

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**Condensed Interim Financial Statements**  
**For the three-month and nine-month periods ended 30 September 2018**  
together with the  
**Independent Auditors' Review Report**



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# Independent Auditors' Report on Review of Condensed Interim Financial Statements

**To: The Shareholders**  
**Saudi Fransi for Finance Leasing**  
**A Saudi Closed Joint Stock Company**  
**Riyadh, Kingdom of Saudi Arabia**

## Introduction

We have reviewed the accompanying 30 September 2018 condensed interim financial statements of Saudi Fransi for Finance Leasing ("the Company"), which comprise:

- the condensed statement of financial position as at 30 September 2018;
- the condensed statement of profit or loss for the three-month and nine-month periods ended 30 September 2018;
- the condensed statement of comprehensive income for three-month and nine-month periods ended 30 September 2018;
- the condensed statement of changes in equity for the nine-month period ended 30 September 2018;
- the condensed statement of cash flows for the nine-month period ended 30 September 2018; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2018 condensed financial statements of Saudi Fransi for Finance Leasing are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as modified by SAMA for the accounting of zakat and income tax.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Abdullah Hamad Al Fozan**  
License No.: 348

Date: 20 Safar 1440H  
Corresponding to: 29 October 2018



KPMG Al Fozan & Partners Certified Public Accountants, a registered shareholder in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 30 September 2018  
(Saudi Arabian Riyals)

	<i>Notes</i>	<b>30 September 2018 (Unaudited)</b>	31 December 2017 (Audited)
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Property and equipment		363,059	436,713
Intangible assets		365,535	333,950
Net investment in finance leases	5	<u>1,589,919,436</u>	<u>1,807,071,273</u>
		<b>1,590,648,030</b>	<b>1,807,841,936</b>
<b>Current assets</b>			
Current maturity of net investment in finance leases	5	776,452,167	709,521,210
Financial assets held at fair value through other comprehensive income – equity instruments		892,850	--
Due from a related party	8	227,096	177,096
Advances, prepayments and other receivables	6	78,864,407	39,061,833
Derivative asset	9	8,270,235	--
Cash and cash equivalents		<u>68,907,711</u>	<u>74,345,211</u>
		<b>933,614,466</b>	<b>823,105,350</b>
<b>Total assets</b>		<b><u>2,524,262,496</u></b>	<b><u>2,630,947,286</u></b>
<b><u>SHAREHOLDERS' EQUITY AND LIABILITIES</u></b>			
<b>Shareholders' equity</b>			
Share capital	10	500,000,000	500,000,000
Statutory reserve		13,788,128	13,788,128
Cash flow hedge reserve	9	8,270,235	(8,886,436)
Retained earnings		<u>165,242,883</u>	<u>102,840,944</u>
<b>Total shareholders' equity</b>		<b>687,301,246</b>	<b>607,742,636</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term loan	7	1,175,000,000	1,255,000,000
Employees' end of service benefits		<u>1,171,341</u>	<u>873,846</u>
		<b>1,176,171,341</b>	<b>1,255,873,846</b>
<b>Current liabilities</b>			
Current maturity of long-term loan	7	546,468,360	650,250,874
Accounts payable		25,252,050	26,657,721
Advance from customers		42,925,727	44,121,874
Due to related parties	8	28,902,765	18,221,749
Unearned income from dealer		6,057,500	7,587,967
Derivative liability	9	--	8,886,436
Accrued expenses and other liabilities		9,448,613	8,034,747
Provision for zakat and income tax		<u>1,734,894</u>	<u>3,569,436</u>
		<b>660,789,909</b>	<b>767,330,804</b>
<b>Total liabilities</b>		<b><u>1,836,961,250</u></b>	<b><u>2,023,204,650</u></b>
<b>Total shareholders' equity and liabilities</b>		<b><u>2,524,262,496</u></b>	<b><u>2,630,947,286</u></b>

The accompanying notes (1) through (18) form an integral part of these condensed interim financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**CONDENSED STATEMENT OF PROFIT OR LOSS**  
For the three-month and nine-month periods ended 30 September 2018  
*(Saudi Arabian Riyals)*

	<b>For the three-month period ended 30 September</b>		<b>For the nine-month period ended 30 September</b>		
	<i>Notes</i>	<b>2018</b> <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>	<b>2018</b> <i>(Unaudited)</i>	2017 <i>(Unaudited)</i>
<b>Income from operations</b>					
Lease finance income		<b>35,304,676</b>	36,566,080	<b>108,008,171</b>	104,797,713
Fee income, net		<b>10,935,564</b>	11,485,933	<b>34,692,687</b>	30,599,526
		<b>46,240,240</b>	48,052,013	<b>142,700,858</b>	135,397,239
<b>Operating expenses</b>					
Salaries and employee related expenses		<b>(6,684,740)</b>	(8,138,502)	<b>(20,555,946)</b>	(21,732,317)
Rent		<b>(103,703)</b>	(103,703)	<b>(311,109)</b>	(311,109)
Depreciation		<b>(43,857)</b>	(41,711)	<b>(126,637)</b>	(128,328)
Amortization		<b>(40,160)</b>	(44,210)	<b>(157,790)</b>	(287,367)
General and administration expenses		<b>(667,915)</b>	(1,250,318)	<b>(1,993,908)</b>	(2,981,123)
Financial charges		<b>(15,131,436)</b>	(15,527,929)	<b>(45,602,550)</b>	(41,208,521)
Impairment charge for credit losses, net	<i>5.1</i>	--	(7,229,366)	<b>(4,877,671)</b>	(22,870,564)
		<b>(22,671,811)</b>	(32,335,739)	<b>(73,625,611)</b>	(89,519,329)
<b>Operating income</b>		<b>23,568,429</b>	15,716,274	<b>69,075,247</b>	45,877,910
Other income		<b>1,138,100</b>	1,048,397	<b>3,484,778</b>	2,713,635
<b>Net income for the period</b>		<b>24,706,529</b>	16,764,671	<b>72,560,025</b>	48,591,545
<b>Earnings per share - basic and diluted</b>	<i>11</i>	<b>0.49</b>	0.34	<b>1.45</b>	0.97

The accompanying notes (1) through (18) form an integral part of these condensed interim financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
For the three-month and nine-month periods ended 30 September 2018  
(Saudi Arabian Riyals)

	<b>For the three-month period ended</b>		<b>For the nine-month period ended</b>	
	<b>30 September 2018</b> <i>(Unaudited)</i>	30 September <i>2017</i> <i>(Unaudited)</i>	<b>30 September 2018</b> <i>(Unaudited)</i>	30 September <i>2017</i> <i>(Unaudited)</i>
<b>Net income for the period</b>	<b>24,706,529</b>	16,764,671	<b>72,560,025</b>	48,591,545
Other comprehensive income				
<i>Items that are or may be reclassified subsequently to profit or loss:</i>				
Cash flow hedges – effective portion of changes in fair value	9 <b>1,658,153</b>	134,049	<b>17,156,671</b>	(16,855,869)
<b>Total comprehensive income for the period</b>	<b>26,364,682</b>	16,898,720	<b>89,716,696</b>	31,735,676

The accompanying notes (1) through (18) form an integral part of these condensed interim financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the nine-month period ended 30 September 2018  
(Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Cash flow hedge reserve</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at 31 December 2017 – as previously reported (audited)</b>	<b>500,000,000</b>	<b>13,788,128</b>	<b>(8,886,436)</b>	<b>102,840,944</b>	<b>607,742,636</b>
Impact of adopting of new standard at 1 January 2018 ( <i>note 3a</i> )	--	--	--	<b>(6,051,748)</b>	<b>(6,051,748)</b>
<b>Balance as at 1 January 2018 – restated (unaudited)</b>	<b>500,000,000</b>	<b>13,788,128</b>	<b>(8,886,436)</b>	<b>96,789,196</b>	<b>601,690,888</b>
Net income for the period	--	--	--	<b>72,560,025</b>	<b>72,560,025</b>
Cash flow hedge reserve	--	--	<b>17,156,671</b>	--	<b>17,156,671</b>
Zakat and income tax for the period	--	--	--	<b>(4,106,338)</b>	<b>(4,106,338)</b>
<b>Balance as at 30 September 2018 (unaudited)</b>	<b>500,000,000</b>	<b>13,788,128</b>	<b>8,270,235</b>	<b>165,242,883</b>	<b>687,301,246</b>

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Cash flow hedge reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance as at 1 January 2017 (audited)	500,000,000	7,160,730	(220,140)	50,590,473	557,531,063
Net income for the period	--	--	--	48,591,545	48,591,545
Transfer to statutory reserve	--	4,859,155	--	(4,859,155)	--
Cash flow hedge reserve	--	--	(16,855,869)	--	(16,855,869)
Zakat and income tax for the period	--	--	--	(6,092,328)	(6,092,328)
Balance as at 30 September 2017 (unaudited)	500,000,000	12,019,885	(17,076,009)	88,230,535	583,174,411

The accompanying notes (1) through (18) form an integral part of these condensed interim financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**CONDENSED STATEMENT OF CASH FLOWS**  
For the nine-month period ended 30 September 2018  
(Saudi Arabian Riyals)

	<u>Notes</u>	<b>30 September 2018</b>	<u>30 September 2017</u>
		<i>(Unaudited)</i>	<i>(Un-Audited)</i>
<b>Cash flows from operating activities</b>			
Net income for the period		<b>72,560,025</b>	48,591,545
<i>Adjustments to reconcile net income to net cash generated from / (used in) operating activities</i>			128,328
Depreciation		<b>126,637</b>	
Amortization		<b>157,790</b>	287,367
Impairment charge for credit losses, net	5	<b>4,877,671</b>	22,870,564
Employees' end of service benefits		<b>316,973</b>	288,376
Financial charges		<b>45,602,550</b>	41,208,521
<b>Operating income before changes in operating assets and liabilities</b>		<b>123,641,646</b>	113,374,701
<i>Net (increase) / decrease in operating assets</i>			
Net investment in finance leases		<b>139,291,461</b>	(399,823,999)
Advances, prepayments and other receivables		<b>(40,695,424)</b>	(24,904,199)
Due from a related party		<b>(50,000)</b>	(53,192)
<i>Net increase / (decrease) in operating liabilities</i>			
Accounts payable		<b>(1,405,671)</b>	(135,790)
Due to related parties		<b>10,681,016</b>	12,891,302
Advance from customers		<b>(1,196,147)</b>	9,063,811
Unearned income from dealer		<b>(1,530,467)</b>	2,341,051
Accrued expenses and other liabilities		<b>1,413,866</b>	5,025,447
Zakat and tax paid during the period		<b>(5,940,880)</b>	(9,336,280)
Employees' end of service benefits paid		<b>(19,478)</b>	(5,437)
<b>Net cash generated from / (used in) operating activities</b>		<b>224,189,922</b>	(291,562,585)
<b>Cash flows from investing activities</b>			
Purchase of intangibles		<b>(189,375)</b>	--
Purchase of property and equipments		<b>(52,983)</b>	(54,001)
<b>Net cash used in investing activities</b>		<b>(242,358)</b>	(54,001)
<b>Cash flows from financing activities</b>			
Draw down of long-term loan		<b>240,000,000</b>	580,000,000
Payments of long-term loan		<b>(432,500,000)</b>	(225,000,000)
Financial charges paid		<b>(36,885,064)</b>	(44,900,821)
<b>Net cash (used in) / generated from financing activities</b>		<b>(229,385,064)</b>	310,099,179
Net (decrease) / increase in cash and cash equivalents		<b>(5,437,500)</b>	18,482,593
Cash and cash equivalents at the beginning of the period		<b>74,345,211</b>	26,527,116
<b>Cash and cash equivalents at the end of the period</b>		<b>68,907,711</b>	45,009,709

The accompanying notes (1) through (18) form an integral part of these condensed interim financial statements.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the three-month and nine-month periods ended 30 September 2018  
(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 practice finance 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.

**2. BASIS OF PREPARATION**

**a) *Statement of compliance***

These condensed interim financial statements for the three-month and nine-month periods ended 30 September 2018 have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as modified by SAMA for the accounting of zakat and income tax. As per the SAMA Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax (“SAMA Circular”), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements therefore, these should be read in conjunction with the Company’s annual audited financial statements as at and for the year ended 31 December 2017.

**b) *Basis of measurement***

These condensed interim financial statements have been prepared under the historical cost convention modified to include the measurement at financial assets held at fair value through other comprehensive income – equity instruments and commission rate swaps.

**c) *Functional and presentation currency***

Items included in these condensed interim financial statements are measured using the currency of the primary economic environment in which the Company operates. These condensed interim financial statements are presented in Saudi 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.



**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the three-month and nine-month periods ended 30 September 2018  
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**3. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS**

Effective 1 January 2018, the Company has adopted IFRS 15 - Revenue from Contracts with Customers and IFRS 9 - Financial Instruments. Accounting policies for these new standards are disclosed in note 4 of these condensed interim financial statements. Significant judgments and estimates relating to IFRS 9 adoption including the impact of the adoption of these standards is explained below:

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes previously issued revenue guidance, which was found across several standards and interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The adoption of this standard has no material impact on the Company's condensed interim financial statements

**IFRS 9 – Financial Instruments**

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by IFRS 9, the Company has elected to continue to apply the hedge accounting requirements of IAS 39.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarized below.

***Classification of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost ("AC"), fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). This classification is generally based, except equity instruments and derivatives, on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Company classifies financial liabilities under IFRS 9, see respective section of significant accounting policies.

**SAUDI FRANSI FOR FINANCE LEASING**  
(A Closed Joint Stock Company)  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the three-month and nine-month periods ended 30 September 2018  
(Saudi Arabian Riyals)

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

***Impairment of financial assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model ("ECL"). IFRS 9 requires the Company to record an allowance for ECLs for all loans / lease receivables and other financial assets not held at FVPL, together with loan commitments and financial guarantee contracts (if any). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Company applies the impairment requirements of IFRS 9, see respective section of significant accounting policies.

***Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. A difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - i. The determination of the business model within which a financial asset is held.
  - ii. The designation and revocation of previous designated financial assets and financial liabilities as measured at FVTPL.
  - iii. For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

**a) Financial assets and liabilities**

**i) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9**

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	<b>Original classification under IAS 39 / IAS 17</b>	<b>New classification under IFRS 9</b>	<b>Original carrying value under IAS 39</b>	<b>New carrying value under IFRS 9</b>
<b>Financial assets</b>				
Net investment in finance leases*	Leases	N/A	2,516,592,483	2,510,540,735
Cash and cash equivalents	Loans and receivables	Amortised cost	74,345,211	74,345,211
Due from a related party	Loans and receivables	Amortised cost	177,096	177,096
Advances, prepayments and other receivables	Loans and receivables	Amortised cost	1,053,009	1,053,009
			<u>2,592,167,799</u>	<u>2,586,116,051</u>
<b>Financial liabilities</b>				
Long-term loan	Amortised cost	Amortised cost	1,905,250,874	1,905,250,874
Accounts payable	Amortised cost	Amortised cost	26,657,721	26,657,721
Due to related parties	Amortised cost	Amortised cost	18,221,749	18,221,749
Accrued expenses and other liabilities	Amortised cost	Amortised cost	7,774,964	7,774,964
			<u>1,957,905,308</u>	<u>1,957,905,308</u>

\* Net investment in finance leases continue to be subject to the classification and measurement requirement as per IAS 17 - Leases.

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(A Closed Joint Stock Company)  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
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(Saudi Arabian Riyals)

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

**ii) Reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 at the adoption of IFRS 9**

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	<b>IAS 39 / IAS 17 carrying amount as at 31 <u>December 2017</u></b>	<b><u>Re- measurement</u></b>	<b>IFRS 9 carrying amount as at 1 <u>January 2018</u></b>
<b>Financial assets At Amortised Cost</b>			
Net investment in finance leases	<u>2,516,592,483</u>	<u>(6,051,748)</u>	<u>2,510,540,735</u>

There have been no reclassification or re-measurement for any financial assets and financial liabilities, other than those mentioned above of the Company upon adoption of IFRS 9 as at 1 January 2018.

**iii) Impact on retained earnings and other reserves**

	<b><u>Retained earnings</u></b>
Closing balance under IAS 39 (31 December 2017)	102,840,944
Recognition of expected credit losses under IFRS 9	<u>(6,051,748)</u>
<b>Opening balance under IFRS 9 (1 January 2018)</b>	<b><u>96,789,196</u></b>

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting and risk management policies used in the preparation of these condensed interim financial statements are consistent with those used and disclosed in the financial statements for the year ended 31 December 2017 except for the policies explained below. Based on the adoption of new standards explained in note 3, the following accounting policies are applicable effective 1 January 2018 replacing / amending or adding to the corresponding accounting policies set out in 2017 financial statements.

**A. Classification of financial assets**

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

**Financial Asset at amortised cost**

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

**Financial Asset at FVOCI**

**A debt instrument** is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit and foreign exchange gains and losses are recognised in profit or loss.

**Equity Instruments:** On initial recognition, for an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

**Financial Asset at FVTPL**

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

***Business model assessment***

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual profit revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

***Assessments whether contractual cash flows are solely payments of principal and profit***

For the purposes of this assessment, 'principal' is the fair value of the financial asset on initial recognition. Profit is the consideration for the time value of money, the credit and other basic lending risks associated with the principal amount outstanding during a particular period and other basic lending costs (e.g. liquidity risk and administrative costs), along with profit margin.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In assessing whether the contractual cash flows are solely payments of principal and profit, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money- e.g. periodical reset of profit rates.

**B. Classification of financial liabilities**

The Company classifies its financial liabilities, as measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium to issue the funds, and other cost that are integral part of the effective profit rate.

Before 1 January 2018, all the financial liabilities were initially recognized at fair value less transaction costs. Subsequently financial liabilities were recognized at amortized cost.

**C. Derecognition**

**i. Financial assets**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of:

- (i) the consideration received (including any new asset obtained less any new liability assumed); and
- (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

From 1 January 2018, any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on de-recognition of such securities. Any profit in transferred financial assets that qualify for de-recognition that is created or retained by the Company is recognized as a separate asset or liability.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

**ii. Financial liabilities**

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Modification of financial assets and financial liabilities**

**i. Financial assets**

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset carried at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit.

**ii. Financial liabilities**

The Company derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

**E. Impairment**

The Company recognizes loss allowances for ECL on investment in finance lease.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition, these loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

**Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restructured financial assets**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective yield of the existing financial asset.

**Credit-impaired financial assets**

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

**Presentation of allowance for ECL in the statement of financial position**

Impairment allowances for ECL of financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

**Write-off**

Investment in finance leases are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment charge for credit losses.

**F. Income and expenses recognition**

*i. Income and expenses*

Income finance lease and borrowing cost are recognized in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to or the amortized cost of the financial instrument.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective profit rate includes transaction costs and fees and points paid or received that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

*ii. Measurement of amortized cost and income*

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective profit method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating profit, the effective profit rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, profit is calculated by applying the effective profit rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of profit reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, profit is calculated by applying the credit-adjusted effective profit rate to the amortized cost of the asset. The calculation of profit does not revert to a gross basis, even if the credit risk of the asset improves.

**G. Critical accounting judgement, estimates and assumptions**

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Such judgements, estimates, and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and in future periods if the revision affects both current and future periods. Significant area where management has used estimates, assumption or exercised judgment is provision for credit impairment losses.



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**5. NET INVESTMENT IN FINANCE LEASES**

	<b>30 September 2018 (Unaudited)</b>		
	<b><u>Not later than one year</u></b>	<b><u>Later than one year and less than five years</u></b>	<b><u>Total</u></b>
Lease contract receivables	1,022,382,924	2,094,163,484	3,116,546,408
Unearned lease income	<u>(217,244,020)</u>	<u>(445,540,509)</u>	<u>(662,784,529)</u>
	805,138,904	1,648,622,975	2,453,761,879
Impairment allowance for credit losses	5.1 (28,686,737)	(58,703,539)	(87,390,276)
Net investment in finance lease	<u>776,452,167</u>	<u>1,589,919,436</u>	<u>2,366,371,603</u>

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2017: 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 a collateral against the finance leases.

	<b>31 December 2017 (Audited)</b>		
	<b><u>Not later than one year</u></b>	<b><u>Later than one year and less than five years</u></b>	<b><u>Total</u></b>
Lease contract receivables	943,781,893	2,405,547,624	3,349,329,517
Unearned lease income	<u>(212,362,493)</u>	<u>(543,913,685)</u>	<u>(756,276,178)</u>
	731,419,400	1,861,633,939	2,593,053,339
Impairment allowance for credit losses	5.1 (21,898,190)	(54,562,666)	(76,460,857)
Net investment in finance lease	<u>709,521,210</u>	<u>1,807,071,273</u>	<u>2,516,592,483</u>

5.1 The movement in the allowance for impairment is as follows:

	<b>For the nine-month period ended 30 September 2018 (Unaudited)</b>
<b>Balance at 31 December 2017 – as previously reported (audited)</b>	<b>76,460,857</b>
Impact of adopting of new standards at 1 January 2018	<u>6,051,748</u>
<b>Balance as at 1 January 2018 – restated</b>	<b>82,512,605</b>
Charge for the period	<u>4,877,671</u>
	<u><b>87,390,276</b></u>

**6. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**

	<b><u>Note</u></b>	<b>30 September 2018 (Unaudited)</b>	<b>31 December 2017 (Audited)</b>
Prepaid insurance		60,549,978	36,848,125
VAT receivable, net		14,066,661	--
Advance VAT paid to dealers		1,245,690	--
Advance for purchase of investment		--	892,850
Dealer receivable		2,101,214	1,053,009
Prepaid rent		263,644	172,919
Other receivables		637,220	94,930
		<u>78,864,407</u>	<u>39,061,833</u>

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**7. LONG-TERM LOAN**

	<b>30 September 2018 (Unaudited)</b>	31 December 2017 (Audited)
Current portion	<b>546,468,360</b>	650,250,874
Non-current portion	<b>1,175,000,000</b>	1,255,000,000
	<b><u>1,721,468,360</u></b>	<u>1,905,250,874</u>

The Company has a shariah compliant loan facility “Al Tawarroq” with a limit of SAR 2,500 million from its parent, Banque Saudi Fransi (“BSF”).

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

**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.

In addition to the related party transactions and balances disclosed elsewhere in these condensed interim 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>	<b><u>For the nine-month period ended</u></b>	
		<b>30 September 2018 (Unaudited)</b>	30 September 2017 (Unaudited)
Lease rental collected	- Sofinco Saudi Fransi (An affiliate)	<b>1,331,614</b>	590,583
	- BSF	<b>--</b>	391,184
IT maintenance and network related expenses	BSF	<b>294,444</b>	112,500
Other income	BSF	<b>--</b>	(405,000)
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	<b>45,602,550</b>	41,208,521
Commission on short term deposit	BSF	<b>(108,681)</b>	--
Insurance expense of leased assets	Allianz Saudi Fransi (An affiliate)	<b>86,416,792</b>	74,377,437
Salaries and employee related expenses	BSF	<b>6,210,832</b>	5,481,968
Lease finance	BSF	<b>299,995</b>	1,524,981
Draw down of long-term loan	BSF	<b>240,000,000</b>	580,000,000
Payments of long-term loan	BSF	<b>(432,500,000)</b>	(225,000,000)

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**8. RELATED PARTY TRANSACTIONS (CONTINUED)**

Certain expenses paid by BSF on behalf of the Company were not charged by BSF to the Company. Until 31 December 2017, these expenses mainly included provision of rent free premises and salary compensation of the Company's CEO. However, effective 1 January 2018, BSF commenced to charge the Company with the salary compensation of the Company's CEO, which has been presented under salaries and employee related expenses in the above table.

The above transactions mainly resulted in the following balances:

<b>b) Due to related parties (excluding term loan) :</b>	<b>30 September</b>	31 December
	<b><u>2018</u></b>	<b><u>2017</u></b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
BSF	<b>14,776,609</b>	11,826,485
Allianz Saudi Fransi	<b>14,126,156</b>	6,395,264
	<b><u>28,902,765</u></b>	<b><u>18,221,749</u></b>
<b>c) Due from a related party:</b>	<b>30 September</b>	31 December
	<b><u>2018</u></b>	<b><u>2017</u></b>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Sofinco Saudi Fransi	<b>227,096</b>	177,096

**d) Other balances with related party:**

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

<b><u>Nature of balances</u></b>	<b><u>Related parties</u></b>	<b>30 September</b>	31 December
		<b><u>2018</u></b>	<b><u>2017</u></b>
		<i>(Unaudited)</i>	<i>(Audited)</i>
Bank balances	BSF	<b>68,905,211</b>	74,342,711
Long-term loan	BSF (note 7)	<b>1,721,468,360</b>	1,905,250,874

As at 30 September 2018, the Company has 27 lease contracts (31 December 2017: 39) with BSF with an outstanding principal amounting to SAR 2.497 million (31 December 2017: SAR 3.821 million).

**9. DERIVATIVES ASSET / LIABILITY**

	<b>30 September 2018 (Unaudited)</b>			
<b>Derivative financial instruments</b>	<b>Notional amount</b>			
<b><u>Held for cash flow hedging</u></b>	<b><u>Within 3 Months</u></b>	<b><u>3-12 months</u></b>	<b><u>1-5 years</u></b>	<b><u>Total</u></b>
Commission rate swaps	<b>127,500,000</b>	<b>357,500,000</b>	<b>987,500,000</b>	<b>1,472,500,000</b>
	<b>31 December 2017 (Audited)</b>			
<b>Derivative financial instruments</b>	<b>Notional amount</b>			
<b><u>Held for cash flow hedging</u></b>	<b><u>Within 3 Months</u></b>	<b><u>3-12 months</u></b>	<b><u>1-5 years</u></b>	<b><u>Total</u></b>
Commission rate swaps	<b>112,500,000</b>	<b>382,500,000</b>	<b>1,345,000,000</b>	<b>1,840,000,000</b>

The Company entered into commission rate swaps with its parent, BSF. The net fair value of commission rate swaps is SAR 8,270,235 as at 30 September 2018 (31 December 2017: SAR 8,886,436 [negative]). The net 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.

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**10. SHARE CAPITAL**

The authorised, issued and paid-up share capital of the Company is SAR 500 million (31 December 2017: SAR 500 million) divided into 50 million (31 December 2017: 50 million) shares of SAR 10 (31 December 2017: SAR 10) each and 100% owned by BSF.

**11. BASIC AND DILUTED EARNINGS PER SHARE**

The basic and diluted earnings per share is calculated by dividing the net income for the period attributable to the shareholders by the weighted average number of shares at the end of the period.

	<b>For the nine-month period ended 30 September</b>	
	<u>2018</u>	<u>2017</u>
Net income for the period	<u>72,560,025</u>	<u>48,591,545</u>
Weighted average number of ordinary shares	<u>50,000,000</u>	<u>50,000,000</u>
Basic and diluted earnings per share	<u>1.45</u>	<u>0.97</u>

**12. 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 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.

<b>30 September 2018</b>	<b><i>Carrying Value</i></b>	<b><i>Fair Value</i></b>			<b><i>Total</i></b>
		<b><i>Level 1</i></b>	<b><i>Level 2</i></b>	<b><i>Level 3</i></b>	
<b><u>Financial assets:</u></b>					
Derivative financial instruments	8,655,113	--	8,655,113	--	8,655,113
Net investments in finance leases	2,453,761,879	--	--	2,250,239,004	2,250,239,004
Financial assets held at fair value through other comprehensive income – equity instruments	892,850	--	--	892,850	892,850

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**12. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

<i>31 December 2017</i>	<i>Carrying Value</i>	<i>Fair Value</i>			<i>Total</i>
		<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
<i>Financial assets:</i>					
Net investments in finance leases	2,593,053,339	--	--	2,297,250,868	2,297,250,868
<i>Financial liabilities:</i>					
Derivative financial instruments	(8,886,436)	--	(8,886,436)	--	(8,886,436)

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 current commission rates.

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

There have been no transfers to and from Level 3 during the period.

**13. FINANCIAL RISK MANAGEMENT**

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has nominated the risk management head, who has the responsibility to monitor the overall risk process within Company.

The risk management head has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

The risk management head is responsible for managing risk decisions and monitoring on risk levels and reports on a quarterly basis to the Board Risk Management Committee.

The Company manages exposure to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities that lead to investment in finance lease receivables.

The Company assesses the probability of default of counterparties using internal rating tools.

The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. Company's risk management policies are designed to identify, to set appropriate risk limits, and to monitor the risks and adherence to limits. Actual exposures against limits are monitored on regularly basis.

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**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

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

The Company seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations or business.

**a) Amounts arising from ECL – Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Company historical experience and expert credit assessment.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the 12 month probability of default (PD) as at the reporting date; with
- the 12 month probability of default (PD) at the time of initial recognition of the exposure

**Credit risk grades**

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of exposures involves use of the following data.

Corporate exposures	Retail exposures	All exposures
<ul style="list-style-type: none"> <li>• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality management, and senior management changes.</li> <li>• Data from credit reference agencies, press articles, changes in external credit ratings</li> <li>• Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities</li> </ul>	<ul style="list-style-type: none"> <li>• Internally collected data and customer behavior</li> <li>• Affordability metrics</li> <li>• External data from credit reference agencies including industry-standard credit scores</li> </ul>	<ul style="list-style-type: none"> <li>• Payment record – this includes overdue status as well as a range of variables about payment ratios</li> <li>• Utilization of the granted limit</li> <li>• Requests for and granting of forbearance</li> <li>• Existing and forecast changes in business, financial and economic conditions</li> </ul>

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**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Credit risk grades (Continued)**

**i) Generating the term structure of PD**

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. Company collects performance and default information about its credit risk exposures separately for the corporate and retail portfolios.

The Company analyses the relationships between its historical default rates and macro-economic factors. For both the corporate and retail portfolios, the key macro-economic indicator is oil price. The Company has formulated a view of the future direction of relevant economic variables for three different scenarios.

**ii) Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modeling.

Using its expert credit judgment and, where possible, relevant historical experience, Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- the criteria do not align with the point in time when an asset becomes 30 days past due;

**iii) Modified financial assets**

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated instrument recognized as a new instrument at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- The risk of default at the reporting date (based on modified contractual terms) and
- The risk of default occurring at initial recognition (based on original, unmodified contractual terms)

If the modification results in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of the following:

- risk of default at the reporting date (based on modified contractual terms); and
- the risk of default based on the modified terms.

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**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**a) Amounts arising from ECL – Significant increase in credit risk (continued)**

The modified terms usually include extending the maturity, changing the timing of profit payments and amending the terms of loan covenants. Both retail and corporate loans are subject to modification.

For financial assets, which are modified, the estimate of Probability of default (PD) reflects whether the modification has improved or restored the Company ability to collect profit and principal. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / default or the risk of default is considered to have decreased.

**iv) Definition of 'Default'**

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to Company in full,; or
- the borrower is past due more than 90 days on any material credit obligation to Company.

In assessing whether a borrower is in default the Company considers indicators that are:

- qualitative- e.g. breaches of covenant ;
- quantitative- e.g. overdue status and non-payment on another obligation of the same issuer to Company;

**v) Measurement of ECL**

The key inputs into the measurement of ECL are the following risk estimates:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

PD estimates are estimates at a certain date, which are calculated, based on statistical rating models, and assessed using rating tools tailored for companies portfolio. These rating models are based on both quantitative and qualitative factors. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. Further the PD term structure is estimated considering the contractual maturities of exposures.

LGD is the magnitude of the likely loss if there is a default. Company estimates LGD based on the history of recovery rates of claims against defaulted counterparties. LGD model considers the structure, any sale of collateral, and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, Company measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, Company considers a longer period. The maximum contractual period extends to the date at which Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.



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**13. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**b) Loss allowance**

The following table shows reconciliations from the opening to the closing balance of the loss allowance at an overall level.

<u>Loss Allowance</u>	<u>12 Month ECL</u>	<u>Lifetime ECL (not credit impaired)</u>	<u>Lifetime ECL (credit impaired)</u>	<u>Total</u>
Balance at 1 January, 2018	26,957,782	11,854,783	43,700,040	82,512,605
Transfer from 12 Month ECL	(6,390,156)	5,091,693	1,298,463	--
Transfer from Lifetime ECL not credit - impaired	--	(3,392,640)	3,392,640	--
Net re-measurement of loss allowance	(4,681,534)	(4,047,921)	17,472,170	8,742,715
Financial assets that have been derecognized	(2,006,933)	(781,985)	(5,238,622)	(8,027,540)
New finance lease receivables originated	3,009,556	489,719	663,221	4,162,496
<b>Balance at 30 September, 2018</b>	<b><u>16,888,715</u></b>	<b><u>9,213,649</u></b>	<b><u>61,287,912</u></b>	<b><u>87,390,276</u></b>

**c) Ageing of net investment in finance lease (Past due but not impaired)**

<u>Days past due</u>	<u>30 September 2018</u>	<u>31 December 2017</u>
1 – 30 days	<b>406,888,327</b>	323,151,183
31 – 90 days	<b>148,781,741</b>	122,755,252
91 – 180 days	<b>26,602,670</b>	24,571,310
More than 180 days	<b>53,247,401</b>	36,378,503
Total	<b><u>635,520,139</u></b>	<u>506,856,248</u>

**14. PROSPECTIVE CHANGE IN ACCOUNTING STANDARDS**

Standard and interpretation that is issued, but not yet effective, up to the date of issuance of the Company's condensed interim financial statements is disclosed below. The Company intends to adopt this standard, if applicable, when it becomes effective.

***Effective for annual periods beginning on or after***

IFRS 16, Leases

1 January 2019

**15. GEOGRAPHICAL CONCENTRATION**

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

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**16. 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>
<b><u>30 September 2018 (Un-Audited)</u></b>			
Total assets	<u>2,487,994</u>	<u>36,269</u>	<u>2,524,262</u>
Total liabilities	<u>1,836,389</u>	<u>572</u>	<u>1,836,961</u>
Impairment allowance for credit losses	<u>86,093</u>	<u>1,297</u>	<u>87,390</u>
Total operating income	<u>137,958</u>	<u>4,743</u>	<u>142,701</u>
Total operating expenses	<u>74,517</u>	<u>(891)</u>	<u>73,626</u>
Net income for the period	<u>66,926</u>	<u>5,634</u>	<u>72,560</u>
	Amount in SAR '000		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
<b><u>31 December 2017 (Audited)</u></b>			
Total assets	<u>2,577,546</u>	<u>53,401</u>	<u>2,630,947</u>
Total liabilities	<u>2,022,618</u>	<u>587</u>	<u>2,023,205</u>
Impairment allowance for credit losses	<u>73,848</u>	<u>2,613</u>	<u>76,461</u>
	Amount in SAR '000		
	<u>Retail</u>	<u>Corporate</u>	<u>Total</u>
<b><u>30 September 2017 (Un-Audited)</u></b>			
Total operating income	<u>128,943</u>	<u>6,455</u>	<u>135,397</u>
Total operating expenses	<u>89,491</u>	<u>28</u>	<u>89,519</u>
Net income for the period	<u>42,166</u>	<u>6,426</u>	<u>48,592</u>

**17. COMMITMENTS**

The Company has facilities 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 amounting to SR 9.3 million (31 December 2017: SR 0.483 million).

During the period, the Company entered into a contract for commission rate swap (derivative instrument) with its parent. The instrument has a notional amount of SR 350 million with value date of 17 December 2018.

**18. BOARD OF DIRECTOR' APPROVAL**

These condensed interim financial statements were approved by the Board of directors on 28 October 2018 corresponding to 19 Safar 1440H.