



# THE DIRECTORS' REPORT

FOR THE YEAR ENDED 30-SEP-2017

The Board of Directors of Tamweel Al-Oula Leasing Company (“the Company” or “Tamweel Al-Oula”) is pleased to present its second annual report with audited financial statements of the Company for the year ended September 30, 2017.

### Introduction

Tamweel Al-Oula Company is a Saudi closed joint stock company established under the Regulations for Companies in the Kingdom of Saudi Arabia. The Company registered in Dammam under commercial registration number 2050055043 dated on 15 Ramadan, 1436 corresponding to 2 July 2015 and operating under company license number 39/A Sh/201512 dated 21/02/1437H corresponding to 3 December 2015 issued by Saudi Arabian Monetary Agency (“SAMA”). The principal activities of the Company are financing lease and consumer finance. The Company operates through its head office located in Dammam, KSA.

Company’s vision is to be the leading Non-Bank Financing Company in Saudi Arabia and a Major Force in the Eastern Region offering Cost Effective, Value Added and Flexible Financial Products and Services.

Company’s mission is to consistently exceed expectations of customers and maximize value to shareholders by building and leveraging a highly skilled talent pool, an efficient set of operations, and strong partnerships.

### 1. Business Segments

The company is currently offering finance lease, and murabha facilities to its corporate/ SME and individual customers. Assets leased by the Company mainly include vehicles, plant, machinery, and equipment.

### 2. Strategy

The current book-size, liquidity, and the past financial performance drive the capacity for the company to grow, the management set business targets for 2018-2022 with a business strategy that focuses on exploiting significant market opportunities in corporate/ SME sector.

Over the short term, the company will consolidate business in the Eastern region and look for opportunities in other major cities. Over the long-term, the company is targeting to extend its presence across the kingdom as a National leasing and asset finance company by developing partnerships in all major cities in Saudi Arabia and setting up own branches in Jeddah and Riyadh. The Company plans to gradually reduce its exposure in the individual auto lease/retail sector. The present product mix of 38% of the gross portfolio in Corporate/SME sectors will be gradually increased to 80% while remaining 20% will be generated through auto leasing to individuals.

As the company grows, Tamweel Aloula’s marketing activities focus on three distinct areas (i) Corporate Brand Building, (ii) Corporate Business Development and (iii) Product Specific Activities for Retail Products.





The market conditions prevailing during the period under review remained subdued due to overall economic slow down. During this period, the Management focused on re-organizing and consolidating its business operations. The emphasis was on investing in people and technology. During this period, a change of Management took place with the new CEO being appointed who has laid down a clear plan to restructure the Company's operations by introducing clearly defined policies and procedures for all functions of the Company. The Company has ensured that its operations are in full compliance with Saudi Arabian Monetary Authority regulations and other laws prevailing in the Country. The Company is also vigorously pursuing plans to hire and develop local talent to ensure all Saudization targets are met.

### **3. Corporate Governance**

The company believes that effective governance is realized through leadership and collaboration. The work of the Board should complement, enhance and support the work of the Executives. The Board recognizes the importance of senior executives and employees not only fully complying with legal mandates and regulatory requirements, but also promoting corporate governance as an organizational value-driver, on a day to day basis which is considered as one of the Company's Corporate Governance Framework ensures transparency and accountability, that I believe is the most important ingredients of creating shareholders' value while supporting efficient and transparent decision-making, and enabling the organization to identify and prioritize compliance-related risks.

### **4. Risk Management**

Risk is inherent in the Company's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability. The Company's activities are exposed to a variety of financial risks which mainly include market risk, credit risk and liquidity risk.

#### **Board of Directors**

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies. It has therefore appointed various Board committees to manage and control Credit and Operational Risks.

The risks faced by the Company and the way these risks are mitigated by management are summarized below.

#### **4.1 Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company has established procedures to manage credit exposure including evaluation of lessees' credit worthiness, formal credit approvals, assigning credit limits, obtaining collateral such as down payments and personal guarantees. Lease contracts generally are for terms not exceeding sixty months.



#### 4.2 Concentration Risk

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. The Company manages its credit risk exposure through diversification of leasing activities to ensure that there is no undue concentration of risks with individuals or groups of customers geographical or businesses sectors.

#### 4.3 Liquidity Risk

The Liquidity risk occurs if the Company is not able to meet its debt servicing or other obligations to its creditors/stake holders. The Board ensure that the Company has sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

#### 4.4 Capital Risk

The company assets are funded entirely by the shareholder's equity. The company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to optimize the capital structure, the company would be raising funds from commercial banks to leverage its capital structure in order to support business strategy, and increase profits and returns to shareholders.

#### 4.5 Operational Risk

Operational risk is the prospect of loss resulting from inadequate or failed procedures, systems or policies. Tamweel Al-Oula mitigates the operational risk by implementing a new ERP system to automate the business process, updating the policies, and procedures, and assess the internal control on a regular basis.

### 5. Financial Highlights

The Company obtained commercial registration certificate on 15 Ramadan 1436H corresponding to 2 July 2015G and first financial statement of the Company covered the period from 2 July 2015 to 30 September 2016, therefore, the absolute values of the operating performance are not comparable.

The net investment in financial lease (before provision) as at 30 September 2017 was SR 272.1 million declining by 16.8% compared to the balance as at 30 Sep-2016 (SR 327.1million).

Net profit margin increased from 40.2% in 2017 from 28.3% in 2016 despite a drop in lease income. This was mainly due to the decline in the special commission's expenses as a result of full repayment of the interest-bearing liability. Moreover, there was no addition to the provision for lease losses during FY-2017 as the cumulative level of provisions is considered sufficient relative to the size of the lease portfolio as at 30 Sep-2017.





plan and credit risk modeling. The Company is increasing its corporate sales team and expects to utilize excess funds its due course.

The company submits its Zakat returns and pays Zakat at the consolidated group level. During FY-2017, the company paid its share amounted to SR 605 K related to FY-2016.

SR' millions	2017	2016
Total revenues	51.1	67.8
Total expenses	30.6	48.6
Profit for the year	20.5	19.2
Net investment in lease portfolio	272.1	327.1
Total loans and debt	0	27.9
Cash and cash equivalent	45.9	0.8
Total shareholders' equity	288.3	268.3
Total assets	310.4	323.8

#### 6. Financial Reporting Standards and Audit

During 2017, SAMA issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting for Zakat. The impact of these amendments is that the Zakat is to be accrued on a quarterly basis and recognized in statement of changes in shareholders' equity with a corresponding liability recognized in the statement of financial position.

Applying the above framework, the financial statements of the company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as required by the Implementing Regulation of the Finance Companies Control Law and SAMA guidance for the accounting of Zakat and tax.

The accounting policies used in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the period from 2 July 2015 to 30 September 2016 and have been consistently applied for all periods presented, except for a change in accounting policy mentioned below.

During the year, the Company changed its accounting policy relating to the presentation of Zakat provision which was previously presented the statement of income. In line with changes in accounting policy referred to in note 14 of the financials. Zakat provision is directly charged to statement of changes in shareholders' equity.

#### 7. Compliance, Anti-Money Laundering & Counter-Terrorism Financing

The Board and Management believe that the existence of Compliance and Anti-Money Laundering & Counter Terrorism Financing functions are an integral part of sound management framework, therefore, the company is hiring a dedicated AML officer and implementing Financial Crime Detection and Management Solution which is an integrated web-based Anti-Money Laundering and Financial Crime detection and management solution to suit the requirements of the company.



The solution is compliant with KYC, Transaction Monitoring and Suspicious / Regulatory Reporting of the AML framework and assists the institution in detecting and managing suspicious transactions. Also, AML function has been created and AML training has been provided to all staff and board members.

#### **8. Information Technology**

In view of the ever-growing seriousness of cyber-attacks, we are conscious of the need to stay one-step ahead. The implementation of a Cyber Security Framework issued by SAMA seeks to support regulated entities in their efforts to have an appropriate cyber security governance and to build a robust infrastructure along with the necessary detective and preventive controls. The Framework articulates appropriate controls and provide the guidance to reach the required stages.

The adoption and implementation of the Framework is a vital step for ensuring that the company can manage and withstand cyber security threats. This will ensure cyber security risks are properly managed throughout the company and to achieve that, the full support and oversight from the Board of Directors and Senior Management are provided for its implementation to fully implement the Cyber Security Framework by the end of 2018.

#### **9. Effectiveness of Internal Control**

Management is responsible for internal control, the management is updating policies, processes, and practice and is implementing a new ERP system to be live in 2018. This will help the company achieve effectiveness and efficiency of operations, Reliability of financial and management reporting, compliance with laws and regulations, and safeguarding of assets.

Internal auditor performs audits to evaluate whether the five components of management control are present and operating effectively, and if not, provide recommendations for improvement. During the year, Internal Audit department developed risk assessment for audit plan purposes and performed lease operation reviews over several departments that helped the company to continuously improve its internal control system.

#### **10. Ethical Standards and Code of Conduct**

Tamweel Al-Oula Leasing Company is committed to professional culture and its preservation through its Code of Conduct, which is based on the basic principles of safety, confidentiality and professionalism. They apply to departments, employees and any other person who may represent the company. Board of Directors oversees the implementation and effectiveness of ethical standards and codes of conduct.

#### **11. Board of Directors**

The **Board of Directors'** key purpose is to ensure the company's operation are conducted by collectively directing the company's affairs, whilst meeting the appropriate interests of its shareholders and stakeholders.





Below list is the name of the board members:

Name	Potion	Type of member
Hani Afaleq	Chairman of the Board	Non-executive
Saleh Afaleq	Member of the Board	Non-executive
Abdulaziz Afaleq	Member of Board	Non-executive
Walid Nassar	Member of Board	Independent
Dr. Jassem Al-Romaih	Member of Board	Independent

Below is list of BoDs meetings held during the year and the name of attendees.

Name	Dec (2016)	Feb (2017)	Apr (2017)	Sep (2017)
Hani Afaleq	✓	✓	✓	✓
Saleh Afaleq	✓	✓	✓	✓
Abdulaziz Afaleq	✓	✓	✓	✓
Walid Nassar	✓	✓	✓	✓
Dr.Jassem Al-Romaih	✓	✓	✓	✓

**Below major decision made by the board during FY-2017: -**

- Formation of Nomenation & Remuneration Committee.
- Update campany by-laws.
- Review organizational structure
- Change fiscal year to end on 31 December as recommended by SAMA. This will be effective from FY-2018
- Appoint KPMG as the external auditor for FY-2017

**Committee under the Board:-**

- Exexecutive committee
- Risk & Credit committe
- Nomination and Remuneration committe :
- Audit committee.

**Executive committee**

Executive committee advises the company's board of directors to support its decision-making processes. The committee meets more frequently than the board, and moves more nimbly. Appointed by the board, the committee has the authority to act on its behalf, although such authority does have limitations based on the committee's defined purpose. With regard to investment and strategic planning decisions, the committee might not take action itself, but instead report on the results of research and make recommendations.

**Risk & Credit committee**

The primary purpose of Risk and Credit Committee ('CRC') is to assist the Board to discharge its responsibility to exercise due care, diligence and skill to oversee, direct and review the management of credit and risk; within the established policies, limits and guidelines within which credit and risk management strategies are to be executed (within limits set by Board).





The CRC is appointed by the Board of Directors. The CRC assists the Board in carrying out its responsibilities with respect to assessing the risk the company is exposed to; devise an effective mechanism /framework for Risk Management.

#### Audit committee

The primary purpose of an audit committee is to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations.

#### Nomination & Remuneration committee

The committee held it's first meeting in July 2017 after obtaining NoC from SAMA. The committee identifies suitable candidates for various senior positions, reviewing incentive and bonus schemes and other HR related matters. The committee is comprised of the chairman of the board, and other two members.

### 12. Human Resources

Before the company was constituted as a standalone entity, it was a subsidiary of Al Kifah Trading and shared some human resources. During the year the company has transferred all expatriate staff under Tamweel visa to fully comply with the local regulation and ensure the independency of the company.

### 13. Future Prospects

The Company has achieved a notable progress during the transition period for the past two years, and is targeting to continuously improve its operations, and grow its business taking the advantage of the market opportunities. The Board takes this opportunity to express gratitude to the government of the Kingdom of Saudi Arabia, and in particular the Saudi Arabian Monetary Authority, and the Ministry of Commerce and Investment for their continuing proactive support.

For and on behalf of the Board of Directors.

Hani Afaleq,  
Chairman of Board.

