

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 31/12/2018 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.

Board of Directors' report to Shareholders of the Saudi Real Estate Refinance Company (SRC) for the financial year ended on 31/12/2018 G

Speech of the Chairman

Dear Shareholders,

Dear Sirs

I am pleased to invite you to SRC's 2019 Annual General Meeting. I am convinced you are impatient to assess the progresses made by the Saudi Real Estate Refinance Company (SRC) for its first full year exercise in the implementation of its strategy.

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 2018 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 and the team has kept implementing the short to medium term strategy defined in 2017 and articulated around a focus on the mortgage borrowers as the ultimate beneficiaries of any initiative/product offering, the economics benefits for the originators and the prioritizing of the partners we want to engage with. Alongside the two key products launched in 2017, 2018 has seen the launch of the long awaited LTFR (Long Term Fixed Rate) mortgage offer. It is a pivotal element in the development of our mortgage market: contributing to the development of the product offer, it gives our citizen an opportunity to immunize themselves and their home

acquisition against the versatility of the interest rates, building up sustainability and affordability. It also starts creating a benchmark curve most mortgage originators will be able to refer to for the benefit again, of the borrowers.

In parallel, SRC has kept engaging with the originators, strengthening its market footprint and it's shaping of the secondary mortgage market. 5 more MoUs have been signed with 2 Mortgage Finance Companies (Amlak International and Dar Tamleek) and 3 Banks (SABB, BSF, NCB), some quickly followed by asset transfers. It must be noted also that beyond these new transactions, 2018 has also been marked by the recurrence of transactions (asset transfers for example) with originators, evidencing the relevance of SRC offer, confirming its on-going presence and support to the market development.

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. A SAR 11 Bn Sukuk Program has been designed and established with the first issuance taking place towards year end as a private placement. SRC is not only present in the mortgage market vis-a-vis the borrowers and the originators but also now vis-à-vis the community of investors.

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) 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. 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 (above 80%, "Platinum Grade"), by proceeding with the implementation of its IT architecture and systems according to the schedule provided to the regulator.

Whilst slightly disappointing compared to the expectations raised in the budgeting exercise which banked on a faster and quicker development of the market, this first full year exercise ends up on a positive note despite the investments and developments (from IT to the Sukuk Program establishment) carried out in 2018 which are clearly laying down the foundations of the future robust development of SRC.

After only 15 months exercise, SRC will close 2018 with a slightly positive result. Factoring operating and pre-operating income and expenses, its net result will stand at SAR 0.5Mio. This

has been achieved through a sensible control over the costs standing at SAR 47.4 Mio while the revenues amounted to SAR 47.9 Mio. It is worth noting that SAR 9.6Mio of net intangible assets have been also accumulated over the period. Consequently, the return on capital at this point stands close to zero, a level much higher than our provisional business plan established with BCG provided for.

On that basis 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. We would on the other hand submit to your approval the following resolutions of the Board held on the 27th February 2019:

- 1) The Company's audited financial statement for the year 2018.
- 2) The Board Members and Board Committees Members Compensation Policy.
- 3) The Compensation for Board Members and Members of the Board Committees for the year 2018.
- 4) Renew of KPMG as the Company's external auditor for the year 2018 with fees of a cap of SAR 680,000.

In 2018, SRC has demonstrated 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 in fact a second full year activity.

On this positive perspective solidly rooted in 2018 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 2019.

Sincerely,

Majed A Al Hogail

Chairman of the Board of Directors

A description of the main types of activity of the company and its group. If two or more types of activity are described, a statement of each activity and its impact should be attached to the volume of the company's business and its contribution to the achievements.

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.

Description of the Company's important plans and decisions (including company's restructuring, expansion of operations or suspension of operations), future prospects for the Company's business and any posed risks

In 2018, 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 for the last five financial years or since founding, whichever is shorter

Amounts in SAR – thousands

Assets		Liabilities & shareholders' Equity	
Cash & cash equivalents	880,632	Total Liabilities	273,936
Intangible Assets	9,659	Shareholders' equity	1,487,129
		Capital	1,500,000
Tangible Assets	2,920	Accumulated losses	-12,871
Other Assets	867,854		
Total assets	1,761,065	Total Liab& shareholders' Equity	1,761,065

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.

A description of the company's dividend distribution policy

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 (whether it was reimbursable upon demand or otherwise), disclosure of the total indebtedness of the Company and its group, and any amounts paid by the Company for repayment of loans during the year. In the absence of loans to the company, he must submit a declaration

For 2018:

- No loans were granted to SRC during 2018
- Sukuk were issued at EOY 2018 for SAR 250 million

A description of any redemption, purchase or cancellation by the Company of any redeemable debt instruments and the value of the remaining stock, distinguishing between the listed stock purchased by the Company and those purchased by its subsidiaries

For 2018:

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

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, and record attendance of each meeting.

Attendance of Board Meetings from January, 2018 until 27 of February, 2019

	Name	Membership	3 rd Meeting 12 March 18	4 th Meeting 25 June 18	5 th Meeting 24 Sep 18	6 th Meeting 20 Dec 18	Attendance Rate of 2018
1	H.E Majed Al Hogail	Chairman	Yes	No	Yes	Yes	3 out of 4
2	Abdulhamid AlKhalifa	Vice-Chairman	Yes	Yes	Yes	Yes	4 out of 4
3	Mohammed AlMuhanna	Board Member	Yes	Yes	Yes	Yes	4 out of 4
4	Mohammed AlZahrani	Board Member	Yes	Yes	Yes	Yes	4 out of 4
5	Fahad AlSaif	Board Member	No	Yes	Yes	No	2 out of 4
6	Joseph Rossi	Board Member	Yes	Yes	Yes	Yes	4 out of 4
7	James Bothwell	Board Member	Yes	Yes	Yes	Yes	4 out of 4

Number of Executive Committee Meetings

Name	Membership	1 st ExCom meeting 8/3/2018	2 nd ExCom meeting 10/5/2018	3 rd ExCom meeting 30/7/2018	4 th ExCom meeting 20/9/2018	5 th ExCom meeting 3/12/2018	6 th ExCom meeting 17/12/2018	Attendance rate
H.E Majed Al Hogail	Chairman	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6
Abdulhamid AlKhalifa	Member	Yes	Yes	No	Yes	Yes	Yes	5 out of 6
Fahad AlSaif	Member	No	No	Yes	Yes	Yes	Yes	4 out of 6
Fabrice Susini	Member	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6
Camille Beyrouthy	Member & Secretary	Yes	Yes	Yes	Yes	Yes	Yes	6 out of 6

Number of Credit & Risk Committee Meetings

Credit & Risk Committee							
	Name	Membership	1st Com Meeting 21/2/2018	2nd Com Meeting 25/6/2018	3rd Com Meeting 24/9/2018	4 th Com Meeting 10/12/2018	Attendance rate
1	Mohammed AlZahrani	Chairman	Attended	Attended	Attended	Attended	4 out of 4
2	Joseph Rossi	Member	Attended	Attended	Attended	Attended	4 out of 4
3	James Bothwell	Member	Attended	Attended	Attended	Absent	3 out of 4
4	Fabrice Susini	Member	Attended	Attended	Attended	Absent	3 out of 4

Number of Nomination & Compensation Committee Meetings

Nomination & Compensation Committee					
	Name	Membership	1 st Com Meeting 24/6/2018	2nd Com Meeting 10/10/2018	Attendance rate
1	Abdulhamid Alkhalifa	Chairman	Attended	Attended	2 out of 2
2	Mohammed Almuhanha	Member	Attended	Attended	2 out of 2
3	Fahad AlSaif	Member	Attended	Attended	2 out of 2

Number of Audit & Compliance Committee Meetings

Audit & Compliance Committee							
	Name	Membership	1 st Com Meeting 8/3/2018	2 nd Com Meeting 24/6/2018	3 rd Com Meeting 10/9/2018	4 th Com Meeting 12/12/2018	Attendance rate
1	Mohammed Almuhanha	Chairman	Attended	Attended	Attended	Attended	4 out of 4
2	Mohammed Alsmari	Member	Attended	Attended	Attended	Attended	4 out of 4
3	Mohammed Aloyaidi	Member	Attended	Attended	Attended	Attended	4 out of 4

Transactions with related parties

In 2018, SRC had two transactions with a related party which is Bidaya Home Finance with the total amount of SAR 98.193 million. 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.”

Remuneration of SRC Board directors and Committee Members for 2019

	Name	Membership	Compensation for Chairman & Board Members (SAR)	Allowance for Board attendance per meeting (SAR)	Attendance Rate	Total (SAR)
1	H.E Majed Al Hogail	Chairman	105,000	3,000	3 out of 4	114,000
2	Abdulhamid AlKhalifa	Vice-Chairman	105,000	3,000	4 out of 4	117,000
3	Mohammed AlMuhanna	Board Member	105,000	3,000	4 out of 4	117,000
4	Mohammed AlZahrani	Board Member	105,000	3,000	4 out of 4	117,000
5	Fahad AlSaif	Board Member	105,000	3,000	2 out of 4	111,000
6	Joseph Rossi	Board Member	105,000	3,000	4 out of 4	117,000
7	James Bothwell	Board Member	105,000	3,000	4 out of 4	117,000
	Camille Beyrouthy	Interim Board Secretary	Annual compensation		40,000	
	Saif Aleifan	Board Secretary	Annual compensation		40,000	

	Name	Membership	Compensation for Chairman & Committee Members (SAR)	Allowance for Committee attendance per meeting (SAR)	Attendance Rate	Total (SAR)
Executive Committee						
1	H.E Majed Al Hogail	Chairman	200,000	3000	6 out of 6	218,000
2	Abdulhamid AlKhalifa	Member	200,000	3000	5 out of 6	215,000
3	Fahad AlSaif	Member	200,000	3000	4 out of 6	212,000
4	Fabrice Susini	Member	200,000	3000	6 out of 6	218,000
5	Camille Beyrouthy	Member & Secretary	200,000	3000	6 out of 6	218,000
Credit & Risk Committee						
1	Mohammed AlZahrani	Chairman	200,000	3000	4 out of 4	212,000
2	Joseph Rossi	Member	200,000	3000	4 out of 4	212,000
3	James Bothwell	Member	200,000	3000	3 out of 4	209,000
4	Fabrice Susini	Member	A member in another committee	NA	3 out of 4	10,000
Audit & Compliance Committee						
1	Mohammed Almuhanha	Chairman	150,000	3000	4 out of 4	162,000
2	Mohammed Alsmari	Member	150,000	3000	4 out of 4	162,000

3	Mohammed Aloyaidi	Member	150,000	3000	4 out of 4	162,000
Nomination & Compensation Committee						
1	Abdulhamid Alkhalifa	Chairman	A member in another committee	NA	2 out of 2	10,000
2	Mohammed Almuhanha	Member	A member in another committee	NA	2 out of 2	50,000
3	Fahad AlSaif	Member	A member in another committee	NA	2 out of 2	10,000

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 first meeting in 2018 was held on 8th of March, and the attendance rate was 100%.

The Audit Committee is composed of three members:

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

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

There is 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. VAT paid for the month of January is SAR 3,792.⁰³
- Withholding Tax : SAR 1,392,604; for 2018 al contracts were amended to deduct this tax from the amounts transferred outside KSA

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 2018

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 2018 annual financial statements by our auditors.

In the event that the Board of Directors recommends replacing the chartered accountant before the end of the period specified for it, the report must contain this, indicating the reasons for the recommendation to replace

The Board recommends the appointment of KPMG for 2018 as the Company's external auditor with cap of SAR 680,000.

Declarations

At this juncture, I can confirm:

- 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