



شركة آجيل للخدمات التمويلية
AJIL FINANCIAL SERVICES COMPANY

DIRECTORS' REPORT

31 December 2018

2018

CONTENTS

	Page #:
Strategy	4
Risk Management	4
Geographic Focus	6
Financial Highlights	7
Financial Reporting Standards	7
Internal Audit Function	8
Compliance, Anti-Money Laundering, Counter Terrorism Financing	8
Effectiveness of Internal Control Environment	9
Ethical Standards and Code of Conduct	9
Dividend Policy	9
Short Term Loans	10
Shareholding Structure	10
Related Party Transactions	10
Board of Directors and Executive Management	11
Directors and Senior Executive Interest	13
External Auditors	13
Payment of Zakat & Income Tax	13
Employee Benefit Scheme	13
Applicable Laws	13
Fines & Penalties	14
Declarations	14

The Board of Directors of AJIL Financial Services Company (AJIL) is pleased to present the company's Annual Report and Audited Financial Statements for the year ending 31 December, 2018.



On 30 Rajab 1418H (30 November 1997), AJIL received its commercial registration (number 4030122889), establishing the company for operation in the Kingdom of Saudi Arabia.

On 21 Rajab 1435H (20 May 2014), AJIL received a license from the Saudi Arabian Monetary Authority ("SAMA") enabling it to provide lease financing services to customers in the Kingdom of Saudi Arabia.

On 01 Muharram 1439H (21 Sep 2017), AJIL received a no objection certificate from SAMA enabling it to provide commodity murabaha services to customers in the Kingdom of Saudi Arabia.



شركة أجيل للخدمات التمويلية
AJIL FINANCIAL SERVICES COMPANY

AJIL provides financing solutions (inclusive of leasing and other related products) to the industrial, transportation, agriculture and trading sectors. Additionally, AJIL offers finance leasing of fixed and moveable assets inclusive of, but not limited to: industrial buildings, warehouses, production equipment, machinery, medical equipment, building equipment, transportation equipment, all kinds of vehicles, office equipment and computers.



STRATEGY

- To maintain a healthy and diversified portfolio of customers that represents the various sectors of the market and includes customers with high credit profiles.
- To cement the company's position as a market leader in financial leasing.
- To be a catalyst in the growth of the Kingdom's SME's by providing innovative and practical financial solutions.
- To be an active participant in government initiatives and ambitions on the road towards achieving Vision2030.

RISK MANAGEMENT

As part of the company's risk management framework and ongoing efforts to identify, manage, measure, monitor and report all potential risks; AJIL has a dedicated Risk Management Department which is overseen by the Risk Management and Credit Committee (RMCC).

The potential risks faced by the company are divided into three categories: Credit Risk, Market Risk and Operational Risk. These risks are defined on the next page.

RISK MANAGEMENT

CREDIT RISK

The risk of financial loss that may arise from a counterparty failing to meet its contractual obligations.

AJIL's credit risk management process, (guided by a board-approved credit policy), covers credit evaluation, administration, and control. The process is managed through a comprehensive credit evaluation; which analyzes each credit transaction (including the customer's financial position, credit history, business activities, etc).

Emphasis is also placed on the adequacy of collateral and the quality/marketability of leased assets to protect AJIL's interests in case of liquidation/early termination of a transaction.

AJIL has recently developed a credit risk rating model that will strengthen its credit decision process.

MARKET RISK

The risk that may arise from uneven distribution of exposures to borrowers or particular sectors or products.

AJIL has a diversified customer base with the majority of customers having a long-standing relationship with AJIL and enjoying a stable credit history.

AJIL continuously endeavors to further diversify its customer base in terms of industry and asset type. To manage the concentration of risk in a certain sector, AJIL established sectorial limits as part of its Risk Appetite Statement.

In 2017, AJIL introduced Murabaha financing as part of its effort to further diversify its portfolio and product offering.

GEOGRAPHIC COVERAGE

AJIL operates across the Kingdom of Saudi Arabia through its head office in Jeddah and regional offices in Riyadh, Dammam and Abha.

OPERATIONAL RISK

The risk of loss resulting from inadequate or failed procedures, processes, systems, policies, or people.

AJIL operates in accordance to standardized operating procedures and operational guidelines. Internal controls are in place and include adequate segregation of duties, review of access rights, authority matrices, and reconciliation procedures. Compliance, Risk Management, and Internal Audit Departments cater to the effectiveness of AJIL's internal control environment.

In an effort to further strengthen operational controls, AJIL established a dedicated asset management function to manage the entire lifecycle of leased assets; starting with the registration of leased assets through to the transfer of ownership at the end of the lease contract.



FINANCIAL HIGHLIGHTS

The Company has maintained a healthy performance during 2018 through the booking of new business, achieving operational efficiencies, and reducing financial costs while maintaining adequate provisions. Total Revenues and Net Profit reflected a positive trend coupled with improved financial ratios and supported by a strong asset and equity base.

Below is the summary of key performance indicators during 2018 and 2017:

(SR Millions)	2018	2017
Revenues	181	172
General and Administrative Expenses	60	59
Net Profit	48	39
Net Profit Margin	26.5%	22.6%
Return on Capital	9.6%	7.8%
Debt to Equity Ratio	0.7 times	1.07 times

FINANCIAL REPORTING STANDARDS

AJIL maintains proper books of accounts (in compliance with the Implementing Regulations of the Law on Supervision of Finance Companies). The annual audited financial statements for the year ending 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

COMPLIANCE, ANTI-MONEY LAUNDERING (AML) & COUNTER TERRORISM FINANCING (CTF)

AJIL established an independent department reporting to the Audit Committee responsible for the Compliance, AML and CTF functions. The main objectives of the Department are as follows:

- To ensure that the Company is conducting its business in full compliance with the relevant laws and regulations as well as accepted business practices and internal standards.
- To implement effective policies and procedures to combat money laundering and terrorism financing in line with the relevant laws and regulations.

INTERNAL AUDIT FUNCTION

AJIL's Internal Audit Department reports independently to the Audit Committee in order to provide the Board of Directors with an objective assurance regarding the adequacy and effectiveness of risk management, internal control and governance processes. *The main objectives of the Internal Audit are to ensure the following:*

- The existence and maintenance of a strong governance structure
- The effectiveness and efficiency of business processes
- The adequacy of internal controls over business processes
- The adequacy of IT systems
- That adequate controls are in place over fixed assets owned by the company

The Internal Audit Department carries out its functions in accordance to the annual audit plan approved by the Audit Committee. It adopts a risk-based approach in executing the audit plan; focusing on major functions and/or business processes within the company.

The department reports directly to the Audit Committee on the outcome of its appraisal of the internal controls. Significant audit findings are presented and deliberated by the Audit Committee on a quarterly basis or as appropriate. The Internal Audit also monitors the implementation of audit recommendations in order to obtain assurance that all major identified risk and control measures identified have been addressed by management in an effective and timely manner.

EFFECTIVENES OF INTERNAL CONTROL ENVIRONMENT

Management is responsible for the design and implementation of the internal control system; all employees are ultimately responsible for operating and maintaining an effective internal control system at their respective levels.

The Risk Management, Compliance, and Internal Audit Departments are responsible for the continuous monitoring and evaluation of the efficiency and effectiveness of the internal control system; this is achieved by the identification of major risks, assessing the level of compliance with the existing controls, and recommending the corrective actions and suggested enhancements to the controls and processes.

The external auditors are responsible for assessing the adequacy of the system of internal controls to decide the level of reliance on the Company's internal controls while designing their audit procedures.

Nothing has come to the attention of the Board of Directors that causes it to believe that the system of internal control has not been properly designed or implemented. The Board is of the opinion that the internal control system employed by AJIL throughout the year 2018 is effective, efficient, and transparent.

ETHICAL STANDARDS AND CODE OF CONDUCT

AJIL is committed to instill and maintain a culture of professionalism through its Code of Conduct which is based on fundamental principles of integrity, confidentiality and professionalism. It applies to the management, employees and any other person that may represent the Company. AJIL operates under the governing authority of its Board of Directors, who respectively, oversees the implementation and effectiveness of its ethical standards and Code of Conduct.

DIVIDEND POLICY

The main objective of the dividend policy is to provide a return to shareholders to meet their investment expectations with due consideration to capital management and growth requirements of the Company. The dividend policy also aims to build the long-term shareholder value, market confidence in the Company and Company's ability to meet its strategic growth plans by reinvesting the profits earned.

SHORT TERM LOANS

The following is the summary of borrowing activities:

(SR Millions)	31 December, 2018	31 December, 2017
Opening balance of loans	968	1,430
Proceeds from loans	1,460	2,429
Repayments of loans	(1,816)	(2,891)
Closing balance of loans	612	968

RELATED PARTY TRANSACTIONS

The related parties represent shareholders and entities controlled or significantly influenced by them. In the ordinary course of its activities, the Company transacts business with related parties, which are summarized in Note 18 of the audited financial statements. All the transactions with related parties are conducted on arm's length basis.

SHAREHOLDING STRUCTURE

Shareholding structure as of 31 December, 2018 is as follows:

(SR Millions)	Holding %	Number of Shares
Riyad Bank	35%	17,500,000
Zahid Group Holding Company Limited	25%	12,500,000
MC Netherlands Leasing and Finance B.V	20%	10,000,000
Al – Wasilah Rent A Car Company Limited	5%	2,500,000
Khaled Ahmed Al – Juffali Company	5%	2,500,000
Al – Yemni Motors Company Limited	5%	2,500,000
Mitsubishi UFJ Lease & Finance Company Limited	5%	2,500,000
Total	100%	50,000,000

On 28 January 2019, MC Netherlands Leasing and Finance B.V and Mitsubishi UFJ Lease & Finance Company Limited offered to sell their shares. Riyadh Bank, Zahid Group Holding Company Limited and Al-Yemni Motors Company Limited agreed to purchase these shares in the following proportion.

(SR Millions)	Pro-Rata Purchase	Number of Shares
Riyad Bank	13.46%	6,730,769
Zahid Group Holding Company Limited	9.62%	4,807,692
Al – Yemni Motors Company Limited	1.92%	961,539
Total	25%	12,500,000

All necessary approvals have been obtained and the share transfer process is likely to be completed by 31 March, 2019.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

COMPOSITION OF THE BOARD OF DIRECTORS AND ATTENDANCE AT BOARD MEETINGS

Name	Function	Membership Type	12 April 2018	12 July 2018	11 Oct. 2018	20 Dec. 2018
Mr. Waleed Y. Zahid	Chairman	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Ossama A. Bukhari	Vice Chairman	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Usman Mahmood	Board Member & Secretary to the Board	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Mohammad Abdulaziz Abu Al-Naja	Board Member	Non-Executive Member	Yes	No	Yes	No
Mr. Tariq Abdullah Al-Ghaziri	Board Member	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Shinya Sugioka	Board Member	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Tappei Shimizu	Board Member	Non-Executive Member	Yes	Yes	Resigned	Resigned
Mr. Hiroshi Nakanishi	Board Member	Non-Executive Member	Not Appointed	Not Appointed	Not Appointed	Yes

COMPOSITION OF THE EXECUTIVE MANAGEMENT

Name	Current Role
Mr. Matar Mohammad Al Khateeb	General Manager
Mr. Naief Nihad Arab	Chief Operating Officer
Mr. Khurram Sheikh	Chief Financial Officer
Ms. Kawther Elahi	Head of Compliance
Mr. Hattan Alhamdan	Head of Risk Management
Mr. Abdu Al Masaari	Head of Human Resources
Mr. Roshantha Pathmaperuma	Head of Corporate Lease Business
Mr. Nedal El Kafrawy	Head of Internal Audit
Mr. Abdulaziz Alangari	Head of Information Technology

REMUNERATION OF THE DIRECTORS AND EXECUTIVE MANAGEMENT

No compensation was paid to the Board of Directors of the company in their capacity as Directors. The remuneration paid to the Secretary of the Board of Directors during the year ended 31 December 2018 was SR 0.5 million. The remuneration of the key management executives for the year ended 31 December 2018 was SR 6.82 million (2017: SR 6.13 million).

BOARD COMMITTEES

The Board of Directors has established the following two committees.

(1) Risk Management and Credit Committee ("RMCC")

The main responsibilities of this committee are (1) To assist the Board in reviewing overall risks, which the company might face, and to decide on mitigating factors related therewith. (2) To evaluate and review operational and non-operational risks and related mitigating factors.

The members of the RMCC are:

1. Mr. Abdullah Al Zandan - Chairman
2. Mr. Mahmood Kamel - Member
3. Mr. Matar Al Khateeb - Member
4. Mr. Naief Arab - Member

(2) Audit Committee

The primary role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the following:

- (1) Accounting and financial reporting.
- (2) Assessment and management of risk and the related internal control environment.
- (3) Compliance with laws and regulations.
- (4) Internal and external audit processes.

The members of the Audit Committee are:

1. Mr. Aladdin Riad Sami - Chairman
2. Mr. Hani Assiri - Member
3. Mr. Tariq Mansour - Member

DIRECTORS AND SENIOR EXECUTIVE INTEREST

(INCLUDING THEIR SPOUSES AND MINOR CHILDREN)

Board Members:

All the members of the Board of Directors were duly elected, for the term of 3 years, during the OGM held on 15 May 2017. Subsequently, and as per article 19 of the bylaws of the company, the temporary vacancies have been filled. The Board of Directors, including any persons directly related to them, neither hold any shares nor have any other interest in the company.

Senior Management:

None of senior management hold any shares in the company. Furthermore, the General Manager and Chief Finance Officer, including any persons directly related to them, do not hold any shares nor have any other interest in the company beyond their remuneration.

EXTERNAL AUDITORS

At the Annual Shareholders General Assembly, held on 27 May 2018, Messrs. Ernst & Young were appointed as external auditors for the year ending 31 December 2018.

PAYMENT OF ZAKAT AND INCOME TAX

The company is calculating the Zakat and Tax as per laws and regulations applicable in the Kingdom of Saudi Arabia.

The Zakat and Tax assessments have been finalized up to the year 2008 and for the years 2014 to 2017. The company has also filed the Zakat and Tax returns for the year 2009 - 2013 and is in discussion with GAZT to finalize the assessments for these years. The Zakat and Tax return for the year 2018 will be filed before the due date, 30 April 2019.

EMPLOYEE BENEFIT SCHEME

End-of-service benefits (as per Saudi Labor Law) have been provided based on the employees' length of service. As of 31 December 2018, the total end-of-service provision is SR 13.98 million.

APPLICABLE LAWS

AJIL adheres to all the provisions of the Saudi Companies' Law, the Finance Companies Control Law and all other applicable laws, rules and regulations.

FINES AND PENALTIES

The Board of Directors is pleased to confirm that no penalty, precautionary measure or precautionary restriction was imposed on the Company by the Ministry, or any supervisory, regulatory or judicial body during the year ending 31 December 2018.

DECLARATIONS:

The Board of Directors hereby confirms (with reference to year ending 31 December, 2018) that:

- Proper books of accounts have been maintained.
- The company prepares its financial statements in accordance with International Financial Reporting Standard ["IFRS"] as required by the finance lease laws and regulations.
- All Internal Audit recommendations were properly and efficiently implemented.
- AJIL has no existing contracts with entities in which a Director, GM, CFO or any of their direct relatives have a material interest.
- There is no doubt over AJIL's ability to continue to operate accordingly.

The Board of Directors take this opportunity to express its gratitude to the Government of the Kingdom of Saudi Arabia, and in particular the Saudi Arabian Monetary Authority(SAMA), Saudi Arabian General Investment Authority(SAGIA) and the Ministry of Commerce and Investment for their continuing proactive support.

The Board also expresses its appreciation to the Shareholders for their confidence and support and to the AJIL team for their tireless efforts and professionalism.

May Allah lead us to success.

For and on behalf of the Board of Directors

Waleed Y. Zahid
Chairman



شركة أجـل للخدمات التمويلية
AJIL FINANCIAL SERVICES COMPANY

2018

10th Floor, Jeddah101 Building
Sari Street, Al-Khalidya,
P.O. Box 13624, Jeddah 21414
Kingdom of Saudi Arabia

Tel: (966) 12 275 8996
Fax(966) 12 691 2923

www.ajil.com