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Saudi Arabian Monetary Authority

Monetary and
Banking
Developments
Fourth Quarter, 2017



Research and International Affairs Deputyship
Economic Research Department



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Executive Summary

Executive Summary

In Q4 2017, the reverse repo rate was raised to 1.5 percent, while the repo rate was maintained at 2 percent. The cash reserve ratio was maintained at 7 percent for demand deposits and at 4 percent for time and savings deposits. SAMA also continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 3 billion during Q4 2017. The average three-month Saudi interbank offered rate (SAIBOR) rose to 1.8233 percent in Q4 2017.

Broad money supply (M3) rose by 1 percent, whereas the monetary base decreased by 2.3 percent to SAR 301.9 billion in Q4 2017. Preliminary data of SAMA's balance sheet indicate that the total foreign assets increased by 2.3 percent to SAR 1,851.8 billion in Q4 2017. SAMA's total reserve assets also rose by 2.3 percent to SAR 1,861.6 billion.

Total bank deposits increased by 1 percent to SAR 1,619.1 billion in Q4 2017. Total assets and liabilities of commercial banks amounted to SAR 2,305.8 billion at end-Q4 2017, increasing by 1 percent. Commercial banks' claims on the private and public sectors, however, went down by 0.1 percent to SAR 1,694.8 billion in Q4 2017.

Preliminary estimates indicate a surplus of SAR 36.2 billion in the current account balance in Q3 2017 compared to a surplus of SAR 17.7 billion in the corresponding quarter of the previous year.

Total value of the Saudi Arabian Riyal Interbank Express System (SARIE) transactions in Q4 2017 went down by 9.4 percent to SAR 13,258.4 billion. The total number of ATM transactions in Q4 2017 was approximately 524.8 million with cash withdrawals totaling SAR 183.8 billion, including transactions through banks' network and Mada.

The general share price index went down by 0.8 percent to 7,226.4 points at end-Q4 2017. The market capitalization of shares fell by 1.8 percent to SAR 1,690 billion at end-Q4 2017 as compared to the end of the preceding quarter.

Total assets of investment funds managed by investment companies went up by 2.0 percent to SAR 112.7 billion in Q3 2017. According to latest available data, total actual disbursements of loans from government Specialized Credit Institutions (SCIs) decreased by 11.3 percent, and total loan repayments to SCIs also decreased by 2.0 percent in Q2 2017.

First: Monetary Policy

SAMA has been adopting a monetary policy aimed at achieving price stability, supporting various economic sectors in line with domestic and international economic developments, and assisting domestic banks to perform their financing role in the domestic economy.

1.1 Rate of Return and Cash Reserve

In Q4 2017, SAMA decided to raise the reverse repo rate from 1.25 percent to 1.50 percent, while maintaining the repo rate at 2 percent.

SAMA's daily average repo transactions stood at SAR 288 million in Q4 2017 compared to SAR 129 million in Q3 2017, while daily average reverse repo transactions amounted to SAR 70 billion in Q4 2017 compared to SAR 86 billion in Q3 2017.

The cash reserve ratio was maintained at 7 percent for demand deposits and at 4 percent for time and savings deposits.

1.2 Interest Rates

SAMA continued to maintain the limit of weekly subscription to treasury bills for domestic banks at SAR 3 billion in Q4 2017.

The average three-month Saudi interbank offered rate (SAIBOR) went up to 1.8233 percent in Q4 2017. The three-month interest rate differential between the riyal and the dollar was about 36 basis

points in favor of the riyal in Q4 2017, compared to 48 basis points in Q3 2017. As for the riyal exchange rate against the dollar, it remained unchanged at its official peg rate of SAR 3.75.

SAMA has continued to offer 90-day repo maturity, in addition to the current overnight, 7- and 28-day maturities.

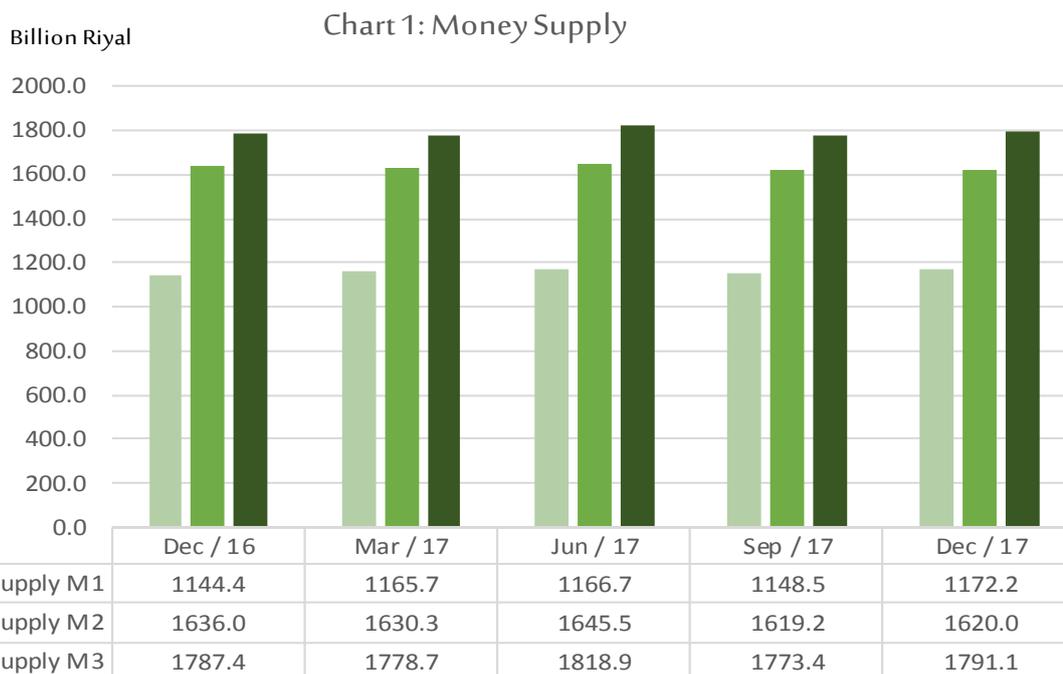
As regards foreign exchange swaps, SAMA did not make any swap transaction with domestic banks in Q4 2017.

Second: Monetary Developments

2.1 Money Supply

Broad money supply (M3) increased by 1.0 percent (SAR 17.7 billion) to SAR 1,791.1 billion in Q4 2017, compared to a decline of 2.5 percent (SAR 45.5 billion) in the preceding quarter. It also recorded an annual rise of 0.2 percent (SAR 3.8 billion) at end-2017 (Chart 1).

A breakdown of the components of M3 in Q4 2017 indicates that narrow money supply (M1) rose by 2.1 percent (SAR 23.7 billion) to SAR 1,172.2 billion or 65.4 percent of M3 compared to a decline of 1.6 percent (SAR 18.2 billion) in the preceding quarter, recording an annual rise of 2.4 percent (SAR 27.7 billion) at end-2017. On the other hand, money supply (M2) registered a slight rise of 0.1 percent (SAR 0.8 billion) to SAR 1,620 billion or 90.4 percent of M3 in Q4 2017 compared



to a decrease of 1.6 percent (SAR 26.3 billion) in the preceding quarter. It recorded an annual decline of 1 percent (SAR 16 billion) at end-2017.

2.2 Monetary Base

Monetary base fell by 2.3 percent (SAR 7 billion) to SAR 301.9 billion in Q4 2017 against a decrease of 4.3 percent (SAR 13.8 billion) in the preceding quarter, recording an annual decline of 0.2 percent (SAR 0.5 billion) at end-2017. A breakdown of the components of the monetary base indicates that deposits with SAMA rose by 6.7 percent (SAR 7.1 billion) to SAR 98.6 billion in Q4 2017 compared to an increase of 6.4 percent (SAR 6.3 billion) in the preceding quarter, recording an annual decline of 3.8 percent (SAR 3.8 billion) at end-2017. Cash in vault decreased by 4.3 percent (SAR 1.4 billion) to SAR 31.3 billion, compared to a decline of 16.4 percent (SAR 6.4 billion) in the preceding quarter. It recorded an annual increase of 5.5 percent (SAR 1.6 billion) at end-2017. Currency in circulation outside banks went up by 0.8 percent (SAR 1.4 billion) to SAR 172.1 billion, compared to a decline of 7.4 percent (SAR 13.7 billion) in the preceding quarter, recording an annual increase of 1 percent (SAR 1.7 billion) at end-2017.

Third: Developments of SAMA's Balance Sheet

Preliminary data of SAMA's balance sheet indicate that total foreign assets increased by 2.3 percent (SAR 42.2 billion) to SAR 1,851.8 billion in Q4 2017, compared to a decline of 3.4 percent (SAR 63.1 billion) in the preceding quarter. They registered an annual decline of 7.5 percent (SAR 149 billion) at

end-2017. Total net foreign assets went up by 2.4 percent (SAR 42.2 billion) to SAR 1,833.4 billion in Q4 2017, compared to a decline of 3.4 percent (SAR 63.2 billion) in the preceding quarter. They registered an annual decline of 7.5 percent (SAR 149 billion) at end-2017 (Chart 2).

Total deposits in domestic currency for foreign entities decreased by 0.3 percent (SAR 48 million) to SAR 18.5 billion in Q4 2017, compared to a rise of 0.4 percent (SAR 68 million) in the preceding quarter. They recorded an annual decline of 0.1 percent (SAR 21.8 million) at end-2017.

3.1 Reserve Assets

SAMA's total reserve assets increased by 2.3 percent (SAR 42 billion) to SAR 1,861.6 billion in Q4 2017, compared to a decrease of 3.3 percent (SAR 62.7 billion) in the preceding quarter. They recorded an annual decline of 7.3 percent (SAR 147.7 billion) at end-2017 (Chart 3). A breakdown of

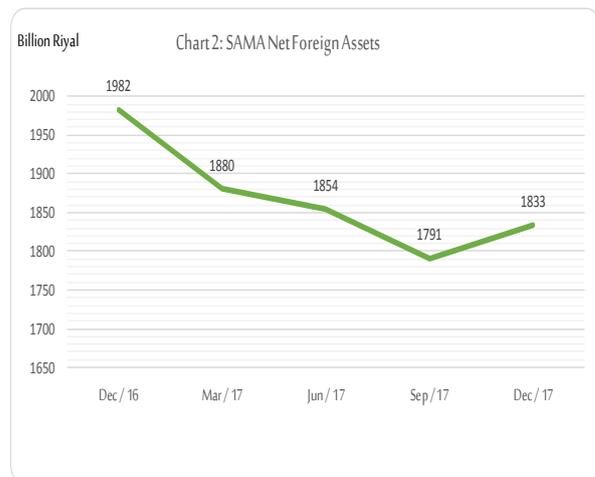


Chart 3: Reserve Assets



the components of total reserve assets in Q4 2017 as compared to the preceding quarter indicates that the reserve position with the IMF dropped by 18.9 percent (SAR 1.4 billion) to SAR 5.8 billion; investments in securities abroad rose by 1.1 percent (SAR 13.9 billion) to SAR 1,239.7 billion; and the balance of special drawing rights increased by 1 percent (SAR 293 million) to SAR 29.3 billion. In addition, deposits abroad increased by 5.3 percent (SAR 29.2 billion) to SAR 585.2 billion while gold reserve was stable at SAR 1,624 million. SAMA has not issued, on behalf of the Ministry of Finance, government development bonds or floating-rate bonds during Q4 2017.

Fourth: Banking Developments

4.1 Bank Deposits

Total bank deposits increased by 1 percent (SAR 16.3 billion) to SAR 1,619.1 billion in Q4 2017, compared to a fall of 1.9 percent (SAR 31.8 billion) in the preceding quarter. They recorded an annual rise of 0.1 percent (SAR 2.1 billion) at end-2017. A breakdown of the components of deposits by type in Q4 2017 indicates that demand deposits rose by 2.3 percent (SAR 22.3 billion) to SAR 1000.1 billion, compared to a 0.5 percent (SAR 4.5 billion) decline in the preceding quarter. They registered an annual increase of 2.7 percent (SAR 26 billion) at end-2017. Time and savings deposits declined by 4.9 percent (SAR 22.9 billion) to SAR 447.8 billion, compared to a 1.7 percent (SAR 8.1 billion) decrease in the

preceding quarter. They registered an annual fall of 8.9 percent (SAR 43.8 billion). Other quasi-monetary deposits increased by 11 percent (SAR 16.9 billion) to SAR 171.1 billion, compared to a decline of 11.1 percent (SAR 19.2 billion) in the preceding quarter, recording an annual rise of 13.1 percent (SAR 19.8 billion) (Chart 4).

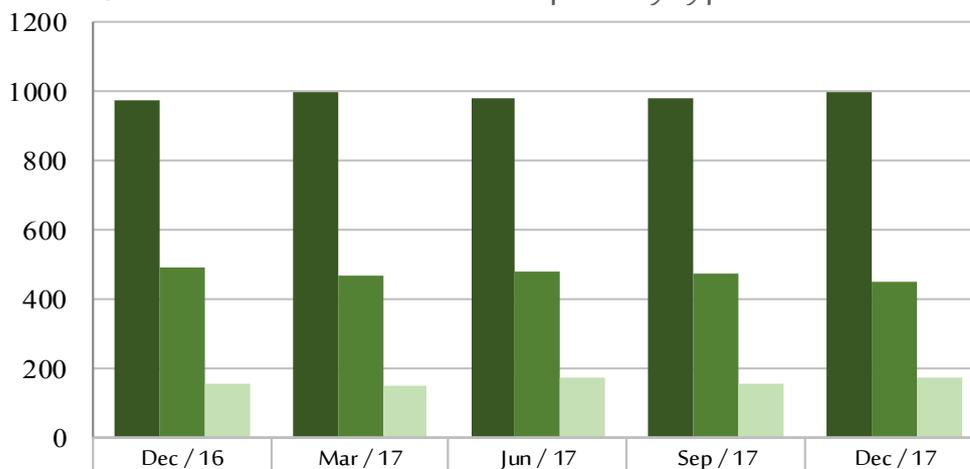
4.2 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks reached SAR 2,305.8 billion at end-Q4 2017, increasing by 1 percent (SAR 22.6 billion) compared to a q/q decrease of 0.4 percent (SAR 9.7 billion). They also registered an annual rise of 2.2 percent (SAR 49.4 billion) at end-2017.

4.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks declined by 0.3 percent (SAR 0.6 billion) to SAR 242.4 billion in Q4 2017, compared to a 1.6 percent (SAR 3.9 billion) increase in the preceding quarter. However they registered an annual rise of 7.3 percent (SAR 16.5 billion), constituting 10.5 percent of commercial banks' total assets compared to 10.6 percent at the end of the preceding quarter. Commercial banks' total foreign liabilities went up by 8.4 percent (SAR 7.3 billion) to SAR 94.5 billion in Q4 2017, compared to a rise of 11 percent (SAR 8.7 billion) in the preceding quarter. They registered

Chart 4: Bank Deposits by Type



an annual increase of 17.9 percent (SAR 14.4 billion) or 4.1 percent of commercial banks' total liabilities compared to 3.8 percent at the end of the preceding quarter. Commercial banks' net foreign assets went down by 5.1 percent (SAR 8 billion) to SAR 147.9 billion at end-Q4 2017 compared to a decrease of 2.9 percent (SAR 4.7 billion) in the preceding quarter. They also recorded an annual growth rate of 1.5 percent (SAR 2.2 billion) (Chart 5).

4.4 Commercial Banks' Claims on the Private and Public Sectors

Commercial banks' claims on the private and public (including government and quasi-government) sectors went down by 0.1 percent (SAR 2.4 billion) to SAR 1694.8 billion in Q4 2017, compared to an increase of 1.9 percent (SAR 31.4 billion) in the preceding quarter. They registered an annual rise of 3.8 percent (SAR 61.9 billion) at end-2017. The ratio of these claims to total bank deposits fell to 104.7 percent compared to 105.9 percent at the end of the preceding quarter.

4.4.1 Commercial Banks' Claims on the Private Sector

Commercial banks' claims on the private sector decreased by 1.5 percent (SAR 21.5 billion) to SAR 1,393.7 billion in Q4 2017, compared to a 0.2 percent (SAR 3.3 billion) fall in the preceding quarter. They registered an annual decrease of 0.8 percent (SAR

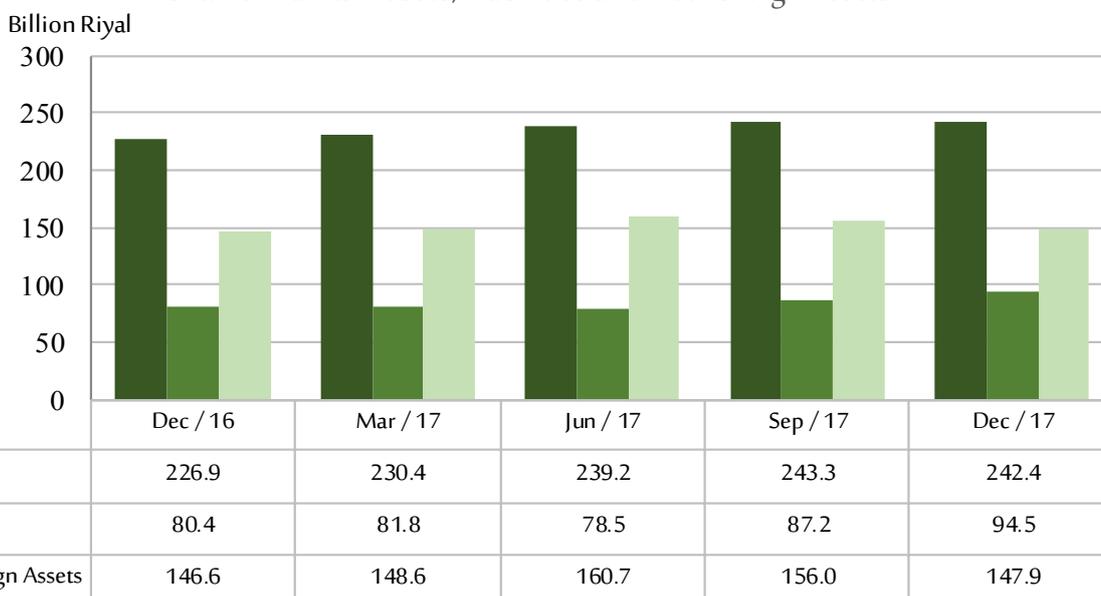
11.8 billion) at end-2017. The ratio of these claims to total bank deposits declined to 86.1 percent at end-Q4 2017, down from 88.3 percent at the end of the preceding quarter (Chart 6).

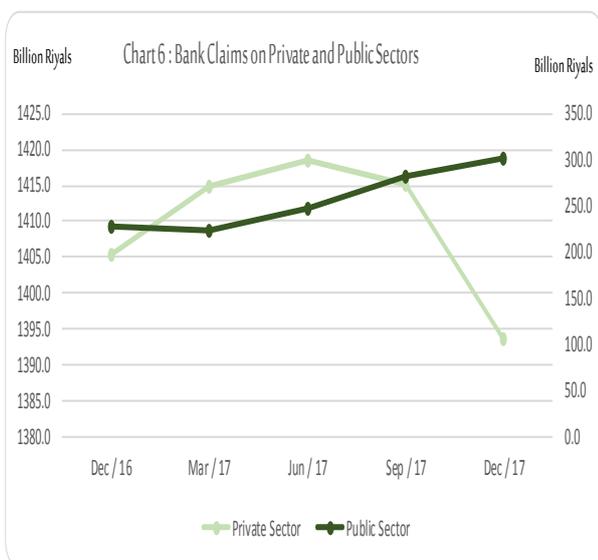
4.4.2 Commercial Banks' Claims on the Public Sector

Commercial banks' claims on the public sector increased by 6.8 percent (SAR 19.1 billion) to SAR 301.1 billion in Q4 2017 compared to a rise of 14 percent (SAR 34.7 billion) in the preceding quarter, registering an annual increase of 36.1 percent (SAR 62.4 billion) at end-2017. The ratio of commercial banks' total claims on the public sector to total bank deposits amounted to 18.6 percent at end-Q4 2017, up from 17.6 percent at the end of the preceding quarter (Chart 6).

A breakdown of bank credit by maturity during Q4 2017 as compared to the previous quarter indicates that long-term credit increased by 0.2 percent (SAR 1.1 billion) to SAR 428.7 billion, compared to a decline of 4.4 percent (SAR 19.9 billion) in the preceding quarter. Medium-term credit also went up by 3.2 percent (SAR 8.3 billion) to SAR 265.6 billion, compared to a rise of 1.7 percent (SAR 4.3 billion) in the preceding quarter. Short-term credit, however, went down by 4.4 percent (SAR 31.7 billion) to SAR 692.2 billion, compared to a 1.8 percent (SAR 12.9 billion) increase in the preceding quarter.

Chart 5: Banks' Assets, Liabilities and Net Foreign Assets





4.4.3 Commercial Banks' Claims by Economic Activity

Total extended bank credit by economic activity decreased by 1.6 percent (SAR 22.3 billion) to SAR 1,386.5 billion in Q4 2017 compared to a decline of 0.2 percent (SAR 2.7 billion) in the preceding quarter, recording an annual decrease of 1 percent (SAR 13.9 billion) at end-2017. A breakdown of bank credit extended to economic activities in Q4 2017 indicates decreases in credit extended to agriculture and fishing by 15.8 percent (SAR 2.3 billion); to building and construction by 15.5 percent (SAR 16.3 billion); to transport and telecommunication by 6.3 percent (SAR 3.2 billion); to manufacturing and production by 3.6 percent (SAR 6.1 billion); to mining and quarrying by 2.6 percent (SAR 0.4 billion); to commerce by 2.2 percent (SAR 6.9 billion); and to services by 1.6 percent (SAR 1.2 billion). On the other hand, bank credit extended to water, electricity, gas and health services rose by 6.9 percent (SAR 3.3 billion); finance by 6.8 percent (SAR 2.3 billion); other sectors by 1.6 percent (SAR 8.4 billion); and government and quasi-government sector by 0.2 percent (SAR 0.1 billion).

4.5 Reserves, Capital, Profits and Branches of Commercial Banks

Capital and reserves of commercial banks increased by 0.2 percent (SAR 0.8 billion) to SAR 317.6 billion in Q4 2017, compared to a 2.3 percent (SAR 7.4 billion) decrease in the preceding quarter. Their ratio to total bank deposits dropped to 19.6 percent at end-Q4 2017 from 19.8 percent in the preceding quarter, yet their growth rate went up by 6.3

percent (SAR 18.7 billion) at end-Q4 2017 as compared to the corresponding quarter in the preceding year. Commercial banks' profits stood at SAR 7 billion in Q4 2017 compared to SAR 11.2 billion in the preceding quarter, denoting a fall of 37.4 percent (SAR 4.2 billion) compared to a q/q increase of 1.7 percent (SAR 0.1 billion).

At end-Q4 2017, the number of commercial banks' branches operating in Saudi Arabia amounted to 2,079 with a q/q increase of 29 and a y/y increase of 2 percent (41 branches).

4.6 Commercial Banks' Purchases and Sales of Foreign Exchange

4.6.1 Commercial Banks' Purchases of Foreign Exchange

Commercial banks' total purchases of foreign exchange went up by 6.7 percent (SAR 46.1 billion) to SAR 736.6 billion in Q4 2017, compared to a q/q decline of 1.2 percent (SAR 8.2 billion), recording a y/y annual fall of 12.8 percent (SAR 108.1 billion). A q/q comparison of banks' total purchases of foreign exchange shows that purchases from other sources increased by 53.9 percent (SAR 16.8 billion); from SAMA by 13.9 percent (SAR 16.9 billion); from domestic banks by 5.4 percent (SAR 6.5 billion); and from foreign banks by 3 percent (SAR 9.6 billion), while purchases from customers decreased by 9.6 percent (SAR 3.4 billion) (Chart7).

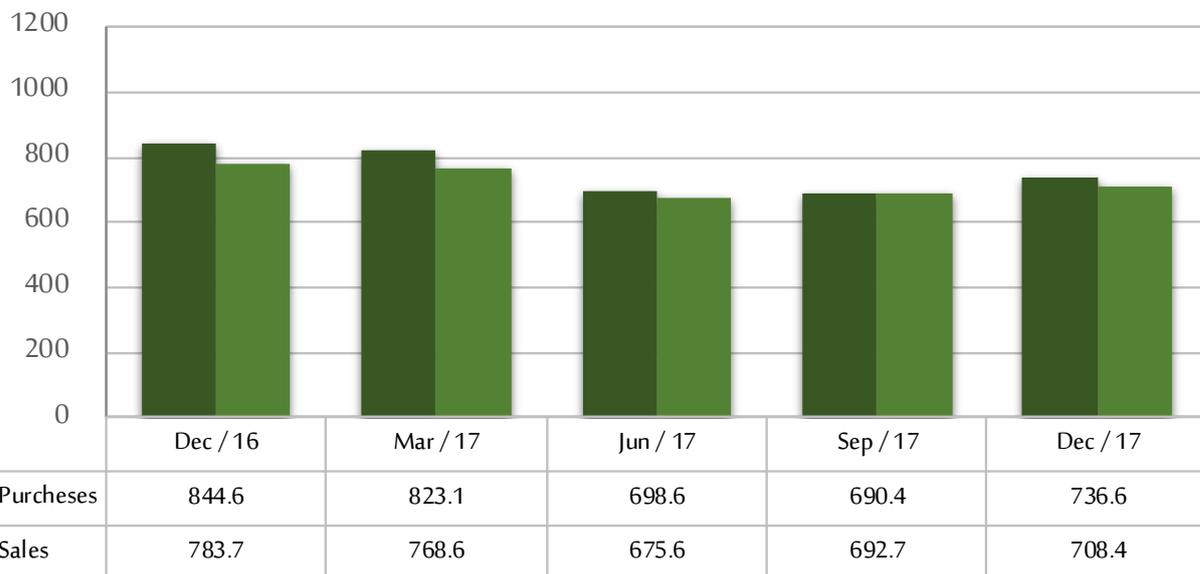
4.6.2 Commercial Banks' Sales of Foreign Exchange

Commercial banks' total sales of foreign exchange rose by 2.3 percent (SAR 15.7 billion) to SAR 708.4 billion in Q4 2017, compared to a q/q increase of 2.5 percent (SAR 17.1 billion). They recorded a y/y annual fall of 9.6 percent (SAR 75.3 billion). A q/q comparison of banks' total sales of foreign exchange indicates that sales to ministries and municipalities hiked by 262.1 percent (SAR 0.1 billion); to SAMA by 165.4 percent (SAR 1.2 billion); to other customers in Saudi Arabia by 16.6 percent (SAR 32.8 billion); and to other purposes by 11.5 percent (SAR 9.9 billion). Their sales to money changers stood at SAR 740.9 million, while no sales have been recorded in the preceding quarter. In contrast, sales to government entities dropped by 72.8 percent (SAR 7.9 billion); to banks abroad by 6 percent (SAR 18 billion); and to banks inside Saudi Arabia by 2.6 percent (SAR 2.5 billion) (chart 7).



Billion Riyals

Chart 7: Banks' Foreign Currency Purchases and Sales



Fifth: External Sector

Foreign Trade

Total exports value went up by 11.6 percent (SAR 195.9 billion) during Q3 2017 as compared to SAR 175.5 billion in the corresponding quarter of the previous year. Total value of oil exports rose by 12 percent to SAR 149.4 Billion and other exports by 10.4 percent to SAR 46.4 Billion. On the other hand, value of imports (CIF) recorded a y/y decrease of 2.4 percent to SAR 114.5 billion in Q3 2017, denoting a decline of 9.1 percent compared to Q2 2017.

Balance of Payments

5.1 Current Account

Preliminary estimates indicate a surplus of SAR 36.2 billion in the current account balance in Q3 2017 compared to a surplus of SAR 17.7 billion in the corresponding quarter of the previous year. This is attributed to a surplus of SAR 53.3 billion in the balance of goods and services against a y/y surplus of SAR 33.5 billion due to the rise in exported goods by 11.6 percent to SAR 195.9 billion compared to SAR 175.5 billion in the corresponding quarter of the previous year and due to the decrease in imported goods (FOB) by 1.9 percent to SAR 105 billion compared to SAR 107 billion in the corresponding quarter of the preceding year, despite the rise in services deficit by 7.5 percent to SAR 37.6 billion compared to SAR 35 billion in the corresponding

quarter of the preceding year. The surplus of the primary income balance decreased by 10.7 percent to SAR 15.4 billion compared to the corresponding quarter of the previous year. The deficit in the secondary income balance also decreased by 1.6 percent to SAR 32.5 billion compared to the corresponding quarter of the previous year.

5.2 Capital Account

Capital account registered outflows of SAR 0.72 billion in Q3 2017 against SAR 0.73 billion in the corresponding quarter of the previous year.

5.3 Financial Account

Net direct investments decreased by SAR 1.1 billion in Q3 2017 due to net acquisition of financial assets abroad (SAR 5.2 billion) being lower than domestic net incurrence of liabilities (SAR 6.2 billion). Net portfolio investments recorded an increase of SAR 23.4 billion against an increase of SAR 12.3 billion y/y. Net other investments also recorded a rise of SAR 58.4 billion against a decrease of SAR 12.2 billion y/y. Net reserve assets decreased by SAR 62.7 billion in Q3 2017 against a y/y decrease of SAR 60.4 billion owing to a decrease in other reserve assets by SAR 62.9 billion, which was the result of the decline in the item of investment in securities by SAR 36.7 billion.



Sixth: Banking Technology Developments and Financial Inclusion:

6.1 Saudi Riyal Interbank Express System (SARIE)

In Q4 2017, total value of the Saudi Riyal Inter-bank Express System (SARIE) transactions went down by 9.4 percent (SAR 1,377.5 billion) to SAR 13,258.4 billion. The value of single-payment transactions totaled SAR 12,546.6 billion, whereas the total value of bulk-payment transactions amounted to SAR 705.9 Billion. Total customer payments reached SAR 1,758.5 billion with a q/q rise of 20.6 percent. The total value of inter-bank payments stood at SAR 11,494 billion with a q/q decrease of 12.8 percent.

6.2 Mada

In 2017, total number of ATM transactions was approximately 524.8 million with cash withdrawals totaling SAR 183.8 billion, including transactions through banks' network and Mada. Total point of sale (POS) terminal transactions were 202.4 million with sales totaling SAR 53.5 billion. The number of ATMs totaled 18.3 thousand and the number of ATM cards issued by domestic banks stood at 28.4 million at the end of 2017, while the number of POS terminals reached 299.9 thousand.

6.3 Clearing

As regards statistics on clearing for 2017, the number of bank checks (outgoing and incoming) cleared at the clearing houses totaled 1.2 million with a total value of SAR 125.2 billion. The number of

individual and corporate checks totaled 1.1 million with a total value of SAR 92 billion, and the number of certified checks totaled 131.4 thousand with a total value of SAR 33.2 billion.

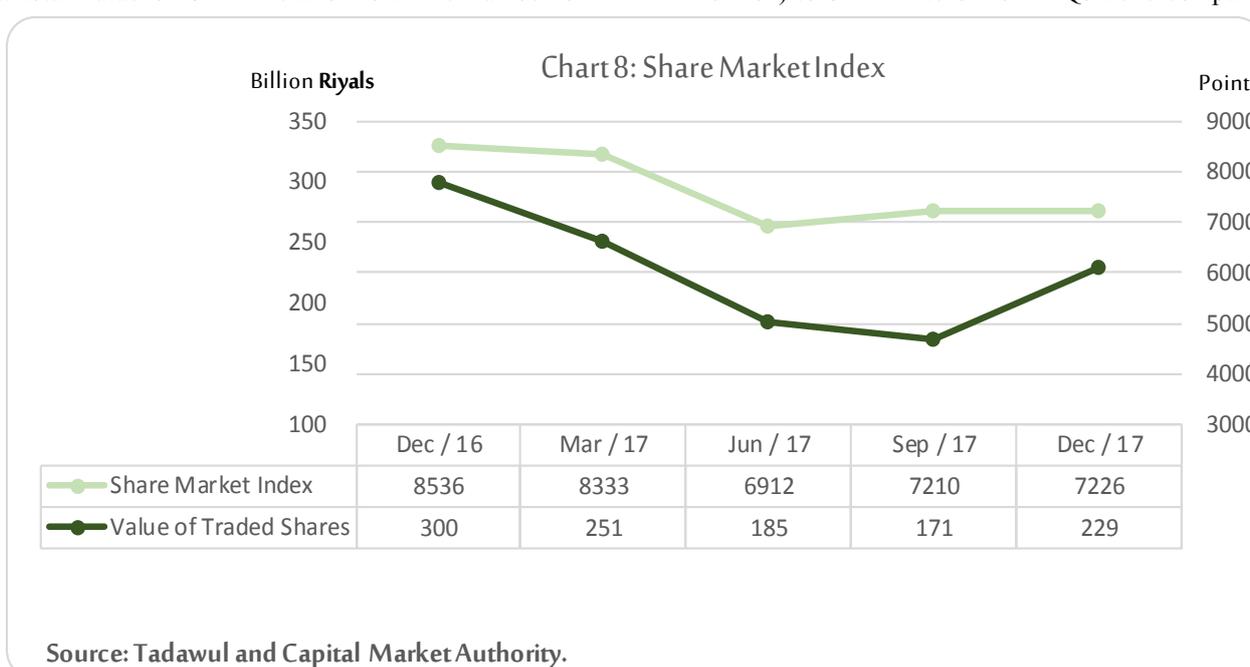
Seventh: Domestic Stock Market Developments

The general share price index declined by 0.8 percent to 7,226.3 points at end-Q4 2017 compared to a decrease of 1.9 percent in the preceding quarter, recording an annual increase of 0.2 percent. The number of traded shares increased by 54.7 percent to 12.1 billion in Q4 2017 compared to a q/q decrease of 25.9 percent, recording a y/y fall of 37 percent. Total value of shares traded in Q4 2017 went up by 34.1 percent to SAR 229.2 billion compared to a q/q decrease of 7.5 percent, recording a y/y decline of 23.5 percent.

At end-Q4 2017, the stock market capitalization declined by 1.8 percent to SAR 1,690 billion against a decline of 2.4 percent at the end of the preceding quarter. The stock market capitalization registered an annual increase of 0.5 percent compared to end-Q4 2016. In Q4 2017, total number of transactions increased by 29.2 percent to 6.1 million compared to a q/q rise of 10.5 percent, recording a y/y decline of 14.9 percent (Chart 8).

Eighth: Investment Funds

Total assets of investment funds managed by investment companies rose by 2 percent (SAR 2.2 billion) to SAR 112.7 billion in Q3 2017 compared





to a rise of 5.6 percent (SAR 5.9 billion) in the preceding quarter, recording a y/y increase of 37.7 percent (SAR 30.8 billion).

A breakdown of total assets of investment funds shows that domestic assets went up by 2.1 percent (SAR 1.8 billion) to SAR 87.9 billion in Q3 2017 compared to a rise of 3.7 percent (SAR 3.1 billion) in the previous quarter. In addition, domestic assets registered a y/y increase of 31.8 percent (SAR 21.2 billion). Foreign assets rose by 1.8 percent (SAR 0.4 billion) to SAR 24.7 billion in Q3 2017 against a rise of 13 percent (SAR 2.8 billion) in the preceding quarter, recording a y/y increase of 63.5 percent (SAR 9.6 billion).

The number of subscribers to investment funds rose by 2.5 percent (5,675 subscribers) to 235.2 thousand in Q3 2017, compared to a rise of 2.4 percent (5,271 subscribers) in the preceding quarter. The number of subscribers recorded a y/y increase of 4.1 percent (9,341 subscribers). As for the number of operating funds, it rose by 3 over the second quarter of the same year, reaching a total of 278.

Ninth: Specialized Credit Institutions (SCIs)

The latest available data on SCIs indicate that SCIs' total outstanding loans went down by 0.2 percent (SAR 0.5 billion) to SAR 239.2 billion in Q2 2017, compared to a slight decline of 0.02 percent (SAR 37 million) in the preceding quarter. It registered an annual rise of 0.5 percent (SAR 1.1 billion) at end-Q2 2017. Total actual disbursements of loans decreased by 11.3 percent (SAR 0.5 billion) in Q2 2017 compared to a decrease of 32.6 percent (SAR 2.3 billion) in the preceding quarter, recording an annual decline of 38.1 percent. Total loan repayments to SCIs went down by 2 percent (SAR 0.1 billion) in Q2 2017 compared to a decline of 22.3 percent (SAR 1.4 billion) in the preceding quarter, registering an annual decrease of 27.3 percent. Total net lending of SCIs stood at SAR 473.8 million in Q2 2017 where total loan repayments to SCIs was larger than the actual amounts disbursed therefrom during Q2 2017.

A breakdown of loans extended by SCIs in Q2 2017 indicates that the loans extended by the Saudi Agricultural Development Fund (ADF) increased by 166.1 percent (SAR 120.4 million) compared to a decrease of 53.8 percent (SAR 84.3 million) in the preceding quarter. Loans extended by the Social Development Bank (SDB) also rose by 20.4 percent (SAR 275.2 million) in Q2 2017 against a decline of

25.3 percent (SAR 458.1 million) in the preceding quarter. In addition, loans extended by the Saudi Industrial Development Fund (SIDF) increased by 19.5 percent (SAR 151.7 million) compared to a decline of 67.4 percent (SAR 622.8 million) in the preceding quarter. However, loans extended by the Real Estate Development Fund (REDF) decreased by 42 percent (SAR 1.1 billion) compared to a 6.1 percent (SAR 168.7 billion) decrease in the preceding quarter.

As for credit repayments in Q2 2016, the volume of repayments to the SIDF went up by 95.4 percent (SAR 556.1 million) against a decline of 51.7 percent (SAR 622.8 million) in the preceding quarter. However, repayments to the SDB declined by 21.9 percent (SAR 544.9 million) compared to a decrease of 21.7 percent (SAR 690.5 million) in the preceding quarter; repayments to the ADF by 13.6 percent (SAR 22.3 million) against a rise of 12.8 percent (SAR 18.6 million) in the preceding quarter; and repayments to the REDF by 5.4 percent (SAR 86 million) against a decrease of 5.2 percent (SAR 87.1 million) in the preceding quarter.

Tenth: Supervisory and Legislative Banking Developments During the Fourth Quarter of 2017

- Requiring banks to include quantitative and qualitative data on their activities with SMEs in their board annual report as of 2017. This requirement is aimed at enhancing the efficiency of functions concerned with SMEs within the banks.
- Emphasizing that banks shall not require women to obtain guardian consent for provision of services or completion of procedures relevant thereto unless there is a legal ground for this requirement, and that banks shall abide by the supreme royal decree providing for the facilitation of procedures.
- Developing new controls and instructions for foreign banks' branches operating in Saudi Arabia when outsourcing to third parties or to their respective headquarter/regional centers or group members.
- SAMA has required banks to implement the Guidelines on Identification and Management of Step-In Risk—issued by the Basel Committee on Banking Supervision (BCBS) as part of the G-20



initiative—regarding the risk of step-in for supporting independent commercial entities with amounts exceeding a bank's contractual obligations with these entities when they encounter financial distress. The Guidelines are aimed at enhancing the efficiency of managing and measuring the step-in risk and reducing its impact on a bank's capital and liquidity level.

- SAMA has emphasized the need for all banks and finance companies operating in the Kingdom to comply with the bank and finance companies' Consumer Protection Principles, stipulating that treatment shall be conducted in a fair and impartial manner (Principle 1); a high-level of disclosure and transparency shall be maintained (Principle 2); and financial education and awareness shall be provided (Principle 3). The obligations and responsibilities of creditors towards their clients have been also stressed, the most important of which are: ensuring the suitability of products to the needs and situations of customers; explaining the nature, costs and underlying merits and risks of the product to the customer clearly; and providing advice and guidance to customers facing financial difficulties and working with them to overcoming such difficulties before proceeding to take legal action against them.
- Implementation of the interim regulatory treatment and transitional arrangements of accounting provisions released by the BCBS related to International Financial Reporting Standard (IFRS) 9 "Financial Instruments", which was approved by the International Accounting Standards Board (IASB) in 2014, and came into force on 1st January, 2018. Also, details of the impact of transitional arrangements on capital ratios and financial leverage in third pillar disclosures have been published.
- SAMA has emphasized in its circulars to all banks operating in Saudi Arabia that they shall ensure that no accounts are opened for depositing revenues or amounts for government or quasi-government entities until approval from the Ministry of Finance has been obtained.

- SAMA has set the Saudization ratio calculation mechanism for all banks and finance companies operating in Saudi Arabia, linking it with any issuances from the Ministry of Labor and Social Development.
- SAMA has emphasized on the importance for all banks operating in Saudi Arabia to publish penal decisions imposed by SAMA against their bank violations in their annual report under "SAMA Penal Decisions", including the subject of the violation, the number of penal decisions and the total amount of fines in Saudi riyals.
- SAMA issued instructions for attestation of academic and professional certifications for banking sector employees.

Eleventh: Prominent Regulatory Developments in the Saudi Economy During the Fourth Quarter of 2017

- Establishing the National Development Fund.
- Approving the amendment of the name of the "Competitiveness Board" to become the "General Authority for Competition".
- Approving the Law of Trading in Oil Products.
- Approving the Anti-Money Laundering Law.
- Approving the Law of Combating Crimes of Terrorism and Terrorist Financing.
- Establishing a higher committee for combating corruption.
- Approving the statute of the Saudi Center for Strategic International Partnerships.
- Approval of the statute of the Strategy Management Office at the Council of Economic and Development Affairs.
- Approving guidelines for aids provided through the Citizen Account Program.
- Approval of Consumer Protection Plan in light of economic reforms.
- Approval of the Comprehensive Strategy for Mining and Metal Industries Sector.