

Directors' Report

Gulf Lifting Financial Leasing

For the Year Ended 31 December 2018

The Board of Directors of Gulf Lifting Financial Leasing Company is pleased to present its 3rd annual report with audited financial statements of the Company for the year ended on December 31, 2018.

Introduction

Gulf Lifting Financial Leasing Company, Previously Gulf Lifting Rental Company Limited ("GLFL" or the "Company") Saudi closed joint stock company established in the year 1996 under the regulations for companies in the Kingdom of Saudi Arabia number 2050030896 issued in Dammam on 19 Shaaban 1416H (corresponding to 10 January 1996), and converted to joint stock company by Ministerial Order No G/287 Dated 27 Dhu alqaeda 1437H corresponding to 30 August 2016 .The company obtained Saudi Arabian Monetary Authority ("SAMA") license to practice financial lease activity No. 47/A SH/201708 dated 14/11/1438H corresponding to 6 August 2017. The Company operates through its head office at Dammam across the Kingdom.

The objective of the Company is to provide medium term financial lease to all productive sectors of the economy with particular emphasis to serving the needs of small to medium size enterprises thereby assisting in providing, extending and expanding the credit delivery mechanism in the Kingdom.

1. Significant Developments

- The company obtained SAMA extension on its product (IJARAH)
- The company has implemented Value Added Tax ("VAT")
- The Company has adopted International Financial Reporting Standards (IFRS 9 & 19)
- The company has created customer care department
- The company launched sale and lease-back product
- The Company has subscribed in Saudi Company for the registration of financial leasing contracts and received certificate of ownership 89,285 shares valued SAR 892,850

2. Business Segments

GLFL is currently under SAMA licensing, and assets leased by the Company mainly include vehicles, equipment's for construction & contracting etc., plant and machinery.

The GLFL Company aims to provide financial solutions to support the sale of heavy equipment and commercial vehicles to corporate sectors who are looking for financial lease as a tool to finance their Capex. Financial leases are offered to credit worthy customers with good market reputation.

3. Strategy

The current economic situation and prognosis of key economic indicators pose a challenge in terms of maintaining the book-size and responding to that, management set a selective business target for 2019 with a business strategy that primarily will focus exposure diversification towards sectors driven by demographics of the country. Over a longer term, diversification efforts will focus further, the business sectors targeted for development as part of National Transformation Plan and proposed under the deregulation scheme. Marketing strategy envisages progress reach out and follow ups for potential clients in the targeted sectors, with an additional support of marketing and participation in exhibitions.

✓ **Customer Size Target**

✓ **Primary Target:**

- Medium business enterprise (annual revenues SR 50-250 million).
- Small business enterprises (annual revenues less than SR 50 million).

✓ **Secondary Target:**

- Corporate customers (annual revenues over 250 million).

✓ **Customer Activities Target:**

- Heavy Equipment Rental companies (Cranes, Excavators, and Forklifts).
- Construction sector (Cranes, Excavators, Forklifts).
- Industrial sector (General Machinery, forklifts, generators).
- Trading sector (Pick-ups and Forklifts).
- Transportation Sector (Commercial Vehicles: e.g. Trucks and Busses).

4. Risk Management

Risk management is a vital factor of GLFL's activities. The Company manages a process of ongoing risk identification and measurement through the use of risk limits and other controls and a number of committees and sub committees, established to coordinate day to day risk management. Following is the summary of main risks:

Credit Risk:

Credit risk is the risk of financial loss if a counter party fails to meet its contractual obligations. GLFL's credit risk exposures arise principally from its finance leasing activities. Such risks are monitored on regular basis and are subject to quarterly or more frequent review. GLFL follows a cascaded credit approval structure for finance leases in order to minimize credit risk.

Due Diligence Risk:

A key component of the approval of any proposed lease finance transaction is the due diligence carried out in respect of each prospective customer. GLFL has to detail risk assessment procedures designed to reduce the risk inherent in entering into lease finance transactions.

The focus for the Credit Risk Management Department should be greater scrutiny of credit quality whilst considering risk-based returns, selective asset growth that will lead to higher levels of diversification and lower levels of concentration and the implementation of new processes to manage client excesses more efficiently.

Liquidity Risk:

Liquidity risk includes the conditions where GLFL will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To address its liquidity risk, GLFL uses contractual maturity analysis and cash flow forecasts. GLFL strives to create a diversified lease portfolio with manageable correlation risk between its assets and liabilities and an average lease duration period of three to five years.

Operational Risk:

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. GLFL will manage the operational risk through a control framework and by monitoring and responding to potential risks. Other activities to mitigate operational risk include segregation of duties, access authorization and reconciliation procedures, process automation, staff training and education and assessment procedures.

5. Financial Highlights Audited past years:

The Company's gross revenues (Lease finance income) for the year ended December 31, 2018 were SR 5.6 million as compared to total revenue (Lease finance income) of SR 5.2 million in 2017 due to Increase in business volume. Operating expenses decrease to SR 7.2 million as against SR 7.46 million in 2017 mainly due to decrease in the general administration expenses. The provisions for lease losses during the year 2018 was SR 0.307 million (2017: 0.947million) taking the accumulated provision to SR 1.465 million at the year-end.

<u>Comparison of Actual Audited Financials for the Year 2013 to 2018</u>						
	Cur = SAR in Millions					
Descriptions	Actual					
Breakdowns Year wise	2013	2014	2015	2016	2017	2018
Revenue	36.014	82.976	32.638	7.367	5.182	5.633
Income from sort term deposit			0.003	0.058	1.517	2,476
Direct cost	-25.022	-73.643	-20.089			
Total Gross Revenues	10.992	9.333	12.552	7.425	6.699	8,109
Operating Expenses						
Salaries and employee related costs	0.108	0.089	0.573	1.185	4.085	4.222
Rent and related Expenses			0.03	0.113	0.602	.372
Provision of Bad Debt	0.354	-0.354	0.044	0.164	0.947	.307
Other Admin Expenses	0.028	0.028	0.058	0.431	1.126	1,242
Amortization Charges					0.565	.657
Depreciation					0.141	.161
Insurance Expense						.097
Total Expenses	0.49	-0.237	0.705	1.893	7.466	7.237
Net Profit (Before Zakat)	10.502	9.57	11.847	5.532	-0.767	.872

6. Geographical Concentration

The Company only operates in the Kingdom of Saudi Arabia with head office in Dammam in future plane will be consulting in Riyadh.

7. Dividend policy

The dividend policy of the Company is set out in Article 46 of its Articles of Association and instructions of the Ministry of Commerce and Investment and after obtaining SAMA written approval prior to any distribution.

Dividend distribution is as follows:

1. (10%) of the net profit shall be set aside to serve as Statutory Reserve of the company. The Ordinary General Assembly may suspend such setting-side once the said reserve reaches (30%) of the paid capital.
2. The Ordinary General Assembly may, based on a suggestion from the Board of Directors, set aside (%) a percentage of the net profit to form a consensus reserve to be designated for purpose(s) as determined by the General Assembly.
3. The Ordinary General Assembly may decide to form other reserves in the quantity that serves the company's interest and ensures distribution of fixed profits, if practicable, to the shareholders.
4. The balance shall then be distributed among the shareholders at a percentage representing no less than (5 %) of the company's paid capital.
5. The balance to be distributed among shareholders as share in profits or to be transferred to the account of Retained Earnings.

No dividend was distributed or recommended during the year.

8. Financial Reporting Standards & Audit

GLFL maintains proper books of accounts and, in compliance with the Implementing Regulations of the KSA & SAMA Law on Supervision of (KPMG) Financial Auditing Companies, the annual audited financial statements for the year ended 31 December 2018 of GLFL have been prepared in accordance with (IFRS).

The Company has an Internal Audit department that performs audits as per approved annual plan and reported to Audit committee, established by the Board of Directors. The Audit Committee is entrusted with the responsibilities of assisting the Board of Directors in fulfilling its responsibilities for developing and maintaining system of internal control, and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee is also responsible for recommendation of external auditors and rotation thereof, review of financial statements prior to their approval by the Board of Directors, and discussion with external auditors over audited financial statements, management letter and conduct of audit.

9. Compliance, Anti-Money Laundering & Counter Terrorism Financing

The Board and Management believe that the existence of Compliance and Anti-Money Laundering & Counter Terrorism Financing functions are an integral part of sound management framework. The Company is firmly committed to the compliance of regulations and to combat money laundering. The Company will established policies and procedures that combine general principles with local regulations in force, as per required by SAMA & other KSA authorities.

10. Effectiveness of Internal Control System

Management is responsible for the appropriate design and implementation of the system, and the Risk Management, Internal Audit and Compliance Departments for the continuous monitoring and evaluation of the system. All employees

are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels. The external auditors are responsible for determining the adequacy of the system of internal controls to decide the level of reliance they can place on the Company's internal controls, to design their audit procedures accordingly.

The Company's Internal Control System is subject to ongoing evaluations and improvement to allow for the identification of any gaps and meet the desired level of effectiveness, key controls include:

- Existence of a series of policies and procedures, which are subject to regular updates and reviews to verify their sufficiency and adequacy.
- Most of the Company's operations are automated using sophisticated systems, which minimizes errors and fraud opportunities.
- All work related and major important decisions are supervised through committees created for this purpose and to safeguard the Company's assets.
- Existence of departments specialized in fields of audit, compliance control and risk management.

The Board is of the opinion that the functioning of the internal control system is appropriate and nothing has come to the attention of the Audit Committee that causes it to believe that the system of internal control has not been properly designed or implemented or that effective and efficient internal controls have not been in place throughout the year 2018.

11. Ethical Standards and Code of Conduct

GLFL is committed to instill and maintain a culture of professionalism through its Code of Conduct which is based on fundamental principles of integrity, confidentiality and professionalism. It applies to the management, employees and any other person that may represent the Company. GLFL operates under the governing authority of its Board of Directors, who respectively, oversees the implementation and effectiveness of its ethical standards and Code of Conduct.

12. Capital pattern

There was no change in the shareholding during the year. Shareholding pattern as at December 31, 2018 is as follows:

shareholder	Number of shares	percentage
Yusuf Bin Ahmed Kanoo Company Ltd	9,400,000	%94
Individuals	600,000	%6
Total	10,000,000	%100

Yusuf Bin Ahmed Kanoo Company Ltd. 94%

- ✓ Yusuf Bin Ahmed Kanoo is one of the largest independent, family owned Group of Companies in the Gulf region. Established in Bahrain in 1890 by Haji Yusuf Bin Ahmed Kanoo, the group grew from its early trading and shipping business to become one of the most diversified and highly regarded business houses in the Gulf region and beyond.
- ✓ Kanoo has diversified interests in shipping, travel, machinery, logistics, property, oil & gas, power, chemicals, training, joint ventures, retail and commercial activities among others. Today the Kanoo companies operate extensively throughout Saudi Arabia, Bahrain, United Arab Emirates, Oman, Yemen and Qatar and are greatly respected for their ability to combine traditional values with a global vision.
- ✓ For more than 120 years the Kanoo family has always been associated with the progress and development of the entire region. The Kanoo legend is a multi-generation history of energy, productivity, success and above all the shared satisfaction of making a difference in the world through philanthropy.

13. Related Party Transactions

In the ordinary course of its activities, the Company transacts business with related parties which are related to its shareholders.

14. Board of Directors

The Board of Directors consists of (5) five members appointed by the General Assembly of the Company for a period not exceeding three years

The composition of the Board of Directors as at 31 December 2018 is as follows:

Name of Director	Position	Classification
Ali Abdullah Kanoo	Chairman	Non – executive Director
Ali Abdulaziz Kanoo	Director	Non – executive Director
Bader Abdulaziz Kanoo	Director	Non – executive Director
Faisal Khalid Kanoo	Director	Non – executive Director
Ahmed Fawzi Kanoo	Director	Non – executive Director

Board Committees

A. Credit and Risk Management Committee: (“CRM Committee”):

Composition:

The Risk and Credit Management Committee consists of three members:

Name	Position	classification
Faisal Khalid Kanoo	Chairman	Non – executive Director
Anan Hammodah*	Member	CEO
Thonoor Ashok Nair	Member	Non-board member

*Resigned on September 4, 2018.

Following are the main responsibilities of CRM Committee;

- To assist the Board in reviewing overall risks which the Company might face and to decide on mitigating factors related therewith.
- To evaluate and review operational and non-operational risks and related mitigating factors.
- To review and approve credit exposures for lessees.

B. Audit & Compliance Committee:

Composition:

The Audit & Compliance Committee consists of three members:

Name	Position	classification
Fahad Mohammed Al Fawaz	Chairman	Non-board member
Salah Abdulrhman Al Huzami	Member	Non-board member
Bader Abdulaziz Kanoo	Member	Non – executive Director

The Committee assists the Board to ensure integrity of periodic Financial Statements and effectiveness of.

- external Audit, with respect to the appointment, rotation, qualifications and independence of External Auditors and the conduct of audit,
- the system of internal controls,
- the Internal Audit function and Compliance function.

15. Sharia Committee:

The Company has appointed a Sharia Committee to review the Company's products and transactions in accordance with Islamic Sharia.

16. External Auditors

KPMG was appointed as external auditor for the year ended 31 December 2018.

17. Social Responsibility

The company derives its activities related to its social responsibility from its commitment to contributing towards a better future by caring for the local communities.

18. Applicable Laws and Regulations

The Company is committed to the laws, regulations in force in the Kingdom of Saudi Arabia. Therefore, there has been no penalty been imposed on the company by any regulator during the year.

19. Declaration

The Board confirm the following:

- Proper books of account have been maintained;
- The system of internal control is sound in design and has been effectively implemented; and
- There are no significant doubts concerning the Company's ability to continue as a going concern.

Chairman