID-19 and to safeguard the continuity of its business operations.

Based on this assessment, no significant adjustments were required in the condensed financial statements for the nine months period ended 30 September 2022.

SAMA programs

In response to COVID-19, SAMA launched the *Private Sector Financing Support Program* (“PSFSP”) in March 2020 to provide the necessary support to the SME sector through empowering and facilitating the financing community. The PSFSP mainly encompasses the following programs:

- Deferred payments program;
- Funding for lending program;
- Loan guarantee program; and
- Point of sale (“POS”) and e-commerce service fee support program.

As part of the deferred payments program, the Company was required to defer payments on lease contracts to the customers that qualify as SMEs. SAMA has introduced the program for an initial period of six month from 14 April 2020 and then later extended until 31 March 2022. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. Based on this program, the Company has effected the payment reliefs by deferring the instalments falling due within the period from 1 January 2022 to 31 March 2022 in first quarter of 2022 ending on 31 March 2022. The Company has recorded the accounting impact on account of modification of lease term as per the requirements of IFRS 9. The accounting impact upon participation to SAMA deferred payment program is explained in note 20 to the annual financial statements for the year ended 31 December 2021 effecting SAMA deferred payment program for period up to 31 December 2021. During December 2021 SAMA announced extension of the deferred payment program for a period of 3 months up to 31 March 2022. Accordingly, the impact of such extension has been incorporated in these condensed interim financial statements based on the same accounting principles as applied to the annual financial statements for the year ended 31 December 2021.

In order to compensate loss on account of deferred lease payments, the Company received profit free deposit from SAMA as and when the Company participated to the program, including its extensions during the year 2020 to 2022. As explained in the note 20 to the annual financial statements for the year ended 31 December 2021, the benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income. The Company received SR 18.3 million as refundable deposits from SAMA and repaid SR 12.5 million during the year 2021. Further, the Company has received profit free deposit from SAMA amounting to SR 18.3 million and refunded SR 12.5 million during the nine months period ended 30 September 2021. During the nine months period ended on 30 September 2022, upon participation to the extended program, the Company has received profit free deposit amounting to SR 16.2 million from SAMA and repaid SR 15.8 million.

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12. COVID-19 IMPACT AND RESPONSE (Continued)

12.1 Deposits from Saudi Central Bank (SAMA)

	30 September 2022 (Unaudited)	31 December 2021 (Audited)
Deposits received, net of refunds	49,353,484	48,182,825
Current	24,855,570	24,421,409
Non-current	24,497,914	23,761,416
	49,353,484	48,182,825

The carrying amount of SR 49,353,484 (31 December 2021: SR 48,182,825) includes a notional net expense amounting to SR 740,204 due to unwinding of initial gain accounted (31 December 2021: notional net gain amounting to SR 235,346 due to of the benefit of the subsidised funding rate).

Movements in deposits from Saudi Central Bank for nine months period ended 30 September and for the year ended 31 December are as follows:

	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)	For the year ended 31 December 2021 (Audited)
Balance at beginning of the period / year	48,182,825	42,661,481	42,661,481
Deposits received during the period / year	16,236,275	18,275,016	18,275,016
Repayment of deposits during the period / year	(15,805,820)	(12,518,326)	(12,518,326)
Gain on account of fair value adjustments	(944,001)	(2,016,439)	(2,016,439)
Unwinding of initial gain accounted	1,684,205	1,302,459	1,781,093
Balance at end of the period/year	49,353,484	47,704,191	48,182,825

12.2 Loss on account of participation to SAMA deferred payment program

	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
Loss on account modification of lease contracts payment terms	1,551,597	4,660,552
Unwinding of initial gain accounted on profit free SAMA deposits, net of gain on account of fair value adjustments	740,204	(713,980)
	2,291,801	3,946,572

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13. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months period ended 30 September 2022 (Unaudited)	For the three months period ended 30 September 2021 (Unaudited)	For the nine months period ended 30 September 2022 (Unaudited)	For the nine months period ended 30 September 2021 (Unaudited)
Software maintenance and IT consultancy	67,470	334,570	201,084	573,578
Withholding taxes and non-refundable VAT	61,444	26,247	141,282	101,865
Electricity and water	13,355	13,422	28,417	27,566
Communication	46,121	33,848	82,273	106,418
Government fees and penalties*	25,687	108,294	89,107	171,207
Travel	8,825	13,382	20,770	45,705
Subscription and periodicals	42,160	-	97,952	27,458
Miscellaneous	55,664	36,907	122,699	93,753
	320,726	566,670	783,584	1,147,550

*Government fees and penalties include penalties paid to SAMA amounting to SR Nil and SR 50,000 for the three and nine months period ended 30 September 2022 respectively (three and nine months period ended 30 September 2021: SR 60,000 and SR 60,000 respectively).

13.1 Penalty paid to SAMA

In 2020, SAMA performed inspection of the Company and noted certain observations pursuant to which it imposed a penalty of SR 400,000 during the nine months period ended 30 September 2021. This penalty has been charged to retained earnings as the inspection took place in 2020 and the observations were shared in the same year. The amount is not material to adjust the annual financial statements for the year ended 31 December 2020.

14. EVENTS AFTER THE REPORTING DATE

There were no significant events between the date of condensed interim financial statements and its approval which requires adjustments /disclosure in these condensed interim financial statements.

15. APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were approved on 28 Rabi Al Awwal 1444H corresponding to 24 October 2022G.