

# **SRC-Saudi Real Estate Refinance Company**

## **Board of Directors' Report to the Shareholders of the Saudi Real Estate Refinance Company (SRC) for the financial year ended on 31/12/2019 G**

### **Introduction**

Board of Directors' report is one of the important sources of information and data needed for shareholders to enable them to evaluate the company's assets and liabilities, as it contains information and financial and general information about the company, its operations during the last financial year, and its future strategic decisions and plans in the coming years. Disclosure of the Company's governance practices in relation to the Board of Directors and the committees of the Board, their remuneration and compensation, a review of the Company's compliance with governance requirements. The importance of the Board of Directors' report shows that it reviews information and data in more detail than the initial and annual financial statements issued by companies.

## **Speech of the Chairman**

**Dear Shareholders,**

**Dear Sirs**

I am pleased to invite you to SRC's 2019 Annual General Meeting during which we will assess the progresses made by the Saudi Real Estate Refinance Company (SRC) in the implementation of its strategy for its second full year exercise.

But firstly, let me remind again that SRC is the result of the vision of the transformation our country needs to prepare a sustainable future for its growing population. Sitting at the heart of our housing development program as part of NTP 2020 and Vision 2030, it is aimed at contributing to the non-oil related GDP growth and at promoting home ownership across the Kingdom. To achieve these goals, the company must be “a catalyst of growth and stability of the real estate finance sectors in KSA” and act “as an intermediary, by matching liquidity, capital, and risk management needs of originators (banks and finance companies), with risk appetite and return objectives of investors”. In other words, by focusing on the secondary market, it aims at providing stability growth and liquidity, and to attract local and foreign financing sources in order to energize and to foster a vibrant and healthy primary mortgage market, with the ultimate benefits of both the Saudi Citizens, and its shareholders, in mind.

This has set the bearing of the journey SRC started in 2017, and in 2019, to a large extent the pace has accelerated and additional significant milestones have been achieved.

The build-up of the first-class team combining a diversified pool of domestic and international expertise has been pursued. After the launch of two key products in 2017 followed up in 2018 by the long awaited LTFR (Long Term Fixed Rate) mortgage offer, 2019 has been about implementation and further developments. To that aim, SRC has kept engaging with the originators, strengthening its market footprint and its shaping of the secondary mortgage market. As of the end of 2019, SRC counts 5 partners among MFCs (BHF, AIF,

DGF, SHL and DAT) and 3 Banks (SABB, BSF and BAJ). It must be noted also that beyond the new transactions or partnership, 2019 has been marked by the recurrence of transactions with originators, evidencing the relevance of SRC offer, confirming its on-going presence and support to the market development with total deployment of balance sheet more than SR 2 billion at year end, a 153% increase compared to year end 2018.

Whilst focusing on the assets and on the deployment of its balance sheet, SRC has also taken care of diversifying its access to liquidity in order to be able to deliver on its mission statement. Beside the SR 11 Bn Sukuk Program, further tapped by SR 500 million in Q1 2019 bringing the total size of the program use to SR 750 million. In parallel, SRC signed during the year with banks for bridge loan funding, amounting to SAR 1.75 billion with two banks: BSF & SABB. At year end, a significant proportion of the cash available was deployed. Let's remind that the capital paid up at SR 1.5 Bn has not been increased, SR 3.5 Bn remain undrawn.

Besides, SRC has kept on positively contributing to the overall housing ecosystem interacting regularly with REDF (with which key partnerships focusing on products on-boarding have been confirmed as well as better alignment on rate offer and policy) or NHSC, and has further raised its profile and the profile of its mission through the media (and social media in particular) and direct interaction with investors, regulators and opinion leaders though heavily participating in Real estate events, and sponsoring some. It must be noted that its communication has been well received with positive feedbacks.

Finally, throughout the year, the company has pursued its sound development by reviewing and updating the relevant procedures and policies, by pursuing a selective recruitment maintaining a high Saudization rate (around 79%), by proceeding with the implementation of its IT architecture and systems according to the schedule provided to the regulator.

After 24 months' exercise, SRC closed 2019 with a negative result of SAR 19.4 million. This result bears the mark of the much slower than expected volume of portfolio acquisition by SRC despite its efforts. Originators have remained keen to hold onto mortgages, the key assets driving their growth and their profitability in the retail sector. Gross income has therefore reached SAR 101.4 million. Gross expenses peaked at SAR 120.8 million, despite a tight control exercised on operating expense (Opex) (maintained below budget).

Very disappointing compared to the expectations raised in the budgeting exercise which banked on a much faster and quicker development of the market, this second full year exercise ends up on a negative note. Whilst it still bears the mark of the last key investments and developments in the needed systems and policies (from IT to the Sukuk Program establishment) partly initiated in previous years, SRC has clearly laid the foundations of a future robust development.

With a return on capital at this point standing at around -1.3%, we do not recommend a dividend consideration to be paid this year. We do not have either to submit to the shareholders' attention the renewal of any Board members as all mandates are currently valid. And allow me to thank them all for their valuable contribution to the development of the company.

In 2019, SRC has demonstrated its focus, an ability to adapt and to innovate on the one hand, and to conjugate long term vision and day to day implementation on the other hand. We do not underestimate the difficulties but we are confident that the company has laid the robust foundations required to pursue its ascending course and to take up the challenges it will have to overcome, keeping up shaping the mortgage market and contributing to put KSA firmly on the map of investors internationally. Finally, we expect SRC to close the coming exercise delivering a greater level of profitability, for its third full year activity only.

On this positive perspective solidly rooted in 2019 achievements and direction, I would like to take this opportunity to thank you for your trust and support and I look forward to welcoming you in May 2020.

Sincerely,

**Majed A Al Hogail**

**Chairman of the Board of Directors**

### **Main types of activity of the company and its group.**

Main activity: in 5/1/1439 H corresponding 25/9/2017 G the license to practice Real Estate Refinancing activity been issued from the Saudi Arabian Monetary Authority, the company obtained SAMA's non-objection to launch 2 products as follows,

- 1- Portfolio Acquisition, dated 25/1/1439H corresponding 16/10/2017G.
- 2- Short Term Financing, Murabha Facility, dated 12/3/1439H corresponding 1/12/2017G.

### **Company's important plans and decisions**

In 2019, SRC has laid the foundations of its future growth and development and of its ability to achieve its goals according to its mission statement. Going forward, it will keep adjusting its set-up and adapting its offer in order to ensure it remains a relevant partner for the originators and an active provider of sensible solutions for the borrowers. To this extent, a few key priorities will drive SRC development. Among others: i) an on-going broadening and tightening of the relationship with the network of originators (mortgage finance companies and banks) in order to follow closely the market and its needs, ii) a constant review of its eligibility criteria, risks measures and tools as well as potential mitigating factors in order to contribute to the enlargement of the covered population, iii) the development of new products such as the Long Term Fixed Rate badly needed in the market and that will contribute to its expansion and risk stabilization, iv) a constant interaction with capital market actors in order to ensure a constant access to liquidity in the best possible conditions factoring the best possible issuance options. We therefore foresee no dramatic change in SRC structure or business model but constant and regular adjustment as its activity grows and new development steps are reached.

**A summary of a table or chart of the company's assets, liabilities and business results since establishment**

*Amounts in SAR – as of 31, December 2019*

<b>ASSETS</b>	<b>(Audited)</b>	<b>'LIABILITIES AND SHAREHOLDERS EQUITY</b>	
Cash and cash equivalents	71,702,190	Trade and other payables	20,355,960
Murabaha receivables, net	777,776,212	Debt securities issued	758,303,559
Ijara receivables, net	1,383,000,372	Lease Liability	3,922,203
Prepayments and other current assets	1,850,527	<b>TOTAL LIABILITIES</b>	<b>782,581,722</b>
Property and equipment	5,452,855		
Intangible assets	6,142,595	Share capital	1,500,000,000
Right of use Asset	4,317,323	Accumulated losses	(32,339,648)
		<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,467,660,352</b>
<b>TOTAL ASSETS</b>	<b>2,250,242,074</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,250,242,074</b>

*Amounts in SAR – as of 31, December 2018*

<b>ASSETS</b>	<b>(Audited)</b>	<b>'LIABILITIES AND SHAREHOLDERS EQUITY</b>	
Cash and cash equivalents	880,632,477	Trade and other payables	23,251,748
Murabaha receivables, net	221,156,755	Debt securities issued	250,684,820
Ijara receivables, net	632,405,628		
Prepayments and other current assets	14,291,197	<b>TOTAL LIABILITIES</b>	<b>273,936,568</b>
Property and equipment	2,920,521		
Intangible assets	9,658,685	Share capital	1,500,000,000
		Accumulated losses	(12,871,305)
		<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,487,128,695</b>
<b>TOTAL ASSETS</b>	<b>1,761,065,263</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,761,065,263</b>

*Amounts in SAR – as of 31, December 2017*

<b>ASSETS</b>	<b>(Audited)</b>	<b>'LIABILITIES AND SHAREHOLDERS EQUITY</b>	
Cash and cash equivalents	1,397,686,771	Trade and other payables	23,299,753
Murabaha receivables, net	100,068,030		
Prepayments and other current assets	388,535	<b>TOTAL LIABILITIES</b>	<b>23,299,753</b>
Property and equipment	2,812,053		
Intangible assets	8,997,319	Share capital	1,500,000,000
		Accumulated losses	(13,347,045)
		<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,486,652,955</b>
<b>TOTAL ASSETS</b>	<b>1,509,952,708</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,509,952,708</b>



### **Clarification of any difference from the accounting standards issued by the Saudi Organization for Certified Public Accountants**

No difference in accounting practices between SRC and SOCPA.

### **Company's dividend distribution**

Besides the build-up of its statutory minimum reserve, SRC will endeavor to combine the best practice of dividends payment in the sector, recognizing the vital contribution of its shareholders to the company performance, and the very nature of its activity that entails the taking and management of long term and sometimes complex risks. To this extent, SRC intends to build on top of its statutory reserves additional cushion that will cater for the actual risk born by the company and ensure its capital protection. SRC intends to base its assessment of any additional cushion needed on well-established economic capital assessment tool [and a specific policy framework].

### **Information relating to any loans to the Company**

For 2019:

- 2 Credit facilities were granted to SRC during 2019 for a total of SAR 1.75 billion, but no withdrawals occurred during the year
- Sukuk were issued in Q1 2019 for SAR 500 million

## A description of any redemption, purchase or cancellation by the Company of any redeemable debt instruments

For 2019:

- No redemption purchase or cancellation by the company of any redeemable debt instruments

## Saudi Arabian Monetary Authority (SAMA) Executive Orders

	Current year (2019)		Previous Year (2018)	
Violation	Number of Executive Orders	Total Penalty amounts in SAR	Number of Executive Orders	Total Penalty amounts in SAR
Violating SAMA's Control Instructions	1	100,000	2	40,000
Violation SAMA's instructions for consumer protection	0	0	0	0
Violation SAMA's instructions for exercising due diligence in anti-money laundering and combating terrorist financing	0	0	0	0

## Board of Directors

Position		Name
1	Chairman	H.E the Minister of Housing Majed Al Hogail
2	Vice-Chairman	Dr. Abdulhamid AlKhalifa
3	Board Member	Mr. Mohammed AlMuhanna
4	Board Member	Dr. Mohammed AlZahrani
5	Board Member	Mr. Fahad AlSaif
6	Board Member	Mr. Joseph Rossi
7	Board Member	Dr. James Bothwell

**Number of Board meetings held during the last fiscal year, record attendance of each meeting and compensation.**

The Board approved Board and Committee members' compensation for 2019, as recommended by the Nomination and Compensation Committee. The compensation shall be calculated for each member in proportion of their attendance of the meetings.

- SAR 250,000 for each board member.
- SAR 150,000 for each committee member.
- SAR 3,000 attendance fees for each meeting.

### Attendance of Board Meetings in 2019

Name		Membership	1 <sup>st</sup> Meeting 27 February 19	2 <sup>nd</sup> Meeting 29 April 19	3 <sup>rd</sup> Meeting 24 July 19	4 <sup>th</sup> Meeting 23 October 19	5 <sup>th</sup> Meeting 16 December 19	Attendance Rate of 2019 SAR 3000 per meeting
1	H.E Majed Al Hogail	Chairman	Yes	Yes	Yes	Yes	Yes	5 out of 5
2	Abdulhamid AlKhalifa	Vice- Chairman	Yes	Yes	No	Yes	Yes	4 out of 5
3	Mohammed AlMuhanna	Board Member	Yes	Yes	Yes	Yes	Yes	5 out of 5
4	Mohammed AlZahrani	Board Member	Yes	Yes	Yes	Yes	Yes	5 out of 5
5	Fahad AlSaif	Board Member	Yes	Yes	Yes	Yes	Yes	5 out of 5
6	Joseph Rossi	Board Member	Yes	Yes	Yes	Yes	Yes	5 out of 5
7	James Bothwell	Board Member	Yes	Yes	Yes	Yes	Yes	5 out of 5

### Compensation of Board Members in 2019

	<b>Name</b>	<b>Membership</b>	<b>Attendance Rate of 2019 SAR 3000 per meeting</b>	<b>Attendance fee</b>	<b>Board Compensation</b>	<b>Total Compensation</b>
1	H.E Majed Al Hogail	Chairman	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>
2	Abdulhamid AlKhalifa	Vice- Chairman	4 out of 5	<b>12,000</b>	<b>200,000</b>	<b>SAR 212,000</b>
3	Mohammed AlMuhanna	Board Member	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>
4	Mohammed AlZahrani	Board Member	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>
5	Fahad AlSaif	Board Member	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>
6	Joseph Rossi	Board Member	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>
7	James Bothwell	Board Member	5 out of 5	<b>15,000</b>	<b>250,000</b>	<b>SAR 265,000</b>

### Attendance of Executive Committee Meetings in 2019

Name	Members hip	1 <sup>st</sup> ExCom meetin g 21/1/20 19	2 <sup>nd</sup> ExCom meetin g 25/2/20 19	3 <sup>rd</sup> ExCom meeting 18/3/201 9	4 <sup>rd</sup> ExCom meetin g 20/05/2 019	5 <sup>th</sup> ExCom meeting 22/7/2019	6 <sup>th</sup> ExCom meetin g 30/9/20 19	7 <sup>th</sup> ExCom meetin g 22/10/2 019	8 <sup>th</sup> ExCo m meeti ng 25/11/ 2019	9 <sup>th</sup> ExCo m meeti ng 22/12/ 2019	Attendance Rate of 2019 SAR 3000 per meeting
<b>H.E Majed Al Hogail</b>	Chairman	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	<b>9 out of 9</b>
<b>Abdulhamid AlKhalifa</b>	Member	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	<b>8 out of 9</b>
<b>Fahad AlSaif</b>	Member	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	<b>7 out of 9</b>
<b>Fabrice Susini</b>	Member	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	<b>9 out of 9</b>
<b>Issam Altawari*</b>	Member	---	---	---	---	Yes	Yes	Yes	Yes	Yes	<b>5 out of 9</b>

\* Membership started on July 2019.

### Compensating of Executive Committee Members in 2019

Name	Members hip	Attendance Rate of 2019 SAR 3000 per meeting	Attendanc e fee	ExCom Compensa tion	Total Compensa tion
<b>H.E Majed Al Hogail</b>	Chairman	9 out of 9	<b>27,000</b>	<b>150,000</b>	<b>SAR 177,000</b>
<b>Abdulhamid AlKhalifa</b>	Member	8 out of 9	<b>24,000</b>	<b>133,333</b>	<b>SAR 157,333</b>
<b>Fahad AlSaif</b>	Member	7 out of 9	<b>21,000</b>	<b>116,667</b>	<b>SAR 137,667</b>
<b>Fabrice Susini</b>	Member	9 out of 9	<b>27,000</b>	<b>150,000</b>	<b>SAR 177,000</b>
<b>Issam Altawari</b>	Member	5 out of 9	<b>15,000</b>	<b>83,334</b>	<b>SAR 98,334</b>



### Attendance of Credit & Risk Committee Meetings in 2019

Name		Membership	1 <sup>st</sup> Meeting 18 February 19	2 <sup>nd</sup> Meeting 14 April 19	3 <sup>rd</sup> Meeting 7 July 19	4 <sup>th</sup> Meeting 16 October 19	5 <sup>th</sup> Meeting 23 October 19	6 <sup>th</sup> Meeting 18 December 19	Attendance Rate of 2019 SAR 3000 per meeting
1	Mohammed AlZahrani	Chairman	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6
2	Joseph Rossi	Member	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6
3	James Bothwell	Member	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6
4	Fabrice Susini	Member	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6

### Compensation of Credit & Risk Committee Members in 2019

	<b>Name</b>	<b>Membership</b>	<b>Attendance Rate of 2019 SAR 3000 per meeting</b>	<b>Attendance fee</b>	<b>Credit &amp; Risk Compensation</b>	<b>Total Compensation</b>
1	Mohammed AlZahrani	Chairman	6 out of 6	<b>18,000</b>	<b>150,000</b>	<b>SAR 168,000</b>
2	Joseph Rossi	Member	6 out of 6	<b>18,000</b>	<b>150,000</b>	<b>SAR 168,000</b>
3	James Bothwell	Member	6 out of 6	<b>18,000</b>	<b>150,000</b>	<b>SAR 168,000</b>
4	Fabrice Susini	Member	6 out of 6	<b>18,000</b>	Compensated in ExCom	<b>SAR 18,000</b> (N/A) Compensated in ExCom

### Attendance of Nomination & Compensation Committee Meetings in 2019

	Name	Membership	1 <sup>st</sup> Meeting 14 February 19	2 <sup>nd</sup> Meeting 08 October 19	Attendance Rate of 2019 SAR 3000 per meeting
1	Dr. Abdulhamid Al Khalifa	Chairman	Yes	Yes	2 out of 2
2	Mohammed Al Muhanna	Member	Yes	Yes	2 out of 2
3	Fahad Al Saif	Member	Yes	Yes	2 out of 2

## Compensation of Nomination & Compensation Committee Members in 2019

	Name	Membership	Attendance Rate of 2019 SAR 3000 per meeting	Attendance fee	NCC Compensation	Total Compensation
1	Dr. Abdulhamid Al Khalifa	Chairman	2 out of 2	6,000	Compensated in ExCom	<b>SAR 6,000</b> (N/A) Compensated in ExCom
2	Mohammed Al Muhanna	Member	2 out of 2	6,000	Compensated in the Audit Committee	<b>SAR 6,000</b> (N/A) Compensated in the Audit Committee
3	Fahad Al Saif	Member	2 out of 2	6,000	Compensated in ExCom	<b>SAR 6,000</b> (N/A) Compensated in ExCom

### Attendance of Audit & Compliance Committee Meetings in 2019

Name		Membership	1 <sup>st</sup> Meeting 25 February 19	2 <sup>nd</sup> Meeting 18 April 19	3 <sup>rd</sup> Meeting 18 July 19	4 <sup>th</sup> Meeting 17 October 19	Attendance Rate of 2019 SAR 3000 per meeting
1	Mohammed Al Muhanna	Chairman	Yes	Yes	Yes	Yes	4 out of 4
2	Mohammed Al Oyaidi	Member	Yes	Yes	Yes	Yes	4 out of 4
3	Mohammed Al Smari	Member	Yes	Yes	Yes	Yes	4 out of 4

### Compensation of Audit & Compliance Committee Members in 2019

Name		Membership	Attendance Rate of 2019 SAR 3000 per meeting	Attendance fee	Audit & Compliance Compensation	Total Audit & Compliance Compensation
1	Mohammed Al Muhanna	Chairman	4 out of 4	12,000	150,000	SAR 162,000
2	Mohammed Al Oyaidi	Member	4 out of 4	12,000	150,000	SAR 162,000
3	Mohammed Al Smari	Member	4 out of 4	12,000	150,000	SAR 162,000

## Transactions with Related Parties

In 2019, SRC had five transactions with a related party which is Bidaya Home Finance for portfolio acquisition with the total amount of SAR 364M, and 7 short term transactions for a total of SAR 400 M. The two parties are related because the Public Investment Fund (PIF) is the sole shareholder of SRC and PIF also has 22.2% ownership in Bidaya Home Finance. One debt security issued to REDF amounting 100M during the year.

The SRC Board approved entering into contracts with the REDF relating to Off-Plan Financing. The Chairman of the SRC Board and Board member Fahad Alsaif have refrained from voting in a matter involving dealing with the Real Estate Development Fund (“**REDF**”) because the Chairman of SRC is the Chairman of REDF and the board member of SRC is also a board member of REDF.

Member	Nature of Transaction	Amount in SAR	Period	Condition
Chairman HE Majed Alhogail				
	entering into contracts with the REDF relating to Off-Plan Financing	Depends on the number of portfolios	2019 - 2025	Commercial condition prevailing in the market
Fahad AlSaif	entering into contracts with the REDF relating to Off-Plan Financing	Depends on the number of portfolios	2019 - 2025	Commercial condition prevailing in the market

## **Internal Control**

### **Internal Audit and Compliance Committee:**

The internal audit committee is responsible for overseeing the financial reporting and compliance processes, Compliance with relevant laws and regulations, monitoring the effectiveness and efficiency of the internal control system, recommending the selection of external auditors, reviewing interim financial statements, and recommending them to the Board of Directors.

The Audit Committee is composed of three members:

- 1) Mr. Mohammed Almuhanha, Chairman of the Audit and Compliance Committee
- 2) Mr. Mohammed Alsmari, Independent Member
- 3) Mr. Mohammed Aloyaidi, Independent Member

### **Internal control procedures:**

Since the core functions of the Board include:

-Ensure the integrity of financial and accounting systems, including relevant financial reporting systems.



-Ensuring the application of risk management control systems by identifying the overall risk the company may face with transparency.

-Annual review of the effectiveness of internal control procedures of the company.

The Board of Directors is committed to ensuring that the internal audit - functionally associated with the Audit Committee - is one of the mechanisms necessary to control, improve and monitor performance at the Group level in order to develop business practices and governance.

Therefore, the main competencies assigned to internal audit include:

-Assisting the Board of Directors - through the Audit Committee - in protecting and securing the interests of the Company.

-Briefing the CEO on the audit findings, subjects and topics that the internal audit feels are of potential interest to the company, and providing copies of relevant reports to the Audit Committee and the Director General.

-Agree with the Chief Executive Officer and the Audit Committee on the scope of the annual audit plan to ensure that the Company covers all possible risks.

-Briefing the Audit Committee on risk management within the Company.

-Investigate the specific issues submitted to it by the company's management or the audit committee.

From the above, it is clear that there are different levels to confirm the effectiveness and adequacy of internal controls and risk management procedures. The Audit Committee oversees the internal audit directly, and the Audit Department periodically reviews the adequacy and effectiveness of the internal control system, providing a continuous assessment of its adequacy and effectiveness.

**Audit Committee Opinion:**

The Audit and Compliance Committee actively monitors the control function to ensure the efficiency and effectiveness of the internal control system to ensure all substantial and material results related to internal controls are reported to the committee and the identified risks are minimized to protect the company's interests.

Efforts are being made to improve the control environment at the company's level through continuous review and enhanced procedures to prevent and correct any deficiencies in the internal control system.

During the year of 2019 the Audit and compliance committee noted some weaknesses in the control over operation on financial reporting. Also, Audit and Compliance committee noted non-compliance of SAMA Outsourcing Rules and finance consumer protection, and the findings were communicated with the Management, Board of Directors, and SAMA. This may result SAMA to issue a fine relate to the finding.

Note: Any internal control system -No matter how well designed and effective its application - cannot provide absolute assurance.

**A statement of any arrangement or agreement whereby a board member or a senior executive waives any salary or compensation**

There are no arrangements whereby a board member or a senior executive waives any salary or compensation.

**A statement of the value of the regular payments due to pay any zakat, taxes, fees or any other entitlements, with a brief description and a description of the reasons**

Entitlements:

- Zakat: the company was exempted from Zakat, in an official letter issued by GAZT on 25/02/2018. but the company is registered to Zakat
- VAT: the company is registered to VAT, with monthly disclosures.
- Withholding Tax: the company deducts from the suppliers the withholding tax and disclose it to the General authority of Zakat and taxes; thus, it bears no cost;
- 

### **A statement of the value of any other investments or reserves created for the benefit of the Company's employees**

No investments or reserves were created for SRC's employees for 2019

### **If the accountant's report contains reservations to the annual financial statements, the report of the board of directors must state that**

No reservations were made to 2019 annual financial statements by our auditors.

### **Declarations**

At this juncture, SRC confirms:

- That the accounting records have been prepared correctly.

- That the internal control system has been properly prepared and implemented on a sound basis,

And that there is no doubt about the company's ability to continue its activity.