

English Translation **Of** **Implementing Regulation of the Finance Companies Control** **Law**

Chapter One **Definitions and General Provisions**

Article 1

The following terms and phrases – wherever mentioned in this Regulation – shall have the meanings assigned thereto unless the context requires otherwise:

Law: Finance Companies Control Law.

Finance laws: Real Estate Finance Law, Finance Lease Law and Finance Companies Control Law.

Regulations: Implementing Regulation of the Finance Companies Control Law.

SAMA: Saudi Arabian Monetary Agency.

Governor: Governor of SAMA.

Finance company: A joint stock company licensed to engage in finance activities.

Borrower: A person receiving finance.

Consumer: A person to whom finance services are offered.

License: A license issued by SAMA to a company to engage in finance activities.

Finance activity/activities: One or more types of finance activities stated in Article 10 of the Law or any other finance activities approved by SAMA pursuant to the same Article.

Finance: Extending credit under contracts for activities stipulated in the Law and Regulations.

Finance contract: A contract by which the finance company extends credit for activities stipulated in the Law and Regulations.

Installment: The total amount payable by the borrower distributed over the term of the finance contract, excluding non-recurring expenditures, expenses and costs such as charges, commissions and administrative fees.

Term cost: The term cost paid by the borrower under the finance contract which may be reflected by a fixed or variable annual percentage of the amount of finance obtained by the borrower.

Total finance cost: Costs to be paid by the borrower under a finance contract other than the finance amount in accordance with the provisions of the finance contract. Such costs include term cost, charges, commissions, administrative fees, insurance, and any expenses required to obtain finance, excluding any expenses the borrower can avoid such as costs or fees payable by the borrower due to his breach of any of his obligations stipulated in the finance contract.

Finance amount: The maximum or total amounts available to the borrower under a finance contract.

Total amount payable by the borrower: the finance amount in addition to the total cost of finance.

Annual percentage rate (APR): The deduction rate calculated in accordance with the provisions of Article 81 of this Regulation.

Board: Board of directors of the finance company.

Senior management: The managing director, chief executive officer, general manager, their deputies, the chief financial officer and heads of major departments, in addition to risk management, internal audit and compliance officers in the finance company.

Exposure: The value of an asset that is subject to any credit risks, such as default or credit rating downgrade.

Large exposure: The exposure of a single borrower by five percent or more of the paid capital and reserves of the finance company.

Qualifying percentage: Five percent or more of the shares or the voting rights related to shares in the finance company whether held directly or indirectly by one or several persons acting in agreement.

Article 2

SAMA shall be in charge of the finance sector and shall supervise the activities of finance companies in accordance with the Law and Regulations, including the following:

1. Extend license to engage in one or more finance activities in accordance with the provisions of finance laws and regulations;
2. Take necessary measures for maintaining the integrity and stability of the finance sector and fairness of transactions;
3. Take necessary measures for promoting fair and effective competition between finance companies;
4. Issue required rules and instructions to regulate the finance sector; and
5. Take proper means for the development of the finance sector, Saudization, and raising the employees' competency through regulating the obligations of the finance companies regarding the training of human resources, improving their skills and developing their knowledge.

Article 3

Any legal person engaging in one or more of the finance activities stipulated in Article 10 of the Law, or any other finance activity approved by SAMA in accordance with the abovementioned Article of the Law, including refinance activities, shall be subject to the provisions of this Regulation.

Chapter Two

Licensing of Finance Companies

Article 4

No person may engage in any finance activity without obtaining a licence from SAMA in accordance with the Law and Regulation or other applicable laws. SAMA may exempt certain transactions and activities from certain provisions of this Regulation when it deems that their nature or volume warrant such exemption.

Article 5

The finance of a natural or corporate person regarding the goods of his establishment or services to his clients shall be subject to the provisions of Installment Sale Law.

Article 6

A finance company shall not engage in any activity for which it is not licensed under finance laws and regulations.

Article 7

Founding shareholders of a finance company, or representatives, shall apply to SAMA for a license. The application shall specify the activities for which the license is requested, and shall include the following:

1. A completed SAMA-approved application form;
2. Draft articles of association and charter of the finance company;
3. Description of the organizational structure of the finance company showing all primary departments and positions and main functions thereof;
4. List of all founding shareholders specifying the number and percentage of shares for each;
5. Fit and proper requirements form for founding shareholders signed by each founding member;
6. Fit and proper requirements form for board members signed by each candidate for board membership;
7. Feasibility study identifying the target market, services to be provided, business model, and strategy of the finance company in addition to a five-year business plan that includes at least the following:
 - (a) finance activities, for which a license is requested, as well as products and a marketing plan;
 - (b) Credit extending policies and procedures;
 - (c) Estimated financial statements, projected annual revenue and expenses, financial margins and targeted growth rates, taking into account SAMA requirements of capital adequacy and liquidity;
 - (d) Projected start-up costs and finance thereof;
 - (e) Projected ongoing finance of operations;
 - (f) Branches to be established by the finance company;
 - (g) Plan and programs of monitoring and managing risks and compliance;
 - (h) Recruitment and training plan, including the projected number of employees and percentage of Saudi nationals at each department and administrative level, and employee training and qualification programs.
8. An irrevocable letter of guarantee issued to SAMA by one of the local banks for an amount equivalent to the required minimum capital for the finance activity/activities requested to be licensed according to the format set by SAMA. Such a letter of guarantee is renewable automatically until the required capital is paid in full, and shall be released upon the request of the founding shareholders in the following cases:

- (a) Payment of the capital in cash.
 - (b) Withdrawal of the license application.
 - (c) Rejection of the license application by SAMA.
9. Drafts of proposed agreements and contracts with third parties, particularly agreements and contracts with related parties and external service providers; and
10. Any other documents or information requested by SAMA.

Article 8

Subject to the provisions of the Companies Law, the minimum paid up capital of the finance company shall be as follows:

1. For a finance company engaging in real estate finance: two hundred million riyals (SAR 200,000,000).
2. For a finance company engaging in one or more finance activities other than real estate finance: one hundred million riyals (SAR 100,000,000).
3. For a finance company engaging in only microfinance activity: ten million riyals (SAR 10,000,000).

SAMA may stipulate higher or lower minimum capital based on market conditions, or if deemed by SAMA that the proposed business model of the finance company, nature and geographical scope of its activities so require, taking into consideration risks associated with such activities. The capital must be paid in full upon the incorporation of the finance company.

Article 9

1. Microfinance shall be limited to finance production activities of small businesses and craftsmen and the like. The finance amount shall not exceed fifty thousand riyals (SAR 50,000). Based on market conditions, SAMA may raise or lower such an amount.
2. The licensed finance company licensed to engage in microfinance shall comply with SAMA requirements, controls and rules of such finance activity.

Article 10

1. Each founding shareholder shall satisfy *Sharia* and legal competency requirements as well as fit and proper requirements stipulated by SAMA, particularly the following:
 - (a) Have not been convicted of a violation of any of the provisions of any criminal law, Banking Control Law, Capital Market Law, Cooperative Insurance Companies Control Law or their regulations, finance laws or their regulations, or any other laws or regulations within the Kingdom or abroad;
 - (b) Have not been declared bankrupt or entered into a bankruptcy protection settlement with any creditor;
 - (c) Have not been convicted of a crime impinging on integrity, unless rehabilitated and that 10 years have passed since the execution of the sentence imposed for such crime, provided he obtains a no objection letter from SAMA;
 - (d) Have not applied to withdraw the license application to engage in finance activity within the preceding two years;

- (e) Have not been rejected the license to engage in finance activity by SAMA within the preceding five years; and
 - (f) Have sufficient financial solvency and have not breached any financial obligations against his creditors or shown any indication of his continuing default in his financial obligations against his creditors.
2. If a founding shareholder or an owner of a qualifying interest fails to meet Sharia or legal competency, or fit and proper requirements stipulated by SAMA, SAMA may at any time bar them from voting on decisions of the finance company or require them to obtain a no objection letter before exercising such right in order to maintain the integrity of the performance of the finance company, in application of the principles of governance and the protection of the interests of stakeholders of the finance company.
 3. A no objection letter from SAMA is required prior to the acquisition of any shares in a finance company not listed in the Saudi Stock Exchange “Tadawul”, or the acquisition of a qualifying interest in a finance company listed in the Saudi Stock Exchange “Tadawul”. The provisions of this Article shall apply in both cases.
 4. If a founding shareholder or any person intending to acquire shares in the finance company is an entity, the provisions of this Article shall apply to any person who owns five percent or more of the capital or of the right to vote in such entity.

Article 11

All Board members shall satisfy the requirements of professional competency as well as fit and proper requirements stipulated by SAMA, particularly the following :

Not be a board member in another finance company;

Not combine supervision of finance companies or auditing their accounts with membership in the company's board of directors;

Have not been dismissed from a leading executive position function in financial facility based on disciplinary action;

Have not been convicted of a violation of any of the provisions of any criminal law, Banking Control Law, Capital Market Law, Cooperative Insurance Companies Control Law or their regulations, finance laws or their regulations, or any other laws or regulations within the Kingdom or abroad;

Have not been declared bankrupt or entered into a bankruptcy protection settlement with any creditor;

Have not been convicted of a crime impinging on integrity, unless rehabilitated and that 10 years have passed since the execution of the sentence imposed for such crime, provided he obtains a no objection letter from SAMA; and

Have sufficient financial solvency and have not breached any financial obligations against his creditors or shown any indication of his continuing default in his financial obligations against his creditors.

Article 12

Any nominee for a senior management position must satisfy the requirements of professional competency as well as fit and proper requirements stipulated by SAMA, particularly the following:

1. Permanently residing in the Kingdom;
2. Have academic and professional qualification and adequate experience in the field for not less than five years;
3. Have not been dismissed from a previous job on the basis of disciplinary action;
4. Have not been convicted of a violation of any of the provisions of any criminal law, Banking Control Law, Capital Market Law, Cooperative Insurance Companies Control Law or their regulations, finance laws or their regulations, or any other laws or regulations within the Kingdom or abroad;
5. Have not been declared bankrupt or entered into a bankruptcy protection settlement with any creditor;
6. Have not been convicted of a crime impinging on integrity, unless rehabilitated and that 10 years have passed since the execution of the sentence imposed for such crime, provided he obtains a no objection letter from SAMA; and
7. Have sufficient financial solvency and have not breached any financial obligations against his creditors or shown any indication of his continuing default in his financial obligations against his creditors.

Article 13

1. The license application must satisfy the requirements stipulated in the Law and Regulations. The founding shareholders of a finance company must provide SAMA with any additional information or documents that it requires within 30 working days from the date of request;
2. SAMA may reject the license application in case of noncompliance with the period specified in paragraph 1 of this Article;
3. Upon satisfaction of all requirements stipulated in the Law and Regulations, SAMA shall notify the applicant in writing of completion of his application;
4. SAMA shall notify the applicant in writing of its initial approval or reasoned rejection within 60 working days from date of its notification of the license applicant of completion of his application. The initial approval shall not constitute a license or approval to engage in finance activity.

Article 14

Founding shareholders shall complete the incorporation of the finance company within six months from date of SAMA's initial approval and provide SAMA with a copy of the company's commercial registration and charter, indicating the activities specified in SAMA's initial approval. The validity of SAMA's initial approval shall expire upon the elapse of six months from the date of such approval. Such period may be extended for a maximum period of six months upon obtaining a no objection letter from SAMA.

Article 15

1. SAMA shall issue a decision granting a license to a company upon completion of its incorporation and submission by the license applicants of proof of full payment of the capital and any initial additional funding set out in the work plan, and taking all necessary measures to commence finance activities for which license is sought, such as necessary human resources, systems and equipment.

2. SAMA may take necessary measures to ascertain the satisfaction of requirements stipulated in paragraph 1 of this Article, such as on-site supervision or inspection, meeting company officials, and review of its systems, procedures and records.

Article 16

SAMA shall specify in the license the finance activity or activities subject of the license. SAMA may restrict the license to a certain geographic area or certain borrowers or impose other conditions. The finance company shall not engage in any unlicensed activity or activities conflicting with the license conditions, particularly the following:

1. A real estate finance company shall not engage in finance activities other than real estate finance;
2. A microfinance company shall not engage in finance activities other than microfinance; and
3. Only a licensed real estate finance company may engage in real estate finance.

Article 17

The license shall be granted for a term of five years, and may be renewed by SAMA based on request by the finance company in accordance with the requirements of this Regulation. The renewal application must be submitted to SAMA at least six months prior to the expiry of the license term, using the form stipulated by SAMA, attaching the following:

1. An updated strategy and five-year business plan that includes at least the following:
 - (a) A marketing plan taking into account existing and planned products;
 - (b) Credit extending policies and procedures;
 - (c) Estimated financial statements, annual revenues and expenses, financial margins and targeted growth rates, compared to performance of the finance company over the preceding five years, taking into account any modifications to the company's strategy and business plan;
 - (d) Estimated liquidity and capital adequacy ratios compared with the preceding five years, taking into account any modifications to the company's strategy and business plan;
 - (e) Projected ongoing finance of operations;
 - (f) Branches to be established ;
 - (g) Report on risks encountered by the finance company in the past five years, and management thereof, including non-compliance risks and cases of violation of laws, regulations, or instructions, and the company's future plan for risk management and compliance.
 - (h) Current number of employees and percentage of Saudis at each department and administrative level.
 - (i) Recruitment and training plan, including training and qualification programs for employees.
2. License renewal fees;
3. Any other documents or information requested by SAMA.

Article 18

A finance company shall not cease any of its activities for more than three consecutive months except with SAMA's prior written approval, without prejudice to the company's obligations towards its creditors, shareholders or the integrity of the financial system.

Article 19

A finance company may apply for an amendment of the license by addition or deletion of certain finance activities or amendment of any condition or limitation thereof. Said application shall be based on reasonable justification for amendment, supported by documents, information or studies required by SAMA.

Article 20

1. SAMA may revoke the license upon request by the finance company, taking into account the rights of creditors and borrowers and the integrity of the financial system.
2. SAMA may revoke the license if the finance company has provided false information or failed to disclose material information that should have been provided for licensing purposes.
3. Revocation of license shall entail subjecting the finance company to liquidation. SAMA may appoint a liquidator.

Article 21

The finance company shall fully cease its finance activities if the license is suspended in accordance with the provisions of Article 29 of the Law, and shall not engage in any of such activities except upon obtaining a no objection letter from SAMA.

Article 22

1. SAMA may charge the following:
 - (a) Two hundred thousand riyals (SAR 200,000) for issuing the license;
 - (b) One hundred thousand riyals (SAR 100,000) for renewing the license; and
 - (c) Fifty thousand riyals (SAR 50,000) for amending the license.
2. Notwithstanding the provision of paragraph 1 of this Article, the fee for issuing the license to engage in microfinance activity, renewal or amendment thereof shall be ten thousand riyals (SAR 10,000).

Article 23

The finance company shall obtain a no objection letter from SAMA prior to launching any financial products or amending existing products.

Chapter Three

Capital Adequacy and Liquidity

Article 24

The finance company shall comply with capital adequacy and liquidity levels required in accordance with rules, requirements and standards stipulated by SAMA.

Article 25

The finance company shall provide SAMA with prudential returns at specific times according to forms, controls and instructions determined by SAMA.

Article 26

The finance company shall obtain a no objection letter from SAMA prior to approving, recommending or announcing distribution of profits or any other distributions, upon ascertaining the following conditions:

1. The distribution does not cause capital adequacy or liquidity to fall below required levels;
2. Total distributions in the fiscal year shall not exceed the realized profits in the preceding fiscal year; and
3. Any other conditions stipulated by SAMA.

Chapter Four

Ownership and Assets

Article 27

1. No acquisition of assets other than those necessary for its business shall be carried out by the finance company unless it obtains a no objection letter from SAMA;
2. The finance company shall not partially or totally liquidate its business activities or the company itself without obtaining a no objection letter from SAMA.

Chapter Five

Corporate Governance

Article 28

The finance company shall comply with corporate governance rules stipulated by SAMA.

Article 29

The finance company shall develop its own principles and policy for corporate governance, have them approved by the board of directors and provide SAMA with a copy thereof. Said policy shall include at least the following:

1. A description of the organizational structure, including all departments and positions as well as their duties and responsibilities;
2. Controls for independence and segregation of duties;
3. Roles, responsibilities, and composition of the board of directors and its committees;
4. Remuneration and compensation policies;
5. Conflict of interest controls;
6. Integrity and transparency controls;
7. Controls ensuring compliance with applicable laws and regulations;
8. Methods for maintaining confidentiality of information;

9. Controls ensuring fairness of transactions; and
10. Controls for protection of corporate assets.

Article 30

The board of directors shall form committees to cover areas requiring special expertise. The board of directors shall determine their powers and monitor their performance. Said committees shall include at least an audit committee and a committee on credit and risk management.

Chapter Six

Internal Organization

Article 31

The finance company shall establish appropriate written organizational policies that include work guides and procedures, to be periodically updated and communicated to employees in a timely manner for compliance. The organizational policies shall include rules for the following at a minimum:

1. Organizational and operational structure, exercising of powers and determining responsibilities;
2. Extension of credit and operations;
3. Financial management and accounting;
4. Marketing and sales;
5. Information technology and security;
6. Customer service and debt collection;
7. Risk management, assessment, handling, monitoring and disclosure thereof;
8. Internal control framework;
9. Internal audit;
10. Compliance with relevant laws, regulations and instructions;
11. Outsourcing; and
12. Salaries, remuneration and incentives, including salaries and incentives of senior management and employees as well as remuneration of board members.

Article 32

In a finance company, an executive position such as finance or hedging and a control position such as internal auditing or accounting shall not be combined. Segregation of duties must be maintained to ensure the application of the generally accepted policies, procedures, and technical standards for protecting the company's assets and funds, and avoiding fraud and embezzlement.

Article 33

1. The finance company's technical facilities and systems must be sufficient for the company's operational needs, nature of its activities and risk exposure in accordance with established technical standards.

2. Information technology systems and related processes shall be developed to ensure data availability, integration, integrity, and confidentiality. Such systems shall be periodically assessed by the finance company in accordance with established standards and shall be tested prior to launching and after introducing any modification thereto.
3. The finance company shall set up a business continuity plan for emergency cases that ensures alternative solutions to re-operate in a reasonable time.

Article 34

A finance company must maintain all business documents, records and files in an orderly, transparent and safe manner and ascertain completion and periodic updating of files. Said documents, records and files shall be retained for at least a period of ten years from date of termination of relationship with the client.

Article 35

The finance company shall have adequate staff, experienced and qualified to meet its operational needs, business activities and risks. Staff remuneration and incentives must be fair and in line with the finance company's risk management strategy and must not lead to conflict of interests.

Article 36

1. At least 50 percent of all employees of the finance company must be Saudis at the commencement of the finance company. Such percentage shall apply to all departments and administrative levels.
2. The percentage of Saudi nationals of the total human resources shall be annually increased by at least five percent until it reaches seventy five percent. SAMA may set a minimum percentage for the required annual increase in the percentage of Saudization afterwards.
3. Recruitment of non-Saudis in a finance company shall be limited to jobs requiring expertise not available in the Saudi labour market. In all cases, the finance company must obtain a no objection letter from SAMA prior to recruiting any non-Saudi employee, upon the finance company establishing the non-availability of Saudis to fill such positions.

Chapter Seven

Outsourcing

Article 37

1. The Board shall issue a written policy regulating outsourcing, to be updated annually. Such policy shall include particularly the following:
 - (a) Roles and responsibilities of the board of directors and senior management;
 - (b) Qualification criteria for service providers;
 - (c) Risk identification criteria and risk hedging measures;
 - (d) Rules for continuous monitoring and controlling of outsourced operations;

- (e) Criteria for the identification of conflict of interests as well as rules and procedures ensuring protection of the interests of the finance company and giving priority to the company's interests over the interests of other parties; and
 - (f) Measurements for information protection, confidentiality and privacy.
2. SAMA, the finance company, and the external auditor may have access to any information or documents related to the performance of the service provider or review the same at the premises of the service provider.
 3. The finance company shall verify the service provider's compliance with applicable laws, regulations, and instructions. The finance company shall remain accountable in case of the service provider's non-compliance with applicable laws, regulations and instructions in any operations or assignments.
 4. The finance company shall obtain a no objection letter from SAMA prior to the conclusion of any contract or agreement with a service provider if the violation or disruption of which affects the activity, reputation or financial status of the finance company, or if the tasks assigned stipulate transferring, handling or safekeeping borrowers' data and information. In such case, the service provider shall not subcontract such tasks to another service provider.

Chapter Eight

Risk Management

Article 38

The finance company shall undertake the following:

1. Set a clear written business strategy and a written risk management policy approved and updated annually by the board of directors. The risk management policy shall address all types of relevant risks, taking into account all business activities, including outsourced operations and tasks. The policy shall include analysis of the following risks at a minimum:
 - a) Credit risks;
 - b) Market risks;
 - c) Term cost risks;
 - d) Asset-liability mismatch risks;
 - e) Exchange rate risks;
 - f) Liquidity risks;
 - g) Operational risks;
 - h) Country risks;
 - i) Legal risks;
 - j) Reputation risks; and
 - k) Technology risks.
2. Set appropriate procedures for the identification, assessment, management and monitoring of risks, and prepare reports thereon, within a comprehensive risk management plan which includes the following:
 - a) Early and comprehensive identification of risks;

- b) Assessment of correlations between risks; and
 - c) Immediate coordination with the board of directors, senior management, risk and credit management committee and executives, and when necessary, the internal audit department.
3. Create a risk management position reporting directly to the risk and credit management committee which shall submit to the board of directors its recommendations regarding risk management reports.

Article 39

The finance company shall prepare a quarterly risk report to be discussed by the risk and credit management committee and the board of directors upon review by senior management. The report shall include the following at a minimum:

1. A comprehensive review of the risk development and performance of financial positions exposed to market price risks, as well as instances where allowed limits are exceeded;
2. Changes to assumptions or parameters which form the basis of risk assessment procedures;
3. The performance of the finance portfolio according to activity, type and size of risk and type of collateral;
4. Extent of limits allowed, external credit lines, large exposures as defined in Article 55 of this Regulation and other significant exposures, such as nonperforming loans, with comments thereon;
5. Analysis of the instances where the finance company exceeds the allowed limits and reasons thereof, volume and development of new businesses, and risk provisions; and
6. Any major finance decisions inconsistent with the strategies or policies of the finance company.

Article 40

The finance company shall submit to SAMA the report referred to in Article 39 of this Regulation, following discussion and approval by the credit and risk management committee and the board of directors, along with relevant decisions.

Chapter Nine

Compliance

Article 41

The finance company shall comply with applicable laws, regulations and instructions and shall take necessary measures and controls to prevent violations.

Article 42

The finance company shall undertake the following:

1. Create an independent department or position for compliance and assign a compliance officer reporting directly to the audit committee. The audit committee shall submit to the board of directors its recommendations regarding compliance reports;

2. Prepare a written compliance policy to be approved by the board of directors, which sets out powers, obligations and responsibilities of the compliance department, as well as compliance programs and related procedures. The audit committee shall ensure the implementation of the compliance policy, evaluate its effectiveness, update it and propose necessary amendments on an annual basis; and
3. Take necessary measures to ensure that the compliance policy referred to in paragraph 2 of this Article is adhered to.

Article 43

1. Upon the recommendation of the audit committee, a compliance officer shall be appointed by the Board, upon obtaining a no objection letter from SAMA.
2. The compliance officer shall be independent in carrying out his assigned duties, and shall not assume any other responsibilities.

Article 44

The compliance officer shall, at a minimum, submit a quarterly report on compliance to the audit committee and thereafter to the board of directors for review. The compliance report shall identify the major compliance risks faced by the finance company, analyse existing processes and procedures and assess their effectiveness, and suggest any amendments or changes.

Article 45

The compliance department must have staff and resources commensurate with the business model and size of the finance company. Compliance employees shall report solely to the compliance officer.

Article 46

The compliance department shall ensure the compliance of the finance company with applicable laws, regulations and instructions, and carry out necessary tasks, including the following:

1. Identify and manage all compliance risks and monitor developments;
2. Analyse new procedures, policies and operations, and recommend procedures to address relevant compliance risks;
3. Follow a risk-based compliance program and include its findings in the report referred to in Article 44 of this Regulation;
4. Review compliance-related complaints and prepare written instructions for employees, when necessary;
5. Set internal policies and procedures to combat financial crimes, such as money laundering and terrorism finance;
6. Monitor compliance with money laundering and terrorism finance laws, regulations, and rules;
7. Promote awareness of compliance issues and train employees on compliance-related matters through periodic programs; and

8. Report promptly any irregularities or violations to SAMA and the audit committee.

Article 47

The finance company shall set internal policies and procedures to combat financial crimes, specifically money laundering and terrorism finance. It shall apply "Know Your Customer" policy and take necessary measures to report to the financial investigation unit any suspicious activities or operations.

Chapter Ten

Internal Audit

Article 48

1. The finance company shall create an internal audit department reporting directly to the audit committee. Such department shall be independent in performing its duties, and its employees shall not be assigned any other responsibilities.
2. The internal audit department shall assess the internal control system and verify the compliance of the company and employees with the applicable laws, regulations and instructions as well as the finance company's policies and procedures, whether outsourced or not. The internal audit department shall have full and unlimited access to information and documents.

Article 49

The internal audit department shall operate according to a comprehensive audit plan, approved by the audit committee and updated annually. Major activities and operations, including those related to risk management and compliance must be audited annually at a minimum.

Article 50

1. The internal audit department shall prepare and submit to the audit committee a written report on its activities on a quarterly basis at a minimum. Such report shall include the scope of audit as well as findings and recommendations. It shall also include measures taken by each department with respect to the findings and recommendations of the preceding audit as well as any related remarks, especially those unresolved on time and reasons therefor.
2. The internal audit department shall prepare and submit to the audit committee a written general report on all audits carried out during the fiscal year, compared with the approved plan, stating any gaps or deviation from the plan, if any. Said report shall be submitted within the first quarter following the end of the relevant fiscal year.

Article 51

The finance company shall maintain work documents and audit reports clearly stating completed work as well as findings and recommendations and actions taken.

Chapter Eleven

Finance Policies and Procedures

Section One

Finance Policies

Article 52

1. A finance company shall draw written finance policies setting out rules and procedures for finance, including but not limited to; classification of credit worthiness; procedures for dealing with declining credit rating and non-performing loans; acceptable collaterals and basis for assessing their values; monitoring, administration and enforcement of collaterals as well as risk provisions.
2. All finance policies and amendments thereto shall be approved by the Board of Directors and a copy thereof shall be submitted to SAMA by the finance company.

Section Two

Exposure Limits

Article 53

Exposure includes the value of assets exposed to any credit risks, including but not limited to, finance contracts, securities, and advanced payments to other entities and clients as well as undertakings and obligations to extend finance or make payments or deliver assets to third parties with the right of recourse against a client or a third party, equity, shares and leased assets.

Article 54

1. The aggregate amount of finance offered by a finance company shall not exceed five folds the capital and reserves of a company engaging in real estate finance and three folds the capital and reserves of a company engaging in other finance activities, except upon obtaining a no objection letter from SAMA, without exceeding the limits stipulated in paragraph 2 of this Article.
2. SAMA may raise the maximum limit of the aggregate amount of finance offered by a finance company to seven folds the capital and reserves of a company engaging in real estate finance and five folds the capital and reserves of a company engaging in other finance activities, taking into account the financial position of the finance company, its performance and market conditions.

Article 55

1. The aggregate amounts of large exposures must not exceed the paid up capital and reserves of the finance company, except upon obtaining a no objection letter from SAMA.
2. A finance company's exposure to a single borrower must be less than 10 percent of its paid up capital and reserves. An exposure to a group of borrowers where one has direct or indirect control over other members of the group must be less than 25 percent of its paid up capital and reserves, except upon obtaining a no objection letter from SAMA.

Article 56

1. For purposes of this Regulation, the following shall be deemed a related party:
 - a) Any member of the Board of Directors or Board committees;

- b) Any member of senior management;
 - c) Any person directly or indirectly holds or controls five percent or more of the capital or voting rights of a finance company, and any entity in which such person directly or indirectly holds or controls five percent or more of the entity's capital or voting rights;
 - d) Any person directly or indirectly holds or controls five percent or more of any type of securities that entitles their holders to receive dividends or a share of the finance company's income;
 - e) Any entity in which the finance company directly or indirectly holds or controls five percent or more of the stocks or voting rights; and
 - f) Any ascendant or descendant up to the second degree, or spouse of any of the persons listed in paragraphs a, b, c and d of this Article.
2. Subject to the provisions of Article 12 of the Law, a finance company may incur an exposure to a related party only on a commercial basis and after obtaining sufficient collateral when the finance does not exceed 60 percent of the collateral. An amount of finance exceeding five hundred thousand riyals (SAR 500,000) requires a unanimous decision by the Board of Directors.
 3. A finance company's exposure to a related party must be less than 10 percent of its paid up capital and reserves except upon obtaining a no objection letter from SAMA. In all cases, exposures to related parties must not exceed 50 percent of the paid up capital and reserves of the finance company.
 4. A finance company shall not have an exposure to a related party that holds or controls directly or indirectly 25 percent of the finance company's shares or voting rights, or in which the finance company holds or controls directly or indirectly 25 percent of the shares or voting rights in the related party.
 5. A finance company shall not incur an exposure to any of its employees who is not a related party in excess of four months' salary of such employee, except through Board-approved finance programs offered by the company to its employees upon obtaining a no objection letter from SAMA.
 6. Without prejudice to public and private rights prescribed by laws, any Board member of the finance company or any external auditor who receives finance in violation of the provisions of paragraphs 1(b, c and d) of Article 12 of the Law, shall be deemed dismissed from the date of receiving the finance, and the finance contract shall be deemed void.

Section Three

Finance Procedures

Article 57

1. Upon obtaining the consumer's consent, the finance company shall review the consumer's credit record to verify the consumer's solvency, ability to repay and credit behaviour, and document such verification in the finance file.
2. Upon obtaining the borrower's consent, the finance company shall record the borrower's credit information with one or more companies licensed to collect credit information, pursuant to relevant laws, regulations and instructions. Such information shall be updated throughout the duration of the relationship with the borrower.

3. The finance company shall reject the finance application in the absence of the consumer's or borrower's consent, specified in paragraphs 1 and 2 of this Article.

Article 58

1. A finance company shall determine the administrative levels for extending finance according to type and volume of finance, including finance types requiring the approval of more than one person. The decision to approve or reject finance shall be according to powers granted to each administrative level.
2. The finance company must obtain a no objection letter from SAMA prior to extending any of the following:
 - (a) finance a foreign borrower not residing in the Kingdom.
 - (b) finance in a currency other than the Saudi riyal.

Article 59

1. The finance company must follow a sound method and a written, transparent and clear standards and procedures to assess credit worthiness of the applicant and his ability to repay, according to best practices in this field. The Board of Directors must approve these standards and procedures and review them at least once every two years, and update the same if necessary. The finance company must apply these procedures before extending finance and document the same in the finance file.
2. Exposure risks must be assessed and classified prior to making the finance decision. The risk classification must be reviewed at least once a year.
3. The finance company must specify procedures for early detection of risks to identify finance that manifests clear signs of increased risk and develop quantitative and qualitative indicators for early identification of risks.

Article 60

1. No finance may be extended without collateral, in accordance with the policy and procedures of risk management approved by the finance company's Board of Directors.
2. Collaterals must be capable of being valued and enforced in order to be acceptable. Collaterals must be a pledge, an assignment of assets or a personal guarantee from a third party. Personal guarantees must be evaluated based on the net assets or net earning of the guarantor or both.
3. The value and legal validity of collaterals must be assessed prior to extending finance.
4. If the value of a collateral is substantially affected by the financial status of a third party or market fluctuations and conditions, such collateral must be assessed on a regular basis, and procedures stipulated in the contract shall be taken to enhance said collateral when its value decreases. Risks shall be reviewed as appropriate.
5. Decisions relating to collateral and reserve risks must be made by the control officer.

Article 61

In exception to provisions of Article 60 of this Regulation, the finance company may extend finance without a collateral, if the following applies:

1. Based on his credit history, the total amount of finance extended to the borrower without collateral does not exceed one hundred thousand riyals (SAR 100,000).
2. The borrower has no history of unsettled defaulted debt; unresolved dispute; pending credit lawsuit; or insolvency, bankruptcy or liquidation suit in the past ten years; or dishonoured checks issued in the past five years, based on the borrower's credit history.
3. The Borrower is not a related party.

Article 62

The finance company must set provisions for contingent losses and risks in accordance with international accounting standards. SAMA may require the finance company to make one or more additional provisions for such losses and risks.

Article 63

1. The finance company must identify cases where exposures require close monitoring. Such exposures shall be constantly reviewed to determine whether further actions are required. The finance company shall set clear rules to identify cases requiring referral of finance to a team specializing in restructuring, rescheduling or winding up.
2. Subject to international accounting standards, the finance company must set criteria for devaluation of assets and criteria for provisioning, including country risks provisioning, and ensure regular application.

Article 64

Insurance against finance risks must be in accordance with the Cooperative Insurance Companies Control Law and its Implementing Regulation as well as instructions issued by SAMA.

Chapter Twelve **Account and Deposits**

Article 65

The finance company shall not accept term deposits or non-banking credit facilities or the like, or open any type of accounts for its clients unless a no objection letter from SAMA is obtained.

Chapter Thirteen **Trading Securities**

Article 66

Without prejudice to paragraph 3 of Article 11 of the Law, the finance company shall not hold securities such as stocks, bonds, sukuk and derivatives except in the following cases:

1. As part of a finance transaction where the purpose of the transaction is to extend finance to the borrower;
2. To invest available cash, through deposits with local commercial banks or through debt instruments approved by SAMA;

3. To hedge against existing term cost risks; and
4. To hedge against existing currency risks.

Chapter Fourteen

Refinance

Article 67

1. Subject to the provisions of Article 14 of the Law, the finance company shall not issue securities except upon obtaining a no objection letter from SAMA.
2. The finance company shall not dispose finance assets or rights arising therefrom in any form except upon obtaining a no objection letter from SAMA. Disposing of finance assets or rights arising therefrom requires the lapse of at least one year from date of extending the finance related to the asset to be disposed of.
3. The finance company shall comply with rules and instructions issued by SAMA in the application of the provisions of this Article.

Article 68

A finance company shall not receive foreign finance or finance in a currency other than Saudi riyal except upon obtaining a no objection letter from SAMA.

Chapter Fifteen

Structural Changes

Article 69

A finance company shall obtain a no objection letter from SAMA prior to making the following appointments:

1. Membership of the Board of Directors and Board committees.
2. Managing director, chief executive officer, general manager and their deputies as well as financial chief officer and directors of key departments, or their designees.
3. Managers of control-related departments, such as internal audit, risk management and compliance, or their designees.

Article 70

A finance company must promptly notify SAMA in the following cases:

1. Retirement of any member of senior management or termination of his authorization; and
2. Losses exceeding 15 percent of the paid up capital.

Chapter Sixteen

Accounts

Article 71

A finance company shall apply international accounting standards in the preparation of their accounts and financial statements.

Article 72

1. A finance company shall provide SAMA with its audited annual financial statements, auditor's report and the report of the Board of Directors at least five business days prior to publication.
2. The finance company shall provide SAMA with its quarterly financial statements and auditor's report at least five business days prior to publication.

Article 73

Without prejudice to requirements of other laws, a finance company shall create a website to publish its annual financial statements and reports, including the following:

1. Statement of financial position;
2. Income statement;
3. Cash flow statement; and
4. Board of Director's report.

Chapter Seventeen

Account Audit and Inspection

Article 74

1. A finance company must obtain a no objection letter from SAMA prior to appointing an external auditor. SAMA may require the finance company to appoint another auditor if the size and nature of the company's business so requires.
2. SAMA may require the finance company to replace its external auditor or may appoint another external auditor at the expense of the finance company in the following cases:
 - a) If required by the size and nature of its business;
 - b) If the external auditor commits a violation of professional nature;
 - c) If there is a reason to believe that the external auditor has a conflict of interest; or
 - d) If the integrity of the finance sector or governance considerations and the protection of stakeholder's interest so requires.
3. The external auditor must promptly report to SAMA if in the course of an audit he discovers facts that may:
 - a) justify the reservation in the audit report or refrain from expressing opinion;
 - b) jeopardize the existence of the finance company;
 - c) seriously impair the finance company's development, or
 - d) indicate that the managers have breached any laws, regulations, instructions applicable in the Kingdom or the bylaws of the finance company.
 - e) Terminate the contract before the end of its term, providing reasons therefor.
4. SAMA may require the external auditor to explain his report or to reveal other facts that may have come to his attention during the audit which indicates any violation of laws, regulations, instructions or the bylaws of the finance company.

Article 75

1. The finance company, its Board members and employees shall provide SAMA, upon request, with all information and documents concerning the company, its activities, shareholders, and employees.
2. SAMA may conduct on-site inspection of records and accounts of the finance company by SAMA employees or auditors appointed by SAMA.
3. The finance company and its employees shall cooperate with SAMA employees and facilitate their task, particularly as follows:
 - a) Grant the inspector access to the company's records, accounts, and documents that he deems necessary to carry out his task;
 - b) Provide the inspector with information and clarifications upon request.
 - c) Disclose to the inspector at the commencement of his task any violations or irregularities in the company's activities.
 - d) Adhere to recommendations and instructions given by SAMA to the finance company to address observations discovered during inspection.
4. The finance company and its employees shall not conceal or attempt to conceal any information or irregularities, refuse to provide clarifications requested by the appointed inspector or fail to provide requested information and documents in due time.
5. SAMA employees entrusted with supervision, control, and inspection shall not be subject to liability in the course of performing their duties.

Article 76

1. A violation of the provisions of the Law and Regulation or non-compliance with any of the rules or instructions issued by SAMA shall be deemed a professional misconduct in accordance with Article 29 of the Law;
2. The following shall be deemed a violation undermining the interest of the finance company's shareholders or creditors, as referred to in Article 29 of the Law:
 - a) Adverse material change in the finance company's activities, or its financial, legal or administrative status that may threaten its existence or its ability to pay its due debts;
 - b) The finance company's loss of half of its paid up capital; or
 - c) The finance company's loss of more than ten percent of its paid up capital per year during a minimum of four consecutive fiscal years.

Article 77

The finance company shall incur the cost of a third party appointed by SAMA to carry out procedures taken under the provisions of this Chapter.

Chapter Eighteen

Consumer Protection in Finance Services

Article 78

A finance contract must be drafted on paper or in an electronic format between the finance company and the borrower with a copy retained by each party, and shall include the following:

1. Names of the parties of the finance contract, the borrower's national identification number, Iqama(residence Permit) number or commercial registration number, as the case may be, their official addresses, contact information including mobile number and electronic mail address, if available;
2. Type of finance;
3. Term of the finance contract;
4. Amount of finance;
5. Conditions for withdrawing the finance amount, if any;
6. In variable term cost finance contracts, a description of the formula that determines the rate shall be included in a way that enables the consumer to understand the term cost and distribution of the cost over the repayment period;
7. Term cost, conditions governing its application, any index or reference rate applicable to the initially agreed upon term cost, as well as duration, conditions and procedures for changing the term cost;
8. Annual percentage rate (APR);
9. Total amount payable by the borrower, calculated at the time of concluding the finance contract; stating the assumptions used to calculate such amount;
10. Amount of installments payable by the borrower, number and due dates of installments, and manner of distribution of the remaining amount if the term cost is fixed. In case of variable term cost, three examples of installment amount shall be set, taking into account the initial term cost as well as higher and lower term cost;
11. Fees, commissions and costs of administrative services;
12. Due dates for payment of fees or amounts other than the finance amount and conditions for such payment;
13. Implications of late payments;
14. Attestation fees, if applicable,
15. Collateral and necessary insurance;
16. Bank name and account number for depositing finance installments;
17. Procedures for exercising the right of withdrawal, its conditions and the financial obligations resulting therefrom;
18. Procedures of early repayment, and procedures for compensating the finance company, if applicable, and manner of determining such compensation;
19. Procedures to be followed in case of collateral devaluation, if available;
20. Procedures for exercising the right to terminate the finance contract;
21. The borrower's consent to include his information in the credit record; and
22. Any data or information stipulated by SAMA.

Article 79

The finance contract preamble shall include a summary covering the basic information of the finance product and the main provisions of the finance contract in a language clear to the borrower, in accordance with the form stipulated by SAMA. The borrower's receipt of such summary shall be documented in the finance file.

Article 80

If permitted by the finance contract, the finance company shall inform the borrower in writing of any changes in the term cost at least two months prior to the effectiveness of such changes. The borrower must be notified, through official addresses given in the finance contract, of the installment amounts to be paid upon the effectiveness of the new term cost as well as the particulars relating to the number and due dates of such installments, if covered by such changes.

Article 81

1. The annual percentage rate (APR) is the discount rate at which the present value of all installments and other payments that are due on the borrower, representing the total amount payable by the borrower, equals the present value of the payments of the amount of finance available to the borrower, calculated on the date on which the finance amount or the first payment is available to the borrower, calculated using the following formula:

$$\sum_{d=1}^m C_d(1+X)^{-s_d} = \sum_{p=1}^n B_p(1+X)^{-t_p}$$

Where:

m is the number of the last payment of the finance amount to be received by the borrower.

d is the sequence number of the payment to be received by the borrower from the finance amount.

C_d is the payment value of (**d**) to be received by the borrower from the finance amount.

S_d is the period between the date on which the finance amount or the first payment is available to the borrower and the date of payment (**d**), calculated in years and fractions of a year, so that such period of first payment received by the borrower from the finance amount is zero (**s₁=0**)

n is the number of the last payment payable by the borrower.

p is the sequence number of the payment payable by the borrower.

B_p is the payment value (**p**) payable by the borrower.

t_p is the period between the date on which the amount of finance or the first payment is available to the borrower and the date of the payment (**p**) to be payable by the borrower, calculated in years and fractions of a year.

X is the APR.

2. For the purpose of calculating the APR, the periods between the date on which the finance amount or the first payment is available to the borrower and the date of each payment received or payable by the borrower shall be calculated on the basis of 12 equal months or 365 days a year.

3. For the purpose of calculating the APR, the total amount payable by the borrower must be specified including fees, commissions and costs that cannot be avoided by the borrower, excluding costs or fees payable by the borrower due to his breach of any of his obligations stipulated in the finance contract.
4. The APR shall be calculated on the assumption that the finance amount is valid for the term agreed upon and the parties adherence to their obligations according to the conditions stipulated in the finance contract.
5. Subject to the provisions of paragraph 10 of Article 78 of this Regulation, if finance contract includes a clause allowing change in the term cost or fees included in the APR at the time of calculating the APR, the APR must be calculated on the assumption that the term cost and other charges remain fixed at the level of the initial term cost and valid until the end of the finance contract.
6. The APR must be calculated and expressed in percentage points with a minimum of two basis points, rounding half basis points to the nearest full basis points.

Article 82

The finance company shall use the declining balance method in distributing the term cost on the maturity period, whereas such cost is distributed proportionally between installments on the basis of the balance value of the remaining finance amount at the commencement of the installment maturity period, and including it in the finance contract.

Article 83

All fees, commissions and administrative service charges to be paid by the borrower to the finance company shall not exceed one percent of the finance amount or five thousand riyals (SAR 5,000), whichever is less.

Article 84

1. The borrower may expedite the payment of the remainder of the finance amount, at any time, and shall not be required to pay the term cost for the remaining period. The finance company is entitled to compensation for the following:
 - a) Reinvestment cost not exceeding the term cost for the three months subsequent to payment, calculated on the basis of the declining balance; and
 - b) Expenses stipulated in the contract, made by the finance company to a third party, if such expenses are irrecoverable, for the remaining term of the contract.
2. In exception to the provisions of paragraph 1 of this Article, the real estate finance contract may stipulate a period of time which early payment is prohibited, provided it does not exceed two years from the date of concluding the real estate finance contract.

Article 85

1. If the finance company assigns its rights or the finance contract to a third party or issues securities against rights arising out of the finance contract, the borrower may use against the assignee any defence available to him against the finance company.
2. The finance company shall obtain a no objection letter from SAMA prior to outsourcing the finance-related services.

Article 86

1. The finance company shall indicate in all product advertisements: its name, logo, any identifying representation and contact information.
2. The advertisement shall explicitly state the name and APR of the product advertised in a manner clear to the consumer. Such advertisement shall not include other rates of the term cost.
3. The finance company shall be prohibited from:
 - a) Use of an advertisement that includes a false offer, statement, or a false claim expressed in terms that would directly or indirectly deceive or mislead the consumer.
 - b) Use of an advertisement that includes an unlawful use of a logo, a trade mark, or a counterfeit mark.
4. SAMA may compel any finance company that fails to comply with the provisions of this Article to withdraw the advertisement within one working day of SAMA's notification.

Article 87

The finance company shall establish a function and designate staff to address complaints, and set clear procedures for receiving, documenting, reviewing and responding to borrowers' complaints within a period not exceeding 10 business days from the date of receipt of such complaint. All complaints shall be entered into a register, provided they include all necessary information regarding the complaints and actions taken thereon.

Article 88

1. The finance company and its employees shall maintain the confidentiality of clients' data and transactions, and shall not disclose or pass such information to other parties, except in accordance with relevant laws and instructions.
2. The finance company employees shall not disclose any information about the company's clients and transactions to which they may be privy during or after their employment in the company. They shall not retain any such information after termination of employment.
3. The finance company shall take all necessary measures to ensure confidentiality of clients' information and transactions.

Chapter Nineteen

Finance Support Activities

Article 89

None finance company may engage in one or more finance support activities, such as marketing finance products or collecting debts of the finance company, except upon obtaining a license in accordance with rules issued by SAMA.

Article 90

A finance company shall not contract or engage providers of finance support activities unless licensed by SAMA.

Chapter Twenty

Investigation and Public Prosecution Procedures

Article 91

1. Provisions of this Chapter shall apply to violations and cases of public rights arising out of the application of the Law and this Regulation.
2. Unless provided herein, the provisions of the Criminal Procedures Law, the Bureau of Investigation and Public Prosecution Law and general rules applicable in the Kingdom shall apply.

Article 92

A SAMA officer entrusted with investigation and public prosecution shall satisfy the following conditions:

1. Be a Saudi national;
2. Be of a good conduct;
3. Have not been convicted of a crime impinging on honour and integrity, unless rehabilitated.
4. Be a holder of a university degree;
5. Have passed the professional examination approved by SAMA.

Article 93

1. Investigation and public prosecution officers shall receive reports, gather information, record evidence necessary for investigation and file charges.
2. Investigation and public prosecution officers may seek assistance from criminal detection and investigation officers if necessary.
3. Investigation and public prosecution officers may seek the assistance of specialized individuals and companies when carrying out inspection, search and seizure of items related to the violation. The duty of such specialists shall be confined to locations and items the investigation requires to be searched or seized.
4. The Governor shall issue rules, procedures and controls for the work of investigation and public prosecution officers.

Article 94

Investigation and public prosecution officers and assistants, including detecting and investigation officers, experts and specialists shall not disclose confidential information to which they become privy in the course of their employment and after leaving the service.

Article 95

Criminal lawsuits shall be referred by the Governor or designee to the Committee for Settlement of Finance Violations and Disputes.

Article 96

SAMA shall refer crimes and violations beyond its jurisdiction to the entity in charge of investigation and public prosecution.

Chapter Twenty One Concluding Provisions

Article 97

Companies and establishments engaged in finance activities in the Kingdom shall, prior to the effectiveness of the Law, provide SAMA within the first nine months of the period referred to in Article 36 of the Law with a plan to conform with the provisions of the Law or a plan to exit the market.

Article 98

A committee, or more, shall be formed pursuant to a decision by the Governor to be in charge of providing suggestions and recommendations necessary for developing the finance sector.

Article 99

Necessary rules and instructions for the implementation of regulatory and supervisory requirements of the finance sector shall be issued pursuant to a decision by the Governor.

Article 100

This Regulation shall enter into force on the date of publication in the Official Gazette.