

Directors' Report

For the Year Ended 31 December 2015 Dar Al-Etiman Al Saudi Company

Date: 24/03/2016

The Board of Directors of Dar Al-Etiman Al Saudi Co. ("the Company" or "Dar Al-Etiman Al Saudi") is pleased to present its 8th annual report with audited financial statements of the Company for the year ended December 31, 2015.

Introduction

Dar Al- Etiman Al Saudi was initially established in 2006 as consumer finance limited liability company (spinoff Universal Motor Agencies –UMA credit division)UMA is regarded to be one of the largest automotive dealers in Saudi Arabia for GMC and Chevrolet vehicles with a wide presence in the kingdom .

Dar Al Etiman AL Saudi was converted into a Closed Joint Stock Company in 2015. With paid up capital of SR. 100 million and was granted SAMA license in July 2015 with license number 33/201505/اش. DAR head office is in Jeddah with Regional presence in the Central, Eastern and South Regions, In addition to its wide Presence through UMA strategically located over 20 branches in the kingdom.

1. Business Segments

Dar Al-Etiman Al Saudi a single product Company and is currently offering only Finance lease facilities to its customers. Assets leased by the Company are GM vehicles across the Kingdom.

2. Strategy

2015 was the 8th complete financial year since inception. Company's strategy is to consolidate its income base, diversification of portfolio, strengthening risk management and risk appetite, while maintaining quality portfolio with minimal non-performing exposures. Furthermore, the Company's focus has always been to develop strong long term relationship with lessees, suppliers, lenders and employees.

3. Risk Management

Risk management is a vibrant factor of Dar Al-Etiman Al Saudi's activities. The Company manages a process of ongoing risk identification and measurement through the use of risk limits and other controls and a number of committees and departments, established to coordinate day to day risk management. Following the summary of main risks:

Credit Risk:

Credit risk is the risk of financial loss if a counter party fails to meet its contractual obligations. Dar Al-Etiman Al Saudi credit risk exposures arise principally from its finance leasing activities. Such risks are monitored on regular basis and are subject to quarterly or more frequent review. Dar Al-Etiman Al Saudi follows a cascaded credit approval structure for finance leases in order to minimize credit risk.

Due Diligence Risk:

A key component of the approval of any proposed lease finance transaction is the due diligence carried out in respect of each prospective customer. Dar Al-Etiman Al Saudi has detailed risk assessment procedures designed to reduce the risk inherent in entering into lease finance transactions.

The focus during the year for the Credit Risk Management has been greater scrutiny of credit quality whilst considering risk-based returns, selective asset growth that has led to higher levels of diversification and lower levels of concentration and the implementation of new processes to manage client excesses more efficiently.

Liquidity Risk:

Liquidity risk includes the conditions where Dar Al-Etiman Al Saudi will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To address its liquidity risk, Dar Al-Etiman Al Saudi uses contractual maturity analysis and cash flow forecasts. Dar Al-Etiman Al Saudi strives to create a diversified lease portfolio with manageable correlation risk between its assets and liabilities and an average lease duration period of three years.

Operational Risk:

Operational risk is the risk of losses arising from inadequate internal operating procedures, including failures, defects or errors of information, resulting from either human error or technological failings. Dar Al-Etiman Al Saudi manages the operational risk through a control framework and by monitoring and responding to potential risks. Other activities to mitigate operational risk include segregation of duties, access, authorization and reconciliation procedures, process automation, staff training and education and assessment procedures.

4. Financial Highlights

The Company on net loss of SR 9.47 million for the year 2015 as compared to earned net income of SR 3.76 million for the previous year.

The Company made provisions for lease losses of SR 5.51 million during the year taking the accumulated provision to SR 28.15 million at the yearend.

Company's last three years financial highlights are as follows:

SR' Millions	2015	2014	2013
Net investment in finance lease	213.86	130.63	79.34
Total assets	280.97	172.46	174.77
Total liabilities	157.18	39.19	45.26
Shareholders' equity	123.79	133.27	129.51
Net income/loss	(9.47)	3.76	15.07
Return on Equity	(7.7%)	2.8%	11.6%
Return on Assets	(3.4%)	2.2%	8.6%

5. Key Income Statement Items

The table below shows the variation in the key income statement lines between 2015 and 2014:

SR' millions	2015	2014
Total income	33.10	98.59
Operating expenses	42.57	94.82
Net Income/Loss	(9.47)	3.77

For better presentation, “finance and insurance income on capital lease contracts amounting to Saudi Riyals 91.9 million has been presented as ‘lease income’ and ‘fee and other processing income amounting to Saudi Riyals 84 million and Saudi Riyals 7.9 million, respectively on the face of statement of comprehensive income.

6. Financial Reporting Standards & Audit

Dar Al-Etman Al Saudi maintains proper books of accounts and, in compliance with the Implementing Regulations of the Law on Supervision of Finance Companies, the annual audited financial statements for the year ended 31 December 2015 of Dar Al-Etman Al Saudi have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company has an Internal Audit department that performs audits as per approved annual plan and reports to Audit committee, established by the Board of Directors. The Audit Committee is entrusted with the responsibilities of assisting the Board of Directors in fulfilling its responsibilities for developing and maintaining system of internal control, and the company's process for monitoring compliance with laws and regulations and the code of conduct. The Committee is also responsible for recommendation of external auditors and rotation thereof, review of financial statements prior to their approval by the Board of Directors, and discussion with external auditors over audited financial statements, management letter and conduct of audit.

7. Effectiveness of Internal Control System

Management is responsible for the appropriate design and implementation of the system, and the Risk Management, Internal Audit and Compliance Departments for the continuous monitoring and evaluation of the system. All employees are ultimately responsible for operating and maintaining an efficient internal control system at their respective levels. The external auditors are responsible for determining the adequacy of the system of internal controls to decide the level of reliance they can place on the Company's internal controls, to design their audit procedures accordingly.

The Company's Internal Control System is subject to ongoing evaluations and improvement to allow for the identification of any gaps and meet the desired level of effectiveness, key controls include:

- Existence of a series of policies and procedures, which are subject to regular updates and reviews to verify their sufficiency and adequacy.
- Most of the Company's operations are automated using sophisticated systems, which minimizes errors and fraud opportunities.
- All work related and major important decisions are supervised through committees created for this purpose and to safeguard the Company's assets.
- Existence of departments specialized in fields of audit, compliance control and risk management.

The Board is of the opinion that the functioning of the internal control system is appropriate and Internal Audit Control was properly and efficiently implemented or that effective and efficient internal controls have not been in place throughout the year 2015.

8. Significant Shareholding

There was no change in the shareholding during the year. Shareholding pattern as at December 31, 2015 is as follows:

Shareholders	Nationality	Shareholdings 2015
Modern Ajwad for Commercial Investment Co. Ltd.	Saudi	60.0%
Tawad Commercial Investment Co. Ltd.	Saudi	37.5%
Saudi Diesel Equipment Co. Ltd.	Saudi	1.0%
Trans Arabian Technical Services Co. Ltd.	Saudi	1.0%
Arabian Properties Co. Ltd.	Saudi	0.5%
Total		100%

9. Related Party Transactions

During the period, the Company has transactions with Universal Motors Agencies, an affiliate. Significant transactions with related party in the ordinary course of business included in the financial statements are summarized below:

SR millions	2015	2014
Purchase of motor vehicles from a related party	171.53	306.91
Expenses paid by a related party	5.76	12.42
Finance cost charged by UMA	1.00	0.00

10. Board of Directors

Name
Mr.Mohammad S. Abduljawad
Mr.Raad S. Abduljawad
Mr.Ziyad S. Abduljawad
Mr.Amr A. Zahid

Board Committees

The Board of Directors has mainly two Committees, the Credit and Risk Management Committee and the Audit Committee.

(I) Credit and Risk Management Committee

The Credit and Risk Management Committee is appointed by the Board of Directors. The Credit and Risk Management Committee assists the Board of Directors within the powers determined by the Board, and deal with all matters referred by the Board.

(II) Audit Committee

The Audit Committee is appointed by the Board of Directors consisting of three non-executive directors to institutionalize and improve the audit process and control environment.

11. External Auditors

Messrs. PricewaterhouseCoopers were appointed as external auditors for the year ended 31 December 2015

12. Payment of Zakat& Others

SR millions	2015	2014
Zakat	4.00	4.05
GOSI	1.94	2.18
Total	5.94	6.23

13. Social Responsibility

The company derives its activities related to its social responsibility from its commitment to contributing towards a better future by caring for the local communities.

14. Applicable Laws and Regulations

Dar Al-Etman Al Saudi has adhered to the provisions of the Saudi Companies' Law and other applicable laws, rules and regulations. During 2015, no penalty was imposed on the Company by any regulatory authority.

15. Declaration

The Board of Directors hereby confirms that;

- Proper books of accounts have been maintained.
- The Company prepares its financial statements in accordance International Financial Reporting Standard ["IFRS"] as required by the finance lease laws and regulations.
- Internal Audit Control was properly and efficiently implemented.
- There is no doubt over the Company's ability to continue as a going concern.

16. Future Prospects

The Company is keenly aware of market opportunities available in the Kingdom of Saudi Arabia particularly in the lease financing sector after the introduction of the new regulations licensing activities supervised by SAMA, and looking to expand its market reach within its exiting traditional products and to include new brands.

For and on behalf of the Board of Directors;



Chairman