

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
Interim condensed financial statements
For the period ended 31 March 2021
together with the
Independent auditor's review report

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED FINANCIAL STATEMENTS
As at 31 March 2021

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كي بي إم جي للاستشارات المهنية

واجهة الرياض، طريق المطار
صندوق بريد ٩٢٨٧٦
الرياض ١١٦٦٣
المملكة العربية السعودية
المركز الرئيسي

سجل تجاري رقم ١٠١٠٤٢٥٤٩٤

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

To the shareholder of Saudi Fransi for Finance Leasing

Introduction

We have reviewed the accompanying 31 March 2021 interim condensed financial statements of **Saudi Fransi for Finance Leasing** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 31 March 2021;
- the interim condensed statement of comprehensive income for the three months period ended 31 March 2021;
- the interim condensed statement of changes in equity for the three months period ended 31 March 2021;
- the interim condensed statement of cash flows for the three months period ended 31 March 2021; and
- the notes to the interim condensed financial statements.

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with 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 the 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2021 interim condensed financial statements of **Saudi Fransi for Finance Leasing** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

KPMG Professional Services

Dr. Abdullah Hamad Al Fozan
License no: 348

Riyadh: 16 Ramadan 1442H
Corresponding to: 28 April 2021



SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 31 March 2021
(SR '000)

| | <u>Notes</u> | 31 March 2021 <i>(Unaudited)</i> | 31 December 2020 <i>(Audited)</i> |
|--|--------------|--|---|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | | 9,629 | 7,554 |
| Net investment in finance leases | 5 | 2,603,125 | 2,507,492 |
| Prepayments | | 91,929 | 70,581 |
| Other assets | 6 | 21,406 | 16,401 |
| Investment at FVOCI | | 893 | 893 |
| Property, equipment and right of use assets | | 4,111 | 2,912 |
| Intangible assets | | 207 | 248 |
| Total assets | | 2,731,300 | 2,606,081 |
| <u>SHAREHOLDERS' EQUITY AND LIABILITIES</u> | | | |
| Liabilities | | | |
| Long-term loan | 9 | 1,580,256 | 1,529,245 |
| SAMA deposit, net | | 10,167 | 10,119 |
| Accounts payable | 10 | 119,038 | 80,627 |
| Advance from customers | | 84,782 | 75,126 |
| Due to related parties | 8.b | 31,280 | 30,951 |
| Negative fair value of derivatives | 7 | 37,387 | 42,347 |
| Accrued expenses and other liabilities | | 14,677 | 18,693 |
| Employees' end of service benefits | | 7,168 | 6,882 |
| Provision for zakat and income tax | 11 | 29,472 | 23,573 |
| Total liabilities | | 1,914,227 | 1,817,563 |
| Shareholders' equity | | | |
| Share capital | | 500,000 | 500,000 |
| Statutory reserve | | 37,461 | 37,461 |
| Other reserves | | (36,882) | (41,842) |
| Retained earnings | | 316,494 | 292,899 |
| Total shareholders' equity | | 817,073 | 788,518 |
| Total shareholders' equity and liabilities | | 2,731,300 | 2,606,081 |

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
For the three-months period ended 31 March 2021 (Unaudited)
(SR '000)

| | <i>Notes</i> | For the three-months period ended | |
|---|--------------|--|------------------|
| | | 31 March 2021 | 31 March 2020 |
| Revenue | | | |
| Lease finance income | | 33,896 | 29,805 |
| Fees income | <i>12</i> | 50,824 | 50,299 |
| | | 84,720 | 80,104 |
| Operating expenses | | | |
| Fees expenses | <i>12</i> | (33,476) | (38,736) |
| Salaries and employee related expenses | | (7,602) | (7,330) |
| Rent | | - | (99) |
| Depreciation | | (210) | (59) |
| Amortization | | (40) | (53) |
| General and administration expenses | | (1,953) | (1,331) |
| Financial charges | | (11,422) | (13,173) |
| Allowance for expected credit losses, net | <i>5.1</i> | (1,870) | (2,546) |
| | | (56,573) | (63,327) |
| Net operating income | | 28,147 | 16,777 |
| Other income | | 1,347 | 1,207 |
| Net income for the period before zakat and income tax | | 29,494 | 17,984 |
| Zakat and income tax | <i>11</i> | (5,899) | (3,112) |
| Net income for the period | | 23,595 | 14,872 |
| Other comprehensive income / (loss) for the period | | | |
| <i>Items that may be reclassified to statement of income in subsequent years:</i> | | | |
| Cash flow hedges – net change in fair value | | 4,960 | (21,103) |
| Total comprehensive income / (loss) for the period | | 28,555 | (6,231) |

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
For the three-months period ended 31 March 2021 (Unaudited)
(SR '000)

| For the period ended 31 March 2021 | <u>Share capital</u> | <u>Statutory reserve</u> | <u>Other reserves</u> | <u>Retained earnings</u> | <u>Total</u> |
|---|---------------------------------|-------------------------------------|----------------------------------|-------------------------------------|---------------------|
| Balance as at 1 January 2021 | 500,000 | 37,461 | (41,842) | 292,899 | 788,518 |
| Net income for the period | -- | -- | -- | 23,595 | 23,595 |
| Other comprehensive income | -- | -- | 4,960 | -- | 4,960 |
| Balance as at 31 March 2021 | 500,000 | 37,461 | (36,882) | 316,494 | 817,073 |
| | | | | | |
| For the period ended 31 March 2020 | <u>Share Capital</u> | <u>Statutory reserve</u> | <u>Other reserves</u> | <u>Retained earnings</u> | <u>Total</u> |
| Balance at 1 January 2020 | 500,000 | 30,242 | (19,308) | 227,926 | 738,860 |
| Net income for the period | -- | -- | -- | 14,872 | 14,872 |
| Other comprehensive income | -- | -- | (21,103) | -- | (21,103) |
| Balance as at 31 March 2020 | 500,000 | 30,242 | (40,411) | 242,798 | 732,629 |

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the three-months period ended 31 March 2021 (Unaudited)
(SR '000)

| | <u>Notes</u> 31 March 2021 | <u>31 March 2020</u> |
|---|-----------------------------------|----------------------|
| Cash flows from operating activities | | |
| Net income for the period before zakat and income tax | 29,494 | 17,984 |
| <i>Adjustments to reconcile net income to net cash generated from operating activities:</i> | | |
| Depreciation | 210 | 59 |
| Amortization | 40 | 53 |
| Charge for expected credit losses, net | 5.1 1,870 | 2,546 |
| Employees' end of service benefits | 386 | 365 |
| Financing charges | 11,422 | 13,173 |
| | <u>43,422</u> | <u>34,180</u> |
| Net (increase) in operating assets | | |
| Net investment in finance leases | (97,504) | (36,726) |
| Prepayments | (30,829) | 39,034 |
| Other assets | 4,476 | 3,297 |
| | <u>(80,435)</u> | <u>(44,877)</u> |
| Net (decrease) / increase in operating liabilities | | |
| Accounts payable | 38,411 | 36,263 |
| Due to related parties | 329 | 4,510 |
| Advance from customers | 9,656 | 1,378 |
| Accrued expenses and other liabilities | (3,654) | (3,473) |
| | <u>(35,693)</u> | <u>(6,199)</u> |
| Employees' end of service benefits paid | <u>(100)</u> | <u>(57)</u> |
| Net cash used in operating activities | <u>(35,793)</u> | <u>(6,256)</u> |
| Cash flows from investing activities | | |
| Purchase of intangibles | -- | (291) |
| Purchase of property and equipment | (1,409) | -- |
| Net cash used in investing activities | <u>(1,409)</u> | <u>(291)</u> |
| Cash flows from financing activities | | |
| Draw down of long-term loan | 165,000 | 120,000 |
| Payments of long-term loan | (113,542) | (104,375) |
| Financial charges paid | (11,907) | (12,537) |
| Principal payment of lease liabilities | (274) | (289) |
| Net cash generated from financing activities | <u>39,277</u> | <u>2,799</u> |
| Net increase / (decrease) in cash and cash equivalents | 2,075 | (3,748) |
| Cash and cash equivalents at the beginning of the period | 7,554 | 19,831 |
| Cash and cash equivalents at the end of the period | <u>9,629</u> | <u>16,083</u> |

The accompanying notes (1) through (20) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-months period ended 31 March 2021
(SR '000)

1. THE COMPANY AND NATURE OF OPERATIONS

Saudi Fransi for Finance Leasing (“the Company”) is a Closed Joint Stock Company (“CJSC”) established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 dated 25 Dhul Hijjah 1432H (corresponding to 21 November 2011).

As per the Saudi Central Bank (“SAMA”) directive, the Company obtained a license no. 201511/ 38/ش to practice finance activities.

The Company’s head office is located in Riyadh at the following address:

Saudi Fransi for Finance Leasing
Prince Abdulaziz Ibn Musaid Ibn Jalawi Road
P.O. Box 56006,
Riyadh 11554
Kingdom of Saudi Arabia

The objective of the Company is to provide lease financing for assets.

2. BASIS OF PREPARATION

a) Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 31 March 2021 has been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”).

b) Basis of measurement

These interim condensed financial statements have been prepared on a going concern basis under the historical cost convention except for commission rate swaps and investment at fair value through other comprehensive income – equity instrument, which are measured at fair value. Further, employees’ end of service benefits are measured at present value of future obligations using the projected unit credit method.

The Company does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity.

c) Functional and presentation currency

Items included in these interim condensed financial statements are measured using the currency of the primary economic environment in which the Company operates. These interim condensed financial statements are presented in Saudi Arabian Riyals (“SAR”) which is the Company’s functional and presentation currency. All financial information presented has been rounded-off to the SR in thousand unless otherwise stated.

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

New standards, interpretations and amendments adopted by the Company

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2021, but do not have a material impact on the interim condensed financial statements of the Company.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-months period ended 31 March 2021
(SR '000)

3. IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (CONTINUED)

New standards, interpretations and amendments adopted by the Company

The International Accounting Standard Board (IASB) has issued following accounting standards, amendments, which were effective from periods on or after January 1, 2021. The management has assessed that the amendments have no significant impact on the Company's interim condensed financial statements.

- Amendments to IAS 37 - Onerous Contracts – Cost of Fulfilling a Contract;
- Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use;
- Amendments to IFRS 3 - Reference to the Conceptual Framework; and
- Amendments to IAS 1 Classification of liabilities as current or non-current.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the audited financial statements for the year ended 31 December 2020.

5. NET INVESTMENT IN FINANCE LEASES

| | 31 March 2021 (Unaudited) | | |
|---|------------------------------------|---|------------------|
| | Not later than one year | Later than one year and less than five years | Total |
| Lease contract receivables | 1,187,850 | 2,082,335 | 3,269,885 |
| Unearned lease income | (208,666) | (365,886) | (574,552) |
| | 978,884 | 1,716,449 | 2,695,333 |
| Provision for expected credit losses | (33,488) | (58,720) | (92,208) |
| 5.1 | 945,396 | 1,657,729 | 2,603,125 |
| Net investment in finance leases | 945,396 | 1,657,729 | 2,603,125 |

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2020: 3% to 7%) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

| | 31 December 2020 (Audited) | | |
|---|------------------------------------|---|------------------|
| | Not later than one year | Later than one year and less than five years | Total |
| Lease contract receivables | 1,176,544 | 2,004,308 | 3,180,852 |
| Unearned finance income | (215,061) | (366,424) | (581,485) |
| Net receivable from finance lease | 961,483 | 1,637,884 | 2,599,367 |
| Provision for expected credit losses | (33,979) | (57,896) | (91,875) |
| 5.1 | 927,504 | 1,579,988 | 2,507,492 |
| Net investment in finance leases | 927,504 | 1,579,988 | 2,507,492 |

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-months period ended 31 March 2021
(SR '000)

5. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

5.1 The movement in the allowance for expected credit losses is as follows:

| | For the period ended 31 March 2021 (Unaudited) | For the year ended 31 December 2020 <i>Audited</i> |
|--|---|---|
| Opening allowance for expected credit losses | 91,875 | 105,036 |
| Charge / (reversal) for the period / year | 1,870 | (1,768) |
| Write off | (1,537) | (11,393) |
| Closing allowance for expected credit losses (note 5.2) | 92,208 | 91,875 |

5.2 This includes management overlays of SR 4.78 million (31 December 2020: SR 4.78 million) as detailed in note 17 of these interim condensed financial statements.

6. OTHER ASSETS

| | 31 March 2021 (Unaudited) | 31 December 2020 <i>(Audited)</i> |
|------------------------------|--|---|
| VAT receivable, net | 10,110 | 8,879 |
| Dealers receivable | 3,171 | 1,955 |
| Other receivables (note 6.1) | 8,125 | 5,567 |
| | 21,406 | 16,401 |

6.1 This includes amount pertaining to receivables from customers against fee receivables from customer care services equal to SR 1.99 million (31 December 2020: SR 1.83 million). As at 31 March 2021, the expected credit loss against these receivables are SR 1.5 million (31 December 2020: SR 1.5 million).

7. DERIVATIVES

| SR in 000' | Negative fair value of derivative | Notional amount | | | |
|----------------------|--|----------------------------|------------------------|------------------|------------------|
| | | Within 3 months | 3-12 months | 1-5 years | Total |
| 31 March 2021 | (37,387) | 88,542 | 265,625 | 1,057,292 | 1,411,458 |
| 31 December 2020 | (42,347) | 113,542 | 265,625 | 1,145,833 | 1,525,000 |

The Company entered into commission rate swaps with its parent, BSF. The negative fair value of commission rate swaps is SAR 37.38 million (31 December 2020: SAR 42.35 million). The fair value of commission rate swaps is calculated using discounted cash flow model using a risk-free discount rate adjusted for appropriate risk margin for counterparty risk including entity's own credit risk.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-months period ended 31 March 2021
(SR '000)

8. RELATED PARTY TRANSACTIONS

The related parties of the Company comprise of BSF and its affiliated entities and certain key management personnel. The Company transacts with its related parties in the ordinary course of business. The transactions with related parties are undertaken in light of applicable rules and regulations.

The Company in its ordinary course of business transacts with the following related parties. The terms of those billings and charges are on an agreed basis with these related parties:

| <u>Name</u> | <u>Relationship</u> |
|----------------------------|---------------------|
| Banque Saudi Fransi (BSF) | Parent |
| Sofinco Saudi Fransi (SSF) | Affiliate |
| Allianz Saudi Fransi (ASF) | Affiliate |

In addition to the related party transactions and balances disclosed elsewhere in these interim condensed financial statements, significant transactions and balances arising from transactions with related parties are as follows:

a) Transactions with related parties

| <u>Nature of transactions</u> | <u>Related parties</u> | <u>For the three-months period ended</u> | |
|--|-----------------------------------|--|----------------------|
| | | <u>31 March 2021</u> | <u>31 March 2020</u> |
| Lease rental collected | SSF | <u>119</u> | <u>109</u> |
| IT maintenance and network related expenses | BSF | <u>225</u> | <u>300</u> |
| Financial charges on long-term loan and commission rate swaps including bank charges | BSF | <u>11,422</u> | <u>13,171</u> |
| Salaries and employee related expenses | BSF | <u>538</u> | <u>1,196</u> |
| Finance Lease disbursed | BSF and certain member of the BOD | <u>-</u> | <u>435</u> |
| Insurance expense of leased assets | ASF | <u>4,946</u> | <u>20,989</u> |
| Draw down of long-term loan | BSF | <u>165,000</u> | <u>120,000</u> |
| Payments of long-term loan | BSF | <u>113,542</u> | <u>104,375</u> |

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company; these expenses mainly included provision of rent-free premises, telephone expenses and electricity expenses.

b) Due to related parties (excluding term loan):

| | <u>31 March 2021</u> | 31 December 2020 |
|----------------------|----------------------|------------------|
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| Banque Saudi Fransi | <u>10,230</u> | 8,727 |
| Allianz Saudi Fransi | <u>21,050</u> | 22,224 |
| | <u>31,280</u> | <u>30,951</u> |

c) Other balances with a related party:

| | <u>31 March 2021</u> | 31 December 2020 |
|---------------------------|----------------------|------------------|
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| <u>Nature of balances</u> | | |
| Cash and Cash equivalents | <u>9,629</u> | 7,554 |
| Long-term loan | <u>1,580,256</u> | <u>1,529,245</u> |

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8. RELATED PARTY TRANSACTIONS (CONTINUED)

- d) The Company considers chief executive officer and chief financial officer as key management personnel. The compensation of the key management personnel are listed below:

| | For the three-months period ended | |
|-------------------------|--|--|
| | 31 March 2021 (Unaudited) | 31 March 2020 (Unaudited) |
| Salaries | 364 | 341 |
| End of service benefits | 15 | 13 |
| Other allowances | - | 6 |
| | <u>379</u> | <u>360</u> |

- e) As at 31 March 2021, the Company had 6 lease contracts (31 December 2020: 7 lease contracts) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 0.12 million (31 December 2020: SAR 0.21 million).

9. LONG TERM LOAN

The Company has a shariah compliant loan facility “Al Tawarruq” with a limit of SAR 2,000 million from its parent Banque Saudi Fransi (“BSF”).

The outstanding / utilized amounts from the above facility which are as follows:

| | 31 March 2020 (Unaudited) | 31 December 2020 (Audited) |
|---------------------|--|---|
| Current portion | 357,965 | 383,412 |
| Non-current portion | 1,222,291 | 1,145,833 |
| | <u>1,580,256</u> | <u>1,529,245</u> |

The long-term loans carry special commission rate equal to SIBOR plus bank margins payable on quarterly basis. The management have provided BSF with promissory notes against this facility.

10. ACCOUNTS PAYABLE

| | 31 March 2021 (Unaudited) | 31 December 2020 (Audited) |
|---------------------------------------|--|---|
| Third party insurance collected | 7,882 | 8,602 |
| Dealers payable | 60,575 | 51,611 |
| Commission payable | 4,804 | 4,351 |
| Insurance payable | 41,132 | 12,130 |
| Customer verification expense payable | 2,732 | 1,974 |
| Government fee payable | 1,701 | 1,926 |
| Others | 212 | 33 |
| | <u>119,038</u> | <u>80,627</u> |

SAUDI FRANSI FOR FINANCE LEASING
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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(SR '000)

11. ZAKAT AND TAX

The movement in the provision for zakat and tax is as follows:

| | 31 March 2021 (Unaudited) | 31 December 2020 (Audited) |
|----------------------------------|--|----------------------------------|
| Opening zakat and tax | 23,573 | 8,494 |
| Charge for the period / year: | | |
| - Current | 5,899 | 19,263 |
| - Prior years | - | 11,184 |
| - Deferred tax | - | 2,909 |
| Charge for the period / year | 5,899 | 33,356 |
| Payment during the period / year | - | (18,277) |
| Closing zakat and tax | <u>29,472</u> | <u>23,573</u> |

Status of assessments

The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2019 with the General Authority of Zakat and Income Tax ("GAZT").

During the period ended 31 March 2021, there has been no significant development in the status of the Company's zakat and income tax assessments from the status disclosed in the annual audited financial statements of the Company for the year ended 31 December 2020.

12. FEE INCOME AND EXPENSES

| | For the three-months period ended 31 March (Unaudited) | |
|------------------------|---|-----------------|
| | 2021 | 2020 |
| Fee income | | |
| Insurance income | 46,313 | 47,127 |
| Processing fee | 3,664 | 2,469 |
| Other operating income | 847 | 703 |
| | <u>50,824</u> | <u>50,299</u> |
| Fee expenses | | |
| Insurance expenses | (28,606) | (35,151) |
| Commission | (3,079) | (2,278) |
| Registration fee | (1,173) | (736) |
| Verification expenses | (618) | (571) |
| | <u>(33,476)</u> | <u>(38,736)</u> |

SAUDI FRANSI FOR FINANCE LEASING
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-months period ended 31 March 2021
(SR '000)

13. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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 as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments and investment at fair value through other comprehensive income which are measured at fair value. The carrying amounts of all financial assets and financial liabilities measured at amortized cost approximate their fair values except for net investments in finance leases.

The following table shows the carrying amount and fair values of financial assets and financial liabilities where fair value is different from carrying value or where the financial assets and liabilities are recorded at fair value, including their levels in the fair value hierarchy.

| <i>31 March 2021 (Unaudited)</i> | -----Fair Value----- | | | | |
|---------------------------------------|---------------------------|----------------|----------------|----------------|--------------|
| | <i>Carrying Value</i> | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
| <u>Financial assets:</u> | | | | | |
| Net investments in finance leases | 2,603,125 | -- | -- | 3,000,945 | 3,000,945 |
| <u>Financial liabilities:</u> | | | | | |
| Negative fair value of derivative | 37,387 | -- | 37,387 | -- | 37,387 |
| -----Fair Value----- | | | | | |
| <i>31 December 2020 (Audited)</i> | <i>Carrying Value</i> | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
| <u>Financial assets:</u> | | | | | |
| Net investments in finance leases | 2,507,492 | -- | -- | 2,843,952 | 2,843,952 |
| <u>Financial liabilities:</u> | | | | | |
| Negative fair value of derivative | 42,347 | -- | 42,347 | -- | 42,347 |

The fair value of net investment in finance lease is determined using discounted cash flow technique considering the credit adjusted market rates. The rates are determined based on the risk profile of lease receivables and current commission rates.

Fair value of long-term loan is not significantly different from the carrying values included in the financial statements since the current market commission rates for similar financial instruments are not significantly different from the contracted rates.

Fair value of financial assets held at fair value through other comprehensive income – equity instruments is not significantly different from the carrying values included in the financial statements.

There had been no inter-level transfers during the period.

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14. GEOGRAPHICAL CONCENTRATION

The Company's operations are restricted to the Kingdom of Saudi Arabia only.

15. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Company's Board of Directors in its function as chief decision maker in order to allocate resources to the segments and to assess their performance.

A segment is a distinguishable component that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments.

| | Amount in SAR '000 | | |
|---|--------------------|------------------|------------------|
| | <u>Retail</u> | <u>Corporate</u> | <u>Total</u> |
| <u>31 March 2021 (Unaudited)</u> | | | |
| Total assets | 2,664,416 | 86,884 | 2,731,300 |
| Total liabilities | 1,909,356 | 4,871 | 1,914,227 |
| Allowance for expected credit losses | 89,531 | 2,677 | 92,208 |
| Total revenue | 84,796 | 1,271 | 86,067 |
| Total operating expenses | 56,378 | 195 | 56,573 |
| Net income for the period before zakat and income tax | 28,418 | 1,076 | 29,494 |
| | | | |
| | Amount in SAR '000 | | |
| | <u>Retail</u> | <u>Corporate</u> | <u>Total</u> |
| <u>31 December 2020 (Audited)</u> | | | |
| Total assets | 2,522,144 | 83,937 | 2,606,081 |
| Total liabilities | 1,813,808 | 3,755 | 1,817,563 |
| Impairment allowance for credit losses | 88,606 | 3,269 | 91,875 |
| <u>31 March 2020 (Unaudited)</u> | | | |
| Total revenue | 81,928 | (617) | 81,311 |
| Total operating expenses | 62,421 | 906 | 63,327 |
| Net income / loss for the period before zakat and income tax | 19,507 | (1,523) | 17,984 |

16. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 16 million (31 December 2020: SR 19.418 million).

As at 31 March 2021, the Company has an outstanding guarantee of SR 30 million (31 December 2020: SR 30 million) submitted in favour of Abdul Latif Jameel Retail Company Limited against purchases of vehicle for onward leasing to customers.

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17. IMPACT OF COVID-19 ON EXPECTED CREDIT LOSSES (“ECL”) AND SAMA PROGRAMS

The Coronavirus (“COVID-19”) pandemic continues to disrupt global markets as many geographies are experiencing second / third waves of infections, despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The government of the Kingdom of Saudi Arabia (“the Government”) however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government. The Government has approved number of vaccines for mass immunizations. The drive is in full swing and it is expected that majority of the population will be vaccinated in near future.

The Company continues to evaluate the current situation through close review of exposures at a granular level, in addition to other risk management practices to manage the impact COVID-19 outbreak has had on its normal operations and financial performance.

To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Company has therefore continue to maintain overlays of SR 4.78 million as at 31 March 2021. These have been based on a sector-based analysis performed by the Company depending on the impacted portfolios.

SAMA support programs and initiatives

In response to COVID-19, SAMA launched the Private Sector Financing Support Program (“PSFSP”) in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises (“MSME”) as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 31 March 2021 is the deferred payments program.

As part of the deferred payments program launched by SAMA in March 2020 and with a number of extensions to the program subsequently announced, the Company was required to defer payments on lending facilities to those companies that qualify as MSME. The payment reliefs are considered as short-term liquidity support to address the borrower’s potential cash flow issues. The Company effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 30 June 2021, and increasing the facility tenors accordingly. The Company continues to believe that in the absence of other factors, participation in the deferment programme on its own, is not considered a significant increase in credit risk.

The accounting impact of above changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This resulted in total modification losses amounting to SAR 7.1 million of which SAR 1.6 million has been recorded in current quarter which have been presented as part of net financing income. During the three months period ended 31 March 2021, SAR 0.92 million has been charged to the statement of income relating to unwinding of modification losses.

In order to compensate the related cost that the Company is expected to incur under the SAMA and other public authorities program, during 2020 the Company received profit free deposit from SAMA amounting to SR 10.12 million with 21-month maturity, which qualified as government grant. The management has exercised certain judgements in the recognition and measurement of this grant income.

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17. IMPACT OF COVID-19 ON THE COMPANY'S OPERATIONS AND THE CONDENSED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Subsequent to the period ended 31 March 2021, the Company has received SAR 8.09 million commission free deposit from SAMA. As the above funding has been received subsequent to the period end; therefore, the benefit of the subsidised funding rate will be accounted for on a systematic basis, in accordance with government grant accounting requirements in the subsequent period financial statements.

SAMA program - customer support on deferral of financing

In April 2020, SAMA issued further guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. Accordingly, the Company has received applications from various customers to avail this SAMA program and has effected the payment reliefs by extending the tenure of the applicable investments in finance lease for three months with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the investments in finance lease has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. The impact of these modification losses were not material.

18. IBOR TRANSITION (INTEREST RATE BENCHMARK REFORMS)

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smooth transition away from IBOR.

- **Phase 1**

The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments were effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform. The Company has adopted these amendments along with the hedging relief for pre-replacement hedges.

- **Phase 2**

The second phase relates to the replacement of benchmark rates with alternative risk-free rates (RFR). Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR.

The Bank of England and the Financial Conduct Authority (FCA) have set out clear expectations for regulated firms to remove their reliance on LIBOR in all new business and in legacy contracts, where feasible. The primary way for market participants to have certainty over the economic terms of their contracts is to actively transition them away from LIBOR.

On 5 March 2021, the FCA, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

The Company's derivative positions are managed by the Parent, which is running a project on the Group's overall transition activities and continues to engage with various stakeholders to support an orderly transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

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19. SUBSEQUENT EVENT

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements as at and for the three-months period ended 31 March 2021.

20. BOARD OF DIRECTORS

The financial statements have been approved by the Board of Directors on 16 Ramadan 1442H (corresponding to 28 April 2021).