

2017

Directors' Report

ALAmthal Financing Co.

(Saudi Closed Joint Stock)

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Directors' Report

For the period ended December 31, 2017

The Board of Directors of Al Amthal Financing Company ("the Company") takes pleasure in presenting its annual report along with the audited financial statements of the Company for the year ended December 31, 2017.

Introduction

Al Amthal Financing Company (the "Company"), is a Saudi closed joint stock company registered in Riyadh, Kingdom of Saudi Arabia under commercial registration No. 1010160349 dated on Rabi Al-Thani 28, 1421H (corresponding to July 30, 2000). The Company principally undertakes leasing, and financing of dealer equipment and vehicles. The Company's registered office is at the following address:

Al Amthal Finance Company
P.O. Box 300827
Riyadh 11372
Kingdom of Saudi Arabia

1. Business

Al Amthal Financing is one of the first private companies licensed by Saudi Arabian Monetary Agency to provide lease financing in the Kingdom. Since it began its operations in 2000, the Company has set new highs in the leasing business in the Kingdom. As of December 31, 2017, the Company serviced its clients from its Head Office and from its sales offices in Riyadh, Jeddah, Khobar, and Abha.

The Company provides financing for movable and non-movable assets to its customers from general contracting, manufacturing, transportation, trading and service sectors of the Kingdom's economy. The Company's primary emphasis is on providing Sharia compliant Ijara product to its small and medium-sized customers. During the recent years, the Company expanded its customer base to also provide financing to individuals for purchase of automobiles.

The Company has established strategic partnerships with various agents for vehicles and equipment financing to meet the growing needs of its customers. The company has served tens of thousands of customers through its expertise extended over sixteen years.

2. Financial Overview

Following are the highlights of the financial results of operations of Al Amthal Financing for four consecutive years.

| Financial Summary | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <i>In SR Thousand</i> | | | | | |
| Receivable from finance lease, Gross | 386,258 | 211,581 | 274,731 | 337,673 | 324,978 |
| Receivable from finance lease, net | 232,628 | 133,863 | 169,414 | 251,987 | 252,408 |
| Total Assets | <u>279,617</u> | <u>302,942</u> | <u>326,661</u> | <u>342,162</u> | <u>306,697</u> |
| Total Loans and Debt | 0 | 2,600 | 7,800 | 118,300 | 139,856 |
| Total Liabilities | <u>64,046</u> | <u>50,991</u> | <u>41,742</u> | <u>151,353</u> | <u>172,381</u> |
| Total Shareholders' Equity | <u>215,571</u> | <u>251,951</u> | <u>284,919</u> | <u>190,809</u> | <u>134,316</u> |
| Finance Lease Revenue | 29,880 | 14,442 | 29,282 | 33,079 | 31,930 |
| Gross Profit | 29,563 | 14,088 | 28,600 | 29,540 | 29,401 |
| Total Operating Expenses | 30,452 | 26,207 | 28,295 | 23,427 | 23,054 |
| Net Income / (Loss) Before Zakat | (21,380) | (29,194) | (31,053) | (6,620) | 6,908 |
| Net Income / (Loss) After Zakat | (23,830) | (32,968) | (35,890) | (13,507) | 2,073 |
| | | | | | |
| Past Due Installment | 15,775 | 32,662 | 57,186 | 38,054 | 23,913 |
| Past Due Installment - % (Past Due Installment / Gross Portfolio) | 4.1% | 15.4% | 20.8% | 11.3% | 7.4% |
| Interest Coverage – time | (93.2) | (81.5) | (44.5) | (0.9) | 3.7 |
| Return on Equity % | (9.9%) | (13.1%) | (12.6%) | (7.1%) | 1.5% |
| Return on Assets % | (7.6%) | (10.9%) | (11.0%) | (3.9%) | 0.7% |
| Total Liabilities to Assets Percentage | 22.9% | 16.8% | 12.8% | 44.2% | 56.2% |
| Debt-to-Equity Ratio | 0.30 : 1.0 | 0.20 : 1.0 | 0.15 : 1.0 | 0.79 : 1.0 | 1.28 : 1.0 |

Al Amthal's underlying Net Loss before Zakat decreased by 27% in 2017 compared to the previous period. The total finance lease revenues for the 12 month period ended December 31, 2017 increased to SAR 29.8 million from SAR 14.4 million previous periods 12 months operations ended December 31, 2016. Total Operating Expenses for the period in 2017 operations increased to SAR 30.4 million from SAR 26.2 million in 2016.

Total assets in 2017 have decreased to SAR 279.6 million from SAR 302.9 in 2016, while net receivable from finance lease increased significantly by SAR 98.7 million from 2016's Net portfolio of SAR 133.8 million.

Shareholders' Equity decreased 14.4% to reach SR 215.5 million compared to the end of previous year result primarily due to the increase in accumulated losses and the proposed decrease in share capital.

The following data reflects the variation in the income statement figures in 2017 and 2016:

| <i>In SR thousands</i> | Jan.01 - Dec.31.2017 | Jan.01 - Dec.31.2016 (Restated)* | % Change |
|--|---------------------------------|---|-----------------|
| Total Income (including other income) | 30,733 | 16,354 | 87.9 |
| Total Operating expenses | 30,452 | 26,207 | 16.2 |
| Net Income /(Loss) | (21,380) | (29,194) | (26.8) |

*Restated following SAMA regulations on Exclusion of Zakat in the income statement and its presentation in the statement of change in Equity instead.

3. Post Balance Sheet Date Events

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

4. Geographical Concentration

Al Amthal Financing operates only within the Kingdom of Saudi Arabia through its head office in Riyadh and branches in Riyadh, Khobar, Jeddah and Abha

5. Commitments to the Islamic Laws

Al Amthal is committed to the Islamic financing supported by its Sharia board. Leasing is one of the products of Islamic financing where Al-Amthal purchases the assets required by the client such as vehicles or equipment and leases the asset to the client in return of monthly rental rate. Ownership of the asset can be transferred to the customer at any time during the contractual period. Rental rates are based on market value of the assets plus specified commission margin. The total value is divided over an agreed period of time.

6. Risk Management Framework

Al Amthal's Board of Directors (BOD), supported by its Executive Committee, Credit & Risk Committee and Audit Committee, oversees the Company's risk management activities. The Executive Committee covers specific non-financial risks, such as strategic, operational and regulatory risks, while the Credit & Risk Committee and Audit Committee provide oversight over credit risk, market risk, liquidity risk, commission rate risk, currency risk and capital risk.

The Company's non-financial risks are summarized below:

Strategic Risk

The Company established objectives and goals for operations or programs that are aligned with the Company's mission to avoid current and prospective adverse impact on earnings or capital arising from improper implementation of the decision-making process, unsuccessful business plan, or adverse business decisions made. Failure to respond to the changes in the business environment can also affect the Company's financial condition and results of operations.

Operational Risk

The Company promotes the effective and efficient use of its resources to avoid risks resulting from human error and breakdowns in its internal processes and systems through which it operates.

Regulatory Risk

The Financing operations undertaken by the company is subjected to the supervision and monitoring by the Saudi Arabian Monetary Agency through the statute of Regulation of the Finance Companies Law. The future circulation and regulatory changes may affect the financing and leasing activity of the industry and may have an unfavorable impact on its financial condition and results of operations.

The Company manages the risk by strict compliance to the Saudi laws, particularly to the supervision agency SAMA, rules and regulations. Monitoring changes in these laws, rules and regulations reduces risks associated with noncompliance. The developed and sustained ethical business culture of the Company adheres to the expectations and demands of its contracts with stakeholders.

Geographical Risk

Any political instability in the Kingdom may adversely affect Al Amthal's business, results of operations and financial condition. Acts of terrorism and violent crimes could destabilize the country and could have a material adverse effect on Al Amthal's business and financial condition. The sovereign credit ratings of Saudi Arabia may also adversely affect Al Amthal's business. Occurrence of natural catastrophes could adversely affect the Company's business, financial condition and results of operations.

Other Risks

The Company, in the ordinary course of business, may file lawsuits against third parties, and others may raise claims against the company. These cases may adversely affect the financial position of the company in the future.

The Company's financial reporting risks are summarized below:

Credit Risk

The Company's credit risk is primarily attributable to its financial assets. To manage credit risk, the company maintains defined credit policies and monitors on a continuous basis its exposure to credit risk. Given the company's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

Liquidity Risk

The Company monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Foreign currency risk

Financial assets and financing facilities extended to the company were mainly denominated in Saudi Riyals. As such, the Company's foreign currency risk is very minimal.

Commission rate risk

The Company's commission rate exposure management policy centers on reducing the Company's overall commission expense and exposure to changes in commission rates. Changes in market commission rates relate primarily to the Company's commission bearing debt obligations with floating profit commission rate as it can cause a change in the amount of commission payments.

Capital Risk

The Company's objective when managing capital is to safeguard Company's ability to continue as to going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain optimal capital structure to reduce the cost of capital. The Company primarily finances its operations and manages its working capital through equity.

The Committees of the Board meet regularly and exercise an oversight role in managing the risks the Company can be exposed to.

7. Financial Reporting Standards

Al Amthal complies with International Financial Reporting Standard (IFRS) issued by International Accounting Standard Board (IASB), and the Finance Companies Control Law issued by Saudi Arabian Monetary Agency (SAMA). Accordingly, the company's financial statements from the period January 01, 2017 to December 31, 2017 have been prepared in accordance with IFRS.

Further details are provided in the Note 2 of the audited Financial Statements.

8. Effectiveness of Internal Control System

The Board of Directors supported by the Audit Committee is responsible for maintaining a sound and effective system of internal controls in the Company.

All employees, at each level, are responsible for efficient and impartial internal control system. Al Amthal's management is ultimately responsible for the appropriate design and performance of the system, and the Risk Management, Internal Audit and Compliance functions for the constant supervision and review of the system.

The external auditors are responsible for determining the effectiveness of the system of internal controls to decide on the level of reliance they can place on the effectiveness of Company's internal controls and to plan their audit procedures.

The key controls of the Company's Internal Control System include:

- a. Standard supervision and testing of the efficiency and completeness of the Internal Control based on an approved annual plan.
- b. Existence of policies and procedures, which are subject to regular evaluation and updates to validate their adequacy and completeness.
- c. Regular review of the reports received by Audit Committee relating to the activities of the departments subject to audit which relay their findings to the Board of Directors on a regular basis.

The Board of Directors is of the opinion that internal control system is efficient and effective and nothing has come to the attention of the Audit Committee that causes it to believe otherwise.

9. Company Auditors

a. Company's Internal & External Auditor

To ensure the compliance as well as to improve of company's general policies & procedures of every department, the company employs the expertise of PKF Albassam & AlNimer to report directly to the board. While the regular annual examination and independent verification of company's Financial Statements for year 2017 has been entrusted to PricewaterhouseCoopers (PWC).

The Internal auditor is tasked to verify the performance of each department in line of the company's goal. On the other hand, external auditor assures that the company's financial statements are accurate and free from misstatements.

b. Auditors and disclosure of information to auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware of.

The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

c. Auditors' report

There are no qualifications, reservations or adverse remarks made by PWC in their report for the year ended December 31, 2017 The external auditors have not reported any incident of fraud to the Audit Committee of the company in year under review.

10. Bank Loan

Below is the loan detail of Al Amthal Financing:

| <i>In SR thousands</i> | Dec 31, 2017 | Dec 31, 2016 |
|----------------------------------|---------------------|---------------------|
| Opening balance | 2,600 | 7,800 |
| Additions during the period/year | 0 | 0 |
| Repayments from loans | 2,600 | 5,200 |
| Closing balance | 0 | 2,600 |

The breakdown of maturity profile and further details are provided in the Note 12 of the audited Financial Statements.

11. Shareholders Structure

Company's current share capital amounting to SAR 330,000,000 consists of 33,000,000 shares of SAR 10 each. As of December 31, 2017, the shareholding structure and respective shareholding percentages are as follows:

| Shareholders | Total Share Capital | Number of Shares Held | Percent of Ownership |
|--|---------------------|-----------------------|----------------------|
| Al Bilad Establishment for Trading | 148,500,000 | 14,850,000 | 45% |
| Fal Holding Arabia Co. Ltd. | 82,500,000 | 8,250,000 | 25% |
| Falcom Holding Co. | 66,000,000 | 6,600,000 | 20% |
| Sheikh Fahad Bin Mohammad Bin Saleh AlAthel | 33,000,000 | 3,300,000 | 10% |
| Total | 330,000,000 | 33,000,000 | 100% |

12. Related Party Transactions

The Company in the ordinary course of its business transacts with its related parties. The significant transactions include rental expenses, key management compensations and finance leases. The transactions and balances relating to related parties have been disclosed to the Note 24 of the audited Financial Statements.

13. Board of Directors

The Board of Directors consists of following members:

| Name | Board Membership | Membership Status |
|------------------------|------------------|-------------------|
| Mr. Fahad Al-Athel | Chairman | Non-Executive |
| Mr. Bader Al-Athel | Member | Non-Executive |
| Mr. Sulieman Al-Amro | Member | Non-Executive |
| Mr. Moath Al-Khasawneh | Member | Non-Executive |
| Mr. Khalid Refa'at | Member | Non-Executive |

14. Board of Directors Meeting Held and Attendance

The Board met three times within the period from January 1, 2017 to December 31, 2017.

| Name | Sessions Attended | Mar 19 th 2017 | May.10 th 2017 | Sep.21 st 2017 |
|------------------------|-------------------|---------------------------|---------------------------|---------------------------|
| Shiek. Fahad Al-Athel | 3 | ✓ | ✓ | ✓ |
| Mr. Bader Al-Athel | 1 | X | ✓ | X |
| Mr. Sulieman Al-Amro | 3 | ✓ | ✓ | ✓ |
| Mr. Moath Al-Khasawneh | 3 | ✓ | ✓ | ✓ |
| Mr. Khalid Refa'at* | 3 | ✓ | ✓ | ✓ |

*Mr.Khalid has resigned his posts as a board member and chairman of the Audit committee and member of the Nomination & Remuneration Committee on October 2017.

15. Board Committees & Appointees

To assist the Board in discharging its duties, five Committees have been operational as follows:

- 1- Executive Committee
- 2- Credit & Risk Management Committee
- 3- Audit Committee
- 4- Shariah Committee
- 5- Nomination and Remuneration Committee

a. Appointment of new company CEO

On May 1, 2016, the Board of Directors of Al Amthal Financing Co. appointed Mr. Ammar Baidas as Chief Executive officer of the company.

b. Executive Committee

The Executive Committee assists the board in the affairs of the company, especially in strategic planning and policies. The Committee consists of three members as below:

| Name | Membership |
|--------------------|------------|
| Bader Al-Athel | Chairman |
| Moath Al-Khasawneh | Member |
| Ammar Baidas | Member |

c. Credit & Risk Management Committee

The Credit & Risk Management Committee is appointed by the Board of Directors. The Credit & Risk Management Committee assists the Board in overseeing the Company's risk management framework, including the significant policies and practices used in managing credit, market, operational and certain other risks. The Committee consists of three members as mentioned below:

| Name | Membership |
|----------------------------|------------|
| Suliaman Al-Amro | Chairman |
| Mohammad Ibrahim Abu Jabal | Member |
| Bader Sulaiman Al Solai | Member |

d. Audit Committee

The role of the audit committee is to provide supervision and improvements of the financial reporting process, audit process, system of controls and regulatory compliance. The Audit Committee consists of three members appointed by the board as follows:

| Name | Membership |
|----------------------------|------------|
| Mr. Khalid Refa'at | Chairman |
| Suliaman Al-Amro | Member |
| Mohammad Ibrahim Abu Jabal | Member |

e. Shariah Committee

The Shariah Committee advises the Board and the Company in matters relating to Shariah and helps the Company adhere to Shariah principles. The Committee oversees the preparation of Shariah policies and procedures. The Shariah Committee consists of three members as mentioned below:

| Name | Membership |
|--|------------|
| Shiek Abdullah Sulaiman AL Manea | Chairman |
| Sheik Abdulrahman Abdulaziz Al Nafisah | Member |
| Dr. Mohammed Ali AL Qree | Member |

f. Nomination & Remuneration Committee

The Nomination & Remuneration Committee is appointed by the Board of Directors. The Committee assists the Board in preparation of the proposal to the general meeting on matters pertaining to the remuneration of Board members, taking care of the succession planning of Board and presentation of the proposal for the appointment of Board members to the general meeting. The Committee consists of three members as mentioned below:

| Name | Membership |
|----------------|------------|
| Bader Al-Athel | Chairman |
| Khalid Refa'at | Member |
| Reem AlFaiz | Member |

16. Directors and Company Officers Interest

Board Members:

All Board members of the Company are directors selected by shareholders. Except the Chairman of the Board, none of the directors or their kins either own shares in the Company or have any other interest in the Company.

Senior Management:

The senior management employees including the CEO, CFO, and their relatives do not own any shares of the Company.

17. Applicable Laws and Regulations

Al Amthal Financing adheres to the provisions of the Saudi Companies Law and other applicable laws, rules and regulations. During 2017, no penalty was imposed on the Company by any regulatory authority.

The Company submitted its application to the Saudi Arabian Monetary Authority ("SAMA") to obtain a license to practice the leasing activity in the Kingdom of Saudi Arabia. To comply with the SAMA regulations, the Company's shareholders resolved to convert the Company from a limited liability company to a closed joint stock company and the related approval was received from Ministry of Commerce and Industries effective Safar 8, 1436H (corresponding to November 30, 2014). Accordingly, in 2014 the Company prepared its financial statements from January 1, 2014 to November 29, 2014.

As per the Company's By-laws, the Company's first financial period, under the closed joint stock status, started from the date of conversion (November 30, 2014) to December 31, 2015. The Company's financial statements for the subsequent years will begin on January 1 and end on December 31 of each Georgian year. Accordingly, the last year financial statements were prepared for the period from January 1, 2017 to December 31, 2017.

18. Director's Declaration

The Board of Directors hereby confirms that proper book of accounts have been maintained and that the Company has prepared its financial statements in accordance with international financial reporting standards (IFRS) issued by International Accounting Standards Board (IASB). The Board of Directors also confirm that Internal Audit Control function was properly and effectively implemented. The Board of Directors acknowledge that the Company has no significant existing contracts in which a Director, CEO, CFO or any of their associate has a material interest except those disclosed in note 24 of the financial statements.

The directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

19. Future Plans

The Company has achieved a strong reputation in the market in the last seventeen years, and is constantly exploring the opportunities available in the Kingdom of Saudi Arabia. AlAmthal Financing Co is plans to be an effective contributor to the SME sector growth in Vision 2030 of Saudi Arabia.

The Board takes this opportunity to thank the government of the Kingdom of Saudi Arabia, Ministry of Commerce and industry and in particular the Saudi Arabian Monetary Agency for their continuing support. The Board thanks the company's all stakeholders including valued customers, vendors and dealers, shareholders and bankers for their support during the year. The Board also appreciates the contribution made by the employees at all levels.

For and on behalf of the Board of Directors

Chairman



Mr. Fahad Bin Mohammad Bin Saleh AlAthel