



Board of Directors' Report

2016

Saudi Fransi Capital

Content

A Year in Review	3
Overview of Saudi Fransi Capital	4
Main Business Activities.....	5
Corporate Governance	6
Internal Audit	12
Operational Results, Borrowings & Fines	13
Consolidated Statement of Income	14
Related Party Transactions	15
Risk Management	16

A Year in Review

Much of 2016 was devoted to building a stronger organization that will support lasting long-term stakeholder value. While it has been a challenging year for capital markets, we achieved a great deal and we have undergone major adjustments to solidify our position over the coming years.

Our Asset Management has had an exceptional year essentially through our largest launch to date in third party funds where customer preference for international products has helped register healthy growth. We witnessed strong demand in public and private institutional client assets as they recognized us for our performance and depth in process and continuity. Overall investment performance remained competitive where our local Islamic and conventional equity fund assets continued to provide value to our investors.

Our Investment Banking has had an excellent year showing double digit increase in revenues and leading market share. We continue to be among the top three investment banks as we have secured multiple landmark transactions and signed a record number of deals. We successfully completed one of the only three premium IPOs for the year and we continued to be active in debt capital markets completing two large and complex transactions. In one of the sukuk deals, our innovative structure allowed us to achieve an off balance sheet treatment, the first of its kind in the kingdom.

Our Brokerage business is expanding beyond its core strength observed through our leading market share with institutions in the kingdom. Our research is now covering the majority of market capitalization, elevating our position amongst investors and proving valuable to clients through our sales trading. We can be proud to be a one stop shop for institutions and individual investors who would like to access capital markets through multiple interfaces and obtain sales trading and research services.

The entire team at Saudi Fransi Capital has been largely engaged over the past year in addressing a significant number of initiatives from securing regulatory requirements, to implementing new capabilities all while ensuring we always kept our customers' needs first. These initiatives will deliver operational efficiencies and enable us to more effectively leverage the competitive advantages of our national scope, strong brands and product diversity.

Overview of Saudi Fransi Capital

Our history begins in 1985, when Banque Saudi Fransi offered securities brokerage in Saudi equities. One year later, we launched our first asset management fund. From that time on, we have expanded our offerings and capitalized on evolving financial services trends. By 2008, the bank had three establishments to undertake brokerage, asset management and investment banking advisory businesses. In 2011, the entities merged into a wholly-owned subsidiary to form what is now known as Saudi Fransi Capital.

Saudi Fransi Capital is the investment arm of Banque Saudi Fransi, where it was trademarked with a paid up capital of 500 million Saudi Riyals as a limited liability company in the Kingdom of Saudi Arabia (converted to a closed joint stock company on 28 December 2016). It is licensed by the Capital Market Authority to conduct the full range of investment activities including dealing, arranging, managing, advising, and custody of securities.

Today, we stand as a leading Saudi-based financial services provider offering investment banking, asset management, debt and equity research, institutional sales and trading, and local and international brokerage. We are headquartered in Riyadh with locations all around the Kingdom of Saudi Arabia.

Subsidiaries: Saudi Fransi Capital International

In 2015, Saudi Fransi Capital International (SFCI), a wholly-owned subsidiary of Saudi Fransi Capital, was established with a paid up capital of USD 500 thousand as a limited liability company in the United Arab Emirates. The entity has been licensed by Dubai Financial Services Authority with a Category Four license to conduct arranging and advising services.

During the year, the shareholders of the Company resolved to liquidate SFCI with the surplus funds after the payment of all outstanding liabilities of SFCI to be remitted to the Company. The process for liquidation was not completed as of the date of writing this report.

Main Business Activities

Asset Management

We are one of the leading providers of managed investment solutions for individuals, corporations and institutions. The extensive range of services and products that are offered reflects our drive to satisfy each client's unique needs. Today, our range of products covers equity, fixed income, money markets, and alternative investments such as real estate, hedge funds, structured products, and private equity. The number of products currently stands at 54 covering all major asset classes. This number includes all our public and private funds and excludes our closed-ended private placements.

Investment Banking

We are actively involved in raising capital through the equity and debt capital markets and providing strategic and mergers and acquisitions advisory in the Kingdom of Saudi Arabia and the region. Our services include advising and arranging sukuk and bonds, initial public offerings, rights issues, private placements, mergers and acquisition, and capital and debt restructuring. We also provide advisory services for companies abroad that wish to cross list on the Saudi stock exchange.

Brokerage

Our brokerage services is comprised of local, regional and global equity markets, swaps on equity, exchange-traded funds, options, fixed income and margin lending facilities both conventional and Sharia compliant. We provide different interfaces for our trading platform whether the client requires in-person service, over the telephone, or through a web or smart device application.

Specialized Institutional Services

We attend to the needs of financial institutions by constantly developing new and innovative services in sales trading, custody and sukuk agency services. Also, we facilitate access to the Saudi equity market for qualified financial institutions and provide them numerous services. Our clients include banks, mutual funds, pension funds, hedge funds, insurance companies, brokers and other financial institutions around the world.

Research

Through our exclusive focus on Saudi equities, our research provides fundamentally driven investment ideas to a diverse range of users with coverage representing the overall market capitalization across major sectors. Research forms an integral part of our equity sales effort by highlighting key investment themes and uncovering tradable ideas. In addition, we issue strategy reports to assist sophisticated investors in navigating volatile markets.

Corporate Governance

In compliance with the Capital Market Authority's circular number 3-4-2011, relating to implementing corporate governance standards and requirements, the company has developed a governance structure by creating governing body committees such as an Audit Committee and a Nomination and Remuneration Committee, and continuously developing and improving governance policies and procedures. The company's board of directors consist of six members as shown below.

Board Members

Mr.Mazin Al-Romaih

Chairman

Non-Independent - Non-executive

Mr.Patrice Couvignes

Board Member

Non-Independent - Non-executive

Mr.Abdulaziz Al-Habdan

Board Member

Non-Independent - Non-executive

Mr.Mohamad Abdulhadi

Board Member

Non-Independent - Non-executive

Dr.Ghazi Al-Rawi

Board Member

Independent - Non-executive

Mr.Julien Maze*

Board Member

Non-Independent - Non-executive

* Mr. Julien Maze has resigned from the Board on 6 February 2017 and the company is currently in the process of appointing an independent board member.



2016 Board Meetings

Meeting	Date	Attendees	
1 st Meeting	07/03/2016	Mr. Mazin Al-Romaih Mr. Patrice Couvignes Mr. Mohamad Abdulhadi	Mr. Abdulaziz Al-Habdan Mr. Julien Maze
2 nd Meeting	02/05/2016	Mr. Mazin Al-Romaih Mr. Patrice Couvignes Mr. Mohamad Abdulhadi	Mr. Abdulaziz Al-Habdan Mr. Julien Maze Dr. Ghazi Al-Rawi
3 rd Meeting	04/09/2016	Mr. Mazin Al-Romaih Mr. Patrice Couvignes Mr. Mohamad Abdulhadi	Mr. Abdulaziz Al-Habdan Mr. Julien Maze Dr. Ghazi Al-Rawi
4 th Meeting	25/12/2016	Mr. Mazin Al-Romaih Mr. Patrice Couvignes	Mr. Abdulaziz Al-Habdan Dr. Ghazi Al-Rawi

Other Board Memberships

Board Member	Other Board Membership
Mr. Mazin Al-Romaih	Banque Saudi Fransi Dr. Sulaiman Al-Habib Medical Group King Khalid Airport
Mr. Patrice Couvignes	Banque Saudi Fransi Allianz Saudi Fransi
Mr. Mohamad Abdulhadi	Saudi Fransi for Finance Leasing (Chairman)
Mr. Abdulaziz Al-Habdan	Saudi Telecom Company (STC) Saudi Basic Industries Corporation (SABIC) Saudi Arabia Fertilizers Company (SAFCO)
Dr. Ghazi Al-Rawi	National Medical Care Company Adaptive Spectrum and Signal Alignment (ASSIA) Inc. USA
Mr. Julien Maze	None

Board of Directors' Committees

1. Executive Committee

The primary function of the Executive Committee is to approve the strategic decisions and to oversee the overall functioning of Saudi Fransi Capital.

Authorities and Responsibilities:

The Executive Committee approves long term business and strategic objectives and ensures the company is set in the desired direction. It recommends to the board of directors the annual budget and plan. In addition, it reviews and approves the changes related to the corporate governance structure and management structure including but not limited to entering into partnerships, joint ventures, disinvestments, expansions and acquisitions.

It is also responsible for overseeing compliance of governance principles stipulated by the Capital Market Authority and other applicable regulatory authorities. In addition, it ensures the effectiveness of the internal control environment & monitors compliance of all regulations. The committee validates and approves major capital projects and investments, strategic and non-ordinary contracts, as well as excessive exposure in the normal course of business. Four meetings were held in the year 2016 and the committee consists of three members as shown below.

Members:

Mr. Patrice Couvegnès	Chairman
Mr. Mohammad Abdulhadi	Member
Mr. Julien Maze	Member

2. Audit Committee

The Audit Committee examines and evaluates the adequacy and effectiveness of Saudi Fransi Capital's governance, risk management process, internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the strategic goals and objectives. In doing so, the Audit Committee will take guidance from the implementing regulations issued by the Capital Market Authority of Saudi Arabia.

Authorities and Responsibilities:

The Audit Committee recommends to the board of directors the appointment, dismissal and remuneration of the external auditors. It also assesses the external audit performance and ensures their team is completely independent of the firm's board of directors and executive management. It also reviews and approves the external auditors' scope of work and audit plan.

The committee supervises the Internal Audit's activities and monitors its effectiveness and performance against the audit plan independent of the executive management of the company and in turn recommends the appointment and dismissal of its management. Furthermore, it is responsible for the completeness and truthfulness of the financial statements for its presentation and recommendation to the board of directors.

In addition, the committee reviews all circulars coming from the Capital Market Authority or any other government organization relevant to the responsibility of the audit function. It also monitors the effectiveness of management corrective actions of the Internal Audit and external auditors' recommendations. It reviews the pending legal cases and the regulatory findings and fines and its financial impact on the firm. It also reviews potential fraud cases and the related preventive procedures as set by the management. Four meetings were held in the year 2016 and the committee consists of three members as shown below.

Members:

Mr. Abdulrahman Al-Sughayer	Chairman
Dr. Abdullah Al-Hussaini	Member
Mr. Julien Maze	Member

3. Nomination and Remuneration Committee

The primary function of the Nomination and Remuneration Committee is to evaluate and recommend to the board of directors an efficient remuneration policy and monitor its implementation. It is responsible for the review of board and executive management nominees and recommends its opinion to the board of directors.

Authorities and Responsibilities:

The committee recommends to the board of directors the policies and structure for the remuneration of executives and employees. It assists the management on the establishment of formal and transparent procedures for employee retention, succession planning, career development and remuneration. It also approves recommendations from the chief executive officer for the appointment and remuneration of executive management. The committee recommends to the board specific requests from the management for the implementation of special remuneration packages including annual performance bonus and other performance linked incentives. Three meetings were held in the year 2016 and the committee consists of three members as shown below.

Members:

Dr. Ghazi Al-Rawi	Chairman
Mr. Mazin Al-Romaih	Member
Mr. Patrice Couveignes	Member

4. Risk and Compliance Committee

The primary function of the Risk and Compliance Committee is to oversee the risk management policies, the operations of the risk management framework, the company’s compliance programs, policies and procedures, and the company’s alignment with the applicable laws, rules and regulations. In addition, the committee is responsible for bringing to the board’s attention significant matters that fall within the its mandate.

Authorities and Responsibilities:

The committee reviews and approves the risk management and compliance framework as recommended from Risk Management and Compliance in order to mitigate risks and delegate authority appropriately. It ensures that the Risk Management and Compliance have all the required tools and resources at hand to accomplish the tasks assigned to them.

It recommends to the board of directors the risks presented by Risk Management and their current status and their mitigation plan. It also reviews the Risk Management policies and procedures annually. In addition, it reviews significant investments, divestments and other transactions (i.e. acquisitions and joint ventures) and provides, as appropriate, recommendations to the board.

The committee oversees the company’s operations to ensure its compliance with the related rules and regulations. It reviews compliance reports and provides guidance and recommendation to the board of directors and the executive and audit committees where needed. It also monitors the corrective actions of regulatory inspection findings and audit findings relevant to Compliance and ensures they are properly rectified. Three meetings were held in the year 2016 and the committee consists of three members as shown below.

Members:

Mr. Julien Maze	Chairman
Mr. Mohammad Abdulhadi	Member
Mr. Aurel Lavedrine	Member

Compensation and Remuneration

Compensation and remuneration paid to the members of the board and six senior executive managers, including the Chief Executive Officer and the Chief Financial Officer is shown below.

Items	Executive Board Members	Non-Executive /Independent Board Members	Largest Six Nomination & Remuneration to Executives
Salaries and compensation	-	1,031,725	5,550,228
Allowances	-	184,526	2,856,114
Annual and periodic bonuses	-	-	9,295,000
Incentive plans	-	-	-
Any other remuneration or benefits in kind paid monthly or annually	-	-	220,547

*All amounts in Saudi Riyals unless otherwise stated

Internal Audit

Internal Audit provides management with reasonable assurance about the adequacy of internal controls, the effectiveness of risk management and the compliance with policies and procedures as well as applicable rules and regulations. In order to achieve this, risk-based auditing methodology is followed by reviewing the audit universe and adjusting the audit plan to include new products and services.

Internal Audit Activities

At the beginning of the year 2015, the Audit Committee approved a three year risk based internal audit plan 2015-2017, following the directions of the Audit Committee, which the Internal Audit continued executing during the year 2016. Internal Audit rigorously followed up with all entities in the company to ensure timely implementation of audit recommendations. It played a pivotal role in the completion of various other assignments carried out by external consultants. During the annual and semiannual review of the financial statements, Internal Audit worked with two external auditors to ensure fair reporting for the periodic financial statements of the firm and for the periodic in house managed mutual funds.

Internal Audit Activities Related to Audit Committee

The Chief Internal Auditor, who is also the Secretary of the Audit Committee, ensures that all Audit Committee concerns are addressed. The Audit Committee meets four times during the year in compliance with Article 60 (c) of the Authorized Persons Regulations issued by the CMA to ensure that sound governance is applied throughout the firm as intended. The Chief Internal Auditor regularly updates the Audit Committee on the progress of the 2016 annual audit plan and its implementation progress. This ensures that the Audit Committee is well informed of weaknesses of risks facing the company and the existing internal controls.

Internal Audit works with Risk Management, Legal, and Compliance and Anti Money Laundering divisions to ensure the adequate coverage of associated risks and the implemented controls for mitigation. Moreover, the Audit Committee judiciously monitors the level of effectiveness of the internal controls in order to limit the exposure to identified risks and to ensure the timely implementation of audit's recommendation.

During the year, the Audit Committee met with external auditors to discuss the scope, approach, audit outcome, financial framework and adopted policies. The committee monitored the financial results in comparison to targets and advised on various issues. Based on the annual assessment of the effectiveness of the company's internal control procedures, it is viewed that internal audit controls have been designed to provide comprehensive review of the company's activities, are working effectively, and are being monitored and improved continuously.

Operational Results, Borrowings & Fines

Operational Results

The company's profit has declined by SAR 17 million in 2016 to reach SAR 100 million compared with SAR 117 million in 2015. The decline was a result of the decrease in income from operations by SAR 53 million.

Fines, Penalties and Regulatory Restrictions

The company conducts its business in line with Capital Market Law and its implemented regulations issued by the supervisory and regulatory authorities in the Kingdom of Saudi Arabia. In 2016, the capital market authority imposed fines on the company over findings that have been rectified. The details of the fines are shown below.

Reason for imposition the fine	Fine Amount
Breach of paragraph (b/2) of article (5), from Authorized Persons Regulations "APR" and CMA's Circular No.10 dated 09/06/2008.	SAR 100,000
Number of findings raised by CMA Inspection team's visit in 2015. (total of 13 findings)	SAR 140,000
Breach of paragraph (a) of article (11) from Investment Funds Regulations "IFR" for not complying with the requirements of subparagraphs (1,3,8) from Annex (1) for two funds.	SAR 40,000

Borrowings

Total Principal Amount	Creditor	Duration	Outstanding Amounts	Statement of Aggregate Indebtedness	Amounts Paid for Loan Settlement
3,500,000,000	Banque Saudi Fransi	One year, renewed annually	894,916,808	894,916,808	474,255,022

*All amounts in Saudi Riyals unless otherwise stated

Consolidated Statement of Income

(All amounts in Saudi Riyals unless otherwise stated)

	For the period from January 1, to December 27, 2016	For the year ended December 31, 2015
Operating income		
Income from brokerage services – net	87,016,082	123,911,823
Income from asset management services – net	117,950,027	128,651,007
Income from investment banking services – net	28,161,200	15,720,001
Income from margin / murabaha financing services	45,785,483	57,072,149
Realized (loss) / gain on disposal of available-for-sale investments – net	(5,715,085)	216,158
Unrealized loss on available-for-sale investments transferred to statement of income on disposal	(4,302,366)	(2,523,631)
Realized loss on redemption of held for trading investments – net	-	(123,366)
Dividend income	87,979	54,201
Custody services related fees	3,169,892	2,047,645
Total operating income	272,153,212	325,025,987
Operating expenses		
Salaries and employee related benefits	(132,354,494)	(140,100,293)
General and administrative expenses	(40,026,230)	(57,386,011)
Marketing expense	(781,240)	(3,528,748)
Total operating expenses	(173,161,964)	(201,015,052)
Income from operations	98,991,248	124,010,935
Other income / (expenses)		
Interest expense on short-term borrowings	(20,476,856)	(14,531,363)
Special commission income	21,325,735	7,112,333
Others	6,754	538,076
Net income for the period / year	99,846,881	117,129,981

For Accompanying notes, independent auditor's report and more information please refer to the *CONSOLIDATED FINANCIAL STATEMENTS* for the year 2016 on the company website www.sfc.sa

Related Party Transactions

Significant transactions with related parties in the ordinary course of business included in the financial statements are summarized below: (All amounts in Saudi Riyals unless otherwise stated)

	For the period from January 1, to December 27, 2016	For the period from January 1, to December 31, 2015
Banque Saudi Fransi (shareholder):		
Expenses incurred on behalf of the Company	1,330,187	2,719,657
Expenses incurred under Service Level Agreements ("SLA")(*)	16,507,128	15,504,966
Commodity traders fees paid	398,966	240,084
Custody fee earned	400,000	400,000
Special commission income on deposits	21,325,735	6,798,963
Income from brokerage services	254,625	1,648,517
Commission expense on short-term borrowing	20,476,856	14,531,363
Allianz Saudi Fransi (associate):		
Management fee	1,280,469	902,146
Contribution and fees paid on account of staff saving plan	1,390,200	1,364,087
Directors, other shareholders and their affiliates:		
Financial advisory fees paid to Credit Agricole Corporate and Investment Bank (CA-CIB)	-	2,430,000
Commission income on sukuk agency and payment administration with Saudi Telecom Company (STC)	220,000	220,000
Company's contribution paid to General Organization for Social Insurance (GOSI)	5,373,059	5,508,206
Board of Directors related expenses	1,240,817	1,308,000
Subscription fee earned	80,150	80,000
Special commission income on margin financing / murabaha facilities extended	114,032	177,131
Income from brokerage services	5,061	426,514

*The company has entered into Service Level Agreements (SLA) with BSF for providing various services. Significant outsourced services include information technology, system security, premises, and certain other services.

There are no businesses or contract to which Saudi Fransi Capital is a party and in which a director of Saudi Fransi Capital, the chief executive officer, the chief financial officer or any person related to any of them have interest in.

Risk Management

Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value risk, and commission rate risk and price risk), credit risk, liquidity risk and operational risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group's transactions are principally carried out in Saudi Riyals but it is exposed to currency risk on transactions involving foreign currencies. Exposure on amounts payables in foreign currency will be limited as the payments are generally settled within a month, further, at present majority of foreign currency exposure is in US Dollar which is pegged to Saudi Riyal. Accordingly, the Group has limited exposure to currency risk.

Fair Value Risk

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's financial instruments are compiled under the historical cost convention (except investments carried at fair value), differences can arise between the book values and fair value estimates. Management believes that the fair values of the Group's financial assets and liabilities are not materially different from their carrying values unless specified.

Commission Rate Risk

Commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Group's financial positions and cash flows. The Group's commission rate risks arise mainly from its margin / murabaha lending facilities, short-term borrowings and deposits with the Bank. Majority of Company's lending and borrowings are at floating rate of commission and positions are matched thus not materially affected by fluctuations in market commission rates. Deposits with the Bank will be positively or negatively affected by increase or decrease in market interest rates.

Price Risk

Price risk (or Market Risk) is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. All investments of the Group in financial instruments are subject to acceptance based on approved policies & procedures and regular risk reviews. In case of Proprietary Investments, proposed investments are subject to thorough reviews and recommendation by a dedicated Investment Committee. Management believes that the variations in fair value of the financial instruments due to changes in market prices are not material for the group.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. For the Group, the financial assets which are potentially subject to credit risk consist principally of cash at bank and lending facilities for margin trading. Cash is placed with a local bank having sound credit ratings. Major portion of lending for margin trading is generally done with an initial coverage ratio in excess of 200%. This coverage is actively monitored and margin calls and liquidations are performed at specific predefined thresholds to ensure that the margin lending is sufficiently collateralized at all times; hence the credit risk is minimized.

Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet financial commitments. Liquidity risk may also result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet any current and future financial commitments as and when they fall due.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Periodic operational risk assessments are performed to identify, rate and mitigate risks pertaining to the business activity. Furthermore, a review of all departmental policies & procedures to ensure operational risks are adequately addressed. Root cause analysis of all operational error and loss incidents is carried out with recommendations to enhance controls and corrective action.