

Abdul Latif Jameel United Finance Company

Board of Directors' Annual Report

For the Financial Year ended 31 December 2020

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 2020. The report includes the important developments, operating activities, corporate governance and financial results of the Company.

Major Developments and Programs

The year 2020 was one of the most challenging years over ALJUF history; this year has been anything but ordinary. At the end of the 1st quarter, the Company was faced with the COVID-19 crisis and its successive events. In addition, the competition was intensified where banks introduced a very aggressive pricing by taking advantage of auto distributors' rebates. Furthermore, value added tax (VAT) was increased on July 1st. All of these factors has negatively affected ALJUF sales and collection. ALJUF, however, was able to minimize the impact of these events and closed the year with a reasonable number of financed units and a very healthy collection performance.

Major developments during the year:

- **Digital Transformation**
The Company achieved good progress in facilitating online services to its existing customers and enhancing its online financing process.
- **Analytics Transformation**
ALJUF engaged with leading consultants for laying the infrastructure foundation, designing a data strategy and building a user-case roadmap to bring analytics transformation at scale.
- **Cyber Security**
The Company engaged with leading consultant company to evaluate its cyber security framework, incident response maturity assessment, Network security architecture review and compromise assessment as part of its endeavor and efforts to avoid any security risks.
- **ALJUF Strategy**
The Company engaged with leading consultant company to help in formulating ALJUF strategy for the coming 5 years.

Main Operations

- The total number of financed contracts during 2020 was 31,316 with approximate total financing value of SR 2.5 Billion.
- The finance contracts varied between financing Toyota, other brands vehicles and consumer financing for both individuals and corporate customers.

- The Company has met customers' demand through its online and offline network across the kingdom.

The total number of financed contracts during 2020 by region are as follows:

Region	No. of Financed Contracts	Percentage
Central	8,087	26%
Eastern	7,108	22%
Northern	3,678	12%
Southern	4,700	15%
Western	7,743	25%
Total	31,316	100%

Risk Management

ALJUF is managing a number of 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 plus the market risks. In addition to the dedicated reporting and analysis tools to measure the 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, which analyzes each customer's credit worthiness separately and assists to determine appropriate finance rate for each group of customers based on related risk scores. During this year, the system continued to improve by the application of the second-generation scorecard, the modified sales strategy along with the new credit approval policies. In the same year, The Machine Learning based scorecard which has been implemented last year, was reviewed and validated to provide more assurance about customers' profile as compared to the previously used Traditional Scorecard and the systems showed that the model is still fitting for its purpose.
- For corporate customers' assessments, the Company has developed a set of policies, procedures and approval limits enabling the Company to accept the customers of better financial standing according to the Company's risk appetite. A dedicated credit committee is in place to take decisions on the significant credit applications with more conservation due to the economic conditions caused by the Corona pandemic.

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. IFRS9 Provisions validation of the implemented model was done by an independent consultancy firm during last year 2020.

Operational Risk:

The Company also deals with risks associated with the Company's internal operations, whether related to information technology, cybersecurity, human resources, legal, or compliance with applicable regulations, and any other risk that will negatively affect the Company's operations. Many programs and tools are in place to help receive the 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 has prepared also an emergency plan to mitigate the impact of COVID-19 pandemic at both Head-office and Branches levels, included successfully testing for Working From Home WFH During the total ban that was applied in the Kingdom during the first months of the Corona pandemic.

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 key risk in this area is probable increase in cost of fund, which exerts pressure on Company's margins as the Company relies essentially on the sale of financial assets to local banks as a source of funding. However, economists expect that the interest rate may remain stable at the same current level for the foreseeable future.

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:

- | | |
|--|----------|
| 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 2020, the council has reviewed and approved the Company's financing contracts from the Shari'ah compliance point of view.

Summary of Financial Performance

Summary of Profit & Loss	2020	2019*
Total operating income	582	764
Operating expenses	(316)	(399)
Other income	76	109
Zakat	(62)	(69)
Net profit	280	405

Amounts in SAR millions

**2019 figures are restated as per 2020 audited financial statements*

Summary of Company Assets & Liabilities

Assets & Liabilities	2020	2019*
Current Assets	3,675	3,998
Non-Current Assets	1,030	1,467
Current Liabilities	1,324	1,647
Non-Current Liabilities	603	309
Equity	2,778	3,509

Amounts in SAR millions

**2019 figures are restated as per 2020 audited financial statements*

Total Operating Income by Region

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

Region	2020	2019*
Central Region	144	177
Eastern Region	109	153
Southern Region	77	144
Western Region	176	192
Northern Region	76	98
Total Operating Income	582	764

Amounts in SAR millions

**2019 figures are restated as per 2020 audited financial statements*

Statutory Payables

Statutory Zakat payable balance was SR 77.6 million at 31 December 2020.

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 113.1 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 (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).

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 22 March 2020, accepted the recommendation of the Audit Committee and the Board of Directors to appoint "Deloitte and Touche & Co" as the Company's External Auditor starting from the second quarter 2020, upon non-objection from SAMA.

Subsidiaries

Abdul Latif Jameel United Finance Co. confirms that it does not hold any stake in any subsidiary entity as of 31 December 2020.

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 22 March 2020, the Shareholders of the Company in their annual meeting approved to distribute dividend amounting to SR 284.3 million (SR 1.7 per share) out of the retained earnings. The dividend has been paid in full to the shareholders.

On 31 August 2019, the Board of Directors of the Company resolved to decrease the share capital of the Company by SR 700.0 million (70,000,000 shares of SR 10.0 each) in proportion to the existing shareholding pattern. The Company received a No Objection Letter from SAMA dated 13 October 2019 to decrease the Company's share capital. The legal formalities in respect of decrease in share capital were completed during the period on **09 August 2020** and the amount of reduction in share capital was returned to shareholders on 24 August 2020.

Corporate Governance

The Extraordinary General Shareholders Assembly approved new Bylaws for the Company during its meeting held in May 2017 in compliance with the Companies 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 20 September 2020 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 the 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 during the annual shareholders' meeting of 02 February 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. 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 the internal.

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

The Audit Committee completed eight Audit Committee meetings in 2020 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 and combating terrorism financing, investigation and anti-fraud activities 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 Risk Management and Credit 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, Mr. Farid Mustafa Zaouk and Mrs. Nilufer Gunhan.

The Risk Management and Credit Committee held five meetings during the year 2020 in the presence of all members, where the members discussed credit risk topics, and analysis of all risks related to the Company's operations along with changes in the Saudi economy, liquidity cost 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 in supervising the Company's management. The Committee is chaired by Mr. Saeed Saleh Al Ghamdi with members Mr. Sidhesh Sheveneth Kaul, Mr. Abdul Wahab Tawfik, Mr. Jamal Mohammed Ahmed Al Kahtani 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 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 20 September 2020 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:

Board Members	Title	18 FEB 2020	27 APR 2020	05 MAY 2020	21 MAY 2020	09 JUL 2020	05 OCT 2020	26 OCT 2020	28 OCT 2020	25 NOV 2020	06 DEC 2020	13 DEC 2020
Mr. Saeed Saleh Al Ghamdi	Chairman Non-Executive Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdulkareem Abu Al-Nasr	Vice Chairman Independent Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Jamal Mohammed Ahmed Al Kahtani	Executive Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Khalid Al Karimy	Executive Member & Secretary	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Sidhesh Sheveneth Kaul	Non-Executive Member	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓
Mr. Abdul Wahab Tawfik	Non-Executive Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mrs. Nilufer Gunhan	Non-Executive Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Mark Fensome	Non-Executive Member						✓	✓	✓	✓	✓	✓
Mr. Farid Mustafa Zaouk	Independent Member	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Board of Directors' Remuneration

The total fees and expenses paid to non-executive members of the Board of Directors during the year 2020 was SR 0.4 million and there was no remuneration paid to the executive members for their work in the Board.

Statutory Penalties

In 2020, Saudi Arabian Monetary Authority (SAMA), Saudi Ministry of Labor and Social Development, Ministry of Commerce and Investment, and Saudi Arabian Ministry of Justice imposed penalties on the Company totaling SR 1.6 million.

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