

# Abdul Latif Jameel United Finance Company

## Board of Directors' Annual Report

### For the Financial Year ended December 31<sup>st</sup>, 2021

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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 2021. The report includes the important developments, operating activities, corporate governance, and financial results of the Company.

## 1. Major Developments and Programs

- **ALJUF Strategy**

The Company developed an ambitious strategy for the coming five years to upgrade its capabilities through five main pillars with more than 20 challenging sub-initiatives:

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

- **Auto Financing**

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

- Revising residual value and tenure matrix.
- Introducing peer-to-peer financing products and optimized used cars offerings.
- Increasing corporate financing offering.
- Managing cars shortage issues through tactical supplier/brand switching and stock buying.
- Developing multi-brands business.

- **New Products**

Introducing new products in 2021 was a part of ALJUF's main strategy, where the Company introduced Tawarruq financing, secured necessary and regulatory approvals, and initiated new products' development in preparation for its launch during 2022.

- **Diversification of Channels**

As a part of ALJUF's strategy to create an effective ecosystem, the Company has diversified its active channels to reach potential customers and provided support to its current customers through ALJ Finance's website, telesales, online services, CRM platforms, aftersales services hubs, official social media accounts, and integrations with different products providers. Moving forward, the Company will launch its smart application in 2022.

- **Automation and Process Optimization**

During 2021, the Operations Excellence Department has managed to optimize and automate processes to increase effectiveness and reduce costs, including the integrations with various services providers such as Nafith, Absher, digital signatures, insurance services, and others.

- **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 78%, which is 6% higher than the global benchmark (72%).

## 2. Main Operations

- The total number of financed contracts during 2021 was 36,542, with an approximate total financing value of 2.5 Billion SAR.
- The finance contracts varied between financing new and used vehicles and consumer financing for individuals and corporate customers.
- The Company has met customers' demand through its online and offline networks across the Kingdom.

The total number of financed contracts during 2021 by region are as follows:

Region	No. of Financed Contracts	Percentage
Central	12,469	34%
Western	9,770	27%
Eastern	7,157	20%
Northern	3,660	10%
Southern	3,486	10%
<b>Total</b>	<b>36,542</b>	<b>100%</b>

## 3. Risk Management

ALJUF is managing a number of risk factors. 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 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 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 has been implemented at the end of July 2019, was reviewed and validated in August 2021, 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 the customers of better financial standing according to the Company's risk appetite. A dedicated credit committee is in place to make decisions on the significant 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.

IFRS9 provisions validation of the implemented model was done by an independent consultancy firm during 2021.

### **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.

With the COVID-19 outbreak, the Company has implemented certain controls and protocols to ensure business' continuity in case of a new wave.

### **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, economists expect the interest rate in Saudi Arabia to increase by 75 basis points in 2022.

## **4. Shariah 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 shariah 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 2021, the council has reviewed and approved the Company's financing contracts from the shariah compliance perspective.

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

[https://www.aljfinance.com/shariah\\_committee.aspx](https://www.aljfinance.com/shariah_committee.aspx)

## 5. Summary of Financial Performance

Summary of Profit & Loss	2021	2020*
Total operating income	487	582
Operating expenses	-270	-316
Other income	54	69
Zakat	-29	-62
<b>Net profit</b>	<b>242</b>	<b>272</b>

Amounts in SAR millions

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

## 6. Summary of Company Assets & Liabilities

Assets & Liabilities	2021	2020*
Current Assets	2,372	3,784
Non-Current Assets	2,723	1,173
Current Liabilities	1,994	1,584
Non-Current Liabilities	609	603
Equity	2,492	2,770

Amounts in SAR millions

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

## 7. Total Operating Income by Region

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

Region	2021	2020*
Central Region	166	144
Western Region	130	176
Eastern Region	95	109
Northern Region	49	77
Southern Region	46	77
<b>Total Operating Income</b>	<b>487</b>	<b>582</b>

Amounts in SAR millions

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

## **8. Statutory Payables**

Statutory Zakat's payable balance was 51.0 million SAR on December 31<sup>st</sup>, 2021.

## **9. 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 115.9 million SAR by the end of 2021, as described and disclosed in the audited financial statements.

## **10. 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).

## **11. 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' General Meeting of the Company, which was held on the 21<sup>st</sup> of March 2021, has accepted the Audit Committee and the Board of Directors' recommendation to appoint "Deloitte and Touche & Co." as the Company's External Auditor for 2021's 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarters, and annual financial statements upon non-objection from SAMA.

## **12. Subsidiaries**

Abdul Latif Jameel United Finance Co. confirms that it does not hold any stake in any subsidiary entity as of December 31<sup>st</sup>, 2021.

## **13. 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 Supervision Act and instructions issued by SAMA, in addition to 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.

## **14. 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.

## **15. 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 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 remainder is distributed as the 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 a complete dividend or transferred to Retained Earnings account.

### **General Assembly Meetings of the Company:**

A General Assembly meeting was held on Sunday, March 21<sup>st</sup>, 2021. During the meeting, Mr. Saeed Saleh Al-Ghamdi, Chairman of the Board of Directors, has chaired the Extraordinary General Assembly and the Annual Ordinary General Assembly (online) to approve the amendments to the articles of association and adopt annual mandatory items such as the Board of Directors' report, the auditor's report, financial statements, and others in accordance with the laws and regulations.

The Shareholders of the Company have approved on Sunday, October 31<sup>st</sup>, 2021 during their meeting to distribute dividends amounting to 514.9 million SAR (1.7 SAR per share) out of the retained earnings. The dividends have been approved by SAMA and paid in full to the shareholders.

## **16. Corporate Governance**

The Extraordinary General Shareholders Assembly approved new by-laws for the Company during its meeting, which was held in May 2017, in compliance with the Company's newly adopted act by the Ministry of Commerce. On the 28<sup>th</sup> of October, 2014, the Board of Directors had approved 23 internal policies for ALJUF 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.

ALJUF is in compliance with the 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 September 20<sup>th</sup>, 2020, for a term of three years. The Audit Committee consists three independent members who specialize in finance, accounting, and internal audit. Appointed by the General Shareholders Assembly are Mr. Abdul Wahab Tawfik, 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 their annual meeting on February 2<sup>nd</sup>, 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 terrorism financing departments and evaluates their performance yearly.

The Audit Committee has completed six meetings in 2021 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 confirmed that 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 that 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 control system is adequately designed, is operating effectively, and is monitored consistently. The Management continuously strives to enhance and further strengthen the internal control system. Further, IAD has established a Quality Assurance Department to ensure adequate implementation of international standards. Team mate+ is 100% utilized by the Internal Audit Division to ensure 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.

## **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 assure the implementation 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 four meetings during the year 2021 in the presence of all members, where they discussed credit risk topics and the analysis of all risks related to the Company's operations, 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 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.

## 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.

## Members of the Executive Management

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

- Mr. Jamal Mohammed Ahmed Al Kahtani CEO
- Dr. Khalid Al Karimy, COO
- Talal Mofareh Alsaadi, CFO
- Khaled Omar Algakhlab, Information Technology Director
- Abdallah Mohammed Dahhan, Risk Management Director
- Mohammed Hani Yahya Abduljabbar, Compliance Director
- Siraj Omar Salem Baduqayl, Internal Audit Director
- Yaslam Hassan Abdullah Basrih, Information Security Head

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

<https://www.aljfinance.com/Documents/Boards/Board-Bio-Ar-En.pdf>

## 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.

## 17. 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 2021:

Board Members	Title	22 FEB 2021	13 JUN 2021	20 SEP 2021	25 NOV 2021	19 DEC 2021
Mr. Saeed Saleh Al Ghamdi	Chairman Independent Member	✓	✓	✓	✓	✓
Mr. Abdulkareem Abu Al-Nasr	Vice Chairman Independent Member	✓	✓	✓	✓	✓
Mr. Jamal Mohammed Ahmed Al Kahtani	Executive Member	✓	✓	✓	✓	✓
Dr. Khalid Al Karimy	Executive Member	✓	✓	✓	✓	✓
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, other companies' board and management, please visit the following link:

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

## 18. Board of Directors' Remuneration

The total fees and expenses paid to independent members of the Board of Directors during 2021 were 0.42 million SAR. There was no remuneration paid to the executive members for their work on the Board.

## 19. Other Committees Remuneration

The total fees and expenses paid to independent members of the other committees during 2021 were 0.12 million SAR. There was no remuneration paid to the executive members for their work in the Committees.

## 20. Senior Executives' Compensation

The total compensation paid to the five most senior executive employees, which are the CEO, COO, CFO, Senior Director of Operation, and Director of Operations, during 2021 was 11.4 million SAR.

## 21. The Company's Social Contributions

The Company's social contributions in the fiscal year 2021 have amounted to 7.8 million SAR.

## 22. Penalties

In 2021, the Saudi Central Bank (SAMA), Saudi Ministry of Labor, Elem for information security, SIMAH and Ministry of Municipal and Rural Affairs imposed penalties on the Company totaling 124,150 SAR. The details of penalties are as the following:

### SAMA STATUTORY PENALTIES

Subject of the Violation	2021		2020	
	Number of Penalties	Total amount of penalties in SAR	Number of penalties	Total amount of penalties in SAR
Violation of the SAMA instructions	3	110,000	1	15,000
Violation of the instructions on customers' protection	Nothing	Nothing	1	500,000
Violation of the SAMA instructions on due diligence in combating money laundering and terrorism financing	Nothing	Nothing	Nothing	Nothing
<b>Total</b>	<b>3</b>	<b>110,000</b>	<b>2</b>	<b>515,000</b>

\*First violation due to exceeding the permissible employee exposure limit of loans and the other one due to the failure of publishing the SAMA statutory penalties issued in the fiscal year 2019-2020 and Warning of Non-Compliance with collection controls for individuals customers. for individual customers

### OTHER STATUTORY PENALTIES

Subject of the violation	2021		2020	
	Number of penalties	Total amount of penalties in SAR	Number of penalties	Total amount of penalties in SAR
Saudi Ministry of Labor and Social Development (non-compliance with the Ministry's decision regulating exceptional circumstances)	1	10,000	10	110,000
Elem for information security (not completing the necessary documents- Customers IDs)	3	3,150	6	9,150
SIMAH (incomplete client file)	1	1,000	Nothing	Nothing
Ministry of Municipal and Rural Affairs (lapse of licenses fines)	Nothing	Nothing	4	98,000
<b>Total</b>	<b>5</b>	<b>14,150</b>	<b>16</b>	<b>119,150</b>

## 23. 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 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**