

هاتف: ١٠١٠ ٣٨٩ ١١ ٢٦٩ - ص.ب ٨٩٨٩٨ الرياض ٩٨٢٢١ طريق الملك فهد (جنوب) الطابق 9 ا، برج الإبداع

فاكس: £971 (1 EAP 1978) المملكة العربية السعودية

Bidaya Home Finance P.O. Box 93898, Riyadh 16683

Kingdom of Saudi Arabia King Fahd Rd (South) 19th Floor, Al Ebda'a Tower

T+966 11 483 6700 F + 966 11 483 6774

February 22, 2017

# Board of Directors Report to the Shareholders of Bidaya Home Finance

On behalf of the Board of Directors of Bidaya Home Finance Company, I am pleased to present the results of the 1st financial statements to the shareholders of the company. These are the first set of financial statements of the Company and cover the period from 31 March 2015 to 31 December 2016.

#### Financial Statements

As per the Company's Article of Association and By-laws, the first financial reporting period of the Company is considered to start from the date of Ministerial Resolution i.e. 11 Jumada II 1436H (corresponding to 31 March 2015) and end on 31 December 2016.

### **Global Economic Review**

The year 2016 was an eventful year packed with surprises such as the Brexit vote and the outcome of the US Presidential elections, combined with the weaker global trade, diminishing capital flows and geopolitical uncertainties in advanced as well as emerging economies which only points to continuing uncertainties.

The global credit, financial and equity markets also witnessed volatility with wide fluctuations in US Dollar, Pound Sterling and Japanese Yen, while US Dollar interest rates saw an increase of 25 bps by the Federal Reserve in the last quarter of 2016. Oil prices also witnessed fluctuations but seem to have stabilized and remained so at a level better than at the beginning of 2016.

## Saudi Economic Outlook

The government's fiscal position in terms of its current account shifted into a sizeable deficit beginning in 2015 with the slump in oil prices. Due to a decline in revenues, the balance of payments were influenced by the government who immediately resorted to drawing down the foreign reserves and borrowed domestically, despite the downgrade of the sovereign credit rating by the rating agencies in early 2016.

SAMA was instrumental in playing a leading role in providing liquidity support to enable banks to extend credit to their customers to spur economic activities and to maintain a positive growth momentum.

In order to combat the economic headwinds and challenges, the government has embarked on an aggressive Vision 2030 program to be implemented in phases which saw the reduction of expenses all across the board including

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الطابق ٩ ١، برج الإبداع

فاكس: ٩٧٤ ° ١١ ٤٨٣ ، ١٦ ٤٦٩ المملكة العربية السعودية

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reduction of government employee salaries during Q3 2016. Even in these difficult times, providing an enabling environment that assures a reasonable and affordable housing scheme for the citizens has a special emphasis in the program and a number of initiatives were introduced by the Ministry of Housing to put the plan into effect.

## The Year In Review

#### Launch

With the grant of License by SAMA to Bidaya on December 16, 2015, a soft launch took place on January 27, 2016 through a high profile event which was attended by a wide segment of society. Though the company commenced commercial operations in January 2016, the financing activity however only took off from March 2016. As a startup, Bidaya faces intense competition from already established banks/institutions but it has so far been successful in making its mark by distinguishing itself as a key mortgage player in the kingdom...

#### **Business Network**

Bidaya operates through its branches located in Riyadh, Dammam and Jeddah. During May 2016, the preparatory work for the new office located at Ibdeh Tower, King Fahad Road was completed and the Head Office was shifted to the new location. Simultaneously, the Riyadh branch office was also shifted to the ground floor of Ibdeh Tower.

The Dammam branch became operational in May 2016 earlier than planned while Jeddah branch started functioning from July 2016. The Riyadh branch contributed to the majority of financing with a 94% share in terms of total financing.

### **Key Activities**

The main activity of the company is to provide Shari'ah compliant mortgage financing for the purchase of houses to the citizens of Saudi Arabia. The majority of the financing during 2016 was provided through a plain vanilla ligrah product. However by the end of 2016, a forward ljarah product was also introduced. Bidaya will continue to expand its product range in line with market needs and demand. W



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## Key Risks

Bidaya faces two principal risks. One is due to a mismatch in funding the longer tenor of the mortgages and its implications on the profit rates and profitability. The second risk arises from the potential for adverse fluctuation in property prices and the impact on asset values should there be a need to foreclose as a result of default.

The macro-economic environment can also have an adverse impact on the earning power of Bidaya customers consequently affecting their repayment capability.

Additionally the company is preparing to adopt the International Financial Reporting Standards (IFRS) for the preparation of its financial statements, as it will be required for reporting its financials as per IFRS-9 starting in 2018. This standard requires adopting a more sophisticated approach to determining the provisioning requirements for its credit portfolio. IFRS-9 requires frequent valuation of the portfolio to reflect the prevalent market conditions and can consequently impact the company's profitability negatively or positively.

#### **Business**

Bidaya was successful in booking financing business over SR 350 million of mortgages while establishing key partnerships with strategic real estate business players during the year. It also achieved high standards in terms of customer satisfaction across all aspects of the business while complying with SAMA regulations and Corporate Governance standards.

In Q1 2016, SAMA relaxed the 70% restriction of Loan To Value ratio imposed by it in 2014 to 85% for mortgage financial institutions only which had a positive impact on Bidaya's home finance activity. Subsequently in Q1 2017, it was also relaxed for banks.

### **Operations**

During Q1 2016 Bidaya activated its call center which experienced phenomenal customer traffic and contributed to generation of leads during the Janadriyah exhibition. Bidaya was also able to kick-off the Qarar project which is a web based AppSmart application which caters to the credit acceptance criteria, approval matrix and SIMAH check and provides Bidaya with a full credit & eligibility report for each customer. Additionally, Bidaya has executed a three year deal with 3i Infotech by engaging a dedicated support team to support Bidaya's IT operations.



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الطابق 11، برج الإبداء

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Kingdom of Saudi Arabia King Fahd Rd (South) 19th Floor, Al Ebda'a Tower

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## Marketing activities

Bidaya was successful in maintaining good relationships with real estate developers, employers and other business development channels to tap business potential and launched aggressive advertising campaigns for business development and image building purposes.

Bidaya actively participated in the Janadriyah and the Riyadh Restatex exhibition and the 4th World Arab conference. During the month of Ramadan Bidaya also collaborated with E-Simsar to put together an Iftar event, which was attended by the leading developers from Riyadh.

Management also launched a digital marketing campaign targeted towards potential customers. The Bidaya website became operational and was designed with a view to scale up and contribute to having a sizeable market share. The marketing activities extended to SMS, social media, online applications, call centre and other online marketing activities

## **Board Oversight**

The Board was actively engaged in discharging the oversight function as several meetings of the Board of Directors and the Sub-Committee took place during the initial setup phase of the Company during 2015 and thereafter when the company became fully operational in 2016 as under:

## Board of Directors and their Sub-Committee Meetings

	2015	2016	Total	
Board of Directors	4	5	9	
Executive Committee	7	7	14	
Audit Committee	1	6	7	
Risk & Credit Committee	2	3	5	
Nomination & Remuneration Committee	3	3	6	
Total	17	24	41	

#### **Awards**

In May 2016, Bidaya won an award for Process Innovation in Global Finance magazine's inaugural 'The Innovators 2016 – Islamic Finance' listing for its new website which offers full application tracking / document upload functionality allowing prospective customers to submit their application online and upload all required documents online.

In July 2016, Bidaya was judged as the World's Best Digital Islamic Bank by Global Finance magazine on the basis of the strength of its strategy in attracting and servicing customers, its web/mobile site design and functionality of web products and services.

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الطابق ٩ ١، برج الإبداع

هاتف: ١٠١٠ ٣٨٩ ١١ ١٦٦ - ص.ب ٩٣٨٩٨ الرياض ٩٣٨٦٨

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Kingdom of Saudi Arabia King Fahd Rd (South) 19th Floor, Al Ebda'a Tower

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#### **Financial Results**

The Paid up capital of the company as of December 31, 2016 was SR 900 million injected during 2014. The equity of the Company as of the same period was SR. 840.904 million which was impaired due to pre-operating expenses and losses.

The momentum of growth of the Ijarah financing was on track and the gross outstanding financing was SR 355 million with a total of 276 disbursements with an average ticket size of SR 1.3 million. A provision for credit losses in the amount of SR 4.445 million was held to cover potential credit losses, being 1.25% of outstanding Ijarah financing as of December 31, 2016. Delinquency of over 90 days past due was nil as of December 31, 2016. A good amount of pipeline has been built-up which has the potential for conversion into financing.

The liquidity of the Company was also properly managed, yielding good income during 2016 even though rates of deposits remained low and volatile.

The loss for the period under review was SR 62.012 million of which SR 34.076 million related to the net pre-operational expenses incurred up to December 31, 2015. Expenses generally remained under control and within approved targets.

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فاكس: ٩٦٦ ٦١ EAP ٦٧٧٤ المملكة العربية السعودية

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The key financial indicators of Bidaya Home Finance Company as of December 31, 2016 were as under:

Financial Highlights	SR in '000	
Total Assets	873,987	
Total Liabilities	33,083	
Share Capital	900,000	
Net Equity	840,904	
Total Operational Revenue	9,201	
Other revenue	22,283	
Total Operational Expenses	93,496	
Net Loss for the period	62,012	

The breakdown of assets and liabilities as of December 31, 2016 into short and long term was as under:-

Classification	Short Term	Long Term	Total
Assets			
Cash and Bank Balances	227,014	_	227,014
Held to Maturity Deposits	203,547	_	203,547
Available-for-sale investments	78,096	-	78,096
ljara Financing	14,573	336,577	351,150
Prepayments, accrued income and others Property and equipment/Intangible	4,418		4,418
assets		9,762	9,762
	527,648	346,339	873,987
Liabilities			
Accounts payable and accruals	18,336	1,925	20,261
Zakat Payable	12,168	-	12,168
Employees' terminal benefits	654		654
- '.l.	31,158	1,925	33,083







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### **Dividend Distribution**

Owing to the startup nature of the company, the company has accumulated losses on its balance sheet and accordingly no dividend was available for distribution to the shareholders.

#### **Future Outlook**

There is significant demand for the housing sector in the years to come owing to the young population in Saudi Arabia who look forward to owning a house of their own. The Vision 2030 plan also aims to increase the rate of home ownership among Saudi citizens by 5 percentage points by 2020 from 47 percent now. This also has positive implications for Bidaya Home Finance Company. .

Despite declining government revenues associated with the falling oil prices during the last year, the government was quick to react in formulating the Vision 2030 program to meet the challenges that it is likely to face in the future. The first phase of this program is already under implementation in the form of the National Transformation Program (NTP) 2020.

The housing sector has a special emphasis in the NTP 2020 program as the government is committed to enabling its citizens to own a house of their own. In an effort to increase housing supply, the government has taken initiatives to geopolitical uncertainties, the year 2017 offers good prospects and potential. work with the private sector. Accordingly, despite the global slow down and

On behalf of the Board

Khalid Al Aboodi

Chairman-Board of Directors

Bidaya Home Finance Company