

Abdul Latif Jameel United Finance Company

Board of Directors' Annual Report

For the Financial Year ended 31 December 2018

The Board of Directors of Abdul Latif Jameel United Finance Company ('ALJUF' or 'the Company') is pleased to present its annual report on performance, achievements and financial statements for the year ended 2018. The report includes the important developments, operating activities, corporate governance and financial results of the Company.

Major Developments and Programs

The company continued its transformation efforts and initiatives during 2018. This included more consolidation of collection to streamline the collection process and make it more efficient and effective, and use the hub and spoke methodology in its sales branches. The company also embarked on an initiative to use artificial intelligence both contract origination and collection to increase productivity.

A major strategic study was conducted with a consulting house to determine the way forward. The study resulted in identifying the following:

- 1- Future image of the company, to be full-fledged financial services provider, world class, intelligent, customer centric, sustainable and top employer.
- 2- The strategic pillars being: car financing including Toyota, Non Toyota and remarketing, non car financing including SMEs and operational excellence.
- 3- The strategic enablers which are: funding, corporate organization, human capital and IT infrastructure.

Detailed initiatives were also identified and will be followed up on every quarter.

Main Operations

The total number of finance contracts sold during 2018 was **74,459** with a total financing value of SR **3.24** billion. The finance contracts varied between financing new and used vehicles, heavy equipment and home appliances for individuals and corporate customers. The Company has met customers' demand through its branches spreading across the country.

The total numbers of finance contracts sold during 2018 by region are as follows:

Region	No. of finance contracts	Percentage
Central	14,043	19%
Eastern	17,007	23%
Northern	10,736	14%
Southern	15,195	20%
Western	17,478	23%
Total	74,459	100%

Risk Management

ALJUF is managing a number of systematic risk factors, most importantly:

Credit Risk

The most important risk factor facing the Company in its core operations is the customer's ability to fulfill the credit obligation. In order to develop the decision-making process related to retail and corporate customers, the Company has developed an independent mechanism to evaluate each customer's application for finance contract.

For retail customers, the Company has implemented a "credit evaluation" system, which analyzes each customer's credit worthiness separately and assists to determine selling prices for each group of customers based on related risk scores. In 2018, the system continues to improve by the application of the second-generation scorecard and the modified sales strategy along with the new credit approval policies.

For corporate customers' assessment, the Company has developed policies and procedures and set approval limits enabling the Company to accept the customers of better financial standing according to the Company's risk appetite.

The policies and procedures of credit risk management include the formulation of a comprehensive strategy to manage, measure, and mitigate the credit risk from the initiation to settlement of the financing contracts. In addition, these include development of a risk indicator to help in monitoring the risk trend and developing quantitative and qualitative indicators.

Operational Risk:

The Company also deals with risks associated with the Company's internal operations, whether related to information technology, human resources, legal, or compliance with applicable regulations, and any other risk that will negatively affect the Company's operations.

Market and Liquidity Risk:

The Company's market and liquidity risk is due to the changes in interest rates, liquidity and cash flows of the Company. The most important risk in this area is the risk of increasing interest rates, which exerts pressure on Company's margins in financing contracts and the purchase and agency agreements with banks when selling finance lease and notes receivables to different banks.

Shari'ah Compliance Council

The council members are an elite group of experts who are working independently to advise the Company on the Shari'ah opinion and transactional policies and contract formats in order to comply with Islamic Shari'ah Regulations. The council members are the following:

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|--|----------|
| 1- Sheikh Dr. Mohamed Ali Al-Geri | Chairman |
| 2- Sheikh Abdullah Bin Abdulaziz Al-Musleh | Member |
| 3- Sheikh Dr. Abdullah Musleh Al-Thomali | Member |

During 2018, the council has reviewed and approved the Company's financing contracts from shari'ah compliant point of view.

Summary of Financial Performance

Summary of Profit & Loss	2018	2017
Total operating income	788	841
Operating expenses	(501)	(611)
Other income	83	59
Net profit	370	290

Amounts in SAR millions

Summary of Company Assets & Liabilities

Assets & Liabilities	2018	2017
Current Assets	4,599	4,508
Non-Current Assets	1,338	1,742
Current Liabilities	1,907	2,062
Non-Current Liabilities	108	150
Equity	3,922	4,039

Amounts in SAR millions

Total Operating Income by Region

The following table shows the regional analysis of the total operating income:

Region	2018	2017
Central Region	173	173
Eastern Region	178	217
Southern Region	159	176
Western Region	182	170
Northern Region	96	105
Total Operating Income	788	841

Amounts in SAR millions

Statutory Payables

Statutory Zakat payable balance was **SR 81.0** million at 31 December 2018.

Investments and Reserves Set Up for the Benefit of the Employees

The Company maintains a reserve set up for its employees' regulatory end-of-service benefits, plus an ex-gratia reserve made for additional end-of-service benefits paid to employees as per Company's policy. The total reserve reached **SR 96.6** million by the end of the year as described and disclosed in the audited financial statements.

Deviations from the Accounting Standards Issued by the Saudi Organization of Certified Public Accountants (SOCPA)

In compliance with instructions and regulations of SAMA, the financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for accounting of zakat and income tax..

Appointing the External Auditor

The External Auditor is responsible for the review and audit of quarterly and annual financial statements of the Company, respectively. The Shareholders Annual General Meeting of the Company, held on 18 March 2018, accepted the recommendation of the Audit Committee to appoint "Ernst & Young" as the Company's External Auditor for the fiscal year ended 31 December 2018, upon non-objection from SAMA.

Subsidiaries

Abdul Latif Jameel United Finance Co. confirms that it does not hold any stake in any subsidiary entities as of 31 December 2018.

Related-Party Transactions

The Company deals with related parties during normal business cycle. Those transactions are performed with the same fair terms and conditions of dealing with all other parties, and are subject to the limits stated in the regulations of the Finance Companies Supervision Act and instructions issued by SAMA, in addition to internal Company's policy for dealing with related parties. For more details on related-party transactions, please refer to the enclosed notes to the audited financial statements summarizing all related-party transactions.

Additional Declarations by the Board of Directors

The Board of Directors, hereby, confirms the following:

- 1- The accounting records of the Company have been correctly prepared.
- 2- The system of internal control has been properly designed and effectively executed.
- 3- There are no significant doubts regarding the Company's ability to continue its core business as a going concern entity.

Dividend Distribution Policy

Shareholders dividends are subject to distribution after all required allocations are made as follows:

- 1) Retention of 10% out of the Net Profit for the year to form Statutory Reserve. The General Assembly may stop this deduction/transfer to reserve if the reserve has reached an amount equivalent to 30% of the Paid-in Capital.
- 2) The General Assembly, upon recommendation from the Board of Directors, may retain a percentage from annual Net Profit to build an additional specific reserve for a particular purpose or any other purposes, as the General Assembly may decide.
- 3) The General Assembly may decide to create additional reserves to fulfill the Company's benefit or to ascertain distribution of fixed profits to the shareholders, as possible.
- 4) The remainder is distributed as first installment to the shareholders equivalent to no less than 5% of Paid-in Capital.
- 5) The remainder can either be distributed to shareholders as complete dividend, or transferred to Retained Earnings account.

On 18 March 2018, the Shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 235.2 million (SR 1.38 per share) out of the retained earnings. The dividend has been paid in full to the shareholders.

On 12 April 2018, ALJUF obtained No Objection Letter from Saudi Arabian Monetary Authority (SAMA) for declaration of dividend of SR 1.32 per share amounting to SR 224.3 million. The Shareholders of the Company approved the distribution of the dividend on 26 December 2018.

Furthermore, the Board of Directors has recommended exceptional dividend distribution from retained earnings amounting to SR 800 million.

Corporate Governance

The Extraordinary General Shareholders Assembly approved new Bylaws for the Company during its meeting held on May 2017 in compliance with the corresponding act newly adopted by the Ministry of Commerce. The Board of Directors had approved on 28 October 2014 twenty three internal policies for the Company in agreement with the requirements of the Finance Companies Supervision. Those policies include the policy of Corporate Governance that organizes the relationship between the Board of Directors, executive management and shareholders of the Company. The internal policies for the Company are updated regularly as required.

The Company is in compliance with the Company's Corporate Governance policy which is in accordance with the Corporate Governance rules stipulated by SAMA. The Corporate Governance policy of the Company enables strict adherence to comprehensive internal control systems, policies of disclosure and transparency, and compliance with principles of risk management.

The policy of Corporate Governance is also the reference for sub-committees of the Board of Directors including the following:

Audit Committee:

The General Shareholders Assembly appointed three members of the Audit Committee during its meeting held on 17 September 2017 for a term of three years. The Audit Committee consists of a non-executive Board member and two independent members, who are experts in finance, accounting and internal audit, chaired by Board member Mr. Abdul Wahab Tawfik with members Dr. Abubaker Bagabir and Mr. Yahia Kafi. The Committee is accountable to the Board of Directors and assists the Board in meeting its responsibilities. The Audit Committee Charter was approved by the shareholders on the annual shareholders' meeting of 22 March 2016.

The Committee aims to ensure fairness and integrity of the annual and quarterly financial statements of the company before they are presented to the Board of Directors. The Committee also presents opinion and recommendations to the Board in this regard. The Committee approves the annual risk-based audit plan and ensures compliance with the applicable laws and regulations and ensures the effectiveness and efficiency of internal controls and compliance based on its Charter.

The Committee oversees and supervises the performance of internal audit, compliance, anti-money laundering and terrorism financing departments, and evaluates their performance on a yearly basis.

The Audit Committee completed six Audit Committee meetings in 2018 in the presence of all members. During those meetings, the Committee discussed and followed the performance of internal

audit, external audit, compliance, anti-money laundry and progress of other initiatives as assigned by the Board.

Risk Management and Credit Committee of the Board:

The Risk Management and Credit Committee aims to supervise the Risk Management function in the Company to ensure detection of significant risk exposure and to ensure the presence of policies and processes to face and manage risks, within the authority set by the Board of Directors. The Committee also reviews the measures taken to ensure the presence of a complete organizational structure for the Risk Management function. The committee is chaired by Mr. Jamal Mohammed Ahmed Al Kahtani with members Dr. Khalid Al Karimy and Mr. Farid Mustafa Zaouk.

The Risk Management and Credit Committee held four meetings during the year 2018 in the presence of all members, where the members discussed risk management, credit reports, and analysis of all risks related to the Company's operations.

Executive Committee:

The Executive Committee aims to supervise Company operations and make prompt decisions to resolve urgent business issues, within their authority limits. The overall mission of the executive committee is to help the Board of Directors in supervising the Company's management. The committee is chaired by Mr. Saeed Saleh Al Ghamdi with members Mr. Sidhesh Sheveneth Kaul, Mr. Jamal Mohammed Ahmed Al Kahtani and Dr. Khalid Al Karimy.

The Executive Committee held four meetings throughout 2018 in the presence of all members, where they discussed the operational and financial performance reports of the Company.

Remuneration and Nomination Committee:

During 2017 the Board appointed members of the Remuneration and Nomination Committee and adopted its charter. The committee is chaired by Mr. Abdul Wahab Tawfik with members Mr. Saeed Saleh Al Ghamdi and Mr. Sidhesh Sheveneth Kaul

The Remuneration and Nomination Committee aims at receiving candidacy and nomination of Senior Managers and Board Members. The Committee further ascertains that ALJUF HR policies and practices fulfill its operation and staffing needs.

Changes in the Board of Directors:

The General Shareholders Assembly appointed nine members of the Board of Directors during its meeting held on 12 September 2017 for a term of three years.

Meetings & Attendance Record of the Board of Directors

The following table presents a summary of the Board of Directors' meetings and the attendance record during the year:

Name	Title	First Meeting (15/2/2018)	Second Meeting (15/5/2018)	Third Meeting (18/7/2018)	Fourth Meeting (31/10/2018)
Mr. Saeed Saleh Al Ghamdi	Chairman Non-Executive Member	✓	✓	✓	✓
Mr. Jamal Mohammed Ahmed Al Kahtani	Executive Member	✓	✓	✓	✓
Dr. Khalid Al Karimy	Executive Member	✓	✓	✓	✓
Mr. Farid Mustafa Zaouk	Non-Executive Member	✓	✓	✓	✓
Mr. Abdul Wahab Tawfik	Non-Executive Member	✓	✓	✓	✓
Mr. Sidhesh Sheveneth Kaul	Non-Executive Member	Absent	✓	✓	✓
Mr. Abdulkareem Abu Al- Nasr	Independent Member	Absent	✓	✓	✓
Mrs. Nilufer Gunhan	Non-Executive Member	✓	✓	Absent	✓
Mr. Oliver Agha	Non-Executive Member	Absent	✓	✓	✓

Board of Directors' Remuneration

The total fees and expenses paid to the Board of Directors during the year 2018 was SR 1.47 million, and there were no bonuses paid to the Board of Directors during the year 2018.

Gratitude

Finally, the Board of Directors extends utmost thanks and appreciation to all customers of the Company for their trust and to the employees for their continuous and relentless efforts and to the shareholders for their support. We also extend utmost thanks and appreciation to SAMA, Ministry of Commerce & Industry, and all government authorities for their support in serving the citizens and fulfilling their financing needs.

Board of Directors