

Directors' Report

For the year ended 31 December 2016



The Board of Directors of Saudi Fransi for Finance Leasing ("the Company" or "Saudi Fransi Leasing" or "SFL") is pleased to present its annual report with audited financial statements of the Company for the period November 2015 to December 2016. SFL converted to a Closed Joint Stock Company (CJSC) on 1 November 2015, and hence SFL's 1st financial reporting as CJSC is for a 14-month period.

Introduction

Saudi Fransi for Finance Leasing is a Closed Joint Stock Company established under the regulations for companies in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010320273 issued in Riyadh on 24 Thul Hujja, 1432H (corresponding to 20 November 2011) and finance company license number 38/A Sh/201511 dated 06 Safar 1437H (corresponding to 18 November 2015) issued by the Saudi Arabian Monetary Agency. Saudi Fransi Leasing operates through its Head Office and 2 Branches across the Kingdom.

The objective of SFL is to provide lease financing of assets (Vehicles, Motorbikes, Trucks, Heavy Vehicles, and Construction Equipment) to individual customers and enterprises of all sizes engaged in the productive sectors of the economy thereby assisting in providing, extending, and expanding the credit delivery mechanism in the Kingdom.

1. Business Segments

Saudi Fransi Leasing is a single product Company and is currently offering only finance lease facility to its customers. Assets leased by the Company mainly include Passenger Vehicles, Commercial Vehicles, Heavy Vehicles, and Construction Equipment. The Customer segments broadly covered by Saudi Fransi Leasing include Government, Semi-Government, and Private Sector employees when financing for individuals; and for enterprises the economic sectors covered are Building & Construction, Manufacturing, Commerce (Wholesale / Retail Trade), Transportation & Communication, Electricity, Water & Gas, and Health Services companies all over the Kingdom.

2. Strategy

2016 was the fifth complete financial year since Saudi Fransi Leasing commenced its operations. The Company's profitability grew at a Compound rate of 191% in the last four years. For 2017, SFL's strategy is to continue with the consolidation of its income base, strengthening risk management and risk appetite while maintaining quality portfolio with minimal non-performing exposure. Furthermore, SFL's focus has always been to deliver customer convenience, quick response, and excellent after-sales service that will build positive long term relationships with our customers.

3. Risk Management

Risk Management is a vital factor of Saudi Fransi Leasing's activities. The Company manages a process of ongoing risk identification and measurement through stringent scoring and other controls. There are a number of Committees and Departments setup in order to coordinate regular risk management.

Summary of the main risks:

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Credit Risk

Credit Risk is the risk of financial loss if a customer fails to meet his/her contractual obligation. Saudi Fransi Leasing's credit exposures arise primarily from its finance leasing activities which is monitored on a systematic basis and is subject to frequent reviews.

Due Diligence Risk

A vital aspect of approval of a credit file or proposal is initial customer review carried out in respect of the prospective customer. Saudi Fransi Leasing follows a detailed customer selection criteria and credit assessment process ensuring to reduce the inherent risk to finance lease transactions.

Operations Risk

Operations Risk is the loss arising from inadequate internal operating procedures, including failures, defects or errors of information resulting from either human or technology failings.

Saudi Fransi Leasing's operational process is driven through the System where all controls are built-in as validation rules in the system eliminating the likelihood of human error. Other activities to mitigate operations risk include segregation of duties, access, authorization and reconciliation procedures, staff training and education, and assessment procedures.

4. Financial Highlights

The Company's last 5-years financial highlights:

Description	SAR'000	2016	2015	2014	2013	2012
		14 months	10 months			
Net investment in finance lease		2,138,743	1,009,093	351,018	112,752	21,270
Total assets		2,197,391	1,039,577	366,107	135,062	101,699
Total short / long term loans and debt		1,550,000	877,500	250,000	30,000	-
Shareholders' equity		557,531	121,137	99,271	96,274	95,732
Total revenue [Lease Finance Income]		109,286	34,540	11,978	4,217	550
Special commission expense		42,750	8,081	1,172	31	-
Other operating income		44,752	12,862	5,300	2,169	951
Operating expenses		61,856	21,302	12,636	5,667	4,662
Net income / (Net loss) before zakat and tax		49,432	18,019	3,469	687	(3,161)
Earning per share - SAR		0.99	-	-	-	-
Non Performing Leasing		44,647	5,372	274	-	-
Non Performing Leasing - %		2.0%	0.5%	0.1%	-	-
Interest coverage [times]		2.2	3.2	4.0	23.2	-
Average Return on Equity		14.57%	16.35%	3.55%	0.72%	-3.30%
Average Return on Asset		3.05%	2.56%	1.38%	0.58%	-3.11%

Saudi Fransi Leasing posted a Net Income of SR49.4 million for the year 2016 (fourteen month period) as compared to SR18 million for the previous year. Total revenue (Lease Finance Income) for the year ended December 2016 reached SR109 million as compared to a total revenue of SR34.5 million in October 2015. Operating expenses increased to SR61.8 million against SR21.3 million in October 2015. Special commission expense increased on the back of increased funding to SR42.7 million compared to SR8 million in October 2015. The Company made provisions for lease losses of SR32.7 million during the year taking the accumulated provisions to SR44.6million at year end, equal to 2.0% of the Total Gross Portfolio. The Gross Portfolio stood at SR2,187 million compared to SR1,258 million in the previous year.

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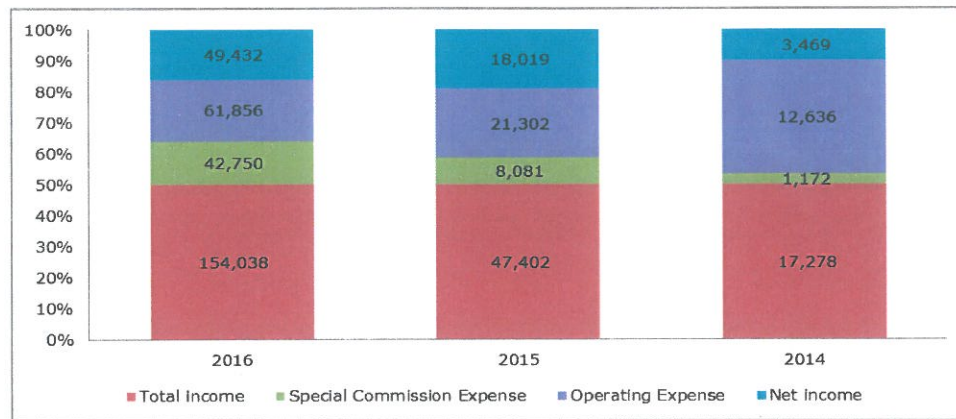
For the year ended 31 December 2016



5. Key Income Statement items as percentage of Total Income

The table below shows the variation in the key income statement lines between 2016 to 2014.

Description	SAR'000	2016 14 months	2015 10 months	2014
Total income		154,038	47,402	17,278
Special Commission Expense		42,750	8,081	1,172
Operating Expense		61,856	21,302	12,636
Net income		49,432	18,019	3,469



6. Loans

The following are the Loans activities:

Description	SAR'000	31-Dec-16	30-Oct-16	31-Dec-14
Opening Balance of Loan		877,500	250,000	30,000
Preceeds from Loan		990,000	680,000	220,000
Repayment of Loans		317,500	52,500	-
Closing Balance of Loans		1,550,000	877,500	250,000

7. Financial Reporting Standards and Audit

Saudi Fransi Leasing maintains proper books of accounts and in compliance with the Implementation Regulation of Law on Supervision of Financial Companies, the annual audited financial statements for the year ended 31 December 2016 of the Company have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

8. Internal Control Framework

The following Internal Control components are in place:

- Control Environment: Analysis of the control environment in terms of the integrity, ethics and competence of personnel; the organization structure; the board of directors and senior management; management's philosophy and operating style; attention and direction provided by the board and committees especially Risk & Audit; personnel policies and practices and; management of external influences affecting operations and practices. Key activities include Risk & Control Self-Assessment, Control Testing and Permanent Control Setup & Management.



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- b. Risk Assessment & Management: Identification and evaluation of risk factors which could adversely affect performance information and compliance objectives. Key practices include:
- o Clear objectives from the Board and Management on risk identification and assessment
 - o Risk Committee and risk management function identify risks which can hinder in achieving business objectives
 - o Identification and assessment of changes that can impact the internal control system
 - o Involving Risk management, Audit and Compliance in risk assessment process
- c. Accounting, Information & Communication System: Ensure that the:
- o Accounting systems adequately identify, assemble, analyze, classify, record and report the transactions.
 - o Information systems are classified by type, number and depth of reports for operational, financial, managerial and compliance related activities (includes analysis of the systems including profile reviews and assessments).
- d. Self-Assessment and Monitoring: Board and Management oversight of the Internal Control, reviews and Audit findings, reporting on deviations to the Board, adequate documentation, and ensure the independence of the evaluators from the entities evaluated.

9. Shareholders Structure

In the Extraordinary General Meeting held on 5th April 2016, the shareholders of Saudi Fransi Leasing approved the increase of share capital from SR 100 million to SR 500 million by injecting new funds in the company.

Shareholding pattern as at 31 December 2016 is as follows:

Shareholders	Shares Held	%
Banque Saudi Fransi	50,000,000	100%

10. Related Party Transactions

The Company in the ordinary course of its business, transacts with related parties. These transactions include rental expenses, insurance premium, finance charges on loan and term loans. The transactions and balances relating to related parties have been disclosed in the Note 13 of the Audited Financial Statements.

11. Board of Directors

Directors attendance at Board of Directors meetings:

Board of Directors Names	4-Feb-16	10-Apr-16	21-Jul-16	3-Nov-16
Mohamad M. Abdulhadi	√	√	√	1
Mazen Tamimi	√	√	√	√
Abdulaziz Al-Molhem	√	1	√	√
Mutasim Mufti	1	√	√	√
Abdulaziz Al-Oraifi	√	√	1	√
Abdulrahman Mutabagani	√	√	√	Ab

- √ Directors were present
1 Absent directors were present through proxy
Ab Directors were absent



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Board Committees

To assist the Board in discharging its duties, three Committees have been established as follows;

- 1 - Executive Committee
- 2 - Risk Committee
- 3 - Audit & Compliance Committee

a. Executive Committee

Executive Committee	
Mazen Tamimi	Chairman
Abdulaziz Al-Molhem	Member
Mutasim Mufti	Member
Riyadh Al Sharikh	Member

The Executive Committee is appointed by the Board Of Directors. The Executive Committee assists the Board in the affairs of the company, especially in strategic planning and policies.

b. Risk Committee

Board Risk Committee	
Mazen Tamimi	Chairman
Abdulaziz Al-Molhem	Member
Mutasim Mufti	Member
Abdulrahman Mutabagani	Member
Riyadh Al Sharikh	Member

The Risk Committee is appointed by the Board Of Directors. The Committee assists the Board in overseeing the Company's risk management framework including the significant policies and practices used in managing credit, market, and operations and deals with all matters referred by Board.

c. Audit & Compliance Committee

Audit and Compliance Committee	
Abdulrahman Al-Sughayer	Chairman
Saleh A. Al-Rasheed	Member
Mutasim Mufti	Member

The role of the Audit Committee is to provide supervision and improvements of the financial reporting process, audit process, system of controls, and regulatory compliance.

12. Directors and Senior Executives Interest

(including their spouse and children)

Board Members

All the board members are Directors of the Company nominated by the Shareholders. Neither the Directors including any person related to them hold any share in the Company nor have any other interest in the Company.



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Senior Management

None of the senior management hold shares in the Company. Furthermore, the CEO and the CFO (apart from their normal remuneration) and including any person related to them do not have any other interest in the Company.

13. External Auditors

At the Extraordinary Ordinary General Meeting of the Company's shareholders held 05 April 2016. Messrs. KPMG Al Fozan & Al Sadhan were appointed as external auditors for the year ended 31 December 2016.

14. Zakat and Income Tax

Payment (SAR'000)	2016 (14 Months)	2015 (10 Months)
Zakat due by Saudi Shareholders	1,221	461
Income Tax due by the non Saudi shareholders	4,504	1,705
Total	5,725	2,166

Zakat attributable to the Saudi shareholders for the year amounted approximately to SR 1.2 million (2015: SR 0.46 million) which will be deducted from their share of dividend.

The Company has filed its Zakat returns for the financial years up to and including the year 2015 with the General Authority of Zakat & Tax (the "GAZT"). The zakat assessments for the years up to 2015 have not been finalized by the GAZT and the Company may not be able to determine reliably the impact of such assessments.

Income tax payable in respect of foreign shareholder current year's share of income tax is approximately SR 4.5 million (2015: SR 1.7 million) which will be deducted from their share of dividend.

15. Applicable Laws and Regulations

Saudi Fransi Leasing has adhered to the provisions of the Saudi Companies Law and other applicable laws, rules, and regulations. During the 14-month period (Nov 2015 to Dec 2016), however, SAMA had imposed a penalty of SR 300,000 on the company for the delay in converting the company to CJSC.

16. Declaration

The Board of Directors hereby confirms that:

- Proper books of accounts have been maintained.
- The Company prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS) as required by the Finance Lease Law and Regulations.
- Internal Controls were properly and efficiently implemented.
- The Company has no existing contracts in which a Director, CEO, CFO or any of their associates has a material interest.
- There is no doubt over the Company's ability to continue as a going concern.



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17.Future Prospects

Saudi Fransi Leasing in its 5th year of operation stands as one of the fastest emerging finance lease companies in Saudi Arabia and is keenly aware of the growing market opportunities available given the economic development taking place in the Kingdom of Saudi Arabia.

In conclusion, the Board of Directors extends its deepest gratitude first and foremost to Almighty Allah, and to the Custodian of the Two Holy Mosques and the Crown Prince for their continuous support. The Board would also like to thank the Ministry of Finance and National Economy, Saudi Arabian Monetary Agency, Capital Market Authority, and Ministry of Commerce and Industry for their proactive support towards enhancing the level of financial services to make them easily accessible to the public. The BOD would also thank the distinguished customers of Saudi Fransi Leasing for their nurtured and highly appreciated confidence. Appreciation and gratitude is also extended to our colleagues who have contributed to these achievements.

For and on behalf of the Board of Directors:

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Chairman

A handwritten signature in blue ink.

