

Abdul Latif Jameel

FINANCE



Abdul Latif Jameel United Finance Company

(Closed Joint Stock Saudi Company)

Board of Directors' Annual Report
For the Financial Year ended December 31st, 2022

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 2022. The report includes the important developments, operating activities, corporate governance, and financial results of the Company.

1. Major Developments and Programs

a. ALJUF Strategy

Responding to market dynamics, the Company has reviewed 2022's strategy pillars to become six pillars instead of five as follows:

- **Strategy's Old Pillars:**

- Optimize core auto financing.
- Expand non-auto lending business.
- Create an effective ecosystem.
- Enhance business enablers.
- Enhance organization enablers.

- **New, Revised Pillars:**

- Optimize Core Auto Lending
- Expand Consumer and SME Products.
- Grow Microfinance and Real Estate Financing.
- Accelerate Digital Transformation.
- Build and Acquire Capabilities
- Diversify Funding
- 22 initiatives will be conducted during 2023 to realize the new, revised pillars.

- **ALJUF Projects:**

In 2022, ALJUF had 118 projects in its portfolio distributed as follows:

- 62 Completed
- 30 Suspended (Put on Hold)
- 3 Newly added
- 25 Projects added from the Strategy and Planning (S&P) document
- As of January 1st, 2023, there are 54 projects in ALJUF's projects portfolio.

b. Auto Financing

The Company optimized its core auto financing business through different aspects:

- Expanding agreements with Toyota, multi-brands, and used suppliers
- Pre-ordering and stock buying
- Re-negotiating approved orders for alternative car models

c. New Products

Introducing new products in 2022 was a part of ALJUF's main strategy, where the Company introduced the following products:

- **Individuals:**

- Real Estate Financing.
- Microfinance

- **Corporate:**
 - Real Estate Financing.
 - Completion of Construction
 - Buying and leasing
 - Contract Financing

d. **Diversification of Channels**

As a part of ALJUF's strategy to create an effective ecosystem, the Company launched its smart application in 2022 and Electronic Car Sales (EC2) to enable its customers to apply for auto financing and cash lending products in order to enhance the customer journey.

e. **Engagement**

Human capital is one of ALJUF's main valuable assets; therefore, the Company collected a survey to measure employees' engagement, identify weaknesses, and improve. The survey resulted in an internal employee engagement of 80%, which is 7% higher than the global benchmark (73%).

2. Abdul Latif Jameel United Real Estate Finance and Bab Rizq Jameel Microfinance portfolio purchase transaction:

In 2022, ALJUF has successfully completed the portfolio purchase transaction (the "Transaction") with Abdul Latif Jameel United Real Estate Finance (ALJUREF) and Bab Rizq Jameel Microfinance (BRJMF). The transaction had undergone through 3 phases:

1. Phase 1 - Integration Design and Planning:

- Changing the license of the company and adding Real Estate Financing and Microfinancing activities.
- Commencement of portfolio purchase integration design and planning project in collaboration with EY.
- Commenced the legal advisory work stream with Al-Tamimi law firm.
- Alignment of legal and operational plans by the three companies.

2. Phase 2 - Integration Plan Implementation:

- Receiving the no-objection letter from SAMA.
- Reviewing and updating the policies and procedures and preparing the tripartite agreement to transfer employees.
- Signing all of the employees' contracts and transferring all employees.
- Submitting the pre-approval request to SAMA on purchasing both portfolios and initiating the CR update Process.
- Start selling Real Estate Finance products on October 1st, 2022

3. Phase 3 - Due Diligence Period:

- Obtained the General Authority of Competition's exception on the Transaction.
- Transferring both companies' employees to GOSI.
- Receiving the no-objection letter from SAMA for purchasing both portfolios and transferring them along with all their receivables and obligations to ALJUF.
- Signing the Business Transfer and portfolio purchase agreements and closing ALJUREF's securitization deal with SNB.

- Transferring both portfolios to ALJUF Financial System.
- Inform SAMA about the completion of the Transaction on January 1st, 2023.

3. Main Operations

The total number of financed contracts during 2022 was 41,340, with an approximate total financing value of 2.89 Billion SAR.

The financed contracts varied between financing auto, cash, microfinance, and real estate for individuals, SMEs, and corporate customers, as the Company met customers' demand through its online and offline networks across the Kingdom.

The total number of financed contracts during 2022 by region is as follows:

Region	No. of Financed Contracts	Percentage
Central	15,766	38,1%
Western	9,439	22,8%
Eastern	7,561	18,3%
Northern	5,122	12,4%
Southern	3,452	8,4%
Total	41,340	100%

4. Risk Management

ALJUF is managing a number of risk factors. The most important are:

Credit Risk:

The most important risk factor facing the Company in its core operations is the customer's ability to fulfill the credit obligation plus the market risks. In addition to the dedicated reporting and analysis tools to measure credit risk, the Company has optimized and increased the efficiency of the credit-granting cycle. 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 retail customers, the Company has implemented a "Credit Evaluation" system that analyzes and assists each customer's creditworthiness separately to determine the appropriate finance rate for each group of customers based on related risk scores. The machine-learning-based scorecard, which was implemented at the end of July 2019, was reviewed and validated in October 2022, and the results exhibited that the model is perfectly fit for its need. The credit evaluation system aims to allow a much better assessment of retail customers.
- For corporate customers' assessments, the Company has developed a set of policies, procedures, and approval limits, enabling the Company to accept customers of better financial standing according to the Company's risk appetite. A dedicated credit committee is in place to make decisions on major credit applications.

The policies and procedures of credit risk management include the formulation of a comprehensive strategy to manage, measure, report, and mitigate the credit risk from the initiation to the settlement of the contract.

The effectiveness of the system used to calculate the expected credit allocations, ECL, during the year 2022 has been verified in accordance with the International Standard for Financial Instruments (IFRS9) by an independent consulting firm, and there will be another activity to verify the effectiveness of the system during the first quarter of 2023.

Operational Risk:

The Company dealt with multiple risks associated with internal operations, such as information technology, cybersecurity, human resources, legal, compliance with applicable regulations, and any other risks that might have negatively affected the Company's operations. Many programs and tools are in place to help receive employees' feedback on any risks related to their work to help mitigate them as soon as possible, along with continuous monitoring of the existing list of active risks.

The Company performed risk assessment activities across Company's departments in order to identify and assess strategic risks that have a potential negative impact on achieving strategic objectives. In addition, the Company has continued practicing awareness sessions to improve the Company-wide risk culture.

Market and Liquidity Risks:

The Company's market and liquidity risk are due to the changes in macro-economic indicators, interest rates, liquidity, and cash flows of the Company. The key risk in this area is a probable increase in the cost of funds, which exerts pressure on the Company's margins, as the Company essentially relies on the sale of financial assets to local banks as a source of funding.

However, the International Monetary Fund (IMF) expects the global economy to hit a recession in 2023 due to the Russia-Ukraine crisis and the slowing down of the Chinese economy, and the tightened monetary policy to combat rising inflation that has started to show clear results now. Meanwhile, the US Central Bank expects the interest rates to end at 5.1% by the end of 2023.

5. Sharia Compliance Council

The council members are an elite group of experts who work independently to advise the Company on the shariah opinion, transactional policies, and contract formats in order to comply with the Islamic sharia regulations. The council members are the following:

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

In 2022, the council reviewed and approved the Company's financing products and contracts from the shariah compliance perspective.

Sharia Compliance Audit:

In 2021 ALJUF hired an independent Sharia audit consultancy firm to determine the extent of the company's compliance with Islamic Sharia controls in its financing transaction based on approved auditing procedure and the consequences from observing internal samples within the scope of work and considering the basis for risk assessment and guidelines for non-compliance with Sharia controls. The audit process included reviewing the company's business activities by examining its financial statements, following up on the operations of departments, and reviewing products and transactions to ensure that they are in accordance with the sharia controls.

For more information about sharia members, please use the following link:

https://www.aljfinance.com/shariah_committee.aspx

6. Summary of Financial Performance

Summary of Profit & Loss	2022	2021
Total operating income	430	487
Operating expenses	-331	-270
Other income	154	54
Zakat	-32	-29
Net profit	222	242

Amounts in SAR millions

7. Summary of Company Assets & Liabilities

Assets & Liabilities	2022	2021
Current Assets	2,248	2,372
Non-Current Assets	3,067	2,723
Current Liabilities	2,326	1,994
Non-Current Liabilities	274	609
Equity	2,715	2,492

Amounts in SAR millions

8. Total Operating Income by Region

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

Region	2022	2021
Central Region	170	166
Western Region	98	130
Eastern Region	79	95
Northern Region	48	49
Southern Region	35	46
Total Operating Income	430	487

Amounts in SAR millions

9. Zakat

Statutory Zakat's payable balance was 54.8 million SAR on December 31st, 2022.

10. 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 and an ex gratia reserve made for additional end-of-service benefits paid to employees as per Company's policy. The total reserve reached 98.9 million SAR by the end of 2022, as described and disclosed in the audited financial statements.

11. 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 (IFRS), as endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants (SOCPA).

12. Appointing the External Auditor

The External Auditor is responsible for the review and audit of the quarterly and annual financial statements of the Company, respectively. The Shareholders' General Meeting of the Company, which was held on the 17th of March 2022, has accepted the Audit Committee and the Board of Directors' recommendation to reappoint "Deloitte and Touche & Co." as the Company's external auditor for 2022 and annual financial statements upon non-objection from SAMA.

13. Subsidiaries

Abdul Latif Jameel United Finance Co. confirms that it does not hold any stake in any subsidiary entity as of December 31st, 2022.

14. Related-Party Transactions

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

It has not been found that the Company is a party in any transactions in which the members of the Board of Directors, the Executive Management, or anyone related to them has an interest, and an acknowledgment has been submitted.

15. 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 internal control framework 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.

16. Dividend Distribution Policy

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

1. Retention of 10% out of the net profit for the year to form the 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 the 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 the distribution of fixed profits to the Shareholders as possible.
4. The remaining is distributed as the first installment to the shareholders, equivalent to no less than 5% of paid-in capital.

5. The remaining can either be distributed to Shareholders as a complete dividend or transferred to retained earnings account.

General Assembly Meetings of the Company:

A General Assembly meeting was held on Thursday, March 17th, 2022. During the meeting, Mr. Saeed Saleh Al-Ghamdi, Chairman of the Board of Directors, chaired the Annual Ordinary General Assembly (online) to adopt annual mandatory items such as the Board of Directors' report, the auditor's report, financial statements, and other in accordance with the laws and regulations. The Extraordinary General Assembly meeting was held on Monday, September 12th, 2022. During the meeting, Mr. Saeed Saleh Al-Ghamdi, Chairman of the Board of Directors, chaired the Extraordinary General Assembly meeting (online) to approve the amendments to the Company articles of association.

17. Corporate Governance

The Extraordinary General Shareholders Assembly approved new by-laws for the Company during its meeting, which was held on May 2017, in compliance with the Company's newly adopted act by the Ministry of Commerce. On the 28th of October 2014, the Board of Directors approved 23 internal policies for ALJUF in compliance with the requirements of the Finance Companies regulations. 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 regularly updated, as required.

ALJUF complies with the Corporate Governance Policy, which is in accordance with the Corporate Governance principles 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 assembly appointed three members of the Audit Committee during its meeting held on September 20th, 2022, for three years. The Audit Committee consists of three independent members who are specialized in finance, accounting, and internal audit. It is chaired by Mr. Yudhistira Rusli, along with Dr. Abubaker Bagabir and Mr. Yahia Kafi as Audit Committee Members.

The general assembly met on March 17th, 2023, and appointed Mr. Yudhistira Rusli as an Audit Committee Chairman, succeeding Mr. Abdulwahab Tawfiq until the end of the current cycle.

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 during their annual meeting on February 2nd, 2020.

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. It also provides the Board with diverse opinions and recommendations in this regard. The Audit Committee approves the annual risk-based audit plan and ensures compliance with the applicable laws and regulations. The Committee also assures

the effectiveness and efficiency of internal operations, in addition to approving Internal Audit policies and manuals.

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

The Audit Committee has completed nine meetings in 2022 with the presence of all members. During those meetings, the Committee discussed and followed the performance of internal audit, external audit, compliance, anti-money laundering, combating terrorism financing, investigations, and anti-fraud activities and the progress of other initiatives as well, as assigned by the Board.

The Effectiveness of Internal Control

The effectiveness and efficiency of the internal controls conducted during the year have been confirmed, and systems and procedures for the identification, evaluation, and management of the significant risks that may threaten ALJUF were in place and applied throughout the year, and there were no material or significant deficiencies in the control environment. After assessing the effectiveness and efficiency of the internal control procedures and the ongoing evaluation of internal controls carried out during the year, the management considers that the existing internal controls are adequately designed, are operating effectively, and are monitored consistently. The Management continuously strives to enhance and further strengthen the internal control system. Further, IAD has established a Quality Assurance Unit to ensure adequate implementation of international standards. Team mate+ is 100% utilized by the Internal Audit Division to ensure the automation of all IAD activities.

The Compliance Department conducted a risk-based compliance-monitoring program (RBMP) to assess and measure ALJUF's overall level of compliance with SAMA's rules and regulations. Moreover, the Compliance Department has established a designated whistleblowing unit responsible for receiving and processing all reported whistleblowing cases. CareWeb was also activated to enhance and develop the efficiency of the compliance-monitoring program.

Risk Management Committee:

The Risk Management Committee (RMC) aims to supervise the risk-management function in the Company to ensure the detection of significant risk exposure and assure the implementation of policies and processes to face and manage risks within the authority set by the Board of Directors. The Risk Management Committee (RMC) also reviews the measures taken to ensure the presence of a complete organizational structure for the Risk Management function. For the first quarter, the Committee was chaired by Mr. Jamal Mohammed Al Qahtani with members Dr. Khalid Al Karimy, Mr. Farid Mustafa Zaouk, and Mrs. Nilufer Gunhan. For the second quarter until December-2022, the Committee was chaired by Mark Fensome, with members Mrs. Nilufer Gunhan, Mr. Ramadan Al Zahrani, and Mr. Tamer Gamali.

The Risk Management Committee held four meetings during the year 2022 in the presence of all members, where they discussed credit risk topics and the assessment of all risks related to the

Company's operations and strategies, along with changes in the Saudi economy, liquidity costs, and availability.

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 supervise the Company's management. The Committee is chaired by Mr. Saeed Saleh Al Ghamdi, with members Mr. Sidhesh Sheveneth Kaul and Dr. Khalid Al Karimy.

Remuneration and Nomination Committee:

The Remuneration and Nomination Committee is chaired by Mr. Abdul Wahab Tawfik with members Mr. Saeed Saleh Al Ghamdi, Mr. Sidhesh Sheveneth Kaul, and Dr. Khalid Al Karimy. The Remuneration and Nomination Committee aims to receive the 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. The committee conducted two meetings in 2022 with the presence of all members.

Members of the Executive Management

The Executive Management members of the Company are as the following:

- Dr. Khalid Al Karimy CEO
- Ramadan Al Zahrani Managing Director, Auto - Cash Finance
- Wael Banjar CFO (Acting)
- Mahmoud Abbar Information Technology Head
- Abdallah Dahhan Risk Management Director
- Mohammed Abduljabbar Compliance Director
- Adel Alouni Internal Audit Head (Acting)
- Yaslam Basrih Cyber Security Head
- Hasan Al Yamani Managing Director of Real Estate Finance
- Abdulrahman AlFehaid Deputy Managing Director of Microfinance
- Ayad Mahmoud Director of Customer Account Centers

For more information about the Executive Management members' qualifications and last experience, please visit the following link:

<https://www.aljfinance.com/mem.aspx>

Changes in the Board of Directors:

The General Shareholders Assembly appointed nine members of the Board of Directors during its meeting held on 20 September 2020 for a term of three years. During the General Shareholders Assembly meeting held on 17th March 2022, Mr. Yudhistira Rusli was appointed as a Board of Directors member succeeding Mr. Jamal Al Qahtani.

18. Meetings & Attendance Record of the Board of Directors

The following table presents a summary of the Board of Directors' members, meetings, and the attendance record during 2022:

Board Members	Membership Title	16 MAR 2022	21JUN 2022	12 OCT 2022	14 DEC 2022
Mr. Saeed Saleh Al Ghamdi	Chairman Independent Member	✓	✓	✓	✓
Mr. Abdulkareem Abu Al-Nasr	Vice Chairman Independent Member	✓	✓	✓	✓
Mr. Yudhistira Rusli	Independent Member	✓	✓	✗	✓
Dr. Khalid Al Karimy	Executive Member Secretary of the Board	✓	✓	✓	✓
Mr. Sidhesh Sheveneth Kaul	Independent Member	✓	✗	✓	✓
Mr. Abdul Wahab Tawfik	Independent Member	✓	✗	✗	✗
Mrs. Nilufer Gunhan	Independent Member	✓	✓	✓	✓
Mr. Mark Fensome	Independent Member	✓	✓	✓	✓
Mr. Farid Mustafa Zaouk	Independent Member	✓	✓	✓	✓

For more information about the Board of Directors qualifications, last experience, and other companies' boards and management, please visit the following link:

<https://www.aljfinance.com/bod.aspx>

19. Board of Directors' Remuneration

The total remuneration paid to members of the Board of Directors during 2022 were 0.43 million SAR. There was no remuneration paid to the executive members for their work on the Board.

Board Members	Membership Title	Remuneration
Mr. Saeed Saleh Al Ghamdi	Chairman Independent Member	-
Mr. Abdulkareem Abu Al-Nasr	Vice Chairman Independent Member	215,000 SAR
Mr. Yudhistira Rusli	Independent Member	-
Dr. Khalid Al Karimy	Executive Member Secretary of the Board	-
Mr. Sidhesh Sheveneth Kaul	Independent Member	-
Mr. Abdul Wahab Tawfik	Independent Member	-
Mrs. Nilufer Gunhan	Independent Member	-
Mr. Mark Fensome	Independent Member	-
Mr. Farid Mustafa Zaouk	Independent Member	215,000 SAR

20. Other Committees Remunerations

The total fees and expenses paid to independent members of the other committees during 2022 were 0.13 million SAR. There was no remuneration paid to the executive members for their work in the Committees.

Members Name	Membership Title	Remuneration
Mr. Yudhistira Rusli	Chairman Audit Committee	-
Mr. Yahia Kafi	Audit Committee Member	-
Dr. Abubaker Bagabir	Audit Committee Member	132,000 SAR
Mr. Mark Fensome	Chairman Risk Committee	-
Mrs. Nilufer Gunhan	Risk Committee Member	-
Mr. Ramadan Alzahrani	Risk Committee Member	-
Mr. Tamer Gamale	Risk Committee Member	-
Mr. Abdul Wahab Tawfik	NRC Chairman	-
Dr. Khalid Al Karimy	NRC Member	-
Mr. Saeed Saleh Al Ghamdi	NRC Member	-
Mr. Sidhesh Sheveneth Kaul	NRC Member	-
Mr. Saeed Saleh Al Ghamdi	Ex.Com Chairman	-
Dr. Khalid Al Karimy	Ex.Com Member	-
Mr. Sidhesh Sheveneth Kaul	Ex.Com Member	-

21. Senior Executives' Compensation

The total compensation paid to the senior executive employees, which includes the CEO, CFO, Managing Director of cash finance and auto, Director of customer accounts centers, and Managing Director of real estate financing, during 2022 was 8.2 million SAR.

22. The Company's Social Contributions

The Company's social contributions in the fiscal year 2022 have amounted to 6.4 million SAR.

23. Penalties

In 2022, no penalties were imposed on the company by the Saudi Central Bank (SAMA) compared to 2021; however, the Ministry of HR, Elem for information security, SIMAH, and Ministry of Municipal and Rural Affairs imposed penalties on the Company totaling 3,800 SAR. The details of the penalties are as the following:

SAMA STATUTORY PENALTIES

Violation Subject	2022		2021	
	Number of Penalties	Total amount of penalties in SAR	Number of penalties	Total amount of penalties in SAR
Violation of SAMA's supervisory and regulatory instructions	-	-	3	110,000
Violation of SAMA's instructions of customers protection	-	-	-	-
Violation of SAMA's instructions of due diligence, Anti-Money laundering and Combating Terrorism Financing	-	-	-	-
Total	-	-	3	110,000

OTHER VIOLATIONS

Violation Issuer Entity	Violation Subject	2022	
		Number of Violation	Total amount of Violation in SAR
Ministry of Labor and Social Development	Organization self-assessment was not conducted	1	1,150
Elem for information security	Incompletion of required documents	1	1,150
SIMAH	Incompletion of client file	1	1,000
Ministry of Municipal and Rural Affairs	Incompliance with covid-19 Procedures	1	500
Total		4	3,800

24. Gratitude

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

The Chairman of Board of Directors