

# **Saudi Finance Company CSJC**

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2015

# Saudi Finance Company CJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

The Board of Directors have pleasure in submitting their report together with the financial statements of Saudi Finance Company CJSC (SFC) for the 14 month period ended 31 December 2015. According to the byelaws of SFC, the first financial period commenced on the 28th October 2014 and ended on 31st December 2015.

### **Incorporation and registered office**

Saudi Finance Company is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010078374 dated 23 Muharram 1411H (corresponding to 14th August 1990). SFC's head office is located in Riyadh with a further 7 registered branches.

Pursuant to the Ministry of Commerce and Industry Resolution numbered 291 dated 4 Muharram 1436H (corresponding to 28th October 2014), SFC has been converted from a Limited Liability Company to a Saudi Closed Joint Stock Company and changed its name from "Saudi Installment House" to "Saudi Finance Company".

### **Principal activity**

SFC is engaged in leasing and commercial financing to small and medium sized businesses and retail financing in accordance with the Saudi Arabian Monetary Agency ("SAMA") approval number 3510000 71328 dated 3 Jumad Thani 1435H corresponding to 20th November 2014

### **Basis of preparation of financial statements**

These financial statements for the period from 28th October 2014 to 31st December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as laid down under Article 71 of the Implementing Regulations of the Finance Companies Control Law which requires the companies to prepare the financial statements based on IFRS.

### **Financial commentary**

SFC's net profit was SAR 11,063,242 for the period 28th October 2014 to 31st December 2015. As this is the first financial period of the company as a Closed Joint Stock Company audited comparative figures are not available. The financial highlights of the results are as follows:

- Net operating income (total operating income net of funding facility costs for the period 28th October 2014 to 31st December 2015 was SAR 63,057,693.
- Total provisions for impairments for the period 28th October 2014 to 31st December 2015 were SAR 8,793,355.
- Total assets as of 31st December 2015 were SAR 409,746,329.
- Net customer financing as at 31st December 2015 was SAR 390,955,936.
- Funding from financial institutions as of 31st December 2015 was SAR 264,508,424.

### **Strategic Highlights**

- 2015 was a year where the company leveraged its investments in infrastructure made in the previous years to enable substantial asset growth and a resultant increase in profitability.
- SFC optimized its footprint and presence by relocating its branch in Khobar to Dammam City positioning itself to serve a larger customer base and in addition closed its non-performing branch in Badiya.
- 2015 also witnessed challenges in the credit environment and increase in customer delinquencies on the back of economic slowdown in the local market. The company addressed these concerns by strengthening the collections infrastructure and tightening the credit underwriting rules for its retail financing business. Saudi Finance Company continues to focus on new business opportunities through strategic partnership and customized solutions in order to provide best in class financing solutions to its customers.
- The company successfully aligned its operating and business model to the new corporate governance and regulatory framework and established prudent risk and prudential reporting framework.
- The company continued to strengthen its risk framework by establishing a Business Risk Compliance committee (BRCC), and Risk Control Self-Assessment (RCSA) process and an Internal Control (ICD) were established and embedded within the business operating processes. In addition, risk governance was

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strengthened by adopting liquidity, market risk, operational and fraud risk policies. These processes were adopted to ensure SFC continues to grow in a controlled manner despite the more challenging economic environment.

- Lastly SFC also witnessed some significant other milestones namely convergence to IFRS for financial reporting, implementation of new finance origination system across its network aimed at enhancing customer service and operational efficiency and the company successfully established a new financial and general ledger reporting system.

### Dividends and proposed appropriations

The Board of Directors recommended no dividend payment for the period. The following is the appropriation from retained earnings:

- |                              | <i>SAR</i> |
|------------------------------|------------|
| • Transfer to legal reserves | 1,106,324  |

### Conclusion and Outlook

Despite the challenges in the environment and increased pressure on customer delinquencies on the back of the economic slowdown we are encouraged by strong results generated during the year. We are confident that Saudi Finance Company is well positioned to build on the momentum created in 2015.

The Board of Directors would like to thank the management and staff of Saudi Finance Company for their hard work and contribution towards the growth of the company.

### Board of Directors

The directors during the year were as follows:

- |                                  |               |
|----------------------------------|---------------|
| 1. Mr. Saad Al Khorayef          | Chairman      |
| 2. Mr. Tirad Mahmoud             | Vice Chairman |
| 3. Mr. Ferid Lini                | Board Member  |
| 4. Mr. Abdullah Al Mehiri        | Board Member  |
| 5. Mr. Nuhad Saliba              | Board Member  |
| 6. Mr. Abdulla Al Shahi          | Board Member  |
| 7. Mr. Abdulla Hamad Al Khorayef | Board Member  |

On behalf of the Board of Directors  
Saad Al Khorayef  
Chairman

29 March 2016  
Riyadh