

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
Interim condensed Financial Statements
For the three-month and six-month periods ended 30 June 2019
together with the
Independent auditors' review report



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Independent auditors' review report on the interim condensed financial statements

To the shareholders of Saudi Fransi for Finance Leasing

Introduction

We have reviewed the accompanying 30 June 2019 interim condensed financial statements of **Saudi Fransi for Finance Leasing** ("the Company"), which comprises:

- the interim condensed statement of financial position as at 30 June 2019;
- the interim condensed statement of income for the three-month and six-month periods ended 30 June 2019;
- the interim condensed statement of comprehensive income for the three-month and six-month periods ended 30 June 2019;
- the interim condensed statement of changes in shareholders' equity for the six-months period ended 30 June 2019;
- the interim condensed statement of cash flows for the six-months period ended 30 June 2019; 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 30 June 2019 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.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382

28 Dhul Qadah 1440H
Corresponding to: 31 July 2019



SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019
(Saudi Arabian Riyals)

	<i>Note</i>	30 June 2019 (Unaudited)	31 December 2018 (Restated) (Audited)
<u>ASSETS</u>			
Cash and cash equivalents		7,429,584	126,412,674
Net investment in finance leases	5	2,396,393,585	2,317,604,096
Advances, prepayments and other receivables		119,096,466	55,214,977
Investment at FVOCI		892,850	892,850
Positive fair value of derivatives	8	929,607	5,192,209
Intangible assets		301,324	325,376
Property and equipment		382,080	398,796
Due from a related party	7	--	26,111
Deferred tax asset	10	2,882,157	--
Total assets		2,528,307,653	2,506,067,089
 <u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
<u>Liabilities</u>			
Long-term loan	6	1,644,645,407	1,703,867,529
Accounts payable		36,314,647	27,482,282
Advance from customers		65,117,276	51,292,532
Due to related parties	7	28,949,120	12,429,495
Negative fair value of derivatives	8	18,124,629	5,465,092
Accrued expenses and other liabilities		7,417,602	9,701,580
Employees' end of service benefits		5,161,803	4,485,022
Provision for zakat and income tax	9	9,978,226	13,244,777
Total liabilities		1,815,708,710	1,827,968,309
 Shareholders' equity			
Share capital		500,000,000	500,000,000
Statutory reserve		22,243,930	22,243,930
Cash flow hedge reserve	8	(17,195,022)	(272,883)
Retained earnings		207,550,035	156,127,733
Total shareholders' equity		712,598,943	678,098,780
Total shareholders' equity and liabilities		2,528,307,653	2,506,067,089

The accompanying notes (1) through (15) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF INCOME
For the three-month and six-month periods ended 30 June 2019
(Saudi Arabian Riyals)

	For the three-month period ended		For the six-month period ended	
	30 June 2019	30 June 2018 (Restated)	30 June 2019	30 June 2018 (Restated)
<i>Note</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Income from operations				
Lease finance income	35,000,173	36,145,119	69,406,871	72,703,495
Fees income	47,783,008	41,906,268	92,531,190	82,566,721
	82,783,181	78,051,387	161,938,061	155,270,216
Operating expenses				
Fees expenses	(34,061,883)	(27,939,561)	(67,674,742)	(58,809,598)
Salaries and employee related expenses	(8,727,512)	(7,049,600)	(16,546,524)	(13,871,206)
Rent	(103,703)	(103,703)	(207,019)	(207,406)
Depreciation	(33,632)	(42,108)	(65,840)	(82,780)
Amortization	(42,931)	(54,728)	(82,217)	(117,630)
General and administration expenses	(1,276,771)	(481,948)	(2,371,238)	(1,325,993)
Financial charges	(14,773,581)	(15,126,019)	(29,298,593)	(30,471,114)
Reversal / (allowance) for expected credit losses, net	(4,983,734)	(2,460,007)	6,337,570	(4,877,671)
	(64,003,747)	(53,257,674)	(109,908,603)	(109,763,398)
Operating income	18,779,434	24,793,713	52,029,458	45,506,818
Other income	1,184,823	1,426,391	2,557,258	2,346,678
Net income for the period before zakat and income tax	19,964,257	26,220,104	54,586,716	47,853,496
Zakat and income tax (as restated, note 9)	(1,243,011)	(3,904,225)	(3,164,414)	(5,613,212)
Net income for the period after zakat and income tax	18,721,246	22,315,879	51,422,302	42,240,284

The accompanying notes (1) through (15) 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-month and six-month periods ended 30 June 2019
(Saudi Arabian Riyals)

	For the three-month period ended		For the six-month period ended		
	<i>Note</i>	30 June 2019 <i>(Unaudited)</i>	30 June 2018 <i>(Restated)</i> <i>(Unaudited)</i>	30 June 2019 <i>(Unaudited)</i>	30 June 2018 <i>(Restated)</i> <i>(Unaudited)</i>
Net income for the period after zakat and income tax		18,721,246	22,315,879	51,422,302	42,240,284
<u>Other comprehensive income</u>					
<i>Items that may be reclassified to statement of income in subsequent years:</i>					
Cash flow hedges – net change in fair value	8	(8,149,610)	5,511,562	(16,922,139)	10,929,467
Total comprehensive income for the period after zakat and income tax		10,571,636	27,827,441	34,500,163	53,169,751

The accompanying notes (1) through (15) 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 SHAREHOLDERS' EQUITY
For the six-months period ended 30 June 2019
(Saudi Arabian Riyals)

For the period ended 30 June 2019	Share capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2019	500,000,000	22,243,930	(272,883)	156,127,733	678,098,780
Net income for the period	--	--	--	51,422,302	51,422,302
Other comprehensive income	--	--	(16,922,139)	--	(16,922,139)
Balance as at 30 June 2019 (unaudited)	500,000,000	22,243,930	(17,195,022)	207,550,035	712,598,943
For the period ended 30 June 2018 (Restated)	Share capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
Balances as at 31 December 2017 – as previously reported	500,000,000	13,788,128	(8,886,436)	102,840,944	607,742,636
Impact of adopting of new standards at 1 January 2018	--	--	--	(6,051,748)	(6,051,748)
Balance as at 1 January 2018	500,000,000	13,788,128	(8,886,436)	96,789,196	601,690,888
Net income for the period	--	--	--	42,240,284	42,240,284
Cash flow hedge reserve	--	--	10,929,467	--	10,929,467
Balance as at 30 June 2018 (unaudited)	500,000,000	13,788,128	2,043,031	139,029,480	654,860,639

The accompanying notes (1) through (15) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
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INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the six-months period ended 30 June 2019
(Saudi Arabian Riyals)

	<u>Notes</u>	30 June 2019	30 June 2018
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash flows from operating activities			
Net income before zakat and income tax		54,586,716	47,853,496
<i>Adjustments to reconcile net income to net cash generated from operating activities:</i>			
Depreciation		65,840	82,780
Amortization		82,217	117,630
(Reversal) / charge for expected credit losses, net	5.1	(6,337,570)	4,877,671
Employees' end of service benefits		694,212	184,175
Financing charges		29,298,593	30,471,114
Operating income before changes in operating assets and liabilities		78,390,008	83,586,866
<i>Net (increase) / decrease in operating assets</i>			
Net investment in finance leases		(72,451,919)	70,062,130
Advances, prepayments and other receivables		(63,881,489)	(61,200,341)
Due from a related party		26,111	(50,000)
		(57,917,289)	92,398,655
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts payable		8,832,365	5,915,795
Due to related parties		16,519,625	7,439,730
Advance from customers		13,824,744	225,674
Accrued expenses and other liabilities		(2,283,978)	598,879
Net cash from operations		(21,024,533)	106,578,733
Zakat and tax paid		(9,313,122)	(4,612,714)
Employees' end of service benefits paid		(17,431)	(19,478)
Net cash generated from operating activities		(30,355,086)	101,946,541
Cash flows from investing activities			
Purchase of intangibles		(58,165)	(189,375)
Purchase of property and equipment		(49,124)	(52,983)
Net cash used in investing activities		(107,289)	(242,358)
Cash flows from financing activities			
Draw down of long-term loan		220,000,000	100,000,000
Payments of long-term loan		(277,500,000)	(235,000,000)
Financing charges paid		(31,020,715)	(21,695,238)
Net cash used in financing activities		(88,520,715)	(156,695,238)
Net (decrease) / increase in cash and cash equivalents		(118,983,090)	(54,991,055)
Cash and cash equivalents at the beginning of the period		126,412,674	74,345,211
Cash and cash equivalents at the end of the period		7,429,584	19,354,156

The accompanying notes (1) through (15) 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 six-months period ended 30 June 2019
(Saudi Arabian Riyals)

1. THE COMPANY AND THE 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 Saudi Arabian Monetary Authority (“SAMA”) directive, the Company obtained a license no. 201511/38/أش to conduct financing activities. Further, pursuant to ministerial resolution in respect of the conversion of Limited Liability Company (“LLC”), the Company changed its legal status from a LLC to a Closed Joint Stock Company on 1 November 2015.

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 (vehicle financing).

2. BASIS OF PREPARATION

a) *Statement of compliance*

The interim condensed financial statements of the Company as at and for the period ended 30 June 2019 have been prepared in accordance with the International Accounting Standard 34 “Interim Financial Reporting” as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”).

The interim condensed financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the IAS 34 and the International Financial Reporting Standards (“IFRS”) respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to zakat and income tax) and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the financing companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board (“IASB”) and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in KSA”).

Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 4) and the effects of this change are disclosed in note 9 to the interim condensed financial statement).

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b) *Basis of measurement*

These interim condensed financial statements have been prepared under the historical cost convention except for commission rate swaps and financial assets held at fair value through other comprehensive income – equity instrument, which are measured at fair value.

Financial statement accounts in the statement of financial position have been presented in the order of 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 in SAR has been rounded to the nearest SAR.

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

Effective from 1 January 2019, the Company has adopted IFRS 16 Leases (“IFRS 16”). Accounting policies for this new standard is disclosed in note 4 of these interim condensed financial statements. IFRS 16 replaces the existing guidance on leases, including IAS 17 Leases (“IAS 17”), IFRIC 4 Determining whether an Arrangement contains a Lease (“IFRIC 4”), SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease (“SIC 15”).

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company’s statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 into either an operating or finance lease is eliminated for lessees. For each lease, the lessee recognises a liability for the lease obligations to be incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as a lease applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Adoption of IFRS 16 did not have any material impact on the Company's accounting policies and did not require retrospective adjustments. Adoption of IFRS 16 did not have any material impact on the Company's financial statements and did not require retrospective adjustments.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended 31 December 2018, except for the change in the accounting for zakat and income tax (as explained in 4b) and the adoption of new standards explained in note 3. The accounting treatment is explained below:

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(Saudi Arabian Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) *Change in the accounting due to adoption of IFRS 16:*

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

Right of Use Assets

The Company applies the cost model, and measures the right of use asset at cost;

- a) Less any accumulated depreciation and any accumulated impairment losses; and
- c) Adjusted for any re-measurement of the lease liability for lease modifications.

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor. After the commencement date, the Company measures the lease liability by:

- 1. Increasing the carrying amount to reflect interest on the lease liability;
- 2. Reducing the carrying amount to reflect the lease payments made and;
- 3. Re-measuring the carrying amount to reflect any re-assessment or lease modification.

b) *Change in the accounting zakat and income tax:*

As mentioned above, the basis of preparation has been changed for the period ended 30 June 2019 as a result of the issuance of latest instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of the above change are disclosed in note 9 to the interim condensed financial statements. The change has resulted in reduction of reported income of the Company for the three-month and six-month periods ended 30 June 2018 by SR 5,613,212 and SR 3,904,225 respectively. The change has had no impact on the statement of cash flows for the period ended 30 June 2018.

Income tax:

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Adjustments arising from the final income tax assessments are recorded in the period in which such assessments are made. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Deferred income tax:

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

Zakat:

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax (“GAZT”). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

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5. NET INVESTMENT IN FINANCE LEASES

30 June 2019 (Unaudited)				
	<i>Note</i>	Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		1,112,184,270	2,019,610,637	3,131,794,907
Unearned lease income		<u>(227,560,337)</u>	<u>(413,172,961)</u>	<u>(640,733,298)</u>
		884,623,933	1,606,437,676	2,491,061,609
Allowance for expected credit losses	5.1	<u>(33,536,008)</u>	<u>(61,132,016)</u>	<u>(94,668,024)</u>
Net investment in finance lease		<u>851,087,925</u>	<u>1,545,305,660</u>	<u>2,396,393,585</u>
31 December 2018 (Audited)				
	<i>Note</i>	Not later than one year	Later than one year and less than five years	Total
Lease contract receivables		996,177,692	2,065,798,294	3,061,975,986
Unearned lease income		<u>(209,259,992)</u>	<u>(434,106,303)</u>	<u>(643,366,295)</u>
		786,917,700	1,631,691,991	2,418,609,691
Allowance for expected credit losses	5.1	<u>(32,818,672)</u>	<u>(68,186,922)</u>	<u>(101,005,594)</u>
Net investment in finance leases		<u>754,099,028</u>	<u>1,563,505,069</u>	<u>2,317,604,097</u>

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2018: 3% to 7% per annum) 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 collateral against the finance leases.

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

	For the period ended 30 June 2019 (Unaudited)	For the year ended 31 December 2018 (Audited)
Balance as at 1 January	101,005,594	76,460,856
Impact of adopting of new accounting standards at 1 January 2018	--	6,051,748
Balance as at 1 January 2018 – restated	<u>101,005,594</u>	<u>82,512,604</u>
(Reversal) / charge for the period / year	<u>(6,337,570)</u>	<u>18,492,990</u>
	<u>94,668,024</u>	<u>101,005,594</u>

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6. LONG-TERM LOAN

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

As at period / year-end, the outstanding / utilized amounts from the above facility are as follows:

	<u>30 June 2019</u>	31 December <u>2018</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Current portion	529,645,407	551,367,529
Non-current portion	1,115,000,000	1,152,500,000
	<u>1,644,645,407</u>	<u>1,703,867,529</u>

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

7. 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.

<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 six-months period ended</u>	
		<u>30 June 2019</u>	<u>30 June 2018</u>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
Lease rental collected	Sofinco Saudi Fransi (An affiliate)	330,365	1,169,007
IT maintenance and network related expenses	BSF	600,000	294,444
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	29,298,593	30,471,114
Commission on short term deposit	BSF	120,764	108,681
Insurance expense of leased assets	Allianz Saudi Fransi (An affiliate)	59,209,327	56,578,716
Salaries and employee related expenses	BSF	2,155,830	2,896,766
Finance lease disbursed	BSF	--	299,995
Draw down of long-term loan	BSF	220,000,000	100,000,000
Payments of long-term loan	BSF	(277,500,000)	(235,000,000)

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.

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7. RELATED PARTY TRANSACTIONS (CONTINUED)

The above transactions mainly resulted in the following balances:

b) Due to related parties (excluding term loan):		31 December
	<u>30 June 2019</u>	<u>2018</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
BSF	6,540,489	3,160,247
Allianz Saudi Fransi	<u>22,408,631</u>	<u>9,269,248</u>
	<u>28,949,120</u>	<u>12,429,495</u>

c) The details of the other balances with related parties are as below:

Other balances with a related party:			31 December
		<u>30 June 2019</u>	<u>2018</u>
		<i>(Unaudited)</i>	<i>(Audited)</i>
<u>Nature of balances</u>	<u>Related party</u>		
Cash and cash equivalents	Banque Saudi Fransi	<u>7,429,584</u>	<u>126,410,174</u>
Long-term loan	Banque Saudi Fransi	<u>1,644,645,407</u>	<u>1,703,867,529</u>

As at 30 June 2019, the Company had 15 lease contracts (31 December 2018: 27) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 1.374 million (31 December 2018: SAR 2.081 million).

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

	<u>For the six-month period</u>	
	<u>ended 30 June</u>	
	<u>2019</u>	<u>2018</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Salaries	731,874	698,358
End of service benefits	60,988	58,196
Other allowances	<u>12,000</u>	<u>12,000</u>
	<u>804,862</u>	<u>768,554</u>

8. DERIVATIVES

30 June 2019 (Unaudited)

	-----Notional amount-----			
Derivative financial instruments	Within 3	3-12	1-5 years	Total
<u>Held for cash flow hedging</u>	Months	months	months	months
Commission rate swaps	<u>132,500,000</u>	<u>390,000,000</u>	<u>895,000,000</u>	<u>1,417,500,000</u>

31 December 2018 (Audited)

	-----Notional amount-----			
Derivative financial instruments	Within 3	3-12 months	1-5 year	Total
<u>Held for cash flow hedging</u>	months	months	months	months
Commission rate swaps	<u>145,000,000</u>	<u>397,500,000</u>	<u>1,152,500,000</u>	<u>1,695,000,000</u>

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8. DERIVATIVES (CONTINUED)

The Company entered into commission rate swaps with its parent, BSF. The positive fair value of commission rate swaps as at 30 June 2019 amounted to SAR 929,607 (31 December 2018: SAR 5,192,208) and negative fair value of commission rate swaps amounted to SAR 18,124,629 (31 December 2018: SAR 5,465,092). 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.

9. ZAKAT AND INCOME TAX

The change in the accounting treatment for zakat and income tax as explained in note 4 has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at and for the six-month period ended 30 June 2018:

<u>Financial statement impacted</u>	<u>Account</u>	<u>Before the restatement for the six-month period ended 30 June 2018:</u>	<u>Effect of restatement</u>	<u>Financial statement impacted</u>
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	5,613,212	(5,613,212)	--
Statement of income	Zakat and income tax expenses	--	5,613,212	5,613,212

As at and for the three -month period ended 30 June 2018:

<u>Financial statement impacted</u>	<u>Account</u>	<u>Before the restatement for the six-month period ended 30 June 2018:</u>	<u>Effect of restatement</u>	<u>Financial statement impacted</u>
Statement of changes in Equity	Provision for zakat and income tax (retained earnings)	3,904,225	(3,904,225)	--
Statement of income	Zakat and income tax expenses	--	(3,904,225)	(3,904,225)

	<u>30 June 2019</u>	<u>31 December 2018</u>	<u>30 June 2018</u>
Opening zakat and income tax liability	13,244,777	3,569,436	3,569,436
Charge / (reversal) for the period:			
- Current	6,046,571	16,944,387	5,613,212
- Deferred tax	(2,882,157)	--	--
Charge for the period	3,164,414	16,944,387	5,613,212
Payment during the period	(9,313,122)	(7,269,046)	(4,612,714)
Closing zakat and income tax liability	7,096,069	13,244,777	4,569,934

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9. ZAKAT AND INCOME TAX (CONTINUED)

The Company has submitted its zakat and income tax returns for the years ended 31 December 2012 to 2018 with the General Authority of Zakat and Income Tax (“GAZT”).

During the period ended 30 June 2019, there has been no change in the status of the Company’s zakat and income tax assessments for the years 2012 to 2014 from the status disclosed in the annual financial statements of the Company for the year ended 31 December 2018.

2015 to 2017

During the six-month period ended 30 June 2019, the Company signed the settlement agreement with GAZT in respect of assessment from 2015 to 2017. Pursuant to this settlement agreement, the Company is liable to pay SR 6,443,631 in six instalments. Out of these instalments, the Company has paid one instalment of SR 1,288,726. The provision of SR 6,443,631 was included in the annual audited financial statements as at and for the year ended 31 December 2018.

2018

Furthermore, under the same settlement agreement mentioned above the Company has agreed the computation method of the zakat for the year 2018 with the GAZT and during the period the Company paid SR 7.1 million in that respect. The provision of SR 7.1 million was included in the annual audited financial statements as at and for the year ended 31 December 2018.

2019

On 14th March 2019, the Ministry of Finance (“MOF”) issued new zakat implementation regulations [Ministerial Resolution No 2216]. The new regulations is applicable to fiscal years commencing on or after 1st January 2019. Accordingly, the Company has recorded zakat and income tax based on the new regulations issued by GAZT.

10. DEFERRED TAX ASSET

The company has booked deferred tax asset amounting to SR 2,882,157 as at 30 June 2019 pertaining to deductible temporary differences. These differences are arising from impairment allowance for expected credit losses, property and equipment depreciation charge and end of service benefits.

The company has not restated balances in the prior periods as deferred tax balance was not material to the financial statements.

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11. 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).
- Level 3: 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 equity instrument 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>30 June 2019 (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>					
Positive fair value of derivatives	929,607	--	929,607	--	929,607
Net investments in finance leases - gross	2,491,061,609	--	--	2,110,502,791	2,110,502,791
Investment at FVOCI	892,850	--	--	892,850	892,850
<u>Financial liabilities:</u>					
Negative fair value of derivatives	18,124,629	--	18,124,629	--	18,124,629
-----Fair Value-----					
<i>31 December 2018 (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>					
Positive fair value of derivatives	5,192,208	--	5,192,208	--	5,192,208
Net investments in finance leases - gross	2,418,609,691	--	--	2,015,030,109	2,015,030,109
Investment at FVOCI	892,850	--	--	892,850	892,850
<u>Financial liabilities:</u>					
Negative fair value of derivatives	5,465,092	--	5,465,092	--	5,465,092

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11. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

Fair value of long-term loan is not significantly different from the carrying values included in the interim condensed 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 interim condensed financial statements.

There have been no transfers within the levels during the period.

12. 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 its 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>30 June 2019 (Unaudited)</u>			
Total assets	<u>2,477,090</u>	<u>51,218</u>	<u>2,528,308</u>
Total liabilities	<u>1,815,008</u>	<u>701</u>	<u>1,815,709</u>
Allowance for expected credit losses	<u>93,370</u>	<u>1,298</u>	<u>94,668</u>
Total operating income	<u>160,359</u>	<u>4,136</u>	<u>164,495</u>
Total operating expenses	<u>108,683</u>	<u>1,225</u>	<u>109,909</u>
Profit before zakat and income tax	<u>51,676</u>	<u>2,911</u>	<u>54,587</u>
	Amount in SAR '000		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
<u>31 December 2018 (Audited)</u>			
Total assets	<u>2,467,761</u>	<u>38,306</u>	<u>2,506,067</u>
Total liabilities	<u>1,827,374</u>	<u>594</u>	<u>1,827,968</u>
Allowance for expected credit losses	<u>99,668</u>	<u>1,338</u>	<u>101,006</u>
	Amount in SAR '000		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
<u>30 June 2018 (Unaudited)</u>			
Total operating income	<u>152,689</u>	<u>4,928</u>	<u>157,617</u>
Total operating expenses	<u>109,184</u>	<u>580</u>	<u>109,764</u>
Profit before zakat and income tax	<u>43,505</u>	<u>4,348</u>	<u>47,853</u>

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13. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers and due diligence in progress as of the reporting date which have the potential to convert into financing.

	<u>30 June 2019</u> <i>(Unaudited)</i>	31 December <u>2018</u> <i>(Audited)</i>
Finance lease contracts not yet executed	<u>8,039,236</u>	<u>7,402,499</u>

14. SUBSEQUENT EVENTS

No events have occurred subsequent to the reporting date and before the issuance of these financial statements which requires adjustment to, or disclosure, in these interim condensed financial statements.

15. BOARD OF DIRECTORS' APPROVAL

These interim condensed financial statements were approved by the Board of Directors on 31 July 2019 corresponding to 28 Dhul Qadah 1440H.