

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 2020
together with the
Independent auditor's report

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

INDEX	PAGE
Independent auditor's review report	1
Interim condensed statement of financial position	2
Interim condensed statement of income	3
Interim condensed statement of comprehensive income	4
Interim condensed statement of changes in equity	5
Interim condensed statement of cash flows	6
Notes to the interim condensed financial statements	7-17



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Independent auditor's 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 2020 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 2020;
- the interim condensed statement of income for the three-month and six-month periods ended 30 June 2020;
- the interim condensed statement of comprehensive income for the three-month and six-month periods ended 30 June 2020;
- the interim condensed statement of changes in shareholders' equity for the six-month period ended 30 June 2020;
- the interim condensed statement of cash flows for the six-month period ended 30 June 2020; 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 2020 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

7 Dhul Hijjah 1441H
Corresponding to: 28 July 2020



SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020
(SR '000)

	<i>Note</i>	30 June 2020 <i>(Unaudited)</i>	31 December 2019 <i>(Audited)</i>
<u>ASSETS</u>			
Cash and cash equivalents		23,536	19,831
Net investment in finance leases	4	2,481,646	2,426,665
Advances, prepayments and other receivables	5	120,799	79,936
Investment at FVOCI		893	893
Positive fair value of derivatives	6	--	1,918
Property and equipment		1,524	580
Intangible assets		380	211
Deferred tax asset	8	3,103	2,909
Total assets		2,631,881	2,532,943
 <u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
Liabilities			
Long-term loan	9	1,663,988	1,627,087
Accounts payable	10	47,005	45,632
Advance from customers		67,761	65,101
Due to related parties	7.b	23,295	5,842
Negative fair value of derivatives	6	50,965	21,742
Accrued expenses and other liabilities		9,291	11,657
Employees' end of service benefits		6,248	5,619
Provision for zakat and income tax	11	27,698	11,403
Total liabilities		1,896,251	1,794,083
 Shareholders' equity			
Share capital		500,000	500,000
Statutory reserve		30,242	30,242
Cash flow hedge reserve		(50,965)	(19,824)
Retained earnings		256,353	228,442
Total shareholders' equity		735,630	738,860
 Total shareholders' equity and liabilities		2,631,881	2,532,943

The accompanying notes (1) through (21) 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 2020 (Unaudited)
(SR '000)

	<i>Note</i>	For the three-month period ended		For the six-month period ended	
		30 June 2020	30 June 2019	30 June 2020	30 June 2019
Income from operations					
Lease finance income	12	33,552	35,000	63,356	69,407
Fees income	13	47,740	47,783	98,039	92,531
		81,292	82,783	161,395	161,938
Operating expenses					
Fees expenses	13	(30,504)	(34,062)	(69,240)	(67,675)
Salaries and employee related expenses		(7,072)	(8,727)	(14,402)	(16,547)
Rent		(99)	(104)	(198)	(207)
Depreciation		(103)	(34)	(162)	(66)
Amortization		(68)	(43)	(121)	(82)
General and administration expenses		(1,317)	(1,277)	(2,648)	(2,371)
Financial charges		(12,450)	(14,773)	(25,623)	(29,299)
Reversal / (allowance) for expected credit losses, net	5.1	(4,586)	(4,984)	(7,132)	6,338
		(56,199)	(64,004)	(119,526)	(109,909)
Operating income		25,093	18,779	41,869	52,029
Other income		936	1,185	2,143	2,557
Net income for the period before zakat and income tax		26,029	19,964	44,012	54,586
Zakat and income tax (note 11)		(12,990)	(1,243)	(16,101)	(3,164)
Net income for the period after zakat and income tax		13,039	18,721	27,911	51,422

The accompanying notes (1) through (21) 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 2020 (Unaudited)
(SR '000)

	For the three-month period ended		For the six-month period ended	
	30 June	30 June	30 June	30 June
	2020	2019	2020	2019
Net income for the period after zakat and income tax	13,039	18,721	27,911	51,422
<u>Other comprehensive</u>				
<u>income/(loss):</u>				
<i>Items that may be reclassified to statement of income in subsequent years:</i>				
Cash flow hedges – net change in fair value	6 (10,038)	(8,150)	(31,141)	(16,922)
Total comprehensive (loss) / income for the period	3,001	10,571	(3,230)	34,500

The accompanying notes (1) through (21) 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 2020 (Unaudited)
(SR '000)

For the period ended 30 June 2020	<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 2020	500,000	30,242	(19,824)	228,442	738,860
Net income for the period	--	--	--	27,911	27,911
Other comprehensive income	--	--	(31,141)	--	(31,141)
Balance as at 30 June 2020	500,000	30,242	(50,965)	256,353	735,630

For the period ended 30 June 2019	Share Capital	Statutory reserve	Cash flow hedge reserve	Retained earnings	Total
Balance at 1 January 2019	500,000	22,244	(273)	156,128	678,099
Net income for the period	--	--	--	51,422	51,422
Other comprehensive income	--	--	(16,922)	--	(16,922)
Balance as at 30 June 2019	500,000	22,244	(17,195)	207,550	712,599

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the six-months period ended 30 June 2020 (Unaudited)
(SR '000)

	<u>Note</u>	<u>30 June 2020</u>	<u>30 June 2019</u>
Cash flows from operating activities			
Net income for the period before zakat and income tax		44,012	54,586
<i>Adjustments to reconcile net income to net cash generated from / (used in) operating activities:</i>			
Depreciation		162	66
Amortization		121	82
Charge / (reversal) for expected credit losses, net	4	7,132	(6,338)
Employees' end of service benefits		731	694
Modification loss on investment in finance lease		5,802	--
Financing charges		25,623	29,299
		83,583	78,389
 <i>Net (increase) / decrease in operating assets</i>			
Net investment in finance leases		(67,915)	(72,452)
Advances, prepayments and other receivables		(40,863)	(63,881)
Due from a related party		--	26
		(108,778)	(136,307)
 <i>Net increase / (decrease) in operating liabilities</i>			
Accounts payable		1,373	8,832
Due to related parties		17,453	16,519
Advance from customers		2,661	13,825
Accrued expenses and other liabilities		(3,192)	(2,283)
		18,295	36,893
Zakat and income tax paid	11	--	(9,313)
Employees' end of service benefits, paid		(102)	(17)
		(7,002)	(30,355)
 Cash flows from investing activities			
Purchase of intangibles		(290)	(58)
Purchase of property and equipment		--	(49)
		(290)	(107)
 Cash flows from financing activities			
Draw down of long-term loan		290,062	220,000
Payments of long-term loan		(251,250)	(277,500)
Financial charges paid		(27,526)	(31,021)
Cash payment for principle portion of lease liability		(289)	--
		10,997	(88,521)
 <i>Net cash generated from / (used in) financing activities</i>			
Net increase / (decrease) in cash and cash equivalents		3,705	(118,983)
Cash and cash equivalents at the beginning of the period		19,831	126,413
		23,536	7,430
 Cash and cash equivalents at the end of the period			
 Non-cash supplemental information:			
Right-of-use-assets		1,014	--
Lease liabilities		826	--

The accompanying notes (1) through (21) form an integral part of these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

1. THE COMPANY AND NATURE OF OPERATIONS

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

As per the Saudi Arabian Monetary Authority (“SAMA”) directive, the Company obtained a license no. 201511/ 38/أش to practice finance activities.

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

The interim condensed financial statements of the Company as at and for the period ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (“SOCPA”).

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. Further, employees’ end of service benefits are measured at present value of future obligations using the Projected Unit Credit Method.

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

c) Functional and presentation currency

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 December 2019, except for the policy explained below:

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

IBOR Transition (Interest Rate Benchmark Reforms):

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

Phase 1 – The first phase of amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures focused on hedge accounting issues. The final amendments, issued in September 2019, amended specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by IBOR reform. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by IBOR reform.

Phase 2 – The second phase relates to the replacement of benchmark rates with alternative risk-free rates. Currently, there is uncertainty as to the timing and the methods of transition for phase 2. As a result of these uncertainties, IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Company believes the current market structure supports the continuation of hedge accounting as at 30 June 2020.”

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

4. NET INVESTMENT IN FINANCE LEASES

	30 June 2020 (Unaudited)		
	Not later than one year	Later than one year and less than five years	Total
Lease contract receivables	1,267,137	1,965,099	3,232,236
Unearned lease income	<u>(250,725)</u>	<u>(387,709)</u>	<u>(638,434)</u>
	1,016,412	1,577,390	2,593,802
Provision for expected credit losses	4.1 (43,970)	(68,186)	(112,156)
Net investment in finance leases	<u>972,442</u>	<u>1,509,204</u>	<u>2,481,646</u>

These leased assets carry profit rates ranging from 3% to 7% per annum (31 December 2019: 3% to 7%) and lease rentals are determined on the basis of implicit rate of profit based on the cash flows of the lease. The Company holds the title of the leased assets as a collateral against the finance leases.

	31 December 2019 (Audited)		
	Not later than one year	Later than one year and less than five years	Total
Lease contract receivables	1,130,795	2,052,035	3,182,830
Unearned lease income	<u>(231,380)</u>	<u>(419,749)</u>	<u>(651,129)</u>
	899,415	1,632,286	2,531,701
Provision for expected credit losses	4.1 (37,314)	(67,722)	(105,036)
Net investment in finance leases	<u>862,101</u>	<u>1,564,564</u>	<u>2,426,665</u>

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

4. NET INVESTMENT IN FINANCE LEASES (CONTINUED)

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

	For the period ended 30 June 2020 (Unaudited)	For the year ended 31 December 2019 <i>Audited</i>
Balance as at 1 January	105,036	101,006
Charge for the period / year (Note 4.2)	7,132	4,762
Write off	(12)	(732)
	112,156	105,036

4.2 This includes management overlays of SR 4.78 million as detailed in note 18 of these interim condensed financial statements.

5. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

	30 June 2020 (Unaudited)	31 December 2019 <i>(Audited)</i>
Prepaid insurance	96,509	63,645
VAT receivable, net	8,978	5,526
Dealer receivable	7,098	5,445
Advance VAT paid to dealers	4,874	3,564
Other receivables	3,340	1,756
	120,799	79,936

6. DERIVATIVE

Derivative financial instruments <u>Held for cash flow hedging</u>	30 June 2020 (Unaudited)			
	-----Notional amount-----			
	Within 3 months	3-12 months	1-5 year	Total
Commission rate swaps	96,875	290,625	1,078,125	1,465,625
	31 December 2019 (Audited)			
	-----Notional amount-----			
	Within 3 months	3-12 months	1-5 year	Total
Commission rate swaps	104,375	290,625	1,175,000	1,570,000

The Company entered into commission rate swaps with its parent, BSF. The positive fair value of commission rate swaps as on 30 June 2020 is SAR Nil (31 December 2019: SAR 1.92 million) and negative fair value of commission rate swaps is SAR 50.965 million (31 December 2019: SAR 21.742 million). The fair value of commission rate swaps is calculated using discounted cash flow model using a risk free discount rate adjusted for appropriate risk margin for counterparty risk including entity's own credit risk.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

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. The terms of those billings and charges are on an agreed basis with these related parties:

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

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

a) Transactions with related parties

<u>Nature of transactions</u>	<u>Related parties</u>	<u>For the six-months period ended</u>	
		<u>30 June 2020</u> <i>(Unaudited)</i>	<u>30 June 2019</u> <i>(Unaudited)</i>
Lease rental collected	Sofinco Saudi Fransi (An affiliate)	<u>154</u>	<u>330</u>
IT maintenance and network related expenses	BSF	<u>868</u>	<u>600</u>
Financial charges on long-term loan and commission rate swaps including bank charges	BSF	<u>25,623</u>	<u>29,299</u>
Commission on short term deposit	BSF	<u>--</u>	<u>121</u>
Salaries and employee related expenses	BSF	<u>2,958</u>	<u>2,156</u>
Finance Lease disbursed	BSF and certain member of the BOD	<u>1,004</u>	<u>--</u>
Insurance expense of leased assets	Allianz Saudi Fransi	<u>59,277</u>	<u>59,209</u>
Draw down of long-term loan	BSF	<u>290,062</u>	<u>220,000</u>
Payments of long-term loan	BSF	<u>(251,250)</u>	<u>(277,500)</u>

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

The above transactions mainly resulted in the following balances:

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

7. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Due to related parties (excluding term loan):	30 June	31 December
	<u>2020</u>	<u>2019</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
BSF	10,856	4,303
Allianz Saudi Fransi	<u>12,439</u>	<u>1,539</u>
	<u>23,295</u>	<u>5,842</u>

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

		30 June	31 December
		<u>2020</u>	<u>2019</u>
		<i>(Unaudited)</i>	<i>(Audited)</i>
<u><i>Nature of balances</i></u>	<u><i>Related party</i></u>		
Cash and Cash equivalents	Banque Saudi Fransi	<u>23,484</u>	<u>19,829</u>
Long-term loan	Banque Saudi Fransi	<u>1,663,988</u>	<u>1,627,087</u>

As at 30 June 2020, the Company had 8 lease contracts (31 December 2019: 11) with Banque Saudi Fransi with an aggregate outstanding principal amounting to SAR 0.421 million (31 December 2019: SAR 0.84 million).

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

	<u>For the six-months period ended</u>	
	<u>30 June 2020</u>	<u>30 June 2019</u>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Salaries	681	735
End of service benefits	27	46
Other allowances	<u>12</u>	<u>12</u>
	<u>720</u>	<u>793</u>

8. DEFERRED TAX ASSET

The company has booked deferred tax asset amounting to SR 3.10 million as at 30 June 2020 (31 December 2019: SAR 2.91 million) pertaining to deductible temporary differences. These differences arisen from impairment allowance for expected credit losses, property and equipment depreciation and end of service benefits. Movement of the account balance accounted are as follows:

	30 June	31 December
	<u>2020</u>	<u>2019</u>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Opening balance	2,909	--
Deferred tax gain charge to		
- profit or loss	<u>194</u>	<u>2,909</u>
Closing balance	<u>3,103</u>	<u>2,909</u>

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

9. 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”). During the period, the company has obtain interest free loan of SR 50 million from BSF for a period of six month. The maturity date of interest free loan is 1 November 2020.

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Current portion	367,676	452,087
Non-current portion	1,296,312	1,175,000
	<u>1,663,988</u>	<u>1,627,087</u>

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

10. ACCOUNTS PAYABLE

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Third party insurance collected	10,554	11,827
Dealers payable	22,716	22,950
Commission payable	4,279	3,668
Insurance Payable	7,414	5,155
Customer verification expense payable	1,408	1,133
Government fee payable	614	867
Others	20	32
	<u>47,005</u>	<u>45,632</u>

11. ZAKAT AND TAX

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

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Opening zakat and tax	11,403	13,245
Charge for the period / year:		
- current period	8,859	10,161
- prior year	7,436	--
Payment during the period / year	--	(12,003)
Closing zakat and tax	<u>27,698</u>	<u>11,403</u>

The Company had recorded zakat and income tax provision based on the ministerial resolution no. 2215 dated 7/7/1440H (Corresponding to 14/3/2019) issued by the GAZT and based on our interpretation of the requirements. At the time of filing of zakat and income tax return of the Company for the year ended 31 December 2019, the Company, based on guidelines issued by GAZT re-assessed its composition of non-zakatable assets and has accordingly revised upwards its zakat base. This revision has resulted in an additional zakat liability which has been reflected in these interim condensed financial statements.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

11. ZAKAT AND TAX (CONTINUED)

Status of assessments

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

During the period ended 30 June 2020, there has been no change in the status of the Company’s zakat and income tax assessments from the status disclosed in the annual financial statements of the Company for the year ended 31 December 2019.

12. LEASE FINANCE INCOME

This includes a modification loss amounting to SR 3.1 million (30 June 2019: nil), SR 2.4 million (30 June 2019: nil) and SR 0.35 million (30 June 2019: nil) due to the deferment of lease instalments related to receivables from Micro Small and Medium Enterprises (“MSME”), health care workers and other program launched by SAMA for customer support, respectively, as detailed in note 19 of the interim condensed financial statements.

13. FEE INCOME AND EXPENSES

	For the six-months period ended 30 June (Unaudited)	
<i>Fee income</i>	2020	2019
Insurance income	91,993	86,746
Processing fee	4,623	4,002
Other operating income	1,423	1,783
	98,039	92,531
<i>Fee expenses</i>		
Insurance expenses	62,101	61,151
Commission	4,636	4,680
Registration fee	1,427	1,466
Verification expenses	1,076	378
	69,240	67,675

14. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

All financial assets (including lease receivables) and financial liabilities are measured at amortized cost except for derivative financial instruments and 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.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

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

<i>30 June 2020 (Unaudited)</i>	-----Fair Value-----				
	<i>Carrying Value</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<u>Financial assets:</u>					
Net investments in finance leases	2,593,802	--	--	2,285,795	2,285,795
<u>Financial liabilities:</u>					
Negative fair value of derivative	50,965	--	50,965	--	50,965
-----Fair Value-----					
<i>31 December 2019 (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 derivative	1,918	--	1,918	--	1,918
Net investments in finance leases	2,531,701	--	--	2,254,302	2,254,302
<u>Financial liabilities:</u>					
Negative fair value of derivative	21,742	--	21,742	--	21,742

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

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

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

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

15. GEOGRAPHICAL CONCENTRATION

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

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

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 their performance.

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

30 June 2020 (Unaudited)	Amount in SAR '000		
	Retail	Corporate	Total
Total assets	2,568,978	62,903	2,631,881
Total liabilities	1,894,729	1,523	1,896,252
Impairment allowance for expected credit losses	109,775	2,381	112,156
Total revenue	162,178	1,360	163,538
Total operating expenses	117,586	1,940	119,526
Net income / loss for the period	44,592	(580)	44,012

31 December 2019 (Audited)	Amount in SAR '000		
	Retail	Corporate	Total
Total assets	2,478,475	54,468	2,532,943
Total liabilities	1,793,160	923	1,794,083
Impairment allowance for credit losses	102,944	2,092	105,036
30 June 2019 (Unaudited)			
Total revenue	160,359	4,136	164,495
Total operating expenses	108,684	1,225	109,909
Net income for the period	51,675	2,911	54,586

17. COMMITMENTS

The Company has finance lease contracts approved but not utilised, indicative offers issued which are under consideration of the customers as of the reporting date which have the potential to convert into financing amounting to SR 0.8 million (31 December 2019: SR 12.9 million).

As at 30 June 2020, the Company has an outstanding guarantee of SR 5 million (31 December 2019: SR 5 million) submitted in favour of Abdul Latif Jameel Retail Company Limited against purchases of vehicle for onward leasing to customers.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

18. IMPACT OF COVID-19 ON THE COMPANY'S OPERATIONS AND THE INTERIM CONDENSED FINANCIAL STATEMENTS

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

Oil prices witnessed significant volatility during the first half of 2020, owing not just to demand issues arising from COVID-19 as the world economies go into lockdown, but also supply issues driven by volume which had predated the pandemic. The oil prices have shown some recovery in late Q2 2020 as oil producing countries cut back production coupled with increasing of demand as countries emerged from lockdowns.

The Company continues to evaluate the current situation through conducting stress testing scenarios on expected movements of oil prices and its impact on key credit, liquidity, operational, solvency and performance indicators in addition to other risk management practices to manage the impact COVID-19 outbreak has on its normal operations and financial performance. The steps taken by management also include impacts of government and SAMA support relief programmes.

The prevailing economic conditions post lock down, do require the Company to continue to revise certain inputs and assumptions used for the determination of expected credit losses ("ECL"). However, the impact of such uncertain economic environment continues to be difficult to assess for the purpose of ECL estimation. To the extent that certain effects cannot be fully incorporated into the ECL model calculations at this point in time, management continues to exercise expert credit judgement to estimate ECL by considering reasonable and supportable information not already included in the quantitative models. The Company had therefore recognised overlays of SR 4.78 million as at Q1 2020 which was underpinned by conducting customer employment segment analysis in cognisance of possible impacted exposures in particular around individuals that are either self employed or are working in the private sector. As at 30 June 2020, management believe that the current model provisions coupled with the overlay already taken in Q1 2020 is sufficient as there have been no material credit deterioration spikes witnessed during Q2 2020. The Company will continue to individually assess significant exposures as more reliable data becomes available and accordingly determine if any adjustment in the ECL is required in subsequent reporting periods. As with any forecasts, the projections and likelihoods of occurrence are underpinned by significant judgement and uncertainty and therefore, the actual outcomes may be different to those projected. The impact of such uncertain economic environment is judgemental and the Company will continue to reassess its position and the related impact on a regular basis.

19. SAMA programs and initiatives launched

In response to COVID-19, SAMA launched the Private Sector Financing Support Program ("PSFSP") in March 2020 to provide the necessary support to the Micro Small and Medium Enterprises ("MSME") as per the definition issued by SAMA via Circular No. 381000064902 dated 16 Jumada II 1438H. Whilst the PSFSP encompasses several programs, the one most pertinent to the Company as at 30 June 2020 is the deferred payments program.

SAUDI FRANSI FOR FINANCE LEASING
(A Closed Joint Stock Company)
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
For the three-month and six-month periods ended 30 June 2020
(SR '000)

19. SAMA programs and initiatives launched (Continued)

As part of the deferred payments program, the Company is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs. The payment reliefs are considered as short-term liquidity support to address the borrower's potential cash flow issues. The Company has effected the payment reliefs by extending the tenure of the applicable financing facilities granted with no additional costs to be borne by the customer. The accounting impact of these changes in terms of the credit facilities has been assessed and are treated as per the requirements of IFRS 9 as modification in terms of arrangement. This has resulted in the Company recognising a modification loss on investment in finance lease of SR 3.1 million as at 30 June 2020 and this has been presented as part of net lease finance income. This modification loss includes SR 0.66 million against MSME customer in stage 2. From this modification loss, SR 0.332 million has been unwound by 30 June 2020. In the absence of other factors, participation in the PSFSP is not considered a significant increase in credit risk.

Furthermore, in accordance with the PSFSP, the Company is also eligible for the deferral of its loan instalment payment to BSF. However, as at 30 June 2020, no such deferral has been agreed.

Health care sector support

In recognition of the significant efforts that our healthcare workers are putting in to safeguard the health of our citizens and residents in response to the COVID-19 outbreak, the Company has decided to voluntarily postpone payments for all public and private health care workers who have lease contracts with the Company for three months. This has resulted in the Company recognising a modification loss of SR 2.4 million as at 30 June 2020 and this has been presented as part of net lease finance income. Of this modification loss, SR 0.236 million has been unwound by 30 June 2020.

SAMA program - customer support on deferral of financing

In April 2020, SAMA issued further guidance to financing companies around providing the necessary support for individual customers that lost their jobs in the private sector due to COVID-19, whether directly or indirectly. This has resulted in the Company recognising a day 1 modification loss of SR 0.35 million as at 30 June 2020 and this has been presented as part of net lease finance income.

20. SUBSEQUENT EVENT

There have been no events subsequent to the reporting date that would require adjustment nor disclosure to the interim condensed financial statements as at and for the six-months period ended 30 June 2020.

21. BOARD OF DIRECTOR' APPROVAL

The financial statements have been approved by the Board of Directors on 5 Dhul Hijjah 1441H (corresponding to 26 July 2020).