Rating Report Summary

Quara Finance Company

(Publicly Listed Joint Stock Company)

December 2025

Rating Summary

1.1 TASSNIEF Opinion:

Quara Finance Company – Entity Rating	
Domicile	Saudi Arabia
Long-Term Rating	BBB-
Outlook	Stable
Short-Term Rating	T-4
Rating Watch	No
Action Type	Maintained
Rating Type	Solicited
Initial Rating	December 2023
Methodology Deviations	None

Tassnief has maintained a long-term entity rating of **"(BBB-)" "Triple B Minus"** and short-term entity rating of **"T-4"** for Quara Finance Company. The outlook on the rating is "Stable".

About the Company: Quara Finance Company offers financing services in Saudi Arabia, operating through two main segments: Retail and SME Financing. The Retail segment provides cash loans and microfinance solutions, while the SME Financing segment offers term loans to small and medium-sized enterprises. Quara Finance delivers leasing, consumer finance, and other financial services tailored to SMEs. Originally established as Maalem Financing Company, it rebranded to Quara Finance Company in January 2021. The company was founded in 2009 and is headquartered in Riyadh, Saudi Arabia.

1.2 TASSNIEF Rating Rationale

The assigned ratings incorporate Quara Finance's sound sponsor profile with a demonstrated track record of financial support, a strengthened governance framework, and the implementation of comprehensive policies and procedures across key control functions. The ratings also reflect the Company's technology-enabled operating model and expanding distribution network, which support improved portfolio granularity, scalability, and operational reach. In addition, the ratings factor in healthy growth in the retail portfolio, sound capitalization indicators supported by a sizeable equity base, and adequate financial flexibility through access to bank funding and liquidity buffers to support planned disbursement activity for the next year.

However, the ratings remain constrained by continued weakness in asset quality indicators, increasing pressure on the profitability profile, intensifying competitive dynamics within the consumer finance sector, and the Company's relatively modest market position. Nevertheless, Tassnief considers the overall balance-sheet risk to remain manageable and supported by the Company's sizeable equity base, availability of diversified funding sources.

Gross loan portfolio increased to SAR 848m (2024: SAR 807m; 2023: SAR 698m) at end-9M2025, driven entirely by growth in the retail segment, while the SME portfolio continued to contract in line with the Company's strategic run-off approach. Consequently, the retail segment accounted for 96% of the total portfolio (2024: 93%; 2023: 74%) at end-9M2025, reflecting a material shift in business mix. Growth in the retail portfolio was underpinned by a focused origination strategy, higher loan volumes with smaller average ticket sizes, and a significant expansion in the number of channel partners.

The decline in the SME portfolio reflects the discontinuation of new disbursements. While the increasing reliance on retail financing has resulted in higher business concentration, Tassnief views the enhanced portfolio granularity and scalability as supportive, albeit with increased sensitivity to consumer credit dynamics. Business diversity is considered adequate, with low single-obligor concentration and improving partner diversification, although geographic concentration in Riyadh remains elevated; the materialization of planned expansion channel partnerships in untapped regions will be important to reduce geographic concentration.

Asset quality indicators have weakened further on a timeline basis, with Stage-3 non-performing loans increasing materially, driven primarily by weakness in the retail portfolio and the legacy nature of the SME book. Retail asset quality was adversely affected by sector-wide stress, elevated borrower leverage, and weaknesses in salary verification practices observed across the market. In response, the Company has materially tightened its credit approval framework, leading to lower approval rates and improved verification controls. Encouragingly, management indicated that asset quality indicators for the new retail portfolio originated over the past 12 months have improved, with contained NPL formation, which – together with ongoing write-offs and recovery efforts – is expected to support gradual stabilization in reported asset quality metrics. In the SME segment, elevated infection largely reflects the shrinking portfolio size and the high impaired share of remaining exposures and is therefore assessed from a recovery perspective, rather than as an indicator of ongoing underwriting risk. Translation of management's initiatives into improved asset quality indicators remains important from a ratings perspective.

Provisioning coverage for the retail portfolio remains moderate, providing a partial buffer against potential credit losses, and management has indicated its intention to increase coverage over the medium term to further strengthen loss-absorption capacity. Provisioning coverage for the SME portfolio remains low, reflecting reliance on property and Kafalah guarantees. Write-offs increased during the period, particularly in the retail segment, consistent with higher realized losses and the clean-up of weaker vintages, underscoring the importance of sustained underwriting discipline and effective collections execution. On the recovery side, the SME portfolio continues to benefit from collateral support, with meaningful recoveries realized during 9M2025 and additional recoveries expected in 2026.

The Company's funding profile has continued to evolve, with increased reliance on bank borrowings and internally generated cash flows following the repayment of government-sponsored facilities. Liquidity remains adequate, supported by a sizeable cash balance, unutilized banking lines, and a fully amortizing funding structure with no bullet maturity. Although a SAR 500m sukuk program has been approved by the Capital Market Authority, no issuance is currently planned over the near term. Tassnief is of the view that Quara Finance has sufficient financial flexibility to support its disbursement targets over the rating horizon.

Profitability has come under increased pressure during the period. While Murabaha income continued to grow, supported by portfolio expansion and higher asset yields driven by the introduction of risk-based pricing, bottom-line was constrained by increased funding costs, higher provisioning charge, and increase in operating expenses related to digital onboarding, marketing, and continued investment in IT infrastructure. As a result, net income declined and profitability metrics weakened in both 2024 and 9M2025. Going forward, the profitability profile will depend on the Company's ability to stabilize asset quality, achieve operating leverage, and contain cost intensity as the retail portfolio continues to scale.

Capitalization remains sound, supported by continued profit retention and the absence of dividend distributions, with total equity increasing further by end-9M2025. Leverage indicators remain manageable with largely stable gross-portfolio-to-equity; however, the increase in the net NPLs-to-equity ratio reflects asset quality pressure and has reduced capital headroom. Maintaining capitalization indicators at prudent levels, alongside sustained improvement in asset quality metrics, remains important from the ratings perspective.

1.3 Rating Triggers

Ratings remain dependent on strengthening of market position through sustained portfolio growth, improving asset quality indicators, rationalizing operating costs, and enhancing profitability, while maintaining adequate liquidity and capitalization metrics. Demonstrated improvement in asset quality and a reduction in the net NPLs-to-Tier 1 equity ratio will remain important rating considerations.

RELATED CRITERIA AND METHODOLOGY

Rating Methodology for Corporate (v.2. 2024) can be found on the website: *www.tassnief.com*

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- This rating has not been amended following disclosure to the rated entity or its related party(ies). All analyses related to the rating report are merely opinions of TASSNIEF on the rating date.
- This credit rating herein was determined was determined using the above-mentioned methodology which is available on our website at www.tassnief.com. This methodology, including any significant adjustments or deviations from standard procedures, was applied to arrive at the rating.
- The rating scale, meaning of each rating category, default or recovery definitions, and relevant risk warnings – including a sensitivity analysis of key assumptions – are also available on our website.
- TASSNIEF confirms that all rating activities related to this credit rating were not outsourced to any third party.

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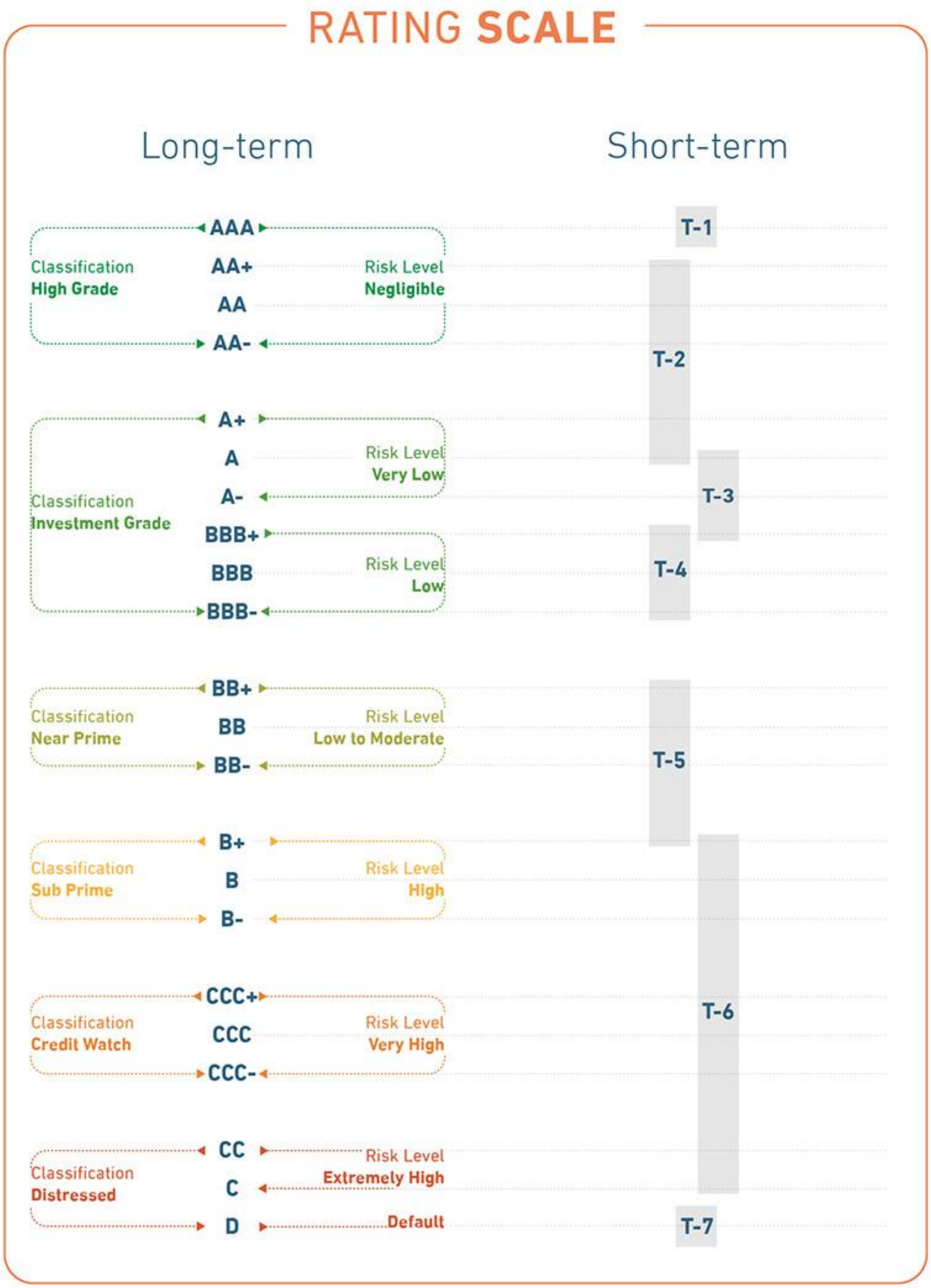
Classification: Restricted

TASSNIEF's Long-term & Short-term Rating Scale



Long-Term Rating Scale	Definitions
AAA	**Extremely Robust**; Tassnief considers the rated issuer or issuance hold the **highest creditworthiness**, thus **negligible credit risk**
AA+ AA AA-	**Very Robust**; Tassnief considers the rated issuer or issuance hold **very high creditworthiness**, thus **minimal credit risk**. Risk profile may vary slightly with changes in economic / sector conditions
A+ A A-	**Robust**; Tassnief considers the rated issuer or issuance hold **high creditworthiness**, thus **very low credit risk**. Risk profile may vary with changes in economic / sector conditions
BBB+ BBB BBB-	**Moderate**; Tassnief considers the rated issuer or issuance hold **adequate creditworthiness**, thus **low credit risk**. Risk profile may exhibit moderately high variation with changes in economic / sector conditions
BB+ BB BB-	Tassnief considers the rated issuer or issuance hold **low to moderate credit risk**. Risk profile may exhibit wide variation with changes in economic / sector conditions.
B+ B B-	Tassnief considers the rated issuer or issuance hold **very low creditworthiness**, thus **high credit risk**
CCC+ CCC CCC-	Tassnief considers the rated issuer or issuance hold **extremely low creditworthiness**, thus **very high credit risk**
CC C	**Highly speculative credit profile**, and the default is imminent
D	Tassnief considers the rated issuer or issuance have **defaulted or may default soon.**

****End of Report****