



الرائدة  
alraedah

AlRaedah Finance

# Annual Report 2020

# Financial Highlights



## Originations

Increased by 106.14%



## Gross Revenue

Reduced by 26.49%



## Net Income

Reduced by 361.31%



## Total Assets

Increased by 16.75%



## Applications 2020

1247 units



## Headcount

94-Staff



# KSA Overview

Saudi Arabia is the largest country in the Gulf region with a population of 32 million, and the largest economy in the Arab World with a GDP of USD 683.7 billion. It is the only G-20-member country in the region. According to Forbes Magazine, petroleum accounts for roughly 87 percent of budget revenues, 42 percent of GDP, and 90 percent of export earnings.

To diversify its economy away from oil, the government launched a broad and ambitious socio-economic reform plan known as Vision 2030. The program is aimed at diversifying the economy and creating private sector jobs for a growing population<sup>1</sup>.

According to the estimates of the General Authority for Statistics, Gross Domestic Product (GDP) of Saudi Arabia recorded a negative real growth rate of 4.1% in 2020 compared to 2019. This negative growth resulted mainly from the contraction in oil sector by 6.7% , in addition to a negative growth rate of 2.3% recorded in the non-oil sector. The private sector shrunk by 3.1%, and the government sector showed also a negative growth rate of 0.5%.



In line with the Vision 2030, the restructuring of the economy to support stronger non-oil growth looks set to remain a central element of economic policy over the coming years, yet this is likely to be a gradual process, which requires some time to come into effect<sup>2</sup>.

<https://www.stats.gov.sa/sites/default/files/Gross%20Domestic%20Product%20annual%202020%20EN.pdf>



# SME Market Overview

The economy of Saudi Arabia is characterized by a number of special features, the most important of which is being the biggest economy in the Middle East.

Saudi reforms are enhancing the growth of the SME sector to create jobs and boost the economy, as the Ministry of Labor launches 68 initiatives to stimulate private sector investment, according to several economy experts.

SME's are also contributing to the growth of the economy particularly after the establishment of the General Authority of Small and Medium Enterprises (Monsha'at) to guide and help structure overall businesses. Second to the UAE, Saudi Arabia has the most developed SME sector in the GCC.

## The SME sector alone is a 2.2 trillion riyal opportunity in Saudi Arabia that is just waiting to happen.



63% of SMEs in the region have no access to finance.



SMEs in Saudi Arabia employ 62% of the total private sector workforce, but today only 7% are women. The opportunity is enormous, particularly as women are eager and ready; in 2016, 40% of Saudi startups were owned by women.



Saudi Arabia has shown a relatively low contribution from the SME sector in terms of GDP. The contribution of SMEs to GDP stands at 33%, which is low compared to the most developed economies.

**The Saudi SME sector has significant potential, however the SME sector contribution to the Kingdom still lags behind global benchmarks.**





## SME Definition

SMEs are typically defined based on revenues and number of employees:

SME Size	Full Time Equivalents (FTEs)	Revenue (\$m)
Micro	1-5	0 – 0.8
Small	6-49	0.9 – 10.6
Medium	50-249	10.6 - 53

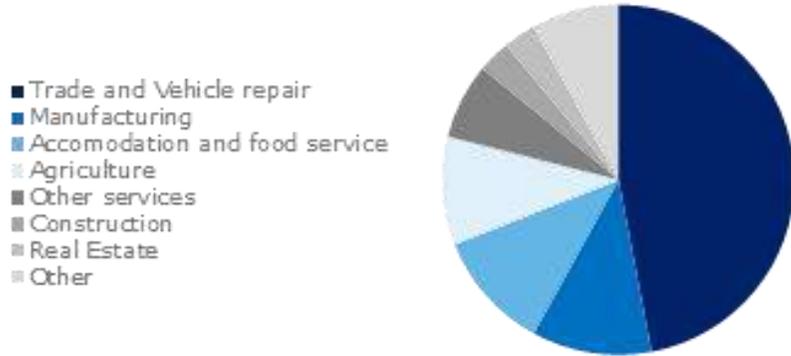
GASTAT 2017 SME Establishments Survey

The Saudi Arabian SME sector is comprised up of 1% Medium, 12% Small, and 87% Micro.



## Breakdown of SMEs by Sector

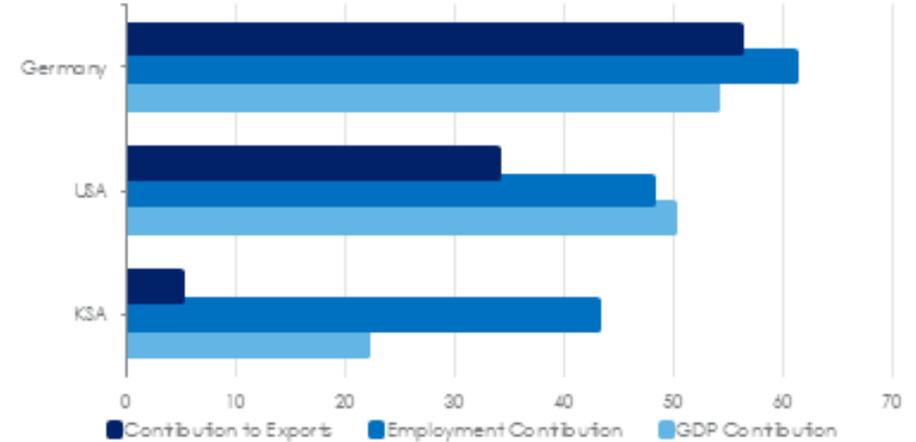
92% of SMEs belong to 7 sectors:



GASTAT 2017 SME Establishments Survey

## Benchmarking KSA to the West

SME contribution in Kingdom lags benchmarks:



## Key highlights of the SME Sector include the following:

- 1 SMEs employ over 61% of the private work force and 43% of the population according to Monsha'at data
- 2 SMEs make up 92 percent of the businesses in Saudi Arabia
- 3 There are roughly 1.8 million SME's in KSA according to the International Finance Corporation (IFC)



## SME Loans versus Total Loans

Saudi bank lending share to SME's accounts to less than 6% of total commercial loan book excluding NBFIs:



## Financing is a key challenge to increase SME contribution to GDP.



63% of SMEs in the region have no access to finance.



SMEs in Saudi Arabia employ 62% of the total private sector workforce, but today only 7% are women. The opportunity is enormous, particularly as women are eager and ready; in 2016, 40% of Saudi startups were owned by women.



Saudi Arabia has shown a relatively low contribution from the SME sector in terms of GDP. The contribution of SMEs to GDP stands at 33%, which is low compared to the most developed economies.

<sup>1</sup> Annual reports of banks 2017

<sup>2</sup> SAMA Monthly Bulletin report



## Financing is a Key Challenge to the Sector

Financing is a key challenge to increase SME contribution to GDP:

1

### SME Financing

SMEs receive less than 6% of all bank financing in KSA, most funding is going to Medium sized companies

2

### Financing Companies

Non-banking finance institutions with stagnating volumes and high NPLs

3

### Kafalah Program

Kafalah guarantees only 10% of SME loans

## Financing is a Key Challenge to the Sector

The key Government sponsored programs facilitate the growth of the SME sector are described below:

### Kafalah

The SMEs Loan Guarantee Program (KAFALAH) has maintained its ongoing key role in supporting small and medium enterprises Kingdom-wide with the aim of expanding the beneficiaries' base and creating new job opportunities to reduce unemployment rates in the Kingdom.

### Monsha'at

In the effort to support the Kingdom's SME market, the government established a new program, "Monsha'at", whose main objectives include the following:

- ⌚ Organize, support, develop and sponsor the SME sector in accordance with best global practices
- ⌚ Increase the productivity of these enterprises
- ⌚ Increase their contribution by raising the GDP from 20% to 35% by 2030





## Monsha'at works on supporting, developing and nurturing the SME sector in line with best global practices.

This is achieved by implementing and supporting programs and projects to promote the cultural and spirit of entrepreneurship and innovation, and diversifying sources of financial support for SMEs, in addition to stimulating venture capital initiatives, setting policies and standards for financing projects in the SME industry.

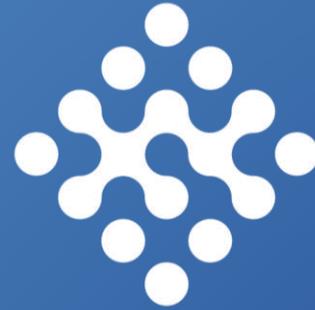
---

It also provides administrative and technical support for the establishments in developing their administrative, technical, financial, marketing, human resources and other capabilities while also enhances the collaboration between different governmental and international entities related to Monsha'at's objectives.

Despite being one of the fastest growing economies in the world, Saudi Arabia has shown a relatively low contribution from the SME sector, in terms of GDP and employment rate. The contribution of SMEs to GDP stands at 33%, which is low compared to the most developed economies. In Spain and the USA, SMEs contribute to 64.3% and 50% of GDP, respectively. However, it is higher compared to most of the GCC countries. Oman and Bahrain SMEs contribute to only 14% and 28% of GDP, respectively.



# Company Overview



الرائدة  
alraedah

AlRaedah Finance Company (the "Company") is a Saudi Closed Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration numbered 1010314982 issued in Riyadh on 21 Ramadan 1432H (corresponding to 21 August 2011). The Company is engaged in providing finance lease and finance for small and medium entities in the form of Murabaha & Ijarah in accordance with the Saudi Arabian Monetary Authority ("SAMA") approval.

SAMA has issued the "Implementing regulations of the Law on supervision of Finance Companies" which were published on 24 February 2013 following the "Financial lease law" and "Law on supervision of Finance Companies" (the "laws") published on 27 August 2012. These laws have given existing companies a grace period of two years to align their current position with the new law's requirements. During the year ended 31 December 2014, the Company received a pre-approval license numbered 361000017087 on 2 Safar 1436H (corresponding to 24 November 2014). SAMA has issued the company formal license on 30 Rabi Thani 1437H (corresponding to 9 February 2016) numbered 43/ASH/201602.



The Company has one branch in Buraydah under commercial registration numbered 1131056928 on 24 Shaban 1437H (corresponding to 31 May 2016) and one branch in Khobar under commercial registration numbered 2051222088 on 17 Dhul-Qadah 1439H (corresponding to 30 July 2018).

<b>Name of Shareholders</b>	<b>Number of Share</b>	<b>% Ownership</b>
Abdullah Nasser AlDawood	14,850,000	99%
AlRaedah Investment Company	150,000	1%
<b>Total</b>	<b>15,000,000</b>	<b>100.00%</b>



## Board of Directors Members and Meetings

The Board is comprised of the following members:

Board Members	Position	Classification	Board of Directors	Audit Committee	Risk Committee
Abdullah Bin Nasser Al Dawood	Chairman	Non-Executive	•		•
Abdulrahman Bin Abdulaziz Bin Mutrib	Vice Chairman	Non-Executive	•		•
Ibrahim Bin Abdulaziz Al Rashed	Member	Non-Executive	•		•
Abdulelah Bin Saad Bin Haddab	Member	Non-Executive	•	•	
Abdullah Bin Abdulaziz Al Hoqail	Member	Independent	•		
Yousef Bin Ibrahim Al Eisa	Member	Non-Executive	•		
Paul Anthony Melotto	Member & CEO	Executive	•		

## Board of Directors Members and Meetings

The Board meetings:

Board Meeting	April 2020	Sep 2020
Abdullah Bin Nasser Al Dawood	Attended	Attended
Abdulrahman Bin Abdulaziz Bin Mutrib	Attended	Attended
Ibrahim Bin Abdulaziz Al Rashed	Attended	Attended
Abdulelah Bin Saad Bin Haddab	Attended	Attended
Abdullah Bin Abdulaziz Al Hoqail	Joined the board in November	
Yousef Bin Ibrahim Al Eisa	Joined the board in November	
Paul Anthony Melotto	Attended	Attended



## Audit Committee Members and Meetings

The Audit committee is comprised of the following members:

Board Members	Position	Classification
Abdulelah Bin Saad Bin Haddab	Chairman of Audit Committee	Non-Executive
Turki Abdulmohsen Al-luhaid	Member	Independent
Alaa Abdulaziz Abu Nabaa	Member	Independent

## Audit Committee Members and Meetings

The Audit committee is comprised of the following members:

Board Members	Feb-2020	April-2020	May-2020	July-2020	Nov-2020	Dec-2020
Abdulelah Bin Saad Bin Haddab	Absent	Attended	Attended	Attended	Attended	Attended
Turki Abdulmohsen Al-luhaid	Attended	Attended	Attended	Attended	Attended	Attended
Alaa Abdulaziz Abu Nabaa	Attended	Attended	Attended	Attended	Attended	Attended



## Risk Committee Members and Meetings

The Risk committee is comprised of the following members:

<b>Risk Committee Members</b>	<b>Position</b>	<b>Classification</b>
Abdullah Bin Nasser Al Dawood	Chairman of the Risk Committee	Non-Executive
Abdulrahman Bin Abdulaziz Bin Mutrib	Member	Non-Executive
Ibrahim Bin Abdulaziz Al Rashed	Member	Non-Executive

## Risk Committee Members and Meetings

The Risk committee meetings:

<b>Risk Committee Members</b>	<b>6-Sep-2020</b>	<b>13-Sep-2020</b>
Abdullah Bin Nasser Al Dawood	Attended	Attended
Abdulrahman Bin Abdulaziz Bin Mutrib	Attended	Attended
Ibrahim Bin Abdulaziz Al Rashed	Attended	Attended



## Compensation of the Board of Directors and the Committees

Remunerations for Board of Directors

<b>Board Members</b>	<b>Fixed remunerations (Except for allowances for attending BoD meetings)</b>	<b>Allowance for attending BoD meetings</b>	<b>Total *</b>
Abdullah Bin Nasser Al Dawood	0.00	0.00	0.00
Abdulrahman Bin Abdulaziz Bin Mutrib	0.00	0.00	0.00
Ibrahim Bin Abdulaziz Al Rashed	0.00	0.00	0.00
Abdulelah Bin Saad Bin Haddab	0.00	0.00	0.00
Abdullah Bin Abdulaziz Al Hoqail	0.00	0.00	0.00
Yousef Bin Ibrahim Al Eisa	0.00	0.00	0.00
Paul Anthony Melotto	0.00	0.00	0.00

\*The Remuneration of the BoD must to be approved by the General Assembly which supposed to be held on Jun 2020.

## Compensation of the Board of Directors and the Committees

Remunerations for Audit Committee Members

<b>Audit Committee Members</b>	<b>Fixed remunerations (Except for allowances for attending the meetings)</b>	<b>Allowance for attending the meetings</b>	<b>Total</b>
Abdulelah Bin Saad Bin Haddab	50,000	25,000	75,000
Turki Abdulmohsin Al-Luhaun	50,000	30,000	80,000
Alaa Abdulaziz Abu Nabaa	50,000	30,000	80,000



## Compensation of the Board of Directors and the Committees

Remunerations for Risk Committee Members:

<b>Risk Committee Members</b>	<b>Fixed remunerations (Except for allowances for attending the meetings)</b>	<b>Allowance for attending the meetings</b>	<b>Total</b>
Abdullah Bin Nasser Al Dawood	0.00	0.00	0.00
Abdulrahman Bin Abdulaziz Bin Mutrib	0.00	0.00	0.00
Ibrahim Bin Abdulaziz Al Rashed	0.00	0.00	0.00



# Operating Results

Income Statement	2020	2019	Var. (Amt)	Var. (%)
Income on financing activity	40 682 820	55 475 642	(14 792 822)	-26.67%
Finance charges	11 841 646	11 632 196	209 450	1.80%
<b>Net financing activities</b>	<b>28 841.174</b>	<b>43 843.446</b>	<b>(15 002.272)</b>	<b>-34.22%</b>
Modification gains on borrowings grant income	3 321 429	-	3 321 429	100.00%
Other income	2 362 770	3 120 875	(758 105)	-24.29%
<b>Total operating income</b>	<b>34 525.373</b>	<b>46 964.321</b>	<b>(12 438.948)</b>	<b>-26.49%</b>
<b>Operating expenses</b>				
Salaries and employee related expenses	11 173 689	11 104 632	69 057	0.62%
Selling and marketing expenses	5 167 627	3 926 686	1 240 941	31.60%
Rent and premises related expenses	141 129	116 664	24 465	20.97%
Other general and administrative expenses	6 618 328	3 870 037	2 748 291	71.01%
Impairment loss on liara & murabaha receivables	30 251 890	20 228 735	10 023 155	49.55%
Depreciation and amortization	2 016 257	1 813 066	203 191	11.21%
<b>Total operating expenses</b>	<b>55 368.920</b>	<b>41 059.820</b>	<b>14 309.100</b>	<b>34.85%</b>
<b>Income before zakat</b>	<b>(20 843.547)</b>	<b>5 904.501</b>	<b>(26 748.048)</b>	<b>-453.01%</b>
Zakat	732 037	(2 352 146)	3 084 183	-131.12%
<b>Net income for the year</b>	<b>(21 575.584)</b>	<b>8 256.647</b>	<b>(29 832.231)</b>	<b>-361.31%</b>



## Net Income Before Zakat

Income before Zakat decreased from SAR 5.9mn to SAR 20.84mn from 2019 to 2020 respectively. The decrease in Net Income is due to decrease in revenue by 26.67% which is mainly due to the impact of pandemic impact of Covid-19 on overall business in Kingdom. There is also decrease in other income by 24.29%.

## Income from Financing Activities

Income from Financing Activities decreased by SAR 14.79mn which represent 26.67% decrease from SAR 55.47mn to SAR 40.68mn. Decreased in Net Income is due to Covid-19 situation in the Kingdom where there is very strict lockdown imposed and all business are badly impacted this also cause decrease in new business of the Company. However, the Company has recognized modification gains on Government Grant (GG) amounting of SAR 3.32mn which will be reversed into finance cost over the period of loans.

## Finance Charges

Finance cost slightly increased by SAR 0.21mn which represents 1.8% increase from SAR 11.63mn to SAR 11.84mn from 2019 to 2020 respectively.

## Salaries & Employee Related Expenses:

Salaries and employees related expenses slightly increased by 0.62% from SAR 11.10mn to SAR.11.17mn from 2019 to 2020, respectively.

## Operating Expenses

Total operating expense has recorded an increase of SAR 14.31mn reflecting a 34.85% increase compared to prior year 2019. This increase is mainly due to increase in Impairment loss of SAR 10.02mn compared to prior year 2019 following an increase in Other General and Admin expenses by SAR 2.78mn in addition to Selling & Marketing expenses by SAR1.24mn.



Balance sheet	2020	2019	Amount	Var. (%)
<b>Assets</b>				
Cash and cash equivalents/bank balances	124,118,061	9,683,664	114,434,397	1181.73%
Ijara & murabaha receivables - current	174,659,753	136,521,853	38,137,900	27.94%
Prepaid expenses and deposits	49,838,528	6,867,728	42,970,800	625.69%
<b>Total current assets</b>	<b>348,616,342</b>	<b>153,073,245</b>	<b>195,543,097</b>	<b>127.74%</b>
Ijara & murabaha receivables - long term	153,348,061	138,894,087	14,453,974	10.41%
Investments held thru OCI	34,572,424	892,850	33,679,574	3772.14%
Right-of-use asset	1,763,861	2,771,783	(1,007,922)	-36.36%
Intangible assets	1,016,824	860,521	156,303	18.16%
Property plant and equipment, net	600,611	304,506	296,105	97.24%
<b>Total long term assets</b>	<b>191,301,781</b>	<b>143,723,747</b>	<b>47,578,034</b>	<b>33.10%</b>
<b>Total assets</b>	<b>539,918,123</b>	<b>298,034,495</b>	<b>241,883,628</b>	<b>81.16%</b>
<b>Liabilities</b>				
Accounts payable and accruals	25,687,055	17,838,192	7,848,863	44.00%
Provision for zakat and income tax	853,361	1,448,889	(595,528)	-41.10%
Borrowing - short term	142,636,676	31,071,558	111,565,118	359.06%
<b>Total current liabilities</b>	<b>169,177,092</b>	<b>50,358,639</b>	<b>118,818,453</b>	<b>235.94%</b>
Borrowing - long term	212,052,280	68,476,701	143,575,579	209.67%
Lease liability	909,297	1,881,954	(972,657)	-51.68%
Employees' end of service benefits	2,072,278	1,067,055	1,005,223	94.21%
<b>Total long term liability</b>	<b>215,033,855</b>	<b>71,425,710</b>	<b>143,608,145</b>	<b>201.06%</b>
<b>Total liability</b>	<b>384,210,947</b>	<b>121,784,349</b>	<b>262,426,598</b>	<b>215.48%</b>
<b>Equity</b>				
Paid-up share capital	150,000,000	150,000,000	0	0.00%
Statutory reserves	2,243,819	2,243,819	0	0.00%
Retained earnings	3,463,357	24,006,327	(20,542,970)	-85.57%
<b>Total shareholders' equity</b>	<b>155,707,176</b>	<b>176,250,146</b>	<b>(20,542,970)</b>	<b>-11.66%</b>
<b>Total liability and shareholders' equity</b>	<b>539,918,123</b>	<b>298,034,495</b>	<b>241,883,628</b>	<b>81.16%</b>





## Receivables

The Company's total receivables portfolio increased by 17.19% from SAR.285.6mn to SAR.334.4mn from 2019 to 2020. The increase is mainly due to the increase in company's new business resulting increase in total origination by 27% from 2019 to 2020.



## Provision for Doubtful Debt

The Company provision reduced by 22.9% from SAR.8.80mn to SAR.6.78mn from 2019 to 2020. The current economic conditions trigger the management to take action on basis of the expected recoveries and collaterals pledge against the loans.



## Term Loans

The term loans of the Company has been increased by SAR255.14 mn from SAR99.54mm to SAR354.69 million representing 256.30%. This is mainly due to Company has obtained grant from SAMA under deferred payment program of SAR 227.91, in addition to three new loans from Monshat of SAR70 million.

### Movement in provision for doubtful debts 2020

	2020	2019	2018
Balance at the beginning of the year	8,805,550.00	6,732,473.00	2,267,696.00
Impairment charge for the year	30,251,890.00	20,228,735.00	6,201,146.00
Written off during the year	(32,272,000.00)	(18,155,658.00)	(3,663,814.00)
Adoption of IFRS - 9	0.00	0.00	1,927,445.00
<b>Balance at the end of the year</b>	<b>6,785,440.00</b>	<b>8,805,550.00</b>	<b>6,732,473.00</b>



# Violations

Fines imposed by SAMA:

Violations of	Fiscal Year 2019		Fiscal Year 2020	
	Number of Resolutions	Total amount of fines in Saudi Riyal	Number of Resolutions	Total amount of fines in Saudi Riyal
SAMA supervisory instructions	/	/	3	70,000
SAMA instructions related to customer protection	/	/	/	/
SAMA instructions related to due diligence in AML and TF	/	/	/	/

Fines imposed by Ministry of Municipal and Rural Affairs:

Violations of	Fiscal Year 2020
Non presenting the municipality license at the reception	100.00 S.R



# Accomplishments

## 2015

Changed name from Aalam Al Arab Installment & Leasing Limited to AlRaedah Finance Company

Converted Company Structure from LLC to Closed Joint stock Company

Increased Capital to SAR 150 mn

Increased Saudization Ratio to 64%

## 2016

Obtained SAMA License

Increased Bank facilities to two banks

Hired Company Risk Officer

Launched Branch in Al Qassim

Increased Saudization Ratio to 70%

## 2017

Received BIBAN award 2017

Implemented IFRS 9

Implemented AI/Machine Learning Platform

Hired Head of Compliance

Promoted previous Head of Compliance to Acting Head of Operations

## 2018

Expanded our borrowings from 50mn to SAR 200mn

Expanded company's footprint to Khobar

## 2019

Expanded our product offering to include Point of Sale finance product

Hired Chief Information Security Officer

Hired Head of Legal

Signed partnership with Payment Aggregator Geidea

Signed partnership with Payment Aggregator Sure

Received Award for Most innovative products from Monsha'at

## 2020

Renewal of the license for 5 years.

Changes in the ownership of the company.

Two new members join the Board of Directors.

New External Auditor.

New Internal Auditor

Contributing in supporting the Health Endowment Fund during COVID 19 pandemic by providing financial donations.



# Saudization and Training



**As a result of the Company's continuing commitment to increase nationalization, The Percentage of Saudi nationals to total staff as of December 31, 2020 increased to 90.4%.**

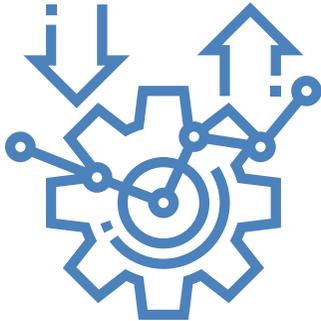
In addition, the Company increased its female staff reaching 37.23% of the total workforce of the Company as of December 31, 2020.

During the year ended December 31, 2019 the Company setup a special training program in the United Kingdom for Artificial Intelligence for the staff to learn and apply new techniques on our AI and machine learning platform.

The Company has held several training courses in Riyadh and Dubai for employees to gain meaningful work experience within our industry to leverage and improve our business practices.



# Risk Management



The complexity of today's financial services sector, business operations, and diversity of geographical locations requires the **identification, measurement, aggregation, and effective management of risks** including an efficient allocation of capital to derive an optimal risk-return ratio. In addition, the stakeholders of the Company, including its regulators also expect the Company to have a **clear and well documented framework** in place that addresses several dimensions of the Company's business.

The Company has a comprehensive set of policies dealing with various aspects of risk management. The Risk Management Policy is the overarching Policy Guide prepared in conformity with SAMA guidelines which covers the risks the Company is exposed to in the pursuit of its business objectives. It also describes the risk governance structures and risk management policies in place for management, monitoring, and control of the risks through the Risk Appetite Framework & Credit Policy Guide.



The Company's activities expose it to a variety of financial risks: market risk (including currency risk and special commission rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by senior management. The most important risks and their oversight is summarized below.

### Market Risk

Keeping in view the overall financial condition of the market, or in broad sense "Macro-Economic & Socio-Political" situation, the overall economy, especially financial industry has been under stressed position with reduced repayment ability of the customers. In order to cope up with the earlier stated situation the company "AlRaedah" has adapted an aggressive position over the collection function along with the Credit Underwriting function. The Company also perform an in depth segmental, "was-is" analytics etc. over the portfolio in order to keep the management updated with the movements within the portfolio.

### Currency Risk

The Company activities are restricted to only "Local Currency" i.e. SAR, and therefore is not exposed to any risk related to other Currency Rates.

### Commission Rate Risk

The Company currently uses profit rate swaps when available to the hedge spikes in funding cost that may arise when SIBOR increases.

### Liquidity Risk

The Company keep a stringent control over the liquidity position by updating a daily cash report. Also the Company have "Credit Facility Line" contract with two banks in order to meet its business liquidity requirement.





## Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Company's Operational Risk Management Policy provides a Company-wide definition of operational risk and lays down the processes under which the operational risks are to be identified, assessed, monitored, and controlled. The key components of this framework are comprehensively documented in the Company's operational risk policies document.



## Credit Risk Management

The Company manages exposures to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally in lending activities



## Credit Risk Management Strategy

The approach to credit risk management is based on a foundation which preserves the independence and integrity of credit risk assessment. The Company has a comprehensive framework of managing credit risk, which includes an independent credit risk review function and credit risk monitoring process via analytics. Credit reporting processes are therefore combined with clear policies which guide the day-to-day underwriting and management of the Company's credit risk exposure. This approach includes credit limits that are established for all customers after a careful assessment of their creditworthiness. All procedures, outlined in the Company's Credit Policy Guide approved by the Board of Directors, require that all credit proposals must reviewed and approved by the Credit Committee and the Board of Directors.



## Credit Risk Monitoring and Reporting System

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to the Risk Committee, senior management and the Board of Directors to ensure awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.



## Past-due and impairment

Credit facilities are classified as past due when a payment has not been received on its contractual payment date. A credit facility is generally considered impaired if the installment is past due for more than 90 days and the exposure is downgraded to a non-performing category.



## Board of Directors Declaration

The Board of Directors hereby declares that to the best of its knowledge and belief and in all material respects:

**Proper books and accounts have been maintained;**

---

**The System of internal control is sound in design; and**

---

**There is no significant doubts concerning the Company's ability to continue as a going concern**

## Audit Committee

The committee was reconstituted by a resolution of the Extraordinary General Assembly held on 19/09/1440 AH corresponding to 19/05/2019 AD. The committee meets a minimum of four times a year and consists of three non-executive members and the majority of its members are independent to ensure the independence of the audit process and the efficiency of the oversight process.

The committee works to study, review and discuss the company's financial statements before submitting them to the board of directors and expressing an opinion and recommendations about them. Further, the Committee follows up on the work of external and internal auditing, and follows up on the work of compliance and Anti-Money Laundering department. The committee also prepares a report on its opinion regarding the adequacy of the company's internal control framework and other work it has carried out within its responsibility.



## Auditors

The General Assembly meeting held on June 30, 2020 appointed BDO Dr. Mohammed AlAmri & Co. as the Company's external auditor for the financial year 2020, and the first quarter for the financial year 2021.



# Accounting Standards

The Company follows the Accounting Standards for Financial Institutions promulgated by the Saudi Arabian Monetary Agency (SAMA) and International Financial Reporting Standards (IFRS9) The Company also prepares its financial statements in compliance with the Regulations for Companies in the Kingdom of Saudi Arabia, and the Company's Articles of Association.

# Shari'a Compliance

AlRaedah Finance has a Sharia Board that oversees all of its finance products. The Sharia Board includes the membership of Dr. Muhammad bin Saud Al-Osaimi, Dr. Yusuf bin Abdullah Al-Shubaili. Both members have extensive publications in relation to sharia compliant financial transaction. Both members are members of a number of esteemed banks and financial institutions. The Sharia Board is supported by a Sharia Board Secretariat and a sharia compliance Audit. All company transactions are audited for Sharia compliance on a quarterly basis.

