



شركة آجل للخدمات التمويلية
AJIL FINANCIAL SERVICES COMPANY

31 DECEMBER 2019

DIRECTORS' REPORT

2019

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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 2019.

Commercial Registration

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

License

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

Murabaha Financing

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



AJIL provides a variety of financial solutions to its customers:

- *Financial Leasing of productive assets, including; small and large equipment, light and heavy vehicles, plants and machinery, other capital assets for infrastructure development, industrial expansions, agricultural needs, transportation and logistics services, Information Technology, medical services and trading etc.*
- *Murabaha Financing to meet customers' funding requirements beyond financing of capital assets, which can help them meet their working capital requirements and their growth plans.*

These financial solutions are well designed to meet the needs of large corporations as well as SMEs in KSA.

STRATEGY

To maintain a healthy and diversified portfolio of customers that represents various sectors of the market and includes customers with high credit profiles.

To cement the company's position as a market leader in the financial leasing sector.

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 vision 2030.



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 main risks faced by the company are divided into three categories: Credit Risk, Market Risk, and Operational Risk. These risks are discussed on the following 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 implemented a credit risk rating model of its customers to further strengthen its credit decision process.

MARKET RISK

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

In order to manage this risk, AJIL continuously endeavors to further diversify its customer base in terms of industry and asset type. AJIL has also established sectorial limits as part of its Risk Appetite Statement to manage the concentration of risk in a certain sector. The company also endeavors to participate in initiatives such as Monsha'at which aims to finance a wide range of sectors in line with AJIL's diversification strategy.

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

GEOGRAPHIC COVERAGE

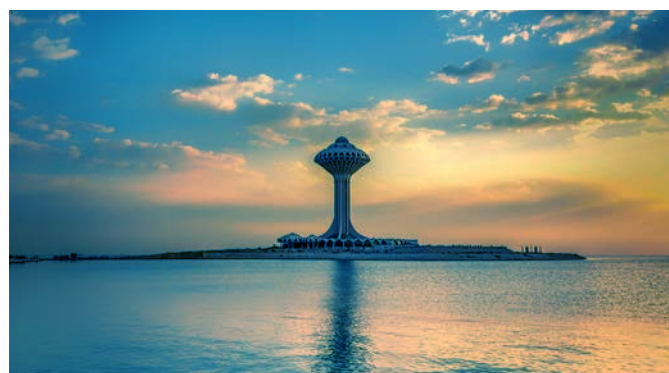
AJIL operates across the Kingdom of Saudi Arabia through its head office in Jeddah and regional offices in Riyadh, Dammam and Abha.

OPERATIONAL RISK

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

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

AJIL has also established a dedicated Asset Management function to manage the entire lifecycle of leased assets, starting with the registration to the transfer of ownership at the end of the lease contract, in an effort to further strengthen operational controls.



FINANCIAL HIGHLIGHTS

The company witnessed a healthy business growth during 2019 while achieving operational efficiencies and reducing financial costs. Despite facing some challenges with respect to overdue accounts, the company is fully geared to improve its collections moving forward while maintaining adequate levels of provisions.

Below is a summary of key performance indicators for 2019 and 2018:

Description (SR Millions)	2019	2018
New Lease & Murabaha Transactions	1,035	808
Revenues	156	181
Financial Cost	26	35
Provisions Against Credit Losses	37	36
General & Administrative Expenses	61	60
Net Profit before Zakat	31	48
Net Profit Margin	19.8%	26.5%
Return on Capital	6.18%	9.61%
Debt to Equity Ratio	0.82 Times	0.69 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 2019 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 has established an independent department reporting to the Audit Committee and 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 with the annual audit plan approved by the Audit Committee. It adopts a risk-based approach in executing the audit plan; focusing on Credit Administration, Accounts Receivables, Customer Care, Compliance, and Risk Management functions.

The department reports directly to the Audit Committee on the outcome of its assessment 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 Department also monitors the implementation of audit recommendations in order to obtain assurance that all major identified risk and control measures have been addressed by management in an effective and timely manner.

EFFECTIVENESS OF INTERNAL CONTROL ENVIRONMENT

Management is responsible for the design and implementation of the internal control system and 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 2019 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 oversee 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 remaining profits earned.

BANK LOANS

The following is the summary of borrowing activities:

(SR Millions)	2019	2018
Opening balance of loans	612	968
Proceeds from loans	1,130	1,460
Repayments of loans	(1,016)	(1,816)
Closing balance of loans	726	612

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 at 31 December 2019 is as follows:

Name of shareholders	Holding %	Number of shares
Riyad Bank	48.46%	24,230,769
Zahid Group Holding Company Limited	34.62%	17,307,692
Al – Yemni Motors Company Limited	6.92%	3,461,539
Al – Wasilah Rent A Car Company Limited	5.00%	2,500,000
Khaled Ahmed Al – Juffali Company	5.00%	2,500,000
Total	100%	50,000,000

Effective from 31 March 2019, MC Netherlands leasing and finance B.V and Mitsubishi UFJ Lease & Finance Company Limited have sold their shares in the Company to Riyad Bank, Zahid Group Holding Company Limited and Al-Yemni Motors Company Limited.

On 29 May 2019, Al – Wasilah Rent A Car Company Limited agreed to sell its entire shareholding (2,500,000 shares) to Hussein Alireza Sons Company Limited. Legal formalities for the transfer of shares to the new shareholder are still in progress as on 31 December 2019.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

COMPOSITION OF THE BOARD OF DIRECTORS AND ATTENDANCE AT BOARD MEETINGS

Name	Function(s)	Membership Type	29 Apr 2019	18 July 2019	10 Oct 2019	26 Dec 2019
Mr. Waleed Y. Zahid	Chairman	Non-Executive Member	Yes	No	Yes	No
Mr. Mohammad Abdulaziz Abu Al-Naja	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. Mohammed Hassan Al-Fadel	Board Member	Non-Executive Member	Yes	Yes	Yes	Yes
Mr. Mohammed Abdulkafi Al-Salah	Board Member	Non-Executive Member	Yes	Yes	Yes	Yes

COMPOSITION OF THE EXECUTIVE MANAGEMENT

Name	Current Role
Mr. Matar Mohammad Al Khateeb	General Manager
Mr. Naief Nihad Arab	Chief Operating Officer
Mr. Khurum Sheikh	Chief Financial Officer
Mrs. 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. Abbas Jamal A. Natto	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 2019 was SR 0.55 million. The remuneration of the key management executives for the year ended 31 December 2019 was SR 5.6 million (2018: SR 5.1 million).

BOARD COMMITTEES

The Board of Directors has established the following committees.

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

The primary role of the RMCC is to assess the company's risk profile and key areas of risk and decide on mitigating factors related therewith.

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 Nihad 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. Adequacy and effectiveness of the 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 a term of 3 years, in the OGM held on 15 June 2017 and the Board term will end on 14 June 2020. During the term, positions falling vacant were filled as per article 19 of company's bylaws. However, as on 31 December 2019, two board positions remain vacant.

The board members, including any person directly related to them, neither hold any shares nor have any other interest in the company, other than mentioned in notes 13 and 18 of the enclosed financial statements.

Senior Management:

None of the members of the senior management hold any shares in the company. Furthermore, the General Manager and Chief Financial Officer, including any person directly related to them, neither hold any shares nor have any other interest in the company other than their remuneration.

EXTERNAL AUDITORS

At the Annual Shareholders' General Assembly, held on 26 June 2019, Messrs. Ernst & Young were appointed as external auditors for the year ending 31 December 2019 and first quarter of the year 2020.

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 company received its final Zakat & Tax certificate for all the years up to and including 2018. We have therefore released the balance amount of reserve for additional zakat liability amounting to SR 95.73 million and paid the same to the shareholders during the year.

EMPLOYEE BENEFITS SCHEME

End-of-service benefits (as per Saudi Labor Law) have been provided based on the employees' length of service. As of 31 December 2019, the total end-of-service provision is SR 15.52 million that has been calculated using actuarial valuations as required under International Accounting Standard No 19 "Employee Benefits".

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.

DECLARATIONS

FINES AND PENALTIES

The Board of Directors is pleased to confirm that no penalty, precautionary measure, or precautionary restriction were imposed on the company by the government authorities, or any supervisory, regulatory or judicial body during the year ending 31 December 2019.

The Board of Directors hereby confirms (with reference to year ending 31 December, 2019) that:

- Proper books of accounts have been maintained.
- The company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to zakat and income tax) and the Banking Control Law and the Regulations for Companies in the Kingdom of Saudi Arabia.
- 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 any material interest, other than mentioned in notes 13 and 18 of the enclosed financial statements.
- There is no doubt over AJIL's ability to continue as a going concern in the foreseeable future.

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

The Board also expresses its appreciation to the Shareholders for their confidence and support and to AJIL's Management 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

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