AI YUSR INSTALLMENT Co.

The Reality of Financing leasing in the Kingdom of Saudi Arabia

12th Feb 2012
Leasing is a process by which a firm can obtain the use of a certain assets for which it must pay a series of contractual, periodic, deductible payments.
Product and Leasing Lines in KSA

- Wight Goods
- Equipment's
- Real Estate
- Automobile
## Financing Lines in KSA

<table>
<thead>
<tr>
<th></th>
<th>Leasing</th>
<th>Operation Leasing</th>
<th>Installment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>✓</td>
<td>X Partial Large scale project</td>
<td>✓</td>
</tr>
<tr>
<td>Semi Government</td>
<td>✓</td>
<td>✓ Partial</td>
<td>✓</td>
</tr>
<tr>
<td>Leasing Companies</td>
<td>✓</td>
<td>✓ Partial</td>
<td>✓</td>
</tr>
<tr>
<td>Installment Cmp.</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Dealers</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Non licensed Est</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
</tr>
</tbody>
</table>
## Relationship of Leasing

<table>
<thead>
<tr>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
</table>
| **LESSEE** | • High penalties in case of contact brake.  
• Can’t liquidate the assist.  
• Must allocate a streamline of periodical cash flow. |
| • Minimum Capital investment.  
• The Leased product is not part of the Capital. (No taxes or Zakat).  
• No assist depreciation.  
• It give the option of contact brake.  
• Protection ageist Inflation.  
• Best financing approach for fast growing economy. |
| **LESSOR** | • Difficulty to repossession  
• Long to mid term relationship subject to client, rate and economical risk.  
• High cost of fund / securitization and operation.  
• Transparency of client information.  
• Hard to allocate the assist. |
| • The assist is secure by the name of lessor until the end of the contract.  
• Provide sustainable profit ratio.  
• Sustainable chain of Cash flow  
• Improve stock movements. |
History of Leasing in KSA

• Prior to 1976 (Rare and conflict of Sharia’s acceptance).
• 1976: New ministerial degree regulate Auto financing. Private market mak started.
• 1994: Black list or C-list started.
• 1998 : Chamber of commerce lending dB’s.
• 2001 : SIMAH Saudi Credit bureau.
• 2003 : Implementation of Salary Assignment letter for banks
• 2005: Royal degree low governing the installment.
The Saudi leasing Market

- 75% of the newly imported cars & 30% of the electronic products purchased under financing program.
- No clear static covering banking and non banking activity but as per SAMA reporting:
  - Volume of banking consumer lending at SAR 219 billion 2011 Q3.
  - Saudi population 27.14 million and out of which 8.1 million employed.
  - This lead at SAR 27,856 AVG ticket banking loan per employee.
  - At 65% of the employed population take loans that increase the ticket to SAR 42,856.
  - For Saudi AVG family the lending average ~ AVR 63,528.
    Excluding NON Banking loan’s.
Lending Sectors in the Market

Market Players:

- **12** Saudi ‘SAMA’ Licensed banks.
- **11** Foreign ‘SAMA’ Licensed banks partially lending licensed.
- **2** ‘SAMA’ licensed financing companies.
- **300** ‘Ministry of trade’ licensed companies with 18 billions paid capitals:
  - Riyadh: 168 Companies
  - Eastern: 15 Companies.
  - Western: 99 Companies.
  - Others: 18 Companies.
- New GCC leasing and installment companies start entering to the market.
Target Market For Leasing

1. RETAIL
2. SME
3. Corporate
Retail Leasing

• High young population rate
• Increase in the habit of assist renewal.
• Improve in leasing knowledge.
• Increase in Real Estate and automobiles value.
• Effective tempting marketing programs.
• Drop in average saving.
• High inflation rate.
• Simplified terms and condition to enter a contract.
SME Leasing

• 85% of the commercial registration are SME.
• 5 Million employee’s expected to be working in SME.
• SME share 33% of the Saudi GDP.
• SME default:
  – 65% within the 1st year.
  – 56% within the 2nd year.
  – 50% within the 3rd year.
• How to prevent default:
  – Strategically vision.
  – International knowledge.
  – Proper Infrastructure and planning.
  – Invest in training.
  – Spread the knowledge.
  – Be careful about your credit history.
SME Leasing

- Major Business lines:
  - Trading.
  - Counteracting.
  - Manufacturing.
  - Maintenance.
  - Limousine and transportation.
  - Medical
  - Others.

- IFC: 8% of the lending in the medial east for SME and in GCC only 2%.

- Taqueem by SIMAH expected to give more transparent report about the SME credit position.

- It is a fact that shortly one of the most effective solution for non employment is pushing graduate to start their own SME’s.
Saudi Arabia – The Economy.

- At 2011 the GDP grow at 4.1% whereas non Oil sector grow at 4.9% and expected to grow even faster in 2012 (SAMA). Debt-to-GDP is amongst the lowest of the G20.
- Inflation has been above target in recent years, averaging at about 5.2% and is expected to maintain this level if not increase in rate.
- 2012 budget expected surplus of SAR 690 billion is anticipated for the Saudi government in 2012. To represent 31.9% of the GDP! (Arab News Dec 27 2011).
- In 2011, GDP @ 2.16 Trillion, 265 billion new projects
Lending & 2012 budget

PWC reports a continued focus on the development of human capital and infrastructure where SAR 265 billion.

Budget Allocated mainly on:
- SAR 250 billion for new houses projects.
- SAR 168 billion for education and training.
- SAR 87 billion for Healthcare and Social development.
- SAR 58 billion for water, industry and infrastructure.
- SAR 35 billion for transportation and communication.
- SAR 29 billion for municipal services.

The projects expected to generate a potential new leasing contracts exceeding 100 billions with compare to 100 billion in 2011.
Saudi Automotive Market

- Saudi Arabian Automotive Q 3 2011 report expected the attractiveness of new vehicles to increase from 643,900 new imported vehicles as of DEC 2010 to 956,382 new imported vehicles by Dec 2014.
- Used vehicle market represent 40% on top of the new market vehicles (at least).
- Auto market growth YOY @ 6.99%
- Market demand powered by government spend effect and not by retail needs
- 65% of the new vehicles leased financed and ~ 40% of the used vehicles are financed.

### Table: Sales

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<tbody>
<tr>
<td>CBU</td>
<td>511,368</td>
<td>519,732</td>
<td>590,080</td>
<td>595,586</td>
<td>643,900</td>
<td>688,883</td>
<td>738,377</td>
<td>807,877</td>
<td>874,370</td>
<td>956,382</td>
</tr>
<tr>
<td>PCBU</td>
<td>398,000</td>
<td>421,000</td>
<td>475,015</td>
<td>479,187</td>
<td>516,131</td>
<td>550,328</td>
<td>587,955</td>
<td>640,792</td>
<td>691,342</td>
<td>753,690</td>
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<tr>
<td>ISRBN</td>
<td>49.91</td>
<td>52.16</td>
<td>59.53</td>
<td>61.66</td>
<td>67.13</td>
<td>72.56</td>
<td>78.65</td>
<td>85.64</td>
<td>92.20</td>
<td>98.97</td>
</tr>
</tbody>
</table>

*e/f = estimate/forecast. Source: Automotive News Europe*

### Table: Other Indicators

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</tr>
</thead>
<tbody>
<tr>
<td>% of population</td>
<td>86.00</td>
<td>87.40</td>
<td>88.00</td>
<td>88.30</td>
<td>88.35</td>
<td>89.30</td>
<td>89.97</td>
<td>90.55</td>
<td>90.98</td>
</tr>
</tbody>
</table>
Leasing Process

Filtering Process

Credit Bureau

Acceptance Criteria

Pricing and contracting

Insurance

Account Cycle

Payment and SADAD

Credit Reporting

Anti Closure
How To Prevent Overdue and legal

• Make sure that you are in a real need for loan.
• Prevent luxuries products to be under leasing.
• Assume worst case scenario for your future payment.
• Select the appropriate partners.
• Do not over stretch the customer ability to pay
• Read the contract more than once.
• Transparency for all fee’s and terms.
Challenges of Leasing In KSA

- Competition between the lessors, gave the lessee a larger selection options.
- Unlicensed installment offices damaging the market reputation.
- No credit advisors offices that can give true financial advice and best shopping options.
- Execution of the court and civil rights as same as international practices.
- Not all Leasing and installment companies running under the credit bureau.
- The Zakat contracts treatment for leasing and installment contracts is not clear.
Price Factor’s of the Saudi leasing

• Value of the loan.
• Risk of the product.
• Agreement type (Musharkah, Ajarah, Istisnaa...)
• Tuner / period of the loan.
• Collateral and guarantees.
• Availability of the product.
• Inflation rate.
• Interest rate.
• Expected defaulting rate.
Legal Framework

• Royal law # M/13 “dated 4/3/1426 Hegra” have governed the Installment lending rules.

  *Installment is a type of the future sales with transparent agreement between lessee and the lessor on the installment amount, the tuner and conditions.*

  – The law Identified:
    • Licensing ownership.
    • The contractual parties.
    • Who can practice the business.
    • Arbitration
    • Penalties

• Ministerial degree # 1/1566 SAMA to set control and regulation for leasing business along of new expected law to cover the mortgage business.

• Expected a new regulator rules cover the economy benefits and secure the relationship with all parties.
Future of Leasing

• Expected new mergers and acquisitions between leasing and installment companies
• Drop in operation cost and that would lead to drop in the financial cost on the consumer.
• Introduction new financial programs supported by advance risk mitigation tools like SIMAH.
• Ladies will be major players in the market.
• New Regulation law protect the interest of lessee, lessor and the economy.
• Improve in the legal execution law.
• SME and entrepreneurs leasing / financing will be the new pioneer.
Recommendations

• Support the legal framework governing leasing and installment business and secure both investors and the client benefits.
• Fulfill the gap of legal implementation the rules.
• Provide a transparent statistic on the lending and leasing business for banking and non-banking.
• Introduce consumer awareness programs.
• Support in eliminating fraudulent transaction.
• Standardized leasing contracts.
• Training programs
• Bring international experience to the kingdom.
• Built a clear Zakat contracts treatment for leasing and installment contracts.
• Enforce the entrance of the credit bureau for all licensed companies.
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Thanks