

Saudi Arabia: Financial Sector Assessment Program-Detailed Assessment of Observance - Basel Core Principles for Effective Banking Supervision



SAUDI ARABIA

FINANCIAL SECTOR ASSESSMENT PROGRAM

DETAILED ASSESSMENT OF OBSERVANCE—BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

September 2024

This Detailed Assessment of Observance of the Basel Core Principles for Effective Banking Supervision for the Saudi Arabia Financial Sector Assessment Program was prepared by a staff team of the International Monetary Fund and the World Bank as background documentation of the period consultation with the member country. It is based on the information available at the time it was completed in February 2024.

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FINANCIAL SECTOR ASSESSMENT PROGRAM

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DETAILED ASSESSMENT OF OBSERVANCE

BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION

Prepared By
Monetary and Capital
Markets Department, IMF,
and Finance,
Competitiveness and
Innovation Global Practice,
World Bank

This report was prepared in the context of a joint IMF-World Bank Financial Sector Assessment Program (FSAP) mission in the Kingdom of Saudi Arabia during January 16 and February 5, 2024, led by Jihad Alwazir, IMF, and Harish Natarajan, World Bank, and Deputy Mission Chiefs Edda Rós Karlsdóttir, IMF, and Andrej Popovic, World Bank, and overseen by the Monetary and Capital Markets Department, IMF, and the Finance, Competitiveness and Innovation Global Practice, World Bank. Further information on the FSAP program can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>, and www.worldbank.org/fsap.



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Glossary

| | |
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| AC | Additional Criterion |
| AFSI | Aggregate Financial Stability Index |
| AML | Anti Money Laundering |
| AMLL | AML Law |
| BCBS | Basel Committee on Banking Supervision |
| BCL | Banking Control Law |
| BCM | Business Continuity Management |
| BCP | Basel Core Principles for Effective Banking Supervision |
| BI | Business Intelligence |
| BPD | Banking Policy Department |
| BSD | Banking Supervision Department |
| C | Compliant |
| CAR | Capital Adequacy Ratio |
| CCyB | Countercyclical Capital Buffer |
| CEDA | Council of Economic and Development Affairs |
| CEO | Chief Executive Officer |
| CER | Critical Economic Functions |
| CET1 | Common Equity Tier 1 |
| CFO | Chief Financial Officer |
| CFP | Contingency Funding Plan |
| CFT | Counter Financing of Terrorism |
| CMA | Capital Markets Authority |
| CP | Core Principle |
| CRO | Chief Risk Officer |
| CV | Curriculum Vitae |
| DAAP | Data and Advanced Analytics Program |
| DPF | Depositors Protection Fund |
| DRP | Disaster Recovery Planning |
| DSIB | Domestic Systemically Important Bank |
| DTFC | Deposit Taking Finance Companies |
| EC | Essential Criterion |
| ELA | Emergency Liquidity Assistance |
| FBB | Foreign Bank Branch |
| FC | Finance Companies |
| FCCL | Finance Company Control Law |
| FOS | Framework Oversight Section |
| FSAP | Financial Sector Assessment Program |
| FSC | Financial Stability Committee |
| FSD | Financial Stability Department |

| | |
|--------|--|
| FSR | Financial Stability Report |
| FX | Foreign Exchange |
| GDBC | General Department of Banking Control |
| GDCRC | General Department of Cyber Risk Control |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| GOSI | General Organization for Social Insurance |
| HR | Human Resources |
| IA | Insurance Authority |
| IAS | International Accounting Standards |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IMF | International Monetary Fund |
| IR-BCL | Implementation Rules for Banking Control Law |
| IRRBB | Interest Rate Risk in the Banking Book |
| IT | Information Technology |
| KRI | Key Risk Indicators |
| KSA | Kingdom of Saudi Arabia |
| KYC | Know Your Customer |
| LC | Largely Compliant |
| LCR | Liquidity Coverage Ratio |
| LDR | Loans to Deposits Ratio |
| LE | Large Exposures |
| LTV | Loan to Value |
| MAS | Monetary Authority of Singapore |
| MIS | Management Information Systems |
| MNC | Materially Non-compliant |
| MoF | Ministry of Finance |
| MoU | Memorandum of Understanding |
| NBFI | Non-Bank Financial Institution |
| NC | Non-compliant |
| NDF | National Development Fund |
| NDMC | National Debt Management Center |
| NED | Non-executive Director |
| NFSC | National Financial Stability Committee |
| NPL | Non-performing Loan |
| NRC | Nomination and Remuneration Committee |
| NSFR | Net Stable Funding Ratio |
| OTC | Over the Counter |
| PIF | Public Investment Fund |
| PRA | Prudential Regulatory Authority |

| | |
|-------|---|
| PSIA | Profit Sharing Investment Accounts |
| Q1 | 1st Quarter |
| Q2 | 2nd Quarter |
| Q3 | 3rd Quarter |
| Q4 | 4th Quarter |
| QMM | Quarterly Monitoring Meeting |
| RAM | Risk Assessment Matrix |
| RBS | Risk-based Supervision |
| RMS | Returns Management System |
| ROA | Return on Assets |
| ROE | Return on Equity |
| RWA | Risk-weighted Assets |
| SADIA | Saudi Authority for Data and Artificial Intelligence |
| SAFIU | Saudi Arabian Financial Intelligence Unit |
| SAMA | Saudi Central Bank |
| SAR | Saudi Riyal |
| SC | Shari'ah-compliant |
| SCBL | Saudi Central Bank Law |
| SIFI | Systemically Important Financial Institution |
| SIFIL | SIFI Law |
| SME | Small and Medium Enterprises |
| SOCPA | Saudi Organization for Chartered and Professional Accountants |
| SRV | Supervisory Review Visit |
| SSC | Supervisory Steering Committee |
| UAE | United Arab Emirates |
| UBO | Ultimate Beneficial Owner |
| UK | United Kingdom |
| USD | US Dollar |
| VaR | Value at Risk |
| WB | World Bank |

EXECUTIVE SUMMARY¹

Much progress has been achieved in strengthening Saudi Arabia’s banking regulatory and supervisory framework in recent years, and additional enhancements are under preparation.

Recent updates to primary and secondary legislation include the Saudi Central Bank Law (SCBL; 2020), the Anti-Money Laundering Law (2017), and regulations to address emerging risks such as financial fraud and cyber risks. The authorities intend to use the new draft Banking Control Law (BCL) to further strengthen the framework. Public consultation on the Bill ended in early-2023 and as the authorities consider the feedback received, the findings of this assessment will prove useful in finalizing the Bill and further align the framework with the Basel Core Principles (BCP).

Saudi Central Bank (SAMA) has progressively updated its regulations and continued focus on this process will be important. SAMA’s Banking Policy Development Framework (2021) is in the process of reviewing and updating all regulations. Recent circulars, such as those on financial fraud, disaster recovery, and Basel III disclosures, are fit for purpose, but a few others will need to be updated given significant changes in the operating environment, accounting standards, Basel standards and guidance, and international supervisory practices. Regulations, tailored to the KSA banking system, are needed on overarching risk management, country and transfer risk, market risk, and interest rate risk in the banking book (IRRBB).

SAMA’s responsibility for banking supervision is clearly set out in the law, although without clearly establishing the promotion of safety and soundness of banks and the banking system as an explicit or primary mandate. SAMA is empowered to perform several supervisory functions but does not yet have a full suite of powers, such as: (i) calibrating prudential requirements and supervisory reporting proportionate to risk profile and systemic relevance; (ii) reviewing, rejecting, and imposing prudential conditions on proposals to transfer significant ownership and controlling interest in banks; (iii) taking timely corrective actions and imposing sanctions based on supervisory judgment, ahead of legal or regulatory breach; (iv) accessing banks’ boards and banking groups’ boards, management, staff, and records; and (v) reviewing the activities of parent companies and companies affiliated with parent companies.

There is room to strengthen SAMA’s operational independence, accountability framework, transparency, and legal protection. Key enhancements would include setting the qualifying criteria for Governor and Vice Governors, establishing the grounds for their removal while in office, and making the appointment and removal process for Governor, Vice Governors, and members of SAMA’s governing body more transparent. The law requires SAMA to obtain prior approval of the Minister or Council of Ministers at several stages of banking supervision, and empowers the Minister, with Council of Ministers’ approval, to exempt banks from certain provisions of the law in exceptional circumstances—both of which erode SAMA’s operational independence. Finally, legal protection must be strengthened for SAMA, and its staff, and is needed for its retired staff, and its agents.

¹ This Detailed Assessment Report has been prepared by Toby Fiennes, External Expert, IMF, and Damodaran Krishnamurti, Senior Financial Sector Specialist, World Bank.

Strengthening powers and updating regulations, along with developing internal guidelines, will help strengthen processes for licensing, transfer of significant ownership and controlling interest, and major acquisitions by banks. Besides obtaining additional powers in those areas, formalizing the assessment processes—by including the applicable criteria that consider all elements required under the BCPs through policies and/or internal guidelines—can help streamline the processing, make the processing comprehensive, strengthen due diligence, and establish criteria and grounds for reviewing, rejecting, and imposing licensing and/or prudential conditions. Some key elements that need to be explicitly considered in these processes include, among others, identification and due diligence on ultimate beneficial owners, assessment of risks to the bank and the banking group, SAMA’s ability to supervise and take appropriate corrective actions, and resolvability of the bank and the banking group.

Effective domestic coordination and cross-border cooperation are important in KSA given the structure of the banking system.² Cross-border cooperation arrangements between SAMA and the relevant home and host supervisors are largely yet to be established. Current arrangements include memorandums of understanding (MoU) with the Capital Market Authority (CMA) in KSA and with one host supervisor. It will be important to establish full MoUs,³ with the recently established Insurance Authority (IA), the remaining seven host supervisors, all relevant home supervisors, and the stakeholders in KSA and home and host jurisdictions that are relevant for resolution.

SAMA’s well-established risk-based approach would benefit from a review of the scope of application of supervisory oversight, tools, and reporting. SAMA employs a risk-based approach which is embedded and reflected in the activities and scope of its supervisory work. The supervisory risk profiling, enforcing prudential requirements, and supervisory reporting are largely focused on the banking group, and more focus might be needed on the safety and soundness of the solo bank, the risk assessment of the group entities, and their impact on the risk assessment of the bank or the banking group. Supervision is yet to assess the resolvability of banks and banking groups and reflect the associated risks in the respective risk profiles. Supervisors should engage systematically with each bank’s boards, board committees, and independent board members, to challenge them on board strategy and to discuss individual banks’ supervisory examinations, external audits, and risk profiles. SAMA should undertake periodically: (i) formal assessment of the quality, effectiveness, and integration of the on-site and off-site functions; and (ii) independent review of the adequacy and effectiveness of the range of its available supervisory tools and their use, to adapt to the changing business models and operating environment in banks.

Prudential requirements mostly apply (appropriately) at both a solo and consolidated level, but monitoring is in practice only at the domestic level. Relevant regulations, such as the Large

² There are 23 foreign banks from 18 jurisdictions which are licensed to have a branch presence (of which 16 from as many jurisdictions are currently operating) and Saudi banks are operating branches or subsidiaries in eight jurisdictions. In addition, three foreign banks hold majority or controlling shareholding in three Saudi banks.

³ The MoUs would cover collaborative supervision exercises, and systematic, ongoing, periodic, and proactive exchange of information, including financial and prudential indicators, risk assessments, supervisory finding, corrective actions, and sanctions.

Exposure Rules, are written to apply at the solo and consolidated level. By contrast, SAMA's monitoring for related parties and large exposures is at the domestic level, and this means that any exposures in overseas branches and subsidiaries are excluded. Liquidity monitoring is undertaken at the global consolidated and domestic consolidated levels, and not at the solo level. Reporting and monitoring for all of these areas should be undertaken at the solo and consolidated levels, in line with SAMA's regulations.

As banking groups and group entities' significance are material in KSA, making SAMA's consolidated supervision framework and tools more comprehensive should be a priority.⁴ The areas for improvement include, among others: (i) assessment of reputation and contagion risks (including financial, technology, and other interdependencies) from entities in the banking group and in the wider group and their incorporation in the risk profile and supervisory rating of banking groups; (ii) applying, monitoring, and enforcing all relevant prudential requirements at the level of global consolidation; (iii) obtaining supervisory reports at global consolidated level to determine risk profile of banking groups; (iv) adopting a policy on scope and frequency of offsite and onsite examinations of local bank's foreign operations, including requiring additional reporting on them, as necessary; (v) considering quality and effectiveness of host supervision, while determining risk profile and supervisory approach for foreign operations; and (vi) obtaining powers to limit the range of activities of the consolidated group, and the locations in which activities can be conducted (including closure of foreign offices), if necessary.

Most SAMA regulations are compliant in substance with Basel standards, but enhancements are needed on related party and country and transfer risks. Some regulations are more conservative in specific areas than Basel standards (such as the scope of HQLA in the liquidity regime). On the other hand, the definition of affiliates in the related party rules should be made as broad as under the Basel standards. There is no related party limit for banks and for government owned entities that are related to the controlling shareholders. The limit on aggregate related party exposures is higher than expected under the BCP and some banks have exceeded the higher limits. SAMA are encouraged to increase their monitoring of exposures to government and government-owned commercial entities, from a concentration risk perspective, as these exposures are exempt from the large exposure limits, banks have significant exposures to these entities, and they are expected to grow as part of the ongoing implementation of Vision 2030.

Onsite inspections—a critical part of SAMA's verification of banks' risk management and controls—are currently a thorough and useful compliance-focused check and could be extended to assess qualitative aspects such as bank's overall risk culture. The onsite inspectors undertake a full check of the banks' compliance with SAMA regulations and the banks' own policies. This approach could be enriched by holding meetings with relevant board

⁴ All 11 local banks in KSA are part of banking groups and some are part of a wider group. These banks have 69 subsidiaries and 24 associates, that include 3 banking, 10 insurance, and 8 securities market or other financial entities, and 72 non-financial entities. In 9 of the 11 banks, at least one of three parameters (assets, capital, and profits) is about 10 percent or more and in two it is 5 to 10 percent. Of the 11 local banks, at least six have controlling shareholders/parent entities that have investment in several other entities.

members, having more probing meetings with senior management, and tilting towards a broader and more qualitative assessment of the bank and its risk culture.

Laws do not adequately empower SAMA to initiate timely corrective action and have access to and use the full range of corrective actions and sanctions. SAMA takes corrective actions when a bank breaches any requirement set in laws or regulations. Though it has powers to take corrective action (with the approval of the Minister, where required) when a bank adopts a policy that could threaten its solvency or liquidity, SAMA has not used this power. Under the law, SAMA is not empowered to take corrective actions based on supervisory judgment ahead of a regulatory or legal breach or in response to unsound or unsafe practices. During the past five years SAMA has not taken significant corrective actions and has not imposed similar sanctions against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement though there were situations that warranted such actions.⁵ SAMA should be equipped with a much wider range of corrective actions and sanctions—including those listed in the core principles—and provisions that can avoid undue delay in taking appropriate corrective actions should be included in the law.

Saudi Arabia has in place legislation, implementation rules, and guidelines that deliver a full Anti money laundering (AML)/ Counter financing of terrorism (CFT) supervisory framework. SAMA's onsite supervisors are adequately resourced and conduct comprehensive examinations. SAMA has applied financial penalties in cases of noncompliance. Further attention to reducing abuse of financial services is evidenced by the recent counter-fraud framework, which is actively promoted and a base for on-site inspections of banks. It is a subject that is viewed seriously by banks and SAMA alike, with efforts made to upskill industry.

This BCP assessment was complemented by an ungraded assessment against the Core Principles for Islamic Finance Regulation (CPIFRs). SAMA implements the same regulatory and supervisory framework to its mixed system of Islamic banks and conventional banks that also offer Islamic products (Islamic windows). The findings of the CPIFR assessment are presented in a separate Technical Note.

⁵ One local bank was placed on "high" supervisory stance over the past three years and one other local bank was placed on similar supervisory stance for two of the past three years.

INTRODUCTION

- 1. This assessment of compliance of the banking regulation and supervision framework in Kingdom of Saudi Arabia (KSA) with the Basel Core Principles for Effective Banking Supervision (BCP) was conducted from January 16 to February 5, 2024.** It was prepared as part of the 2024 Financial Sector Assessment Program (FSAP) conducted by the International Monetary Fund (IMF) and the World Bank (WB). The BCP assessment methodology issued by the Basel Committee on Banking Supervision (BCBS) in September 2012 was used for the current assessment and the authorities have opted to be assessed against both essential and additional criteria, but to be graded only against the essential criteria (EC).
- 2. The 2012 BCP methodology reflects lessons from the global financial crisis (GFC) and emerging supervisory best practices.** New principles were added to the methodology along with new ECs for each principle that provide more detail. The BCPs contain 247 separate essential and additional criteria against which the regulatory and supervisory framework of a jurisdiction can be assessed.
- 3. Compliance with the BCPs was evaluated in the context of the sophistication and complexity of the financial system.** The BCPs must be capable of application to a wide range of jurisdictions whose banking sectors will inevitably include a broad spectrum of banks. To accommodate this breadth of application, a proportionate approach is adopted within the BCP, both in terms of the expectations on supervisors for the discharge of their own functions and in terms of the standards that supervisors impose on banks. An assessment of a country against the BCPs must, therefore, recognize that its supervisory practices should be commensurate with the complexity, interconnectedness, size, and risk profile of the banks being supervised. In other words, the assessment must consider the context in which the supervisory practices are applied. The concept of proportionality underpins all assessment criteria. For these reasons, an assessment of one jurisdiction will not be directly comparable to that of another.
- 4. An assessment of compliance with the BCPs is not, and is not intended to be, an exact science.** Reaching conclusions required judgments by the assessment team. Banking systems differ from one country to another, as do their domestic circumstances. Furthermore, banking activities are undergoing rapid change after the GFC, prompting the evolution of thinking on, and practices for, supervision. Nevertheless, by adhering to a common, agreed methodology, the assessment provides the authorities with an internationally consistent measure of the quality and effectiveness of their banking supervision in relation to the BCPs, which are internationally acknowledged as minimum standards.
- 5. The ratings assigned under this assessment are not directly comparable to those from the previous detailed BCP assessment in 2011.** This is because: (i) the 2011 BCP assessment, prepared in the context of the 2012 FSAP was based on the 2006 BCP methodology; and (ii) the 2012 methodology used for this assessment places considerable emphasis on evidence of implementation. In particular, the 2012 BCPs strengthen the requirements for supervisors, the approaches to

supervision and supervisors' expectations of banks. The supervisors are now required to assess the risk profile of the banks not only in terms of the risks they run and the efficacy of their risk management, but also in terms of the risks they pose to the banking and the financial systems. In addition, supervisors need to consider how the macroeconomic environment, business trends, and the build-up and concentration of risk inside and outside the banking sector may affect the risk to which individual banks are exposed. While the BCPs set out the powers that supervisors should have to address safety and soundness concerns, there is a heightened focus on the actual use of the powers, in a forward-looking approach through early intervention.

6. While raising the bar for banking supervision, the Core Principles must be capable of application to a wide range of jurisdictions. The 2012 methodology reinforced the concept of proportionality, both in terms of the expectations on supervisors and in terms of the standards that supervisors impose on banks. The proportionate approach allows assessments of banking supervision that are commensurate with the risk profile and systemic importance of a wide range of banks and banking systems.

7. The Basel Committee issued new BCPs in April 2024. These were not finalized at the time of this assessment and therefore not used.

8. This assessment is based on review of laws, regulations, policies, and practices in place at the time. The BCP assessment team also held extensive meetings with authorities and select market participants. The assessment team met officials of SAMA, CMA, Insurance Authority, auditing and legal firms, accounting and auditing oversight agency, and banking sector participants. The authorities provided a detailed self-assessment of the BCPs, as well as detailed responses to an additional questionnaire.

9. Assessors have consciously avoided double-counting common deficiencies which are both relevant and material enough to affect the rating of more than one core principle (CP). They have achieved this by clearly articulating the gaps or deficiencies identified during the assessment with respect to the requirements in each CP. Where there are common deficiencies which are both relevant and material for more than one CP, assessors have reflected this in the grading in only the most relevant CP while documenting clearly in the comments section of the relevant CPs which gaps or deficiencies have been considered in the grading of which CP.

10. Authorities have consulted on a new law to replace the Banking Control Law (BCL) and this represents an excellent opportunity to modernize the legislation and address many of the findings in this assessment. Consultation ended in early 2023 and the authorities are considering the feedback and awaiting the results of the FSAP process before finalizing a Bill which will then progress through the legislative process. It is important to note that this assessment is based on the existing legislation. That said, assessors have had access to the draft law which, as currently written, would appear to address some of this report's findings (particularly around independence and powers of the supervisor). The assessors encourage the authorities to move the draft law forward as fast as the legislative process allows, ensuring that it addresses issues with the current framework raised in this report and elsewhere.

11. The findings, recommendations, and ratings in this detailed assessment report are based on the information available to the assessment team at the time of the assessment. The team extends its warm thanks to staff of the authorities, who organized and hosted a large number of meetings, shared details of practices, and provided useful support in understanding the contents of some of the Arabic documents. The assessors would, however, like to contextualize the assessment, as some factors impacted the following:⁶ (i) the timeliness and completeness of data; and (ii) information accessible to the assessors.

INSTITUTIONAL AND MARKET STRUCTURE— OVERVIEW

A. Institutional Structure

12. SAMA is responsible for the prudential regulation and supervision of banks, finance companies and payment service providers. SAMA is the designated Resolution Authority for the banking sector, and other institutions under its supervision. It also administers the Depositors Protection Fund (DPF), the country's deposit insurer. As the country's central bank, it is also responsible for the conduct of monetary policy. Until November 2023, SAMA was responsible for prudential regulation and supervision of insurers (other than health insurers) but this role has now been transferred to a separate agency, the Insurance Authority.

13. The Capital Markets Authority (CMA) has responsibility for supervision of securities business. This includes oversight of Tadawul, the Saudi stock exchange. The CMA is the designated Resolution Authority for the institutions under its supervision. The CMA mandates disclosure requirements for listed companies—all Saudi-incorporated banks are listed on the Tadawul.

14. The National Financial Stability Committee (NFSC) is a cross-agency coordinating committee that meets quarterly. It was founded in 2015 and is chaired by the Minister of Finance. Its membership comprises Minister of Finance (Chair), Governor of SAMA (who provides the Secretariat), Chair of CMA, and will eventually include the newly established Insurance Authority. It meets quarterly to discuss financial stability risks and actions that may need to be taken across the agencies. This includes a review of international and regional developments, and financial and economic indicators. The NFSC has a ministerial committee that is comprised of Minister of Finance (Chair), Governor of SAMA, Chairman of CMA, and two Sub-Committees, the Preparatory Committee (comprising Deputies of the members) and a Technical Committee.

⁶ The assessors note that: (i) requests for meeting with the officials of the Ministry of Finance were not granted, despite their material role in the regulation and supervision of the banking system; (ii) SAMA officials participated in some meetings with external stakeholders; and (iii) administrative procedures, delays and restrictions related to sharing of and access to information (and sometimes the lack of English translations) caused constraints.

B. Overview of the Banking Sector

15. The Saudi financial system is moderate in size (143 percent of 2022 GDP), dominated by commercial banks (61 percent of system assets or 87 percent of GDP) and state-owned development funds and pension fund. There are 11 locally-incorporated domestic banks, and 23 licensed Foreign Bank Branches (FBB), of which seven have yet to start operations. The domestic banks account for over 97 percent of banking system assets. There has been a step up in interest in establishing branches in KSA in the last three years, mainly from regional and East Asian based banks. The banking system is highly concentrated, with the two largest domestic banks accounting for almost half the sector's assets.

16. The Saudi Government has direct and indirect stakes in all the domestic banks, including via the pension fund. It is a minority shareholder with its largest percent ownership at 39 percent. The state-owned pension fund, the General Organization for Social Insurance (GOSI), holds assets amounting to 31 percent of GDP, including—as an index investor—in the listed banks. Most state ownership in Saudi banks comes as a result of this index investing by the Pension Fund, though there is also some legacy direct state ownership in three of the banks. The Public Investment Fund (PIF) also owns shares in some commercial banks and finance companies. There are 12 state-owned development funds, providing development and other finance in the country, which assets collectively amount to 10 percent of GDP. The development funds are governed by their respective line ministries but work under the umbrella of the National Development Fund (NDF), which was established in 2017 as a statutory, non-corporatized, holding entity, with a mandate to oversee and coordinate the work of these funds. NDF has since established a centralized treasury and other shared services for all the development funds with the goal for NDF to transform into a full-fledged development finance institution. The funds do not take deposits onto their own balance sheets but do appear to act as brokers for some deposits—this is discussed further under Core Principle 4 below. The NDF and its 12 development funds are not subject to independent prudential supervision. Some PIF-owned companies are licensed and supervised by SAMA (e.g., the Saudi Real Estate Refinance Company).

17. Shari'ah-compliant (SC) banking products & services form a dominant part of the banking system. SC products account for approximately an 80 percent share of both the assets and total funding base with even the Islamic windows operating in KSA having a dominant share of the asset base of their parent banks. Strong preference for SC banking products and services among consumers in KSA, based on considerations of faith, has been the primary driver for a steady and rapid increase in the share of Islamic banking in KSA. The Islamic banking landscape is dominated by relatively simple products with a low share of complicated and/or risk-sharing SC products/contracts, thereby reducing their contribution to prudential or financial stability risks. This BCP assessment was complemented by an ungraded assessment against the Core Principles for Islamic Finance Regulation (CPIFRs) and the findings are presented in a separate Technical Note.

18. Banks have simple deposit-taking and lending business models. Their balance sheets largely comprise customer deposits/profit sharing investment account (PSIA) and lending. The largest segment at end-2023 is corporate lending at 26 percent of total assets and 40 percent of

total credit. Home loans have been growing in recent years, following legislative change and now account for about 24 percent of total credit. Many domestic banks also hold USD-denominated government debt for liquidity purposes.

19. The Saudi banking sector remains profitable, liquid and well capitalized. As of end-2023, the industry average capital adequacy ratio stood at 20.1 percent. The liquidity coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR) were at 180.3 percent and 115.8 percent respectively at end-June 2023. Although private sector credit has increased, non-performing loans (NPLs) remain low, registering 1.5 percent at end-2023. The banking sector ROA and ROE as at end-2023 were 2.2 percent and 12.8 percent respectively.

20. The sector has shown rapid credit growth in recent years. Total bank credit has grown at an average annual rate of 14 percent between end-2020 and end-2023. Retail real estate loans more than tripled from 2019 to 2023, albeit from a low base. Credit growth in this segment peaked at 59 percent in 2020, but decelerated to 10 percent in 2023.

21. Banking sector risks stem primarily from global developments. The Saudi Arabian economy and financial sector are vulnerable to an abrupt global economic slowdown and oil price volatility. Falling oil prices would deteriorate fiscal and external balances and weaken domestic economic activity. Delays (e.g., caused by fiscal deterioration or extended suspension) in implementation of the National Investment Strategy under Vision 2030 would slow down economic growth and expose banks to losses from their large corporate credit portfolios (which accounted for just over 40 percent of all lending by Saudi banks at end-2023). Finally, the strong growth in banks' mortgage books in recent years leaves them moderately vulnerable to a sharp downturn in real estate prices.

PRECONDITIONS FOR EFFECTIVE BANKING SUPERVISION

22. Saudi Arabia grew at 7.5 percent in 2022, though it then contracted by 0.8 percent in 2023, due primarily to cuts on oil production. In part, recent growth reflected strong oil production and prices. Growth in non-oil GDP stood at 5.3 percent in 2022 and 3.8 percent in 2023. Private consumption and non-oil private investment have both been robust.⁷ The authorities accelerated implementation of their Vision 2030 reform agenda, which includes large-scale infrastructure investment, programs that promote home ownership and strategies for financial market and capital market development. Inflation is contained. Headline and core inflation is low and declining, while the contribution of housing is increasing. The external and fiscal buffers are substantial.

⁷ The Public Investment Fund (PIF)—the Kingdom's sovereign wealth fund—serves as the primary agency for implementing Vision 2030 and has invested 77 percent of its assets under management domestically. In the national statistics, PIF's investments are classified as private.

23. SAMA is the competent national authority responsible for defining macroprudential objectives and policy for the sectors under its supervision. Operationally, these responsibilities have been delegated to SAMA's Financial Stability Committee (FSC). The FSC's objective is to support the financial sector's stability in the kingdom and enhance confidence in it by establishing and managing macroprudential policies and implementing the necessary procedures and measures for financial institutions to assist in dealing with local, regional, and international economic and financial crises. The FSC's mandate includes "Discussing and defining a comprehensive financial stability strategy, evaluating the situation of the financial system, and discussing the proposed measures to maintain and strengthen the financial system's stability in the Kingdom, reducing systemic risks and mitigating their impact." It also includes "Reviewing and analyzing the macroprudential policies of the Central Bank and taking all relevant decisions." Financial stability risks are communicated in the Financial Stability Report. In terms of the macroprudential policy framework. While SAMA has the responsibility for financial stability and macroprudential tools, the National Financial Stability Committee (NFSC) brings together the Minister of Finance, SAMA, the CMA, the National Debt Management Center and will eventually include the Insurance Authority. The Committee is set up to discuss financial stability risks and actions that may need to be taken across the agencies. SAMA has a fairly comprehensive suite of macroprudential tools at its disposal. The Countercyclical Capital Buffer (CCyB) was added to SAMA's toolkit in 2016 but has always been set at 0 percent.

24. Saudi Arabia's public infrastructure, including its legal system, oversight of professionals, accounting standards, and governance and supervision of other financial markets appears strong. In particular:

- Shariah law forms the basis for the legal framework. Within this, the system of business laws, including corporate, bankruptcy, contract, consumer protection and private property laws exist. The backlog of cases in commercial courts is being substantially reduced.
- Professionals (e.g., accountants, auditors, and lawyers) are subject to transparent standards with oversight by their respective regulatory boards. National accounting and auditing standards are equivalent to international principles, as are financial reporting standards. The Banking Control Law requires banks to be audited by two firms. The professional accounting body, SOCPA, is overseen by the Ministry of Commerce.
- The banking sector, financial market and insurance sector have well defined laws to underpin regulation and supervision by SAMA, CMA, and the newly established Insurance Authority, respectively.
- The credit culture is strong, with historically conservative lending standards and two established credit bureaus.

25. SAMA has the primary regulatory responsibility for the country's payments systems. This includes the systemically important payment systems and financial market infrastructures. The Law of Payments and Payment Services of October 2021 and the Implementing Regulations established the legal architecture. It includes articles on the provision of payment services in Saudi

Arabia, the obligation of all parties involved and the classification of systemically important payment systems and settlement finality.

26. The Systemically Important Financial Institution Law (SIFIL) was adopted in 2021, but without implementing regulations the law is not yet in effect. Resolution of systemically important banks will reference the 2021 Systemically Important Financial Institution Law (SIFIL) which confers powers on SAMA to resolve institutions designated by them as Systemically Important Financial Institutions (SIFIs). Under the legislation, the purposes for which SAMA must act include protection of financial stability and continuity of critical services. Under the SIFIL, SIFIs will be required to submit recovery plans to SAMA. SAMA is to prepare resolution plans, which they must then submit them to the Council of Economic and Development Affairs for approval. The SIFIL is not yet operational, the implementing regulations—while already drafted—have not yet been issued. In addition, under the current framework, there is no bank-specific bankruptcy law, and the corporate bankruptcy regime applies for the liquidation of banks.

27. More generally, SAMA is in the process of developing and establishing a comprehensive crisis management framework. SAMA has established a SIFI Resolution Division, responsible for preparing resolution plans and taking resolution action with respect to failing institutions that may have systemic impact. SAMA is establishing a crisis management protocol to enhance coordination and information sharing among relevant authorities and provide guidance and procedures for crisis prevention and resolution. The creation of the Insurance Authority in late 2023 requires legal amendments to bring the insurance sector back under the purview of the SIFIL.

28. Saudi Arabia has a Depositors Protection Fund (DPF) that guarantees deposits up to SAR 200,000 (USD53,000) per depositor per bank. Managed by SAMA, it insures deposits at all commercial banks including foreign bank branches. The current guaranteed limit covers 97.6 percent of depositors in full, corresponding to 16.2 percent of the deposit-base. Payouts must be made within one month of the claim being received from the liquidator. The DPF has been collecting premiums from the industry since 2016 but is still to be operationalized. SAMA is in the process of establishing a Safety Net Development Project which aims at developing the adequate legislation and making DPF fully operational within three years. SAMA would also be the provider of Emergency Liquidity Assistance (ELA) in need. SAMA has developed a framework for this function, with criteria and plans for operationalization.

29. Banks disclose transparent information to the public. Saudi Arabian accounting and reporting standards are substantially equivalent to the International Financial Reporting Standards (IFRS). Domestic banks make Pillar 3 disclosures (under SAMA's regulations) and publish full annual as well as interim quarterly statements (under both SAMA and stock exchange requirements). As noted above, they are all listed on the Saudi Arabian stock exchange, Tadawul, which requires them to follow Tadawul disclosure requirements, for example of market sensitive news.

DETAILED ASSESSMENT

A. Summary of Main Findings

Responsibilities, Objectives, Powers, Independence (CP 1–2)

30. The responsibility for banking supervision is clearly set out in primary legislation, but it does not specify that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. Laws do not specify that the secondary objectives would be acceptable only insofar as they are subordinate to the primary objective and do not conflict with it. Article 3 of Saudi Central Bank Law (SCBL) states SAMA's objectives as follows: (i) maintaining monetary stability; (ii) supporting the stability of the financial sector and promoting trust therein; and (iii) supporting economic growth. Article 4 of SCBL, makes SAMA responsible for overseeing and supervising financial institutions (which includes banks) in accordance with relevant laws. In addition to banking supervision, SAMA is responsible for the supervision of finance companies, credit bureaus, money exchange companies, trade repositories, payment systems and fintech companies. Its mandate also covers financial sector development, resolution and consumer protection for banking and other financial services provided by institutions under its supervision. Laws or regulations have not established a clear link between the different objectives in the SCBL and the functions of SAMA and have not introduced elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. SAMA is yet to establish policies and processes to address the conflicts of interest that arise while conducting banking supervision.

31. The SCBL includes provisions on SAMA's independence, accountability, and governance. The main decision-making levels in SAMA with reference to banking supervision matters are the Governor, the Vice Governor of Supervision and Technology, and the Supervision Deputy Governor. The nature of banking supervision related decisions that each level can take is documented in SAMA's Authority Matrix. The delegation of powers indicates that the decisions on licensing, and regulatory approvals (or no objection) are taken at levels appropriate to the significance of the issue involved. SAMA's recruitment policies and capacity building initiatives have helped SAMA in recruiting and grooming dedicated staff who are well qualified and experienced in their respective areas of engagement. The industry holds SAMA staff in high esteem and view them as credible stakeholders based on their professionalism and integrity.

32. SAMA needs the full suite of powers for conducting effective supervision. The BCL was enacted in 1966 and is still in force. The authorities are working on a revised law that is in its consultation phase at the time of the mission. The draft BCL aims to address some of the gaps identified in this assessment and can further benefit from several recommendations in this assessment. While laws and their implementing regulations allow SAMA to perform several functions relevant for banking supervision, they do not adequately empower SAMA to undertake several specific tasks mentioned in the core principles. These include, among others, power to: (i) cooperate

and collaborate with relevant authorities to achieve an orderly resolution of banks, including triggering resolution, where appropriate; (ii) calibrate prudential requirements (including capital requirements) by risk profile and systemic relevance; (iii) have full access to and engage with the banks' boards and the banking group's boards, management, and staff, and records to review compliance with internal rules and limits, as well as external laws and regulations; (iv) take timely corrective action, impose a range of sanctions, and revoke the bank's license, based on supervisory judgment before a bank breaches laws or regulations and while it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system; and (v) review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.

33. SAMA has been progressively updating their stock of regulations, and the assessors support continuing focus on this process with more frequent and comprehensive reviews.

SAMA established a Banking Policy Development Framework in 2021, and they are in the process of reviewing and updating all regulations. Many have not yet been reviewed and updated or withdrawn despite significant changes in the operating environment, accounting standards, Basel standards and guidance, and supervisory practices. A few regulations are dated (for example, loan classification, provisioning, and credit review (2004), commercial banks accounting standards (2009) and rules and guidance for banks in Saudi Arabia to organize their audit committee (1996)) and some are just endorsements of Basel standards or requirements, without adapting and customizing these, as appropriate, to the KSA banking system (for example, market risk, interest rate risk in the banking book (IRRBB), and operational risk management).

34. Several provisions in the SCBL can erode SAMA's operational independence and transparency.

The process for the appointment and removal of the Governor and the Vice Governors and other members of its governing body is not transparent. SCBL does not: (i) set the qualifying criteria for Governor and Vice Governors; (ii) establish the grounds for their removal while in office; and (iii) require the reasons for their removal to be disclosed. As per SAMA, it fulfills the core principles' requirement to be accountable through a transparent framework for the discharge of its banking supervision mandate through submission of its annual report to the King and its subsequent publication. SAMA publishes its Annual Report on its website that includes a chapter on "SAMA achievements and aspirations." This chapter presents, among others, an overview of the key developments during the year under report and includes brief sections on SAMA's strategy, national currency management, foreign reserve management, supervision, and control of banking sector and each of the sectors for which SAMA holds supervisory responsibility, and SAMA's financial position. Timely publication of the report is not a legal requirement and the last report available on the website pertains to SAMA's accounting year which ended on June 30, 2020. This was published in July 2021. The brief section on supervision and control of the banking sector in SAMA's annual report, and the multi-year delay in the publication of the report does not go far enough to satisfy the core principles' requirement for SAMA to be transparent and accountable for the discharge of its banking supervision mandate. Also, the delay in publishing the annual report does not meet the transparency intent. It is, therefore, important to enhance the accountability content in the annual

report and establish and make fully transparent the procedure for SAMA's accountability regarding fulfilment of its mandate. Article 16 of SCBL requires SAMA board member to disclose any direct or indirect conflict of interest, whether it exists prior to or during the performance of his duties, and states that the said member is prohibited from voting on any matter involving a conflict of interest. The law or regulations do not require the member to avoid involving in the decision-making process or related procedures nor expressing her/his opinion thereon—as required for SAMA staff. Article 16 of SCBL does not adequately address conflict of interest at SAMA board level.

35. The split of powers and decision-making between SAMA and the Minister/Council of Ministers, and inadequate legal protection to SAMA, its staff and agents further erode its operational independence and supervisory effectiveness. The BCL requires SAMA to obtain approval of the Minister or the Council of Ministers at several stages of banking supervision, which may interfere with the SAMA's operational independence. Among others, these include issuing general rules, conducting inspections, requiring specific corrective actions, and imposing certain sanctions. The law also empowers the Minister to exempt banks, with the approval of the Council of Ministers, from certain provisions of the law in exceptional circumstances. BCL empowers the Minister to appoint a committee of three persons from outside SAMA and specify the conditions and measures to be observed in adjudging contraventions punishable under this Law. SIFIL requires SAMA to obtain the approval of CEDA for the resolution plans that it prepares for SIFIs. Laws do not assure protection for SAMA top management, staff and agents against omissions and costs of defending their actions and omissions. Legal protection is not available to former staff of SAMA for their actions and omissions during their service in SAMA and to SAMA's agents engaged for undertaking supervisory functions. The exception is the strict case of "resolution procedures," in which authorities are protected pursuant to article 35 of the SIFIL.

Permissible Activities, Licensing, Changes in Control, and Acquisitions (CP 4–7)

36. The term "bank" is defined in legislation and banks' activities are constrained by law, but permissible activities should be more clearly defined in law to restrict deposit taking to licensed commercial banks. The terms bank and banking activities are defined in the BCL, but these are not adequately clear and controlled, giving room to ambiguity and misinterpretation, and can mislead the public that deposit taking is not confined to banks. For example, reference to: (i) "**any** of the banking business" in the definition of a bank; and (ii) the broad definition of banking business, which mentions "**other** banking business" without defining clearly what those are. Taking of deposits is not confined to banks. Finance companies can accept savings and time deposits from non-individual customers and juristic persons with SAMA's prior approval. The Social Development Bank that is not a licensed commercial bank and is not supervised by SAMA is offering deposit products to its customers. The laws have currently allowed other financial entities to use the word "bank" in their names and offer deposit products without receiving a banking license, and without being regulated and supervised as a bank.

37. The BCL designates the Minister as the licensing authority for new banks and empowers the Council of Ministers to decide on cancellation or revocation of license. Under the law, SAMA is empowered to receive and process license applications, but it does not empower

SAMA or the Minister or the Council of Ministers to: (i) set licensing criteria; (ii) reject an application if the criteria are not fulfilled or if the information provided is inadequate; and (iii) revoke the license if the license was based on false information. The licensing criteria do not include consideration of whether ownership and governance structures of the applicant's wider group will hinder effective supervision, and implementation of corrective actions. In the absence of explicit powers in this regard, the legal validity of the licensing criteria is unclear and untested. The BCL should also be revised to establish a much higher minimum (absolute) initial capital amount than the current SAR 2.5 million that also reflects the infrastructure and technological investment needs for establishing a new bank and its business model.

38. The licensing process extends over a few years and needs to be streamlined and made comprehensive but efficient. During the past five years, SAMA received 18 license applications for setting up the following types of banks: two conventional banks, six digital banks, and 10 foreign bank branches. Of these, as on December 31, 2023, SAMA has issued licenses for three digital banks and the remaining applications are currently under SAMA assessment. No application has been denied or withdrawn. SAMA uses a template for processing the applications but does not have a licensing policy or license processing guidelines to streamline and standardize the processing. License processing currently does not explicitly include and document the following: (i) verification of source of funds for initial capital; (ii) assessment and quantification of the shareholders' financial strength and their ability to provide additional financial support; (iii) identification and due diligence of ultimate beneficial owners (UBOs); (iv) assessment of the likely hindrance to be posed by ownership and governance structures of the wider group to effective supervision and effective implementation of corrective measures on both a solo and a consolidated basis; (v) assessment of the collective knowledge of board members, and individual board member's and senior management personnel's background, experience, and skills; and (vi) due diligence on the supervisory frameworks and the consolidated supervision capabilities and practices of home supervisors.

39. Laws, regulations, and internal guidelines should be strengthened to avoid long and indefinite delays in commencing operations after obtaining a license approval. In the absence of binding time limits for commencing operations after obtaining a license approval, and when there are long/indefinite delays in commencing operations, there are high chances of material changes, among others, to the proposed bank's business model viability, shareholders' financial position and their fit and proper status, availability of the identified board members and senior management personnel and their fit and proper status. Such developments could also lead to non-fulfillment of licensing criteria which the applicants once met. Hence, laws, regulations, and internal guidelines should be strengthened to avoid or appropriately respond in such situations.

40. After licensing, newly established banks are not subject to an enhanced supervision cycle and/or reporting requirements. While SAMA engages with the licensee during the pre-operation phase, it should subject the new bank to more rigorous offsite and onsite supervision in the initial years after licensing. This is primarily to monitor the progress of new entrants in meeting

their business and strategic goals, and to determine that prudential conditions or limitations in the license approval are being met.

41. SAMA has established an arrangement with the CMA to exercise control over transfer of significant ownership in banks but overall powers and processes in this area need significant improvement. The current framework for controlling transfer for ownership is operating on a semi-formal basis through a combination of MoU and exchange of letter between SAMA and CMA. These are not legally enforceable on the banks or the shareholders, and do not cover all changes in significant or controlling beneficial ownership. Besides, the due diligence should shift from immediate shareholders to the ultimate beneficial owners and SAMA should obtain from banks through periodic reporting the names and holdings of significant shareholders and the identities of the beneficial owners. Laws do not empower SAMA to remedy, reject or reverse a change in significant ownership or restrict or prevent the exercise of voting rights ex post. SAMA should perform periodic fit and proper assessments of existing beneficial owners above a certain threshold and undertake additional or enhanced due diligence or fit and proper assessment on controlling shareholders. Laws should be strengthened in each of the above areas and should require banks to notify SAMA as soon as they become aware of any material information which may negatively affect the suitability of a shareholder that has significant ownership or a controlling interest.

42. Powers and processes are largely established and applied for approving banks' proposals for major acquisitions, but there is scope for improvement to fully meet the requirements established in the BCPs. SAMA has not established internal guidelines for processing proposals from banks to undertake major acquisitions. Currently the processing is guided by the high-level criteria established in regulations issued in 2011. The following criteria must be considered explicitly while processing bank proposals for major acquisitions: (i) SAMA's ability to require or undertake effective implementation of corrective measure in the bank and across the banking group; (ii) effectiveness of supervision in the host country and SAMA's ability to exercise supervision on a consolidated basis; and (iii) assessment of risks from the activities of the entity being acquired/taken over by the bank and the banking group and the bank's ability to mitigate or manage these. Laws or regulations should empower SAMA to prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The current requirements to obtain SAMA's prior approval do not extend explicitly to major acquisitions by the entities in the banking group.

Supervisory Cooperation and Cross Border Supervision (CP 3, 13)

43. Effective cooperation and coordination are quite important in KSA given the structure of the banking system where all eleven local banks are part of domestic and foreign banking groups. The NFSC was established in 2015, with the Ministry of Finance (MOF), SAMA and CMA as members and is the main forum for cooperation and coordination amongst the domestic regulators. The coordination and collaboration arrangements amongst domestic supervisory authorities and the framework for assuring confidentiality of information exchanged with the other stakeholders are reasonably in place. The arrangements can be made more comprehensive through full MoUs

(including supervision) with the recently established Insurance Authority and the local stakeholders that are relevant for resolution in KSA.⁸ The arrangements should promote collaborative supervision, and proactive sharing and exchange of data and information periodically on banks or banking groups supervised by SAMA in the context of ongoing micro prudential supervision, and not remain reactive, as it is currently.

44. An overview of Saudi banks' (local banks) presence abroad and the presence of foreign banks in KSA is presented below:

- Saudi banks have 18 subsidiaries, four associates and eight branches in foreign jurisdictions. These include three banking subsidiaries in Turkey, Pakistan, and Malaysia.
- Of the eleven Saudi banks, one is a subsidiary of a foreign bank from a neighboring jurisdiction and in two other local banks, foreign banks licensed in other jurisdictions have a controlling interest. These three banks account for about 16 percent market share of KSA banking system assets.
- Foreign banks operating through branch presence in Saudi Arabia are from 16 jurisdictions and these branches account for about 4 percent of banking system assets.

45. The overseas presence of Saudi banks, and the presence of foreign banks in KSA calls for expanding effective cooperation and coordination arrangements with home and host supervisors and resolution authorities. SAMA participates occasionally in the supervisory colleges of two banks hosted by the respective home authorities. SAMA has established MoUs and information sharing arrangements with only one of the 24 relevant home and host jurisdictions. There is no systematic, ongoing, and proactive sharing of information between the supervisors on the material risks and risk management practices of the bank and the banking group, and supervisors' assessments of the safety and soundness of the relevant entity under their supervision. Information sharing, if any, are generally initiated by a request from one of the supervisors. SAMA has yet to establish joint communication strategy with relevant home and host supervisors. SAMA and the host/home authorities do not undertake collaborative supervisory exercises, as a practice. They generally undertake these independently but keep each other informed ahead of the exercise. Considering the nascent stage of inter-institutional crisis management and resolution arrangements in KSA, SAMA has not yet established cross-border crisis management or resolution arrangements with the relevant home or host supervisors and resolution authorities.

⁸ For clarity purposes, the KSA currently lacks a designated resolution authority for the insurance sector, which cannot be fixed merely through an MOU, but would rather require an amendment to the SIFIL. Notwithstanding that, an MOU could provide for mechanisms for exchanging information about the insurance sector with SAMA, particularly in those cases where a banking group has insurance companies and SAMA needs data to prepare adequate resolution plans.

Supervisory Approach, Techniques and Tools, Reporting and Consolidated Supervision (CP 8–10, and 12)

46. All 11 Saudi banks are part of banking groups. These banks have 69 subsidiaries (51 domestic and 18 foreign), and 24 associates (20 domestic and 4 foreign). These banking groups have amongst them 3 banking entities, 10 insurance entities, 8 securities market or other financial entities, and 72 non-financial entities, of which 14 are outside Saudi Arabia. About 71 percent of these entities belong to five banks; two banks have 17 group entities each, two have 11 group entities, and one has 10 group entities. All 11 local banks have at least two domestic subsidiaries, and nine have foreign subsidiaries. Based on the data available with SAMA, the group entities collectively account for 3 to 22 percent of the net profits, 1 to 7 percent of total assets, and 3 to 18 percent of capital of their respective consolidated bank. In 9 of the 11 banks, at least one of these three parameters is about 10 percent or more, and in two it is between 5 to 10 percent.

47. SAMA adopts a well-established risk-based supervision framework with a mix of onsite and offsite tools and techniques. This includes risk profiling of banking groups, updating these at least annually, using systemic importance in combination with risk profile to determine supervisory stance, and adopting a forward-looking approach that informs supervisory intensity and helps determine allocation of resources. The risk rating process assesses the inherent risks and related controls across nine risk categories (credit, liquidity, market, operational, banking book interest rates, technology, legal, strategic and AML/CFT). Outcomes of the risk rating of the banks guide the supervisory actions and measures for the supervised entity. Combination of the risk rating and the impact rating (based on systemic importance) determines the supervisory stance for the bank. The supervisory stance and direction of risk for each bank determines the frequency and nature of the onsite inspections and supervisory actions to be undertaken and therefore the allocation of resources. SAMA has established reliable information systems to facilitate processing, monitoring and analyses of offsite inputs received from banks. SAMA uses a variety of information to review and assess the risk profiles of banking groups that includes but is not limited to periodic prudential and statistical returns submitted to SAMA at weekly, monthly, quarterly, semiannual and annual basis (such as Basel III and self-assessment returns), internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) documents, supervisory review visit (SRV) presentation, and quarterly monitoring meeting (QMM). Supervisors also use as a reference the quarterly financial statements, which have benefited from review by the external auditors.

48. The scope of application of supervisory framework, tools and reporting needs a close review and redesign to achieve more effective supervision. The supervisory framework is largely focused on the banking group and not adequately on the solo bank. Main prudential requirements on capital, leverage and liquidity are largely monitored and enforced at the banking group level, and those on large exposures and related party exposures are monitored and enforced at the level of domestic consolidation (excluding foreign operations and exposures). Supervisory reporting is generally at two levels—at the level of global consolidation and at the level of domestic consolidation (global consolidation minus operations in foreign branches and foreign subsidiaries). As a result, in combination, the supervisory focus on the safety and soundness of the solo bank is not

clear. Supervision does not explicitly and adequately assess the risks in the group entities, including those in the parent or controlling entity and its group entities, and factor these into the risk assessment of the bank or the banking group. Supervision has not yet assessed the resolvability of the banks and the banking groups, and therefore the resolvability risks are not reflected in the risk profiles of banks. As all domestic banks are part of banking groups and some belong to wider groups, and since the banking system and banking groups are evolving quickly to respond to the economic needs, the above gaps are significant and need to be addressed promptly.

49. SAMA needs to consider the potential gaps and areas for improvement in its supervisory approach, while reviewing and revising as recommended above. The supervisory approach and the supporting framework need to improve to: (i) achieve explicit identification, assessment, and addressing of risks and issues at the level of the solo bank in addition to the current banking group approach; (ii) establish, monitor and enforce prudential requirements distinctly for each: the solo bank, the consolidated bank, and at the level of each bank within the group; (iii) review and revise the risk-based supervision (RBS) framework and risk assessment matrix (RAM) to include reputation risk, contagion risk and group risks (mainly, improved assessment of group structure and the nature, impact and scope of risks posed by entities in the wider group, assessment of group-wide governance, oversight, risk management, compliance, and internal audit frameworks); (iv) assess bank's and banking group's resolvability where appropriate, having regard to the bank's risk profile and systemic importance, and address bank-specific barriers to orderly resolution; (v) establish crisis preparedness, crisis management, recovery, and resolution plans in partnership with other relevant authorities to be able to resolve banks and banking crisis in an orderly manner, where this becomes necessary; and (vi) strengthen the quality control framework to apply to all components of the RAM and to the outputs of onsite inspections.

50. Supervisors need to engage actively with banks' boards, board committees and independent board members, and periodically review the adequacy and efficiency of its supervisory techniques and tools. SAMA uses a range of supervisory techniques and tools to implement its supervisory approach, which helps it in deploying supervisory resources in proportion to the risk profile and systemic relevance of individual banking groups. However, supervisors need to engage formally with the banks' board of directors, the non-executive or independent board members to challenge them on board strategy and to discuss individual banks' supervisory examinations, external audits, and risk profiles. SAMA should undertake periodic formal assessment of the quality, effectiveness, and integration of the on-site and off-site functions, including the integration of the inputs and outputs of the specialist departments (e.g., the ones regulating and supervising AML-CFT and cybersecurity risks). In addition, SAMA should undertake periodic independent review of the adequacy and effectiveness of the range of its available supervisory tools and their use, to adapt to the changing business models and operating environment in banks.

51. SAMA obtains a large set of prudential, statistical, and financial returns from banks and there are clear opportunities for enhancement to cater to the changes in supervisory approach, techniques and tools suggested above, but preceded by enhanced powers. Laws should be amended to empower SAMA to require banks to submit any relevant data and

information, including internal management information, on a solo and consolidated basis, about individual entities in the banking group and wider group. SAMA obtains prudential, statistical, and financial returns from banks at different frequency from weekly to annual, and at the level of global consolidation and domestic consolidation. The quality and integrity of reporting is verified through automated checks on the returns management system, and sometimes through onsite visits. The scope of reporting should be overhauled to obtain data and information at the following levels for all relevant items: (i) at solo bank level; (ii) at banking group level; (iii) at the level of each bank within the banking group; and (iv) at the level of each relevant group entity. The supervisory reporting (and supervision) can be enriched by obtaining flow data such as turnover, related party transactions and intragroup transactions, and using these in the risk profiling of banks and banking groups. Above all, reporting requirements (contents, frequency) should reflect risk profile, risk rating and systemic relevance of the supervised entity.

52. Consolidated supervision is quite relevant for the banking system in KSA and therefore having and using all relevant powers, tools, and methodologies required in the Core Principles is essential.⁹

Given the significance of banking groups and group entities, the improvements required to strengthen the consolidated supervision framework, in addition to those already flagged above, include: (i) assessing risks from entities in the banking group, the controlling entity and entities in the wider group (for example reputation, and contagion risks (including financial, technology and other interdependencies) and incorporating these in the risk profile and supervisory rating of banking groups; (ii) applying, monitoring, and enforcing all relevant prudential requirements at the level of global consolidation; (iii) obtaining supervisory reports at the global consolidated level to determine risk profile of banking groups; (iv) establishing a policy on scope and frequency of offsite and onsite examinations of local banks' foreign operations, including requiring additional reporting on them, as necessary; (v) considering quality and effectiveness of host supervision, while determining risk profile and supervisory approach for foreign operations; and (v) obtaining powers to limit the range of activities of the consolidated group, and the locations in which activities can be conducted (including closure of foreign offices), if necessary.

Corrective and Sanctioning Powers of Supervisors (CP 11)

53. Laws do not adequately empower SAMA to initiate timely corrective action and have access to and use the full range of corrective actions and sanctions. Under the law, SAMA, or the Minister, or the Council of Ministers is empowered to take corrective actions when a bank breaches any requirement set in law or regulations, or when a bank adopts a policy that could threaten its solvency or liquidity. The powers do not extend to taking corrective actions based on supervisory judgment ahead of a regulatory or legal breach or in response to unsound or unsafe practices. SAMA takes corrective actions when a bank breaches any requirement set in law or regulations. Though it

⁹ All 11 local banks in KSA are part of banking groups and some are part of a wider group. These banks have 69 subsidiaries and 24 associates, that include 3 banking, 10 insurance, and 8 securities market or other financial entities, and 72 non-financial entities. In 9 of the 11 banks, at least one of three parameters (assets, capital, and profits) is about 10 percent or more and in two it is 5 to 10 percent. Of the 11 local banks, at least six have controlling shareholders/parent entities that have investment in several other entities.

has powers to take corrective action (with the approval of the Minister, where required), when a bank adopts a policy that could threaten its solvency or liquidity, SAMA has not used this power. The provisions in the laws (and implementing regulations) are not fully clear if SAMA can take material corrective actions or impose significant sanctions without the prior approval of the Minister. In either case, during the past five years SAMA has not taken any material corrective actions, and has not imposed any sanction against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement though one local bank was placed on "high" supervisory stance over the past three years and one other local bank was placed on similar supervisory stance for two of the past three years. The other areas where the powers available to SAMA are inadequate or not available for taking corrective actions or imposing sanctions are as follows: (i) for ring-fencing the bank; (ii) restricting the current activities of the bank; (iii) imposing more stringent prudential limits and requirements; (iv) withholding approval of new activities or acquisitions; (v) suspending payments to shareholders or share repurchases; (vi) restricting asset transfers; (vii) barring individuals from the banking sector; and (viii) replacing or restricting the powers of managers, board members, or controlling owners. Laws do not have requirements or provisions that can avoid undue delay in taking appropriate corrective actions. Supervisors do not engage directly with bank boards at an early stage to require its concerns to be addressed in a timely manner. They also do not meet with the board directly when there is a need for taking significant corrective actions or when the banks' corrective actions are not adequate or effective. On sanctions or penalties, SAMA largely relies on monetary penalties, drawing the banks' attention to the breach or violation, requiring the bank to warn the concerned employee. It needs the prior approval of the Minister to apply other types of sanctions. Currently, SAMA does not inform the other supervisors (other domestic regulators, home, and host) of its corrective actions or sanctions or coordinate its actions with them.

Corporate Governance and Internal Audit (CP 14, 26)

54. Corporate governance policies are largely in place, but there is room for some significant improvements. SAMA has established the regulatory requirements on key elements relevant for corporate governance arrangements in banks. Banks' compliance with these requirements and implementation of the established policies and procedures are topics of supervisory assessments both during offsite and onsite engagements. However, changes in laws, regulations and supervision can focus a bit more closely in certain specific areas to better assess the adequacy and effectiveness of the corporate governance arrangements in banks. For example: (i) supervisors should meet with the boards, board committees and board members in a systematic manner to assess their collective and individual effectiveness and knowledge and understanding of the bank's and banking group's operational structure and risks; (ii) supervisors should explicitly assess performance of individual board members with reference to duty of care and duty of loyalty and reflect these in their individual assessment; (iii) SAMA should develop explicit guidance or manuals on performing above assessments; and (iv) laws should be amended to empower SAMA with explicit power to require changes in the composition of the bank's board if it believes that any individuals are not fulfilling their duties or are not exercising their duty of care or duty of loyalty adequately or effectively.

55. SAMA has no program to regularly meet boards or key board members on a bilateral basis. The effectiveness of Boards and the Board Committees is largely assessed indirectly, such as through review of agendas and minutes. Regular bilateral meetings with, for example, Board Chairs and Chairs of the Audit Committee would help supervisors to better assess the culture of the Board, the tone from the top and the capability of the individuals.

56. On-site inspections, a critical part of SAMA's verification of banks' risk management and controls, are currently a thorough and useful compliance-focused check and could be extended to assess the overall culture. The on-site inspectors undertake a full check of the banks' compliance with SAMA regulations and the banks' own policies. This approach could be enriched by holding meetings with relevant board members, having more probing meetings with senior management, and tilting towards a broader and more qualitative assessment of the bank and its risk culture.

Capital (CP 16)

57. SAMA has a comprehensive capital framework, but monitoring should be at both solo and consolidated levels. The requirements on capital instrument eligibility and risk weightings are consistent with Basel III. SAMA uses supervisory add-ons to minimum capital ratios to reflect risk differentials. The requirements apply at solo and consolidated levels, but SAMA do not routinely monitor capital adequacy of the bank on a solo basis. This risk is material for many Saudi banks; group entities account for 3 to 18 percent of capital of the respective consolidated banks. Furthermore, many banks are looking to grow their overseas and non-banking operations.

58. Risk weight reporting by banks should be more actively verified. In particular, supervisors should carry out a sense check on key risk weighting numbers on receipt of the relevant returns, as this is not done automatically and the returns themselves may present a misleading picture if not analyzed thoroughly.

59. SAMA adjusts minimum capital ratios to account for systemic importance and risk profile and has developed a CCyB framework. There is an established DSIB buffer framework. Minimum capital ratios for individual banks are reviewed at least annually as part of the ICAAP process. SAMA are encouraged to develop a fuller set of indicators and market guidance on criteria for changing the level of the CCyB.

60. SAMA has a well-established ICAAP framework. This serves as a major annual focus for banks and supervisors. It embeds a forward-looking approach to capital management. Banks are required to conduct two stress tests a year to assess their capital adequacy under adverse conditions. These processes enable both the banks and SAMA to understand risks that sit outside the Basel measurement framework (Pillar 1) and set appropriate minimum capital ratios.

Credit Risk and Problem Assets, Provisions, and Reserves (CP 17–18)

61. Credit risk is one of the main risks to which Saudi banks are exposed and this is reflected in the amount of supervisory resource devoted to monitoring, but the guidance is dated. Credit risk is a key focus of on-site inspections and has a significant weight in the risk-based supervisory framework. SAMA has had policies and guidance in place for credit risk management (2013) and loan classification and provisioning (2004) for many years. These remain helpful and are referenced by banks and on-site inspectors for compliance purposes but have some coverage gaps and could benefit from a fuller review given the passage of time. Banks are subject to IFRS 9 rules for provisioning.

62. In updating the credit risk guidance, SAMA should include more detailed requirements including to reflect developments since 2013. For example, banks should be required to ensure that large, risky, or unusual exposures are subject to a particular level of approval at Board or senior management level. The current credit risk management guidelines are silent on foreign exchange risk. The current definition of forbearance (rescheduled loans) is less comprehensive than, for example, the definition in the Basel 2017 document “Prudential treatment of problem assets—definitions of non-performing exposures and forbearance.”

63. SAMA’s Financial Stability Committee (FSC) monitors risks, including credit risks, across the system and this process could usefully include systematic review of provisioning levels. The FSC reviews macro indicators and there would be merit in a more systematic process for taking account of these and of trends across the system, to assess whether a risk build-up should flow through to provisioning levels.

Risk Management (CP 15, 19–25)

64. SAMA has a stock of Circulars that have been issued over the last two decades some of which need updating and some gaps need to be filled. More recent circulars have followed a new SAMA protocol that requires them to be stand-alone (without reference to third party documents such as from Basel) and clearer in laying down specific requirements. Many of the older circulars have stood the test of time reasonably well, but it is recommended that SAMA undertake a program of progressively updating these documents and, importantly, filling some gaps. These include an overarching risk management circular, a country and transfer risk framework circular and updated operational risk management guidance. Market risk and IRRBB guidance need to be issued as well. Moreover, all these documents should be publicly available on SAMA’s website. Country risk would benefit from closer supervisory attention, with the lack of consideration of indirect country risk being an important gap. Monitoring of market risk in banks also needs to be stepped up, as derivative transaction volumes appear significant.

65. Most SAMA regulations are compliant in substance with Basel standards, but the related party rules have some significant deficiencies and large exposure exemptions could lead to concentration risk build-ups not being recognized in a timely way. The gaps in related party rules include, for example, the definition of affiliates, which is not as broad as under the Basel

standards. There is no related party limit for banks. The limit on aggregate related party exposures is higher than expected under the Basel Core Principles, and banks are allowed to exceed these. Banks have significant exposures to government and government-owned commercial entities, which are expected to grow as part of Vision 2030. SAMA are encouraged to increase their monitoring of these exposures from a concentration risk perspective as these are exempt from the large exposure limits.

66. The requirements mostly apply (appropriately) at both a solo and consolidated level, but monitoring is only at the domestic level. For example, SAMA's monitoring for related parties and large exposures is at the domestic level, and this means that any exposures in overseas branches and subsidiaries are excluded. Liquidity monitoring is undertaken at the consolidated and domestic level, and not at the solo level. Reporting and monitoring for all of these areas should be undertaken at the solo and consolidated levels, in line with the regulations.

67. On-site and off-site supervision of regulatory requirements is risk-based and well-embedded. It is based around off-site monitoring, regular meetings that include coverage of the banks' ICAAP, ILAAP and stress testing, and an on-site inspection program. Banks' ICAAP and ILAAP processes appear comprehensive and useful and enable SAMA supervisors to identify risks that sit outside regulatory measurement, such as IRRBB, additional operational risks and concentration of exposures and of funding. The required biannual stress tests cover a broad range of risks, for both solvency and liquidity.

Disclosures and Transparency (CP 27–28)

68. SAMA has well-established relations with the audit profession but bilateral engagement with auditors should be increased. It is recommended that the requirement for auditors to report issues directly to SAMA is tightened and clarified, as it currently relies on contract, and that SAMA set up regular bilateral meetings with bank auditors to encourage the flow of information. KSA's accounting standards, set by the accounting body, SOCPA, are aligned with international standards. The legislation requires all banks to have two external auditors. SAMA imposes further requirements, such as rotation of audit partners every three years.

69. CMA has established disclosure requirements for listed entities that apply to the domestic banks. The disclosure requirements include publication of quarterly financial statements. These, however, require SAMA's prior no-objection. In addition, banks are required to make full Basel III disclosures and need to seek SAMA's prior approval before publication of the quarterly financials. The prior approval requirement should be revisited as it could introduce moral hazard for SAMA.

Abuse of Financial Services (CP 29)

70. Saudi Arabia has in place legislation, implementation rules and guidelines that deliver a full AML/CFT framework. As the AML/CFT supervisor, SAMA's on-site supervisors are adequately resourced and conduct comprehensive examinations. SAMA has applied financial penalties in cases of non-compliance.

71. SAMA recently established a counter-fraud framework. This is actively promoted and a base for on-site inspections of banks. It is a subject that is viewed seriously by banks and SAMA alike, with efforts made to upskill industry.

72. Assessors have consciously avoided double-counting common deficiencies which are both relevant and material enough to affect the rating of more than one core principle (CP). They have achieved this by clearly articulating the gaps or deficiencies identified during the assessment with respect to the requirements in each CP (for example, CPs 1 and 2). Where there are common deficiencies which are both relevant and material for more than one CP, assessors have documented clearly in the comments section of the relevant CPs which gaps or deficiencies have been considered in the grading of which CP (for example, CPs 3, 8, 9, 10, 12, 13, 19, and 20).

73. The assessment noted that, in its supervisory role, SAMA acted though powers are not directly vested in it by law. This disconnect could hamper legal certainty of specific supervisory actions and should be remedied. Relevant laws designate the Minister as the licensing authority, assign SAMA with the banking supervision mandate, and require the Minister to obtain the prior approval of the Council of Ministers in certain instances, and require SAMA to obtain the Minister's prior approval in the instances where powers have not been vested in it. The assessment observed that in many instances, SAMA acted in line with certain powers in the laws. For instance, SAMA was (appropriately) approaching the Minister or the Council of Ministers (through the Minister of Finance) for their decisions on applications for banking licenses. In contrast, in certain instances where the law requires SAMA to obtain the approval of the Minister or the Council of Ministers, for example conducting inspections in banks and issuing general rules, the assessment did not observe evidence of such approvals, either for specific actions or as a general delegation. SAMA maintains that these powers have been delegated to it, but the assessors have not seen evidence of the delegation. The assessment, therefore, flags the potential for legal and reputation risk implications for SAMA. In this context, the assessment reiterates its recommendation to revise relevant laws to equip SAMA with all relevant powers for conducting effective banking regulation and supervision, that may be currently unclear, inadequate, or not available. Explicit empowerment through laws will ensure legal certainty and enforceability of SAMA's regulatory and supervisory actions, thus reducing or avoiding the scope for legal challenges and contest. Assessors note that the draft BCL is an ideal opportunity to remedy this gap.

B. Supervisory Powers, Responsibilities, and Functions

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| Principle 1 | Responsibilities, objectives, and powers. An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. ¹⁰ A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorize banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns. ¹¹ |
| Essential Criteria | |
| EC1 | The responsibilities and objectives of each of the authorities involved in banking supervision ¹² are clearly defined in legislation and publicly disclosed. Where more than one authority is responsible for supervising the banking system, a credible and publicly available framework is in place to avoid regulatory and supervisory gaps. |
| Description and findings regarding EC1 | <p>The Saudi Central Bank (SAMA) is the central bank of the Kingdom of Saudi Arabia (KSA) and is the financial regulator for banks, finance companies, payment systems and fintech companies. The Capital Market Authority (CMA) is KSA's financial regulatory authority for capital markets in the country. In August 2023, the Saudi Cabinet approved the establishment of a new unified and independent regulator for the insurance sector, the Insurance Authority, which has commenced operations from November 23, 2023. Until that date, SAMA was the regulator for the insurance sector.</p> <p>The Saudi Central Bank Law (SCBL) that was issued by the Royal Decree No. M/36 on November 26, 2020 (last updated on March 28, 2022) and the Banking Control Law (BCL) issued by Royal Decree, No. M/5 on June 11, 1966, establish the objectives, powers and responsibilities of SAMA as a banking supervisor.</p> <p>Article 3 of SCBL states SAMA's objectives as follows: (i) maintaining monetary stability; (ii) supporting the stability of the financial sector and promoting trust therein, and (iii) supporting economic growth. Article 4 of SCBL states that to achieve its objectives, SAMA shall have all the necessary powers and carry out the following duties, powers, and competences, among others: (i) overseeing and supervising financial institutions in accordance with relevant laws; (ii) issuing regulations and directives related to financial institutions and their operations; (iii) formulating and managing prudential policies and taking necessary actions and measures for financial institutions, as well as taking necessary measures and procedures to contribute in addressing economic and financial upheavals and crises, whether locally, regionally, or globally; and (iv) proposing draft laws</p> |

¹⁰ In this document, "banking group" includes the holding company, the bank and its offices, subsidiaries, affiliates, and joint ventures, both domestic and foreign. Risks from other entities in the wider group, for example non-bank (including non-financial) entities, may also be relevant. This group-wide approach to supervision goes beyond accounting consolidation.

¹¹ The activities of authorising banks, ongoing supervision and corrective actions are elaborated in the subsequent Principles.

¹² Such authority is called "the supervisor" throughout this paper, except where the longer form "the banking supervisor" has been necessary for clarification.

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| | <p>related to financial institutions and the financial sector, proposing amendments to existing laws, and submitting the same for completion of legal procedures.</p> <p>The BCL, which is the relevant law for banking supervision, lays down the powers and responsibilities of SAMA as a banking supervisor which include, among others: (i) receipt and processing of applications for banking license (Article 3); (ii) allowing banks to engage in certain activities and establishing limits for such activities (Articles 7 to 11); (iii) approving the appointment of directors and senior management in banks (Article 12); and (iv) requiring and receiving data, information and reports (Articles 15 and 17).</p> <p>The BCL also lays down SAMA's powers to undertake certain banking regulation and supervision activities with the prior approval of the Minister of Finance and National Economy (Minister) or of the Council of Ministers. These include, among others, issuing general rules on bank lending (Article 16), modifying the minimum or maximum limits for statutory deposits to be maintained by banks with SAMA (Article 7), conducting inspections in banks (Article 18), and imposing certain types of sanctions, penalties, and corrective actions (Articles 22 and 23).</p> <p>The BCL designates the Minister as the licensing authority. As per Articles 3 and 22 of BCL, the Minister can issue and revoke the banking license for local banks and foreign bank branches, issue license to banks for opening additional branches in KSA, and issue licenses to local banks for opening branches outside KSA, The Minister must obtain the approval of the Council of Ministers for issuing licenses to foreign bank branches and for revoking licenses of any bank.</p> <p>The BCL empowers the Minister to exempt banks, with the approval of the Council of Ministers, from certain provisions of the law in exceptional circumstances (Article 21). The term "exceptional circumstances" is not explained or defined in the law or regulations.</p> |
| EC 2 | <p>The primary objective of banking supervision is to promote the safety and soundness of banks and the banking system. If the banking supervisor is assigned broader responsibilities, these are subordinate to the primary objective and do not conflict with it.</p> |
| Description and findings regarding EC2 | <p>Article 3 of SCBL states SAMA's objectives as follows: (i) maintaining monetary stability; (ii) supporting the stability of the financial sector and promoting trust therein; and (iii) supporting economic growth. The SCBL does not articulate the priority of SAMA's objectives and does not connect each of the three objectives with a specific function in SAMA. It does not specify that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system, and the secondary objectives would be acceptable only insofar as they are subordinate to the primary objective and do not conflict with it.</p> <p>In addition to banking supervision, SAMA is responsible for the supervision of finance companies, credit bureaus, money exchange companies, trade repositories, payment systems and fintech companies. Its mandate also covers financial sector development, resolution and consumer protection for banking and other financial services provided by institutions under its supervision. Until recently, SAMA was responsible for supervision of the insurance sector. Diverse supervisory mandates and mandates that have inherent conflicts with banking supervision can result in situations that could pose challenges to</p> |

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| | <p>making policy choices that are fully conducive to the safety and soundness of banks and the banking system.</p> <p>The General Department of Banking Control (GDBC) in SAMA is responsible for banking regulation and supervision. This department includes separate divisions for bank licensing, banking policy, banking prudential regulation, banking supervision, banking inspection, digital banking, resolution of SIFIs, and secretariat of the DPF. The AML-CFT Department and the General Department of Cyber-risk Control that are also under the Supervision Deputyship, support the GDBC in the regulation and supervision of banks in their respective areas of expertise.</p> <p>The organization structure in SAMA houses the Supervision Deputyship and the Development and Technology Deputyship under separate Deputy Governors that report to the Vice Governor of Supervision and Technology. The Supervision Deputyship includes the functions of supervision of banking, finance, money exchange, and payment system companies, financial enforcement, AML and CFT, cyber risk control, and supervision transformation. The Development and Technology Deputyship includes the functions of financial sector development, savings and financial inclusion, business technology, payment systems business, information security, virtual assets and central bank digital currency, open banking, and innovation. While housing the individual functions in different departments or divisions or administrative units can help in segregation of day-to-day operations, the decision-making responsibilities converge at the levels of the Deputy Governors, Vice Governor, Governor, and SAMA Board. Laws or regulations have not established a clear link between the different objectives in the SCBL and the functions of SAMA and have not introduced elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. SAMA has yet to establish policies and processes to address the conflicts of interest that arise while conducting banking supervision.</p> <p>Further, as described under EC1, there are several provisions in laws where Minister or the Council of Ministers can exercise their powers related to licensing, revocation of licenses and exempting banks from certain provisions of the law, and those where SAMA has to seek their prior approval on banking supervision and regulation matters. In such instances, the decision-making can encounter additional conflicts.</p> |
| EC3 | <p>Laws and regulations provide a framework for the supervisor to set and enforce minimum prudential standards for banks and banking groups. The supervisor has the power to increase the prudential requirements for individual banks and banking groups based on their risk profile¹³ and systemic importance.¹⁴</p> |

¹³ In this document, “risk profile” refers to the nature and scale of the risk exposures undertaken by a bank.

¹⁴ In this document, “systemic importance” is determined by the size, interconnectedness, substitutability, global or cross-jurisdictional activity (if any), and complexity of the bank, as set out in the BCBS paper on ‘Global systemically important banks: assessment methodology and the additional loss absorbency requirement,’ November 2011.

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| Description and findings regarding EC3 | <p>In KSA, banking related laws are supported by their respective implementation rules (sub-legislation) that elaborate on the operational/ implementation of select Articles of the law, SAMA regulations are issued in the form of rules, guidelines, directives, and circulars. The four forms of regulations are not defined or explained in law or regulations, and existing regulations appear to have been issued in a particular form, based on preferences at the time. SAMA maintains that all four forms of regulations are binding on the banks, and legally enforceable, except where the regulation states explicitly otherwise, for example that it is for information purposes.</p> <p>Article 4 of the SCBL states that to achieve its objectives, SAMA shall have all the necessary powers and carry out the following duties, powers, and competences, including among others, overseeing, and supervising financial institutions in accordance with relevant laws, and issuing regulations and directives related to financial institutions and their operations. Part 10 of the same Article empowers SAMA to formulate and manage prudential policies and take necessary actions and measures for financial institutions, and to take necessary measures and procedures to address economic and financial upheavals and crises, whether locally, regionally, or globally.</p> <p>Article 16 of the BCL empowers SAMA to issue general rules regarding the following matters, with the approval of the Minister:</p> <ul style="list-style-type: none"> • The maximum limits of total loans that can be extended by a bank or banks. • The prohibition or limitation of specified categories of loans or other transactions. • Fixing the terms and conditions, which banks, should take into consideration when carrying out certain types of transactions for their customers. • The cash margins to be obtained by banks against specified categories of credits or guarantees. • The minimum ratio to be observed between the limits for loans and the collateral for such loans. • Fixing the assets to be maintained by each bank within KSA. Such assets should not fall below a certain percentage of the Bank's deposit liabilities, which shall be fixed by SAMA from time to time. <p>SAMA relies on the above powers to apply prudential requirements (minimum ratios and limits) on banks. The prudential requirements applied to banks include those pertaining to capital adequacy, leverage, liquidity, large exposures, related party exposures, and loan classification and provisioning. The above powers are explicit about the setting of prudential and other requirements for financial institutions, which includes banks, but are silent about setting prudential requirements for banking groups. All the same, SAMA has established prudential requirements for consolidated banks, among others, in respect of capital adequacy, liquidity, large exposures, and related party exposures.</p> <p>The SCBL and the BCL do not empower SAMA to increase the prudential requirements for individual banks and banking groups based on their risk profile and systemic importance as part of regular supervision. In practice, SAMA's prudential requirements, except capital adequacy, are applied uniformly across banks, with no differentiation based on risk profile, or systemic relevance of the banks. As regards capital adequacy, SAMA has: (i) required DSIBs to maintain a capital buffer of 0.5 to 1.0 percent, in addition</p> |
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| | to the minimum Pillar 1 capital requirements established for banks; and (ii) established additional capital under Pillar 2 for select banks for risks that are not covered under Pillar 1. |
| EC4 | Banking laws, regulations and prudential standards are updated as necessary to ensure that they remain effective and relevant to changing industry and regulatory practices. These are subject to public consultation, as appropriate. |
| Description and findings regarding EC4 | <p>SAMA has a policy department that issues banking regulations that are based on international standards or guidance and best practices. The draft regulations are generally subjected to external consultation before implementation. SAMA has put in a place an internal Banking Policy Development Framework in 2021, which among others, include requirements on review of past policies once in five years to ensure relevance and effectiveness of banking regulatory policies.</p> <p>If SAMA wants to propose amendments to banking and financial laws that are related to it, it must submit a request to the Central Government along with an explanatory paper that includes the proposed changes in the law, reasons for these changes, the benchmarking studies that have been conducted which supports these changes, and the impact of these changes on the KSA and the international treaties that the KSA is a party to. The BCL that is a key legislation for bank licensing, regulation and supervision was issued in 1966 and is currently under revision. The draft banking law was published in January 2023 in Istitlaa, a platform for public consultation to gauge industry and public feedback.</p> <p>There are a few regulations that were issued about 10 years ago or longer that are still in operation. For example, these include, among others, the circular on loan classification, provisioning, and credit review (2004) and commercial banks accounting standards (2009)— their relevance in their current forms despite requirement for banks to comply with IFRS is to be reviewed. Another set of circulars/regulations that need to be revised include those that require banks to ensure compliance with Basel documents on, among others, market risk, interest rate risk in the banking book (IRRBB), and operational risk management, instead of issuing SAMA regulations on these topics that adapt the Basel standards or guidance to the KSA context. SAMA also needs to update the regulations based on the various Basel standards and guidance where the underlying Basel standards and guidance have since evolved. SAMA's last review to assess the continued relevance of SAMA regulations or need for revisions or withdrawal was in 2021 when it introduced the BPD Framework, and it has since not put out revised regulations on the above topics for consultation.</p> |
| EC5 | <p>The supervisor has the power to:</p> <ul style="list-style-type: none"> (a) have full access to banks' and banking groups' Boards, management, staff and records in order to review compliance with internal rules and limits as well as external laws and regulations; (b) review the overall activities of a banking group, both domestic and cross-border; and (c) Supervise the foreign activities of banks incorporated in its jurisdiction. |

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| Description and findings regarding EC5 | <p>Articles 17 and 18 of the BCL empower SAMA to have access to books, records, and information for overseeing and supervising banks. Supervisors have access to banks' information and records such as records of board resolution, minutes of meeting, internal policies, procedures, and operational manuals, for purposes of ongoing supervision and inspection of books and accounts. Article 17 of the BCL provides that SAMA may request, at any time, any bank to supply it within a time limit it will specify and in the manner it will prescribe, with any information that it deems necessary for ensuring the realization of the purposes of that law. Article 18 of the BCL provides that SAMA may, with the approval of the Minister, conduct an inspection of the books and accounts of any bank, either by SAMA's own staff or by outside auditors assigned by it. The examination of the bank's books and accounts should take place in the bank's premises. In such a case the bank staff must produce all the required books and records of accounts and other documents in their custody or within their authority and must furnish any information they have relating to the bank.</p> <p>The SCBL and the BCL do not empower SAMA to: (i) have full access to the banks' boards and the banking group's boards, management, staff, and records to review compliance with internal rules and limits, as well as external laws and regulations; (ii) review the overall activities of a banking group, both domestic and cross border; (iii) review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group; and (iv) vary all types of prudential requirements (including capital requirements) by risk profile and systemic relevance.</p> <p>In practice, SAMA's supervision does not include or does not adequately include the areas specified in this EC. Please see description and finding under CPs 8, 9, and 12 for details.</p> |
| EC6 | <p>When, in a supervisor's judgment, a bank is not complying with laws or regulations, or it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system, the supervisor has the power to:</p> <ul style="list-style-type: none"> (a) take (and/or require a bank to take) timely corrective action; (b) impose a range of sanctions; (c) revoke the bank's license; and (d) cooperate and collaborate with relevant authorities to achieve an orderly resolution of the bank, including triggering resolution where appropriate. |
| Description and findings regarding EC6 | <p>Article 22 of the BCL empowers SAMA to take, with the approval of the Minister, one or more of the following measures or require banks to take steps as considered necessary when it finds that a bank has failed to comply with the provisions of this law, or with the provisions of any regulations issued under this law, or if a bank adopts a policy that might seriously affect its solvency or liquidity: (i) appoint one or more advisers to advise the bank in the conduct of its business; (ii) order the suspension or removal of any director or officer of the bank; (iii) limit or suspend the granting of credits or the acceptance of deposits; and</p> <p>(iv) require the bank to take such other steps, as it may consider necessary.</p> |

Article V of the Implementation Rules for Banking Control Law (IR-BCL) further clarifies measures that SAMA may take pursuant to Article 22 of the BCL. It states that if SAMA obtains knowledge that a bank has violated the provisions of the BCL and IR-BCL, or has pursued a policy that might seriously affect its solvency or liquidity, SAMA may take one or more of the following measures:

- Imposing the penalties stipulated in Article 23 of the BCL.
- Suspending or dismissing the bank employee who deliberately provided false data, information, or facts.
- Informing the bank about its violations and requiring it to take corrective measures within a period determined by SAMA. This can be done either in writing or by calling the bank's board chairperson, the managing director, or the general manager in charge.
- In case of the bank's non-compliance with SAMA's instructions, SAMA may take some or all of the measures below:
 - Informing the chairperson of the bank's board of directors, through a representative from SAMA or by any other means, of the importance of convening a board meeting within a period determined by SAMA to review the bank's violations and take the necessary corrective measures.
 - The meeting shall be attended by one or more of SAMA representatives.
 - Requiring the bank to take any corrective measures deemed necessary by SAMA.
 - Assigning one or more advisors to assist the bank in managing its business.
 - Appointing an observer to the bank's board of directors for a period determined by SAMA. The observer shall have the right to participate in the discussions held during the board's meetings and write down their opinion on the decisions taken by the board during these meetings.
 - Taking any other measures SAMA deems necessary after obtaining the approval of the Minister.

Article 22 of the BCL also provides that if SAMA finds that a bank persistently contravenes the provisions of the BCL or the decisions or regulations made thereunder, it may call upon such a bank to submit its reasons for the contravention, accompanied by its proposals to rectify the position within a stated period. If SAMA is of the opinion that such proposals are not sufficient for their purpose or if the bank fails to implement an agreed or prescribed course of action within the stated period, the Minister may, subject to the approval of the Council of Ministers, revoke the license of the said bank.

Article 23 of the BCL lists the following penalties that may be imposed and provides that in imposing the penalties contained in this Article should an offense be punishable by more than one penalty, the offender shall be subjected to the severest:

- Any person who contravenes the provisions of para 1 of Article 2, Article 5, and items a, b, and c of para 1 of Article 11, Article 12, and Article 18, shall be liable to imprisonment for a term not exceeding two years and to a fine not exceeding SAR 5,000 for every day the offense continues or to either of these penalties.
- Any person who contravenes the provisions of Article 19 (disclosure of information that the person came to possess during the performance of his duties) shall be liable

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| | <p>to imprisonment for a term not exceeding two years and to a fine not exceeding SAR 20,000 or to either of these penalties.</p> <ul style="list-style-type: none"> • Any person who contravenes the provisions of Articles 8, 9, and 10 (undertaking transactions or activities that are not permitted in law or require prior SAMA approval) shall be liable to imprisonment for a term not exceeding six months and to a fine not exceeding SAR 10,000 or to either of these penalties. • Any person who contravenes the provisions of articles 7, 14, and 15 (statutory deposit and liquid reserve requirements, appointment of external auditors, publication of monthly financial statements, and filing annual audited financial statements with SAMA) shall be liable to a fine not exceeding SAR 500 for every day the contravention continues. • Any person who contravenes any other provision of this Law or the regulations and decisions issued in execution thereof shall be liable to a fine not exceeding SAR 5,000. • In the event that offenses punishable according to paras 2, 3, and 5 (undertaking banking business without obtaining banking license, misuse of the word “bank,” and non-compliance with minimum licensing conditions) of this Article are committed by the same person for one purpose and provided that such offenses are inter-related as to object and timing, they are to be considered as one offense punishable by one penalty. <p>While the law allows SAMA to take corrective actions, with the approval of the Minister where required, when a bank adopts policies that might seriously affect its solvency or liquidity, SAMA has not used this power. Laws, regulations, and internal guidelines have not defined or articulated what would be construed as adoption of a policy that might seriously affect a bank’s solvency or liquidity. Unsafe and unsound practices and actions go beyond the policies adopted by banks and include outcomes other than those that seriously affect a bank’s solvency or liquidity. SAMA does not have powers to take corrective actions where, in supervisors’ judgment, a bank is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system. Laws or regulations have not defined or articulated what would be construed as unsafe or unsound practices, or actions that have the potential to jeopardize the bank or the banking system. These are also not articulated in the internal guidelines and manuals for supervisors.</p> <p>The Law of Systemically Important Financial Institutions (SIFIL), issued by Royal Decree number (253) dated December 10, 2020, defines the competent authority for resolution of financial institutions as SAMA or the Capital Market Authority (CMA), each with respect to financial institutions falling under their respective supervision. SIFIL defines a SIFI as “a financial institution designated by the competent authority as SIFI in accordance with Article 2 of this Law.” Article 2 of the SIFIL requires that a financial institution shall be classified as SIFI pursuant to a decision by the competent authority based on criteria set thereby for institutions falling under its supervision, provided such criteria includes the size of the financial institution, interconnectedness, and the complexity of its relations with local and foreign financial institutions, its modus operandi, and associated risks.</p> |
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| | <p>Accordingly, SAMA will be the sole resolution authority for banks that are designated as SIFIs, but it is yet to formally designate a bank as a SIFI under the SIFIL.</p> <p>Articles 10(1) and 10(2) of SIFIL states the conditions that must be met by a SIFI to be resolved under the law, and Articles 13(1) and 13(2) states the resolution procedures that may be applied to the SIFI and its holding company or a subsidiary financial institution upon the existence of all conditions referred to in Article 10 of the law.</p> <p>SIFIL does not specify the resolution authority for financial conglomerates that include a bank and an entity that falls under the supervisory jurisdiction of the CMA and/or the Insurance Authority. As per Article 8 (5a) of SIFIL this should be determined in the resolution plan for each SIFI. Resolution of banks that have insurance entities within the banking group will be challenging as a new insurance supervisory agency has been established in November 2023, and this agency is yet to be designated as a competent authority under the SIFIL.</p> <p>Though SIFIL was issued on December 10, 2020, it has not been operationalized yet as the implementing regulations for this law are yet to be issued. SAMA is yet to review the recovery plans received from the relevant banks and has not prepared the resolution plans for the SIFIs under its supervision. As a result, though the law is in place, the operating framework for timely and orderly resolution of banks by SAMA in cooperation and collaboration with other relevant authorities in and outside the Kingdom is yet to be established.</p> <p>Further, as SAMA has not reviewed recovery plans or devised resolution plans for the DSIBs, the ability to implement these powers has not been tested.</p> <p>Laws do not adequately empower SAMA to take timely corrective action, impose a range of sanctions, and revoke the bank's license, based on supervisory judgment before a bank breaches laws or regulations and while it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system.</p> |
| EC7 | <p>The supervisor has the power to review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.</p> |
| Description and findings regarding EC7 | <p>Please see description and finding under EC5. Of the eleven local banks, at least six have controlling shareholders/ parent entities that have investment in several other entities. These banks have a significant market share in the Saudi banking system. (Please see description and finding under EC5, CP12 for details.)</p> <p>The SCBL and the BCL do not empower SAMA to access information, records, books and accounts, board, management, and staff of bank's controlling shareholders/parent companies and their affiliated companies. In the absence of such access and explicit powers to review the activities of the controlling shareholders/parent companies and their affiliated companies, SAMA is not adequately equipped to assess or determine the impact arising from these companies on the safety and soundness of the bank and the banking group. Under the current supervisory approach, SAMA does not undertake such assessment to inform its risk assessment and risk profiling of banks.</p> |

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| Assessment of Principle 1 | Materially non-compliant. |
| Comments | <p>SAMA's responsibilities and objectives as the banking supervisor are defined in laws that are publicly disclosed. The SCBL sets SAMA's objectives that includes supporting the stability of the financial sector and promoting trust therein and mentions that it shall oversee and supervise financial institutions in accordance with relevant laws. The BCL, which is the relevant law for banking supervision, lays down the powers and responsibilities of SAMA as a banking supervisor which include, among others: (i) receipt and processing of applications for banking license; (ii) allowing banks to engage in certain activities and establishing limits for such activities; (iii) approving the appointment of directors and senior management in banks; and (iv) requiring and receiving data, information, and reports. The BCL also lays down SAMA's powers to undertake certain banking regulation and supervision activities with the prior approval of the Minister or the Council of Ministers. These include, among others, issuing general rules on bank lending, modifying the minimum or maximum limits for statutory deposits to be maintained by banks with SAMA, conducting inspections in banks, and imposing certain types of sanctions, penalties, and corrective actions.</p> <p>Laws or regulations have not established a clear link between the different objectives in the SCBL and the functions of SAMA and have not introduced elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. They do not specify that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system, and the secondary objectives would be acceptable only insofar as they are subordinate to the primary objective and do not conflict with it. SAMA is yet to establish policies and processes to address the conflicts of interest that arise while conducting banking supervision.</p> <p>The authorities are currently in the process of revising the BCL. The draft BCL aims to address some of the gaps identified in this assessment and can further benefit from several recommendations in this assessment. Several regulations are dated, and some are just endorsements of Basel standards or requirements, without adapting and customizing these, where appropriate, to the KSA banking system. SAMA established a Banking Policy Development Framework in 2021, and they have begun the process of reviewing all regulations. Many have not yet been reviewed and updated or withdrawn despite significant changes in the operating environment, accounting standards, Basel standards and guidance, and supervisory practices.</p> <p>While laws and their implementing regulations allow SAMA to perform several functions relevant for banking supervision, they do not adequately empower SAMA to undertake several specific tasks referred to in the ECs. For example: (i) cooperate and collaborate with relevant authorities to achieve an orderly resolution of banks, including triggering resolution, where appropriate; (ii) vary all types of prudential requirements (including capital requirements) by risk profile and systemic relevance; (iii) have full access to and engage with the banks' boards and the banking group's boards, management, and staff,</p> |

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| | <p>and records to review compliance with internal rules and limits, as well as external laws and regulations;</p> <p>(iv) take timely corrective action, impose a range of sanctions, and revoke the bank's license, based on supervisory judgment before a bank breaches laws or regulations and while it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system; and (iv) review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.</p> <p>In addition to the above, SAMA does not have the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence or is not subject to or does not adhere to established professional standards (CP 27).</p> <p>The gaps identified under (iv) have been considered in the assessment and grading of CP 11 (corrective and sanctioning powers of supervisors).</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Establish a clear link between the different objectives in the SCBL and the functions of SAMA and introduce elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. • Specify in the SCBL that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system and that any other objectives shall be pursued only in a subordinate fashion. • Equip SAMA with all missing powers to conduct effective banking supervision and resolution. • Ensure periodic review and update of relevant laws, regulations, and prudential standards to ensure that they remain effective and relevant to changing industry and regulatory practices. |
| Principle 2 | Independence, accountability, resourcing and legal protection for supervisors. The supervisor possesses operational independence, transparent processes, sound governance, budgetary processes that do not undermine autonomy and adequate resources, and is accountable for the discharge of its duties and use of its resources. The legal framework for banking supervision includes legal protection for the supervisor. |
| Essential Criteria | |
| EC1 | The operational independence, accountability and governance of the supervisor are prescribed in legislation and publicly disclosed. There is no government or industry interference that compromises the operational independence of the supervisor. The supervisor has full discretion to take any supervisory actions or decisions on banks and banking groups under its supervision. |
| Description and findings regarding EC1 | <p>The provisions in the SCBL as regards SAMA's independence, accountability, and governance are described below.</p> <p><u>On SAMA's independence:</u></p> <ul style="list-style-type: none"> • Article 2: SAMA is a financially and administratively independent legal person which reports to the King. Its headquarters shall be in the city of Riyadh, and it may |

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| | <p>establish branches or cash centers within the Kingdom and open offices or appoint agents and correspondents abroad.</p> <ul style="list-style-type: none"> • Article 7: SAMA's assets, revenues, and properties shall have immunity; they may not be searched, blocked, seized, confiscated, or expropriated, and shall not be subject to any bankruptcy procedures. • Article 17: SAMA is solely responsible for formulating and implementing the monetary policy and selecting its operational instruments and procedures. • Article 24: Interfering, in any way, in SAMA's activities and policies as well as its contracts and agreements, imposing oversight over SAMA, and auditing its accounts shall not be permitted. <p><u>On SAMA's governance:</u></p> <ul style="list-style-type: none"> • Article 8: (1) SAMA shall have a board of directors composed of the following: the Governor as Chairman, two Vice Governors as members, and five non-government employees as members. If the Governor is unable to chair a board meeting, he shall assign one of the Vice Governors to chair the meeting. (2) Nomination of the five non-government employees as board members shall be made jointly by the Governor and the Minister of Finance; their appointment shall be pursuant to a royal order, and their membership shall be for a renewable term of seven years. If a member's term expires without his membership being renewed or a replacement being appointed, he shall continue to serve as a board member. (3) The remuneration and benefits of board members shall be determined pursuant to a royal order upon the recommendation of the Minister of Finance in coordination with the Governor. • Article 9: Establishes the qualifying criteria to be satisfied by the five non-government employees to be eligible to be nominated as board members, namely: (1) be a Saudi citizen; (2) be a qualified and an expert in matters related to SAMA's activities; (3) have no criminal record related to crimes impinging on honor or integrity, unless such record has been expunged; (4) have never been declared bankrupt or insolvent, nor intentionally defaulted on paying his debt; (5) not hold any position or job with a public entity or a financial institution, nor serve as an auditor thereof; and (6) not be an owner or agent of an external auditor's office. • Article 10: The board shall supervise SAMA's activities and shall be generally responsible for ensuring the soundness of its management and functioning, and shall, to this end and in accordance with SAMA's objectives, have all the necessary powers. The board may set the rules, regulations, and policies and issue the directives it deems necessary and appropriate for carrying out SAMA's activities in accordance with this law; they shall include, but not be limited to, the following: • Article 11: Lays down among others, the minimum frequency for board meetings, the quorum for the meetings, the voting requirement for board decisions, and ability to invite experts and specialists to attend its meetings in a non-voting capacity to provide advice, data, or clarifications as requested by the board. • Article 12: Pertains to replacement of the board members: The Governor shall submit to the King a request to appoint a replacement board member, in accordance with |
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Article 8(2) of this Law, if a member: (1) dies; (2) no longer satisfies the membership requirements stipulated under this Law; (3) requests to be discharged; (4) does not attend three consecutive meetings and does not provide an acceptable excuse to the board or obtain the consent of the Chairman; (5) becomes unable to perform his duties for any reason; or (6) grossly breaches any of his duties, as determined by the board.

- Article 13: SAMA shall have a full-time governor at the rank of Minister; his appointment and benefits shall be determined pursuant to a royal order. The Governor shall manage SAMA's activities, implement its policies, and carry out its duties. He shall also carry out, in accordance with this Law, any other activities he deems necessary and appropriate, particularly the following::
- Article 14: (1) The Governor shall have two full-time Vice Governors to assist him in the discharge of his duties. The board shall, upon a recommendation by the Governor, issue a decision specifying the powers, functions, and duties of each Vice Governor. The Vice Governors shall not participate in deliberations involving such decision nor vote thereon. (2) The Vice Governors shall, upon the recommendation of the Governor, be appointed at grade 'Excellent'; their benefits shall be determined pursuant to a royal order. (3) The Governor shall, in his absence, assign one of the Vice Governors to serve as acting governor.
- Article 16: (1) A board member shall disclose any direct or indirect conflict of interest, whether it exists prior to or during the performance of his duties. Said member may not vote on any matter involving a conflict of interest. (2) SAMA staff shall disclose any direct conflict of interest and shall not, in matters involving conflict of interest, be involved in the decision-making process or related procedures nor express his opinion thereon.

The SCBL provisions on the accountability aspect are:

- Article 18: Lays down the requirements for external audit of SAMA's financial statements: (1) SAMA's accounts shall be audited by an external auditor, or more, who must be technically qualified and have expertise in SAMA activities. Said auditor shall directly report to the board and submit his reports thereto. (2) The external auditor's duties shall be limited to auditing SAMA's accounts and financial statements and may not interfere, in any manner, with SAMA management or policies. (3) The external auditor shall have the right to access SAMA's books, records, and documents, and may request any data he deems necessary to carry out his duties. If the auditor is unable to gain access to such data, he shall report the same to the board.
- Article 25: Lays down the reporting requirements for SAMA. It states that SAMA shall submit to the King a report comprising the latest financial and economic developments in the Kingdom and the external auditors' fiscal year-end report; a copy thereof shall be submitted to the Minister of Finance and shall be published at the appropriate time and in the appropriate manner.

The legal framework design erodes SAMA's operational independence as a banking supervisor. SAMA must seek the approval of the Minister or the Council of Ministers or

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| | <p>Council of Economic and Development Affairs (CEDA) at several stages of banking supervision including, among others, to issue general rules, conduct inspections, take corrective actions based on supervisory judgment or in anticipation of legal or prudential breaches, impose material sanctions, and approve resolution plans. Further, the Minister can, with the prior approval of the Council of Ministers, exempt banks from certain provisions of the BCL or from the regulations issued in execution thereof, though for a limited period. The law also provides for the Minister to appoint a committee comprising members from outside SAMA for adjudging contraventions punishable under the BCL. Listed below are the legal provisions that require SAMA to seek the prior approval of the Minister or the Council of Ministers or CEDA to be able to perform some of its operations or discharge its responsibilities:</p> <ul style="list-style-type: none"> • Nomination of the five non-government-employee members on SAMA board is jointly made by the Governor and the Minister (Article 8(2) of SCBL). • The remuneration and benefits of SAMA board members shall be determined pursuant to a royal order upon the recommendation of the Minister in coordination with the Governor (Article 8(3) of SCBL). • Issuing general rules on following matters need Minister's approval (Article 16 of BCL): <ul style="list-style-type: none"> ○ The maximum limits of total loans that can be extended by a bank or banks. ○ The prohibition or limitation of specified categories of loans or other transactions. ○ Fixing the terms and conditions, which banks, should take into consideration when carrying out certain types of transactions for their customers. ○ The cash margins to be obtained by banks against specified categories of credits or guarantees. ○ The minimum ratio to be observed between the limits for loans and the collateral for such loans. ○ Fixing the assets to be maintained by each bank within the Kingdom. Such assets should not fall below a certain percentage of the Bank's deposit liabilities, which shall be fixed by the Agency from time to time. • Conducting onsite inspections need Minister's approval (Article 18). • Imposing supervisory penalties, taking, or requiring corrective actions (other than those delegated to SAMA under Article V of the BCL Implementing Rules) need approval of Minister (Article 22 of BCL). <p>Art 25 of the BCL empowers the Minister to appoint a committee of three persons from outside SAMA and specify the conditions and measures to be observed in adjudging contraventions punishable under this Law at the request of SAMA.</p> <p>Article 21 of the BCL allows the Minister to exempt banks from certain provisions of the BCL or from the regulations issued in execution thereof for a limited period with the approval of the council of ministers. Depending upon the circumstances in which this power is exercised, this could hinder or obstruct SAMA's ability to perform effective supervision.</p> |
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| | Articles 8 and 9 of the SIFIL establishes the legal requirements with regards to the preparation of resolution plans for the systemically important financial institutions that come within SAMA's supervisory purview, their broad contents and submission of these plans by SAMA to the CEDA for its approval. ¹⁵ |
| EC2 | The process for the appointment and removal of the head(s) of the supervisory authority and members of its governing body is transparent. The head(s) of the supervisory authority is (are) appointed for a minimum term and is removed from office during his/her term only for reasons specified in law or if (s)he is not physically or mentally capable of carrying out the role or has been found guilty of misconduct. The reason(s) for removal is publicly disclosed. |
| Description and findings regarding EC2 | <p>As per Article 8 of SCBL, SAMA board is comprised of the Governor, two Vice Governors and five non-government employee directors (henceforth referred to as non-executive directors (NED)). The SCBL is silent about the qualifying criteria for Governor and Vice Governors, the process for the appointment and removal of the Governor and the Vice Governors, and the grounds for their removal during their term as Governor or Vice Governors. In the past, a few Governors have resigned from their positions and the reasons behind the resignation were not disclosed. While some Governors were in position for over 20 years, some have held the office for just over two years.</p> <p>Article 8 of SCBL stipulates that the nomination of NEDs shall be made jointly by the Governor and the Minister of Finance, their appointment shall be pursuant to a Royal Decree for a renewable seven-year term. The law also provides that if a NED's term expires without his membership being renewed or a replacement being appointed, he shall continue to serve as a board member.</p> <p>Article 9 of SCBL sets the following qualifying criteria for NEDs: he/she should be a Saudi citizen, qualified and an expert in matters related to SAMA's activities, have no criminal record related to crimes impinging on honor or integrity, unless such record has been expunged, have never been declared bankrupt or insolvent, nor intentionally defaulted on paying his debts, not hold any position or job with a public entity or a financial institution, nor serve as an auditor thereof, not be an owner or agent of an external auditor's office.</p> <p>As per Article 12 of SCBL, the Governor shall submit to the King a request to appoint a replacement for a NED, if a member dies, no longer satisfies the membership requirements stipulated under this law, requests to be discharged, does not attend three consecutive meetings and does not provide an acceptable excuse to the Board or obtain</p> |

¹⁵ CEDA's role is to deal with economic and development matters and coordinate them in a way that helps to unify the directions in all matters related to economic and development affairs. Its composition includes the Minister of Justice, Minister of Energy, Minister of Economy and Planning, Minister of Finance and Minister of Commerce. The resolution plans are meant to resolve the systemically important financial institutions which, in case of their failure, would impact the country's economy as whole. Therefore, SAMA, as a resolution authority considers the need for coordination with and support from all public agencies in resolving SIFIs and considers there is no better and quicker way in getting the support and coordination. SAMA believes that this approach facilitates coordination between authorities and, consequently, ensures timely actions during the implementation of resolution procedures.

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| | <p>the consent of the Chairman, becomes unable to perform his duties for any reason, or grossly breaches any of his duties, as determined by the board.</p> <p>The process for appointment and removal of the Governor and the other members of SAMA's board is not transparent.</p> |
| EC3 | The supervisor publishes its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. ¹⁶ |
| Description and findings regarding EC3 | <p>As mentioned in the description and findings under CP1-EC1, the SCBL and the BCL establish the objectives, powers, and responsibilities of SAMA. Article 3 of SCBL states SAMA's objectives as follows: (i) maintaining monetary stability; (ii) supporting the stability of the financial sector and promoting trust therein; and (iii) supporting economic growth.</p> <p>Article 25 of the SCBL requires SAMA to submit to the King a report comprising the latest financial and economic developments in the Kingdom and the external auditors' fiscal year-end report. A copy thereof is required to be submitted to the Minister and published at the appropriate time and in the appropriate manner. SAMA's reporting to the King, publication of the Report and the comments, feedback, or directions from the King, if any, are not publicly available.</p> <p>As per SAMA, it fulfils the core principles' requirement to be accountable through a transparent framework for the discharge of its banking supervision mandate through the submission of its annual report to the King and its subsequent publication. SAMA publishes its Annual Report on its website that includes a chapter on "SAMA achievements and aspirations." This chapter presents, among others, an overview of the key developments during the year under report and includes brief sections on SAMA's strategy, national currency management, foreign reserve management, supervision, and control of banking sector and each of the sectors for which SAMA holds supervisory responsibility, and SAMA's financial position. Timely publication of the report is not a legal requirement and the last report available on the website pertains to SAMA's accounting year that ended on June 30, 2020. This was published in July 2021. The brief section on supervision and control of the banking sector in the annual report does not go far enough to satisfy the need for SAMA to be transparent and accountable for the discharge of its banking supervision mandate. Also, the delay in publishing the annual report does not meet the transparency intent.</p> |
| EC4 | The supervisor has effective internal governance and communication processes that enable supervisory decisions to be taken at a level appropriate to the significance of the issue and timely decisions to be taken in the case of an emergency. The governing body is structured to avoid any real or perceived conflicts of interest. |
| Description and findings regarding EC4 | The main decision-making levels in SAMA with reference to banking supervision matters are the Governor, the Vice Governor of Supervision and Technology, and the Supervision Deputy Governor. The nature of banking supervision related decisions that each level can take is documented in the Authority Matrix that is approved by the Deputy Governor for |

¹⁶ Please refer to Principle 1, Essential Criterion 1.

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| | <p>Control and Technology on January 3, 2023. The delegation of powers indicates that decisions on supervision matters, and regulatory approvals (or no objection) are taken at levels appropriate to the significance of the issue involved. The authority matrix does not state: (i) if the next higher (or lower) level can exercise the delegated authority in the absence or non-availability of the authority holder; and (ii) decision making during emergency situations. The need for SAMA to obtain prior approval from the Minister or the Council of Minister or CEDA for key supervisory and resolution decisions or actions can be seen as impeding SAMA's ability to take timely decisions in emergency situations. Article 16 of the SCBL deals with conflict of interest at the level of board members (which includes Governor and the Vice Governors), and staff of SAMA. This Article requires SAMA staff to disclose any direct conflict of interest and prohibits them, in matters involving conflict of interest, from involving in the decision-making process or related procedures and expressing their opinion thereon. For board members, the Article requires the member to disclose any direct or indirect conflict of interest, whether it exists prior to or during the performance of his duties, and states that the said member is prohibited from voting on any matter involving a conflict of interest. The law or regulations do not require the member to avoid involving in the decision-making process or related procedures nor expressing his/her opinion thereon—as required for SAMA staff. These provisions in law do not fully address conflict of interest at SAMA board level. These gaps need to be addressed.</p> <p>SAMA's code of work ethics for SAMA staff defines conflict of interest, sets out procedures of disclosing, and clarifies the requirements for post-employment in supervised financial institutions. According to the code, SAMA staff are prohibited from working in any supervised financial institutions without obtaining its prior approval. The Code of Ethics does not set the discipline to be followed when a staff employed in the banking sector joins SAMA to effectively address potential real or perceived conflict of interest situations while performing supervision activities. This needs to be addressed.</p> |
| EC5 | <p>The supervisor and its staff have credibility based on their professionalism and integrity. There are rules on how to avoid conflicts of interest and on the appropriate use of information obtained through work, with sanctions in place if these are not followed.</p> |
| Description and findings regarding EC5 | <p>Please see description and finding under EC4, that describes: (i) the requirements dealing with conflict of interest established through Article 16 of SCBL, and the gaps in the Article with reference to board members; and (ii) the likely conflict of interest situations when a staff employed in the banking sector joins SAMA.</p> <p>Article 23 of SCBL provides that SAMA's board members, staff, agents, and external auditors shall not disclose any data or information relating to the affairs of SAMA or financial institutions, whether during or after the term of their employment.</p> <p>Article 16 of BCL prohibits any person who comes into possession of information during the performance of his duties in the implementation of this Law from disclosing such information or to make use of it in any manner.</p> <p>The SCBL and regulations are silent about the penalty or sanctions that go with the violation or breach of the provisions of the above Articles in the law.</p> |

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| | <p>SAMA's recruitment procedures, minimum qualifications and experience expected of applicants and capacity building initiatives have helped SAMA in recruiting and grooming dedicated staff who are well qualified and experienced in their respective areas of engagement. SAMA has also established dedicated units and teams in specific areas that require specific skillsets such as information security, cyber security, and AML/CFT, which have helped in reinforcing the credibility of its staff. The industry holds SAMA staff in high esteem and view them as credible stakeholders based on their professionalism and integrity.</p> |
| EC6 | <p>The supervisor has adequate resources for the conduct of effective supervision and oversight. It is financed in a manner that does not undermine its autonomy or operational independence. This includes:</p> <ul style="list-style-type: none"> (a) a budget that provides for staff in sufficient numbers and with skills commensurate with the risk profile and systemic importance of the banks and banking groups supervised; (b) salary scales that allow it to attract and retain qualified staff; (c) the ability to commission external experts with the necessary professional skills and independence, and subject to necessary confidentiality restrictions to conduct supervisory tasks; (d) a budget and program for the regular training of staff; (e) a technology budget sufficient to equip its staff with the tools needed to supervise the banking industry and assess individual banks and banking groups; and (f) a travel budget that allows appropriate on-site work, effective cross-border cooperation, and participation in domestic and international meetings of significant relevance (e.g., supervisory colleges). |
| Description and findings regarding EC6 | <p>SAMA undertakes overall planning that is focused on staff skills development and training. At department level, individual departments have clearly defined competencies for the employees and are focused in supporting the employees to improve their competencies. Some of the competencies identified for the Banking Supervision Department include risk assessment, quality assurance, financial analysis, data collection and analysis, and risk-based supervision.</p> <p>SAMA has specialized and supervisory career paths for all departments and units. The general norms that govern promotions are that a staff has to be in a grade for at least three years, but this could be reduced to two years for high-performers, and the average performance rating should be "meet expectations" and above. Some promotions could be earned by acquiring certified/professional qualifications or having exceptional performance.</p> <p>In addition to regular staff, SAMA relies on external experts for undertaking supervisory activities. These are generally in areas where there is a need for specific specialist skills that is either not available or not adequately available in SAMA for example for inspections related to management of market risks, and specialist areas of credit risk.</p> |

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| <p>Banking supervision has not experienced resource constraints for undertaking supervisory activities, including for travel, training, and technology.</p> <p>SAMA compensation and benefits packages are extended to the supervision staff as well. SAMA has conducted surveys comparing bank supervisors' salaries with equivalent industry salaries and follows a policy of positioning bank supervisors' compensation and benefits packages at the 75th percentile based on those surveys, but this is not formally documented. SAMA conducts salary reviews periodically that considers employee's performance, experience, skills, and salary benchmark.</p> <p>The average tenure for the top five layers of management in Supervision Deputyship is about 11 years and the average tenure for the layer that has day-to-day responsibility for the supervision is about six years. Between 2018 and 2021, on average about five staff resigned from SAMA each year (about 7 percent of staff in the department). This number increased significantly to 17 during 2022 (about 17 percent of staff in the department). This is reportedly mainly on account of attractive job opportunities outside SAMA in the post COVID-19 growth environment.</p> <p>Banking supervision budget is part of SAMA budget, and it follows SAMA's budget and planning cycle. During the budget cycle, banking supervision department inputs its needs for each budget item, and these go through negotiations and verifications process before it is submitted for approval to the board of directors. The board approves SAMA budget, which covers all operational and capital expenditures needed to run SAMA business (including recruitment, training, employee benefits, consulting services and technical tools).</p> <p>Article 5 of the SCBL provides that SAMA may charge fees for the licenses and approvals it issues, services it provides, and transactions it carries out, as well as fees to cover the cost of supervising financial institutions, in accordance with guidelines approved by the Board. It is understood that SAMA does not use these provisions to collect fees from the supervised entities. It is observed from SAMA's annual financial statements that it has been consistently transferring each of the three years up to June 30, 2020, about SAR 2 billion surplus revenues to its reserves accounts, reflecting its potential ability to meet banking supervision department's additional budgetary requirements, if needed.</p> <p>The total staff complement in the banking supervision department (BSD) has increased from 75 in 2018 to 100 in 2022, with the increase being accounted for mainly in the onsite supervision unit (15) and the offsite supervision unit (7). The increase has been at the level of Senior Specialists and Associate Specialists, but the number of specialists has dropped.</p> <p>Besides the staff in the BSD, SAMA houses separate departments with dedicated staff that work on cybersecurity, information technology risk, privacy, counter fraud, business continuity capabilities, and AML-CTF supervision under the Supervision Deputyship, which supplement the banking supervision function. The number of staff in the General Department of Cyber Risk Control (GDCRC) has doubled in the last three years to 61 staff, including its General Director. The GDCRC have 21 dedicated staff for IT Risk supervision that covers cyber, technology, business continuity and privacy areas. The Cyber fusion center includes nine staff with specialized skills of cyber threat intelligence and incident</p> |
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| | management. The number of resources in the Fraud Team increased last year from three full-time employees to 29, including one director, one advisor, three division managers in charge of supervision data analytics and investigations and a total of 24 supervisors. This increase was in response to increased digitalization of financial services and increase in cyber incidents. The AML-CFT department houses 35 full-time employees, including 25 supervisors. |
| EC7 | As part of their annual resource planning exercise, supervisors regularly take stock of existing skills and projected requirements over the short- and medium-term, taking into account relevant emerging supervisory practices. Supervisors review and implement measures to bridge any gaps in numbers and/or skill-sets identified. |
| Description and findings regarding EC7 | As a part of the supervision cycle, BSD draws up an annual banking supervision plan based on banks' risk profiles, identified areas of supervisory focus, planned regular meetings, annual supervisory reviews, ICAAP and ILAAP discussions with banks, and number of planned onsite inspections (including targeted inspections, and thematic inspections). Based on the annual supervision plan, the resource planning considers the activities to be performed, and the required skills and manpower for the plan period (next 12 months). As part of the resource planning discussions with the Human Resources Department, the BSD ensures that its estimated resource requirements (number and skills) are included in SAMA's recruitment, re-skilling, and re-deployment exercise. BSD's annual manpower and resource planning exercise considers the need for the next 12 months (supervisory plan period) but does not extend to the medium term. Please also see description and finding under EC 6 which presents the details of the manpower deployed in the supervision related departments. |
| EC8 | In determining supervisory programmes and allocating resources, supervisors take into account the risk profile and systemic importance of individual banks and banking groups, and the different mitigation approaches available. |
| Description and findings regarding EC8 | The RBS framework adopted by SAMA supports determination of the risk profile of the consolidated bank, based on the risks inherent in the main activities in which the bank is engaged and the risk management control framework in the bank. Determination of a bank's risk profile also includes an assessment of the bank's capital and earnings, and oversight framework. These steps lead to the determination of a bank's risk rating. The supervisors determine separately the impact rating for each bank, which is largely determined based on their size, complexity, substitutability, and interconnectedness. The risk and impact ratings are used to determine the supervisory stance for each bank, which determines the supervisory programs. The supervisory stance and the direction of risk determined for each bank determine the level and intensity of supervisory engagement for that bank. Further, the topics of supervisory engagement will help determine the deployment of manpower, skills, and supervisory resources. |
| EC9 | Laws provide protection to the supervisor and its staff against lawsuits for actions taken and/or omissions made while discharging their duties in good faith. The supervisor and its staff are adequately protected against the costs of defending their actions and/or omissions made while discharging their duties in good faith. |

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| Description and findings regarding EC9 | <p>Article 15 of SCBL, provides that SAMA staff may not be subject to any liability or claim for carrying out their duties in accordance with this law, except in cases of bad faith or gross breach.</p> <p>Article 35 of the Law of Systemically Important Financial Institutions issued by royal decree number M/38 dated December 10, 2020 (SIFIL) states that an employee of the competent authority or any person assigned thereby shall not be liable for any resolution procedure he takes except in cases of willful misconduct, gross negligence, or bad faith. The protection under this law is limited to the resolution actions taken by SAMA, its staff, and its agents.</p> <p>Article 126 of the Civil Transactions Law, issued by Royal Decree No. M/191 dated on 29/11/1444H, (CTL) states that a public servant shall not be liable for his work that has harmed others, if he performs it in accordance with a statutory provision or an order issued.</p> <p>SAMA asserts that litigation in the administrative courts in Saudi Arabia is free of charge. In instances where any other costs are incurred by SAMA or any other agency and where the plaintiff/claimant does not prove that the agency is guilty, the agency could request the court to demand a compensation from the plaintiff/claimant to cover the costs incurred.</p> <p>The areas where legal protection available to SAMA and its staff falls short of the requirements articulated in the essential criterion are as follows:</p> <ul style="list-style-type: none"> • As per the methodology of the administrative laws in Saudi Arabia, the agencies should be liable if they cause a damage to other parties. Hence, SAMA does not have explicit protection in laws against lawsuits and the costs for defending its actions. Though Article 7 of the SCBL states that SAMA’s assets, revenues, and properties shall have immunity; they may not be searched, blocked, seized, confiscated, or expropriated, and shall not be subject to any bankruptcy procedures, this Article does not excuse SAMA from honoring court judgments or from bearing the costs incurred in defending its actions. • The protection available to SAMA staff under the SCBL, CTL and SIFIL does not cover omissions. • The protection available to SAMA staff against the costs of defending their actions or omissions while acting in good faith is unclear and therefore not assured. • The protection under SCBL does not extend to former SAMA staff for their actions and omissions during their service in SAMA. • The protection available under the SCBL does not cover SAMA’s agents that it engages to undertake supervisory functions. |
| Assessment of Principle 2 | Materially non-compliant. |
| Comments | The SCBL includes provisions on SAMA’s independence, accountability, and governance. The main decision-making levels in SAMA with reference to banking supervision matters are the Governor, the Vice Governor of Supervision and Technology, and the Supervision Deputy Governor. The nature of banking supervision related decisions that each level can take is documented in SAMA’s Authority Matrix. The delegation of powers indicates that |

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| | <p>decisions on supervision matters, and regulatory approvals (or no objection) are taken at levels appropriate to the significance of the issue involved. SAMA's recruitment policies and capacity building initiatives have helped SAMA in recruiting and grooming dedicated staff who are well qualified and experienced in their respective areas of engagement. The industry holds SAMA staff in high esteem and view them as credible stakeholders based on their professionalism and integrity. The SCBL provides protection to SAMA staff against liability or claim for carrying out their duties in accordance with this law. The following provisions in the SCBL and the BCL do not assure transparent processes, effectively erode SAMA's operational independence as a banking supervisor, and do not assure adequate legal protection for supervisors. These can collectively hinder or obstruct its ability to perform effective supervision:</p> <ul style="list-style-type: none"> • The SCBL is silent about the qualifying criteria for Governor and Vice Governors, the process for the appointment and removal of the Governor and the Vice Governors, and the grounds for their removal during their term as Governor or Vice Governors. The SCBL does not require the reasons for their removal to be disclosed. • Remuneration and benefits of SAMA board members shall be determined pursuant to a royal order upon the recommendation of the Minister in coordination with the Governor. • Nomination of the five non-government-employee members on SAMA board is jointly made by the Governor and the Minister. (Article 8(2) of SCBL). • SAMA must seek the prior approval of the Minister or the Council of Ministers or CEDA at several stages of banking supervision including, among others, issuing general rules, conducting inspections, taking corrective actions based on supervisory judgment or in anticipation of legal or prudential breaches, imposing certain sanctions and approving resolution plans. • Article 21 of the BCL allows the Minister to exempt banks from certain provisions of the BCL or from the regulations issued in execution thereof for a limited period with the approval of the Council of Ministers. • Article 25 of the BCL empowers the Minister to appoint a committee of three persons from outside SAMA and specify the conditions and measures to be observed in adjudging contraventions punishable under this Law at the request of SAMA. • Process for the appointment and removal of the Governor and the Vice Governors and other members of its governing body is not transparent. • The brief section on supervision and control of the banking sector in SAMA's annual report does not go far enough to satisfy the need for SAMA to be transparent and accountable for the discharge of its banking supervision mandate. Besides, the delay in publishing the annual report does not meet the transparency intent. • Article 16 of SCBL does not fully address conflict of interest at SAMA board level. SAMA's Code of Ethics does not set the discipline to be followed when a staff employed in the banking sector joins SAMA to effectively address potential real or perceived conflict of interest situations while performing supervision activities. SAMA's Authority matrix does not provide for timely decision-making in the case of an emergency. |
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| | <ul style="list-style-type: none"> • Legal protection for SAMA top management, and staff against omissions is not available and against costs of defending their actions or omissions is not assured. Legal protection is not available to former staff of SAMA for their actions and omissions during their service in SAMA and to SAMA’s agents engaged for undertaking supervisory functions. <p>Recommendations:</p> <ul style="list-style-type: none"> • Modify laws to: <ul style="list-style-type: none"> ○ Establish and make fully transparent the procedure for the appointment and removal of the Governor, Vice Governors, and board members. ○ Define the appointment and removal criteria of the Governor and the Vice Governors, specify grounds for removal of the Governor and Vice Governors during their term, and require public disclosure of reasons for removal during their term. ○ Make SAMA operationally independent; eliminate need for Minister and Council of Ministers’ approvals for conducting ongoing supervision. ○ Establish and make fully transparent SAMA’s accountability with regards to fulfilment of its mandate. ○ Fully address conflict of interest at SAMA board and in the Code of Ethics. ○ Revise internal governance and communication processes to enable taking of timely supervisory decisions in the case of an emergency. ○ Assure protection against lawsuits and costs of defending for: <ul style="list-style-type: none"> ○ SAMA, its former staff, and its agents. ○ Staff (for omissions and costs). • Undertake assessment of manpower and skill needs in banking supervision over the medium term (in addition to the current 12-month horizon). |
| Principle 3 | Cooperation and collaboration. Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information. ¹⁷ |
| Essential Criteria | |
| EC1 | Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with all domestic authorities with responsibility for the safety and soundness of banks, other financial institutions and/or the stability of the financial system. There is evidence that these arrangements work in practice, where necessary. |
| Description and findings regarding EC1 | The main domestic authorities that have a responsibility for safeguarding the safety and soundness of banks and other financial institutions and the stability of the financial |

¹⁷ Principle 3 is developed further in the Principles dealing with “Consolidated supervision” (12), “Home-host relationships” (13) and “Abuse of financial services” (29).

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| | <p>system or are in a position to contribute to those objectives are SAMA, CMA, IA, NDMC,¹⁸ the MOF, and the Council of Ministers.</p> <p>The National Financial Stability Committee (NSFC) was established in 2015, with the MOF, SAMA, and CMA as members. It is chaired by the Minister of Finance. The NSFC's role is to assess shared risks and vulnerabilities related to financial stability with each member preserving their autonomy for contributing to and maintaining the stability of the Kingdom's financial system. Accordingly, members share data and their views on the outlook, to contribute to and maintain financial stability. NSFC is a coordinating committee and not decision-making. SAMA serves as the secretariat and is the lead coordinator on banking issues.</p> <p>NSFC comprises of the Minister of Finance (Chair), Governor of SAMA, and Chairman of CMA. The NSFC is supported by a Deputy Governor (or equivalent in position) Sub-Committee, where the members include SAMA (Chair), MOF, CMA, and NDMC. The sub-committee serves as a layer of quality assurance and offers direction to the Technical Committee, that is mandated with the development of material and studies to be presented to the Ministerial Committee. The Technical Committee includes membership from SAMA (Chair), MOF, and CMA.</p> <p>The details of the information and analyses shared amongst NSFC members include:</p> <ul style="list-style-type: none"> • Quarterly National Financial Stability Index (NFSI) which is a composite index, includes seven sub-indices that capture the developments in the main sectors influencing financial stability. It allows monitoring trends and enables comparison between different periods of time. • Quarterly indicators on macroeconomy, banking, and capital markets. • Impact assessments and studies conducted each quarter based on the recent economic and financial developments, or any concerns raised that needs an investigation. Data and information required for such analyses are shared amongst members. <p>SAMA has MoUs with the CMA and the Ministry of Finance. SAMA's MoU with CMA is about cooperation and sharing of regulatory and supervisory information to enhance their supervision on the institutions falling within their respective jurisdictions. The MoU with CMA is with regard to the following, namely: (i) establishing a framework to achieve high level of coordination and strengthen the oversight of the entities falling within the scope of supervision of each authority according to their respective mandates; (ii) implementing regulatory mandates on the securities depository centers and clearing centers;</p> <p>(iii) organizing the mechanism for benefiting from Tanfeeth (Enforcement) IT system, and setting the obligations and responsibilities of the parties with regard to the confidentiality of information, information security, and clarifying the terms and conditions that must be taken into account and the services available through the</p> |
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¹⁸ The National Debt Management Center was established in 2015 to secure Saudi Arabia's financing needs with best financing costs in the short, medium, and long term under acceptable degree of risk in compliance with the financial policies and to maintain Saudi Arabia's ability to access different international financial markets at fair pricing.

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| | <p>program; and (iv) setting the framework and scope of supervising financial derivatives. The MoU with CMA does not establish ongoing periodic exchange of supervisory information and data. It envisions such exchanges to happen based on requests. In practice, SAMA and CMA do not exchange data or information at regular intervals/ ongoing basis on banks or banking groups supervised by SAMA in the context of ongoing micro prudential supervision. There is no systematic ongoing and proactive sharing of information between SAMA and CMA on the material risks and risk management practices, and supervisors' assessments of the safety and soundness of the relevant entity under their respective supervision. SAMA and CMA do not undertake collaborative supervisory activities to promote their respective micro prudential supervision mandates.</p> <p>SAMA is yet to establish MoU with the Insurance Authority, which was established in November 2023, and has taken over the functions of regulation and supervision of insurance entities in Saudi Arabia.</p> |
| EC2 | <p>Arrangements, formal or informal, are in place for cooperation, including analysis and sharing of information, and undertaking collaborative work, with relevant foreign supervisors of banks and banking groups. There is evidence that these arrangements work in practice, where necessary.</p> |
| <p>Description and findings regarding EC2</p> | <p>An overview of Saudi bank presence abroad and the presence of foreign banks in KSA is as below:</p> <ul style="list-style-type: none"> • Saudi banks (local banks) have 18 subsidiaries, 4 associates, and 8 branches in foreign jurisdictions. These include three banking subsidiaries in Turkey, Pakistan, and Malaysia. • Of the 11 Saudi banks, one is a subsidiary of a foreign bank from a neighboring jurisdiction and in two other local banks, foreign banks licensed in other jurisdictions have a controlling interest. These three banks account for about 16 percent market share of KSA banking system assets (as of June 2023). • Foreign banks operating through branch presence in Saudi Arabia are from 16 jurisdictions and these branches account for about four percent of banking system assets. <p>SAMA has signed MoU with only one host supervisor (UAE) and has entered into a split of responsibilities agreement with another host supervisor (UK-PRA). The details of these and other MoUs are presented below. SAMA has not signed MoUs with any of the home supervisors of foreign banks operating in KSA. Assessors were informed that SAMA's MoU with foreign supervisory authorities need to be first cleared by the Council of Ministers.</p> <p>SAMA has signed MoU with foreign supervisors from one jurisdiction where Saudi banks have established branch presence, namely, UAE, a cooperation agreement on fintech and innovation with the Monetary Authority of Singapore (MAS) and a "split of responsibilities" agreement with the Prudential Regulatory Authority in United Kingdom (UK-PRA). In addition, it has entered into MoUs with the supervisory authorities in South Korea on financial supervision (though no Saudi bank is present in South Korea and none of their banks are present in KSA) and Hong Kong on innovation and financial</p> |

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| | <p>technology. These agreements provide a framework for cooperation, communication, and exchange of information, either general or confidential information, which falls within the scope of the agreement between the parties. SAMA does not share or receive data or information on a periodic or regular basis under these MoUs. Generally, the sharing of information is triggered by a request from one of the signatories to the MoU.</p> <p>In respect of other relevant foreign supervisors and resolution authorities, SAMA does not undertake collaborative work, and obtain or share data or information at regular intervals on ongoing basis on banks or banking groups hosted by it or hosted by the authorities in foreign jurisdictions in the context of ongoing micro prudential supervision. SAMA holds bilateral meetings with officials from foreign supervisory agencies during their visits to Saudi Arabia or during SAMA supervisors' visits to the foreign jurisdictions. Recently, SAMA undertook a thematic inspection of foreign branches between August 2023 and January 2024, and met with the relevant host supervisory authorities during those visits. Please also see description and finding under CP13 for more details.</p> |
| EC3 | <p>The supervisor may provide confidential information to another domestic authority or foreign supervisor but must take reasonable steps to determine that any confidential information so released will be used only for bank-specific or system-wide supervisory purposes and will be treated as confidential by the receiving party.</p> |
| Description and findings regarding EC3 | <p>KSA has established a framework for sharing confidential information, which is designed to ensure that confidential information remains protected and is exclusively used for bank-specific or system-wide supervisory purposes. Under this framework, violations of confidentiality can be treated seriously and can result in severe legal and reputational consequences. Details of the above framework are as follows:</p> <ul style="list-style-type: none"> • Legal Framework: Specific laws and regulations govern the confidentiality of supervisory information in Saudi Arabia. These legal provisions define the scope of shared information, permissible uses, and the penalties for unauthorized disclosure. Violations can result in legal actions, including fines and legal consequences. • Confidentiality Agreements: These agreements legally bind the institutions to maintain secrecy of the information shared and outline the consequences of any unauthorized disclosure. MOUs with other authorities govern how confidential information is shared between the parties. • Oversight: SAMA has specific department that evaluates the level of confidentiality of information to ensure the permissibility of sharing such information. Thus, confidential information is subject to oversight to ensure that the persons handling such information adhere to the rules and regulations governing the handling of confidential information. <p>SAMA is required to follow the established mechanism while sharing routine or confidential information. These mechanisms are stipulated in various polices and regulations issued by the National Data Management Office within the Saudi Authority for Data and Artificial Intelligence (SADIA) on data governance and management. In addition, data confidentiality is also governed by the Personal Data Protection Law (issued in 2021 and amended in 2023).</p> |

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| | <p>DAAP (Data and Advanced Analytics Program) within SAMA is responsible for implementing, governing, and ensuring compliance with the above regulations. SAMA has an approved data classification policy, whereby, based on the data classification, the appropriate mechanism for sharing data is determined as below:</p> <ul style="list-style-type: none"> • Public Data: does not require signing confidentiality agreements. • Protected Data (Confidential—Secret—Top Secret): requires signing of agreements, and approval by the Governor, SAMA, before data can be shared. <p>Law on Dissemination and Disclosure of Classified Information and Documents issued by Royal Decree NO.M35 dated on April 12, 2011, defines “confidential information” to include classified documents and classified information, which are defined as follows: (i) classified documents shall mean all types of media which contain classified information the disclosure of which prejudices the State’s national security, interests, policies, or rights, whether produced or received by its agencies; and (ii) classified information shall mean information an employee obtains, or is privy to by virtue of office, the disclosure of which undermines the State’s national security, interests, policies, or rights.</p> <p>All information shared with any domestic and foreign financial supervisors are governed by the MOU signed between SAMA and other parties. SAMA has informed assessors that they have not had a situation where information shared by it with other regulators or supervisors was disclosed to other parties.</p> |
| EC4 | <p>The supervisor receiving confidential information from other supervisors uses the confidential information for bank-specific or system-wide supervisory purposes only. The supervisor does not disclose confidential information received to third parties without the permission of the supervisor providing the information and is able to deny any demand (other than a court order or mandate from a legislative body) for confidential information in its possession. In the event that the supervisor is legally compelled to disclose confidential information it has received from another supervisor, the supervisor promptly notifies the originating supervisor, indicating what information it is compelled to release and the circumstances surrounding the release. Where consent to passing on confidential information is not given, the supervisor uses all reasonable means to resist such a demand or protect the confidentiality of the information.</p> |
| Description and findings regarding EC4 | <p>SAMA has not received any confidential data or information from other supervisors or regulators in the recent past. When received, SAMA should ensure that such data or information will be governed by the provisions in relevant MOU. As regards the handling of confidential information in Saudi Arabia, the following is also relevant.</p> <p>Laws, regulations, and SAMA’s internal policies govern confidential information. The National Data Governance Interim Regulations, and the Personal Data Protection Law and its implementing regulations set the legal basis for the protection of the rights regarding the processing of personal data by all entities in the Kingdom including SAMA as well as all entities outside the Kingdom that process personal data related to individuals residing in the Kingdom using any means, including online personal data processing.</p> <p>Article 23 of the SCBL states that board members, SAMA staff, SAMA agents, and external auditors shall not disclose any data or information relating to the affairs of SAMA or financial institutions, whether during or after the term of their employment. Article 19 of</p> |

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| | <p>the BCL requires that any person who comes into possession of information during the performance of his duties in the implementation of this law, is not allowed to disclose such information or to make use of it in any manner.</p> <p>In addition, SAMA applies strict regulations and policies on the adherence to professional secrecy obligations. For example, SAMA code of ethics obliges its employees to maintain the confidentiality of information obtained by virtue of their work. Further, SAMA's employment contracts include a commitment to confidentiality.</p> <p>Further, Article 2 of the Penal Law on Dissemination and Disclosure of Classified Information and Documents implemented by Royal Decree M/35 of April 12, 2011, states that "A public employee or a person of a similar capacity shall not disseminate or disclose classified information or documents which he obtains or is privy to by virtue of office even after the end of his service, if such dissemination or disclosure remains restricted."</p> |
| EC5 | Processes are in place for the supervisor to support resolution authorities (e.g., central banks and finance ministries as appropriate) to undertake recovery and resolution planning and actions. |
| Description and findings regarding EC5 | <p>Please see description and finding under EC 6 of CP1, which explains that while the SIFIL has been issued in 2020, the operating framework is yet to be established for the implementation of the resolution powers vested in SAMA. SAMA and CMA have not yet established a MoU or cooperation/ coordination framework for resolution of financial institutions under their respective supervisory mandates. This also applies to the resolution of the entities belonging to the banking groups.</p> <p>The resolution function/mandate relating to entities regulated by SAMA is with SAMA and is not with a separate authority or body. There is currently no official process in place which provides a framework for cooperation and collaboration on undertaking recovery and resolution planning with relevant domestic/foreign supervisors.</p> |
| Assessment of Principle 3 | Largely compliant. |
| Comments | <p>SAMA's cooperation and collaboration with the other key stakeholders in KSA for regulation and supervision of the financial sector occurs mainly through the NFSC framework, and the bilateral MoUs with the CMA and the Ministry of Finance. KSA has established a framework for sharing confidential information, which is designed to ensure that confidential information remains protected and is exclusively used for bank-specific or system-wide supervisory purposes.</p> <p>The frameworks for coordination and collaboration arrangements amongst domestic supervisory authorities and for assuring confidentiality of information exchanged with the other stakeholders are partly in place, and not fully operational. SAMA is yet to establish an operating recovery and resolution framework and does not have cooperation and collaboration arrangements with the relevant domestic stakeholders. There is no systematic ongoing and proactive sharing of information between SAMA and CMA on the material risks and risk management practices, and supervisors' assessments of the safety and soundness of the relevant entity under their respective supervision. The MOU with CMA must be amended to provide for proactive periodic sharing and exchange of data and information on banks or banking groups supervised by SAMA in the context of</p> |

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| | <p>ongoing micro prudential supervision instead of being reactive, as it is currently. The arrangements for cooperation and collaboration amongst domestic authorities can be made more comprehensive through full MoUs (covering supervision) with the recently established Insurance Authority and the local stakeholders that are relevant for resolution in KSA. Operationalizing these new MoUs can help SAMA in improving its micro prudential supervision and undertaking recovery and resolution planning, and actions. Of the eight host and sixteen home jurisdictions, SAMA has executed MoU with only one host supervisor. Arrangements for coordination and collaboration must be established with the remaining relevant home and host supervisory authorities, including the resolution authorities in those jurisdictions. The current and proposed arrangements should promote systematic, ongoing, and proactive periodic sharing and exchange of data and information, and not remain reactive, as it is currently.</p> <p>The gaps that pertain to home-host arrangements identified in this CP have been considered for grading the level of compliance in CP 13 (Home-host relationships) and for framing the related recommendations.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Establish cooperation and coordination arrangements (covering supervision) with the Insurance Authority. • Make exchange of information with all relevant local authorities systematic, ongoing, and proactive, and undertake collaborative work. • Establish arrangements and processes for enlisting and assuring support of relevant authorities in KSA and other relevant jurisdictions to undertake recovery and resolution planning and actions. |
| Principle 4 | Permissible activities: The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word “bank” in names is controlled. |
| Essential Criteria | |
| EC1 | The term “bank” is clearly defined in laws or regulations. |
| Description and findings regarding EC1 | <p>Article 1 of the BCL defines the term “bank” which is linked to the definition of “banking business” in the same Article. As per these definitions:</p> <ul style="list-style-type: none"> • “Bank” means any natural or juristic person practicing basically any of the banking business in the Kingdom. • “Banking business” means the business of receiving money on current or fixed deposit account, opening of current accounts, opening of letters of credit, issuance of letters of guarantee, payment and collection of cheques, payment orders, promissory notes and similar other papers of value, discounting of bills, bills of exchange and other commercial papers, foreign exchange transactions and other banking business. <p>Reference to: (i) “any of the banking business” in the definition of a bank; and (ii) the broad definition of banking business, which mentions “other banking business” without defining clearly what those are. This seems to suggest that: (i) an entity that is not a deposit-taking entity can be determined to be a bank; and (ii) any natural or juristic person practicing an undefined banking business is a bank. SAMA considers that this</p> |

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| | <p>broad definition allows it to extend the regulatory perimeter to entities that are not licensed as banks, if needed. At the same time, from a consumer perspective, a consumer who is not financially literate might transact with an entity that meets the above broad definition on the belief that the entity is supervised by SAMA. While the scope for ambiguity is partly addressed through Article 2 of the BCL, it could be lost on consumers who are not financially literate.</p> <p>Article 2 of the BCL prohibits any person, natural or juristic, who is not licensed in accordance with the provisions of this law, from carrying on any of the banking business. It allows:</p> <p>(i) juristic persons licensed in accordance with another law or special decree to carry on banking business, to practice such business within the limits of their intended purposes; and (ii) licensed moneychangers to practice exchange of currency in the form of notes and coins, but no other banking business. The provisions of Article 2(a) allow SAMA to license deposit taking finance companies under the Finance Company Control Law (FCCL). The Council of Ministers have licensed the Social Development Bank, Small and Medium Enterprises Bank and the Saudi Exim Bank outside the BCL, which are supervised by the National Development Fund. Of these, the Social Development Bank offers deposit products, and is not regulated or supervised by SAMA.</p> |
| EC2 | The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined either by supervisors, or in laws or regulations. |
| Description and findings regarding EC2 | <p>Article 1 of the BCL establishes the list of permissible activities of a bank, through the explicit definition of the term “banking business” (please see description and finding under EC1 for details).</p> <p>The BCL establishes in Articles 8 to 11 the list of activities that banks are not permitted to undertake, and the list of activities that the banks can undertake subject to specified limits and/or with the prior approval of SAMA. These are listed below.</p> <ul style="list-style-type: none"> • No bank shall grant a loan or extend a credit facility or give a guarantee or incur any other financial liability with respect to any natural or juristic person for amounts aggregating more than 25 percent of its reserves and paid-up or invested capital. SAMA may, in the public interest, and subject to such conditions as it may impose, increase this percentage up to 50 percent. The above provisions do not apply to transactions between banks or between head offices and their branches or between their branches. (Article 8). • No bank shall undertake the following transactions: <ul style="list-style-type: none"> ○ Granting a loan or extending credit facilities or issuing a guarantee or incurring any other financial liability on the security of its own shares (Article 9). ○ Granting, without security, a loan or credit facilities, or issuing a guarantee or incurring any other financial liability in respect to: <ul style="list-style-type: none"> ○ A member of its board of directors or its auditors. ○ Establishments not taking the form of joint-stock companies in which any of its directors or auditors is a partner or is a manager or has a direct financial interest. |

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| | <ul style="list-style-type: none"> ○ Persons or establishments not taking the form of joint stock companies in cases where any of the bank's directors or auditors is a guarantor (Article 9). ○ Any bank director or auditor or manager who contravenes these requirements, shall be considered as having resigned his position. ○ Granting, without security, a loan or a credit facility or giving a guarantee or incurring any other financial liability in favor of any of its officials or employees for amounts exceeding four months' salary of any such concerned person. Any bank director or auditor or manager who contravenes these requirements, shall be considered as having resigned his position (Article 9). ● No bank shall undertake any of the following activities: <ul style="list-style-type: none"> ○ To engage, whether for its own account or on a commission basis, in the wholesale or retail trade including the import or export trade (Article 10.1). ○ To have any direct interest, whether as a stock-holder, partner, owner, or otherwise, in any commercial, industrial, agricultural or other undertaking exceeding the limits referred to in para 4 of this Article, except when such interest results from the satisfaction of debts due to the bank, provided that all such interests shall be disposed of within a period of two years or within any such longer period as may be determined in consultation with the Agency (Article 10.2). ○ To purchase, without the approval of SAMA, stocks and shares of any bank conducting its business in the Kingdom (Article 10.3). ○ To own stocks of any other joint-stock company incorporated in the Kingdom, in excess of ten percent of the paid-up capital of such a company provided that the nominal value of these shares shall not exceed twenty percent of the bank's paid-up capital and reserves; the above limits may, when necessary, be increased by SAMA (Article 10.4). ○ To acquire or lease real estate except in so far as may be necessary for the purpose of conducting its banking business, housing of its employees or for their recreation or in satisfaction of debts due to the Bank (Article 10.5). ○ In cases where a bank acquires real estate in satisfaction of debts due to it and such real estate is not necessary for the bank's own banking business or housing of its employees or for their recreation, it shall dispose it within three years of its acquisition or, in exceptional and justifiable circumstances, within such period or periods as may be approved by SAMA and subject to such conditions as it may deem fit to prescribe (Article 10). ○ As an exception to the provisions of para 5 of this Article, the bank may, in special and justifiable circumstances and with the approval of the agency, acquire real estate, the value of which shall not exceed 20 percent of its paid-up capital and reserves (Article 10). ● Banks are precluded from undertaking any of the following operations except with the written approval of SAMA and according to the conditions it prescribes (Article 11): |
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| | <ul style="list-style-type: none"> ○ Altering the composition of their paid-up or invested capital. ○ Entering into any scheme of amalgamation or participation in the business of another bank or another establishment carrying on banking business. ○ Acquiring shares in a company established outside the Kingdom. ○ Ceasing to carry on banking business. In such a case, SAMA must, before agreeing to this cessation, ascertain that the bank has made necessary arrangements to safeguard the rights of the depositors. ○ Opening branches or other offices in the Kingdom and also opening of branches or other offices by national banks outside the Kingdom. Before granting the written license provided for under this paragraph, SAMA should get the approval of the Minister of Finance and National Economy. |
| EC3 | The use of the word “bank” and any derivations such as “banking” in a name, including domain names, is limited to licensed and supervised institutions in all circumstances where the general public might otherwise be misled. |
| Description and findings regarding EC3 | Article 5 of the BCL provides that any person not authorized to carry on banking business in the Kingdom is not allowed to use the word “bank” or its synonyms, or any equivalent term in any language on his papers, printed matter/publications, business/commercial address, name, and advertisements/marketing materials. The exception here are the three banks supervised by the National Development Fund, namely the Social Development Bank, Small and Medium Enterprises Bank, and the Saudi Exim Bank, in apparent breach of the provisions in Article 5 of the BCL. |
| EC4 | The taking of deposits from the public is reserved for institutions that are licensed and subject to supervision as banks. ¹⁹ |
| Description and findings regarding EC4 | The BCL effectively requires a person, natural or juristic, to be licensed in accordance with the provisions of BCL to carry on basically any of the banking business, which includes taking of deposits. This is established through the requirements in Articles 1 and 2 of the BCL. As mentioned in the description and finding under EC1, Article 1 of the BCL defines “banking business” to include, among others, the business of receiving money as current or fixed deposits, opening current accounts, paying and collecting checks, payment orders, promissory notes, and other papers of value. It also defines bank as any natural or juristic person practicing basically any of the banking business in the Kingdom. Article 2 of the BCL, explicitly requires the person, natural or juristic, to obtain a license in accordance with the law to be able to practice any of banking business, with the exception in Article 2(a) that allows juristic persons licensed in accordance with another law or special decree to carry on banking business, to practice such business within the limits of their intended purposes. This allowed the Council of Ministers to license the Social Development Bank, which offers deposit products, and is not regulated or supervised as a bank by SAMA. |

¹⁹ The Committee recognizes the presence in some countries of non-banking financial institutions that take deposits but may be regulated differently from banks. These institutions should be subject to a form of regulation commensurate to the type and size of their business and, collectively, should not hold a significant proportion of deposits in the financial system.

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| | <p>Taking of deposits is not restricted to banks. Finance companies that are licensed and supervised as finance companies are permitted to take time deposits, after obtaining a no-objection letter from SAMA. As on December 31, 2023, no finance company has been authorized by SAMA to undertake deposit-taking activity. The legal and regulatory requirements that allow and control deposit taking by finance companies is described briefly here. Article 2 of the BCL allows juristic persons licensed in accordance with another law or special decree to carry on banking business and permits practice of such business within the limits of their license or authorization, and intended purposes. As per the FCCL, licensed finance companies, which are regulated by SAMA can take deposit subject to SAMA approval and compliance with relevant laws and regulations. Article 11 of this law prohibits a finance company from accepting call deposits, but permits acceptance of time deposits, or non-banking facilities or open accounts of any type for its clients, when authorized by SAMA. Article 65 of the implementing regulations of the FCCL states that, the finance company must 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. In November 2020, SAMA issued Deposit Taking Finance Companies (DTFC) Regulations which set out requirements, among others, on seeking SAMA authorization for deposit taking activity, corporate governance, risk management, and prudential regulations covering capital adequacy, liquidity, and asset quality. The DTFC regulations allow DTFCs to mobilize savings and time deposits from non-individual customers and juristic persons (Articles 4, 82, and 83).</p> |
| EC5 | <p>The supervisor or licensing authority publishes or otherwise makes available a current list of licensed banks, including branches of foreign banks, operating within its jurisdiction in a way that is easily accessible to the public.</p> |
| Description and findings regarding EC5 | <p>SAMA publishes and updates the list of banks licensed by it on its official website, including branches of foreign banks operating in the Kingdom of Saudi Arabia in a manner easily accessible to the public (https://www.sama.gov.sa/en-US/LicenseEntities/Pages/LicensedBanks.aspx).</p> |
| Assessment of Principle 4 | <p>Largely compliant.</p> |
| Comments | <p>The BCL includes definition of the term “bank”, a list of activities that banks are not permitted to undertake, and a list of activities that banks can undertake subject to specified limits and/or with SAMA’s prior approval. SAMA publishes and updates the list of banks licensed by it on its official website, including branches of foreign banks operating in KSA.</p> <p>The terms “bank” and “banking activities” are defined in BCL, but these are not adequately clear and controlled. Reference to: (i) “any of the banking business” in the definition of a bank; and (ii) the broad definition of banking business, which mentions “other banking business” without defining clearly what those are. This seems to suggest that: (i) an entity that is not a deposit-taking entity can be determined to be a bank; and (ii) any natural or juristic person practicing an undefined banking business is a bank. SAMA considers that this broad definition allows it to extend the regulatory perimeter to entities that are not licensed as banks, if needed. At the same time, from a consumer</p> |

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| | <p>perspective, a consumer who is not financially literate might transact with an entity that meets the above broad definition on the belief that the entity is supervised by SAMA. Taking of deposits is not confined to banks. Finance companies can accept savings and time deposits from non-individual customers and juristic persons with SAMA's prior approval. The Social Development Bank that is not a licensed commercial bank and is not regulated and supervised as a bank by SAMA is offering deposit products to its customers. The laws have currently allowed other financial entities to use the word "bank" in their names and offer deposit products without receiving a banking license, and without being regulated and supervised as a bank.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Modify laws and regulations to: <ul style="list-style-type: none"> ○ Revise definitions of the terms "bank" and "banking business" more clearly. ○ Fix the ambiguity in Article 2(a) of the BCL to restrict deposit taking activities to licensed banks. ○ Tighten use of the word 'bank' and any derivations such as "banking" in names of entities that are not licensed as banks under the BCL. • Reconsider licensing of deposit taking finance companies as they are very similar to banks. • Establish clear public disclosures about entities using the word "bank" in their names but are not a licensed commercial bank and are not regulated and supervised as a bank by SAMA, as the public might otherwise be misled. |
| Principle 5 | <p>Licensing criteria. The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management)²⁰ of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition-(including capital base). Where the proposed owner or parent organization is a foreign bank, the prior consent of its home supervisor is obtained.</p> |
| Essential Criteria | |
| EC1 | <p>The law identifies the authority responsible for granting and withdrawing a banking license. The licensing authority could be the banking supervisor or another competent authority. If the licensing authority and the supervisor are not the same, the supervisor has the right to have its views on each application considered, and its concerns addressed. In addition, the licensing authority provides the supervisor with any</p> |

²⁰ This document refers to a governance structure composed of a board and senior management. The Committee recognizes that there are significant differences in the legislative and regulatory frameworks across countries regarding these functions. Some countries use a two-tier board structure, where the supervisory function of the board is performed by a separate entity known as a supervisory board, which has no executive functions. Other countries, in contrast, use a one-tier board structure in which the board has a broader role. Owing to these differences, this document does not advocate a specific board structure. Consequently, in this document, the terms "board" and "senior management" are only used as a way to refer to the oversight function and the management function in general and should be interpreted throughout the document in accordance with the applicable law within each jurisdiction.

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| | <p>information that may be material to the supervision of the licensed bank. The supervisor imposes prudential conditions or limitations on the newly licensed bank, where appropriate.</p> |
| <p>Description and findings regarding EC1</p> | <p>The Minister is the authority that decides on licensing of banks and Council of Ministers is the authority that can decide on licensing foreign bank branches and license withdrawal for any bank when it becomes necessary. A summary of the relevant provisions in the BCL are as below:</p> <ul style="list-style-type: none"> • As per Article 3 of BCL, the Minister is designated as the licensing authority for new domestic banks. For foreign bank branches as well, the Minister is the licensing authority, but the Minister needs to obtain the prior approval of the Council of Ministers. This Article also requires that all applications for banking license must be submitted to the SAMA, who will study the application after obtaining all necessary information and submit its recommendations to the Minister. • As per Article 22 of BCL, if SAMA finds that a bank persistently contravenes the provisions of BCL or the decisions or regulations made thereunder, it may call upon such a bank to submit its reasons for the contravention, accompanied by its proposals to rectify the position within a stated period. If SAMA is of the opinion that such proposals are not sufficient for their purpose or if the bank fails to implement an agreed or prescribed course of action within the stated period, the Minister may, subject to the approval of the Council of Ministers, revoke the license of the said bank. <p>The applications for new bank license are received by SAMA and processed by it to assess compliance with the licensing criteria and requirements established in the laws and through its regulations. While sending its proposals to the Minister, after processing the applications, SAMA can include therein its views, concerns, if any, and recommendations.</p> <p>The BCL is silent on whether SAMA can impose any special or additional prudential conditions or limitations on the newly licensed bank. While the BCL lays down basic requirements for obtaining a banking license, SAMA's Licensing Guidelines and Minimum Criteria issued in December 2018 states in Article 11 that newly established banks may be subject to a higher minimum capital ratio in their formative years, depending on the risk profile of their proposed operations. SAMA has not shared evidence of licenses where it had imposed special or additional prudential conditions or limitations.</p> <p>During the past five years, SAMA received 18 applications for license to set up following types of banks: two conventional banks, six digital banks, and 10 foreign bank branches. Of these, as of December 31, 2023, SAMA has issued licenses for three digital banks and the remaining applications are currently under SAMA assessment. No application has been denied or withdrawn. The licensing requirements are the same for Islamic banks and conventional banks, but no application has been received during the past five years for establishing Islamic banks.</p> <p>The authorities have not revoked, withdrawn, or required any license holders to surrender their licenses during the past five years.</p> |

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| EC2 | Laws or regulations give the licensing authority the power to set criteria for licensing banks. If the criteria are not fulfilled or if the information provided is inadequate, the licensing authority has the power to reject an application. If the licensing authority or supervisor determines that the license was based on false information, the license can be revoked. |
| Description and findings regarding EC2 | <p>BCL is not explicit about who has the power to set criteria for licensing banks. While the Minister is the licensing authority under the law, the applications for banking licenses are to be submitted to the SAMA. Accordingly, it has set the criteria by its regulation titled Licensing Guidelines and Minimum Criteria (December 2018) and Additional Licensing Guidelines and Criteria for Digital-Only Banks in Saudi Arabia (February 2020) which are tailored for such banks' unique characteristics and business models. In the absence of explicit powers to set the licensing criteria, the legal validity and enforceability of the criteria set by SAMA is unclear and untested.</p> <p>Article 34 of the licensing guidelines require that the information provided must be of sufficient quality and detail to allow SAMA to complete its assessment. Law or regulations are not explicit if SAMA or the Minister can reject an application if the applicant or the application do not meet the established criteria. There has been no instance where SAMA or the Minister has rejected an application in the past several years. The BCL does not empower SAMA or the Minister or the Council of Ministers to reject an application if the information provided is inadequate. SAMA tends to flag the gaps to the applicants and allow more time for the applicants to fulfill or meet the criteria. This is possibly one of the reasons for the long pending license applications. Laws or regulations do not empower SAMA or the Minister or the Council of Ministers to revoke the license if the license was based on false information.</p> <p>Minister has licensed three digital banks during the past five years, but these are not yet operational. Laws or regulations have not set binding time limits for commencing operations after obtaining a license approval. When there are long/indefinite delays in commencing operations, there are high chances of material changes to the business model viability, shareholders' financial position and their fit and proper status, availability of the identified board members and senior management personnel and their fit and proper status. Such developments could also lead to non-fulfillment of licensing criteria which the applicants once met. Laws, regulations, and internal guidelines should be strengthened to avoid or appropriately respond in such situations.</p> |
| EC3 | The criteria for issuing licenses are consistent with those applied in ongoing supervision. |
| Description and findings regarding EC3 | <p>Licensing Guidelines and Minimum Criteria outline the general guidelines, the minimum criteria to be addressed by applicants, the application procedures and the necessary information and documents to be submitted with an application.</p> <p>The application process involves the following steps:</p> <ul style="list-style-type: none"> • Preliminary consultation between SAMA and the prospective applicant to discuss the applicant's plans to carry on banking business in the Kingdom of Saudi Arabia. • Submission of an application and relevant information, as detailed in the licensing criteria and the application form. • SAMA's review of the application. |

The licensing criteria are applicable to all applicants, including foreign banks intending to establish a branch presence in KSA. These requirements represent minimum criteria that an applicant will need to meet. The licensing criteria are not exhaustive as SAMA can consider processing an application on other prudential grounds. The licensing criteria are consistent with the requirements established for ongoing supervision of licensed banks, as can be seen from the following overview of the licensing criteria laid down in the SAMA regulations:

- SAMA will only process a license for suitable applicants with the capacity and commitment to conduct banking business with integrity, prudence, and competence on a continuing basis.
- SAMA expects all applicants to be aware and able to comply with the BCL, its prudential requirements, and other relevant laws and regulations from the commencement of their banking operations. It should be noted that more prudential requirements may be set on a case-by-case basis, for example, for newly licensed banks in their formative years.
- **Capital:** SAMA will assess the adequacy of capital for an applicant on a case-by-case basis depending on the scale, nature and complexity of the operations as proposed in the business plan. However, the minimum requirement is SAR 2.5 million and all has to be paid up capital. Foreign Bank branches are not required to maintain capital in KSA although capital requirements may be set on a case-by-case basis, for example, those intending to conduct high risk businesses and/or wanting to specialize in particular business lines that require specific level of capacity or competence.
- Applicants must satisfy SAMA that they are able to comply with SAMA's capital adequacy requirements from the commencement of their banking operations. All locally incorporated banks are required to maintain, at all times, a minimum capital ratio (CAR) as set by SAMA. Newly established banks may be subject to a higher minimum capital, depending on the proposed bank's start-up infrastructural needs and its business model.
- **Bank Ownership:** As per the BCL, the founders and members of the board of directors of an applicant are required to demonstrate to SAMA that they are "fit and proper," are persons of good reputation, are well established, and are of financially sound standing and substance. In the case of foreign bank branch applicants, this requirement applies both to the foreign bank itself and to the significant shareholders of the foreign bank. SAMA requires all significant shareholders to be able to demonstrate that their involvement in the bank represents a long-term commitment and that they have the capacity to contribute additional capital, if required.
- **Corporate Governance:** Applicants must satisfy the requirements set out in SAMA's regulations titled Principles of Corporate Governance for Banks Operating in Saudi Arabia with regard to the composition and functioning of the Board. Applicants must also satisfy SAMA that they have policies and related procedures in place to ensure that persons who hold the key positions within the proposed bank are fit and proper,

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| | <p>in accordance with SAMA's regulations titled Requirements for Appointments to Senior Positions in Financial Institutions Supervised by SAMA.</p> <ul style="list-style-type: none"> • SAMA may consult other regulators (domestic and overseas) regarding the suitability of individuals who will manage the affairs of the proposed bank. Where necessary, applicants will be expected to provide SAMA with consent to seek details in this regard. • Risk Management and Controls: Applicants must satisfy SAMA that their proposed (or existing) risk management and control policies are adequate and appropriate for monitoring and limiting risk exposures in relation to domestic and, where relevant, international operations from the commencement of the bank's operations. This includes, but is not limited to, the development, implementation and maintenance of adequate and appropriate policies and procedures for monitoring and managing credit, market, liquidity, compliance, AML/CFT risks and operational risks. • Applicants must demonstrate that their proposed arrangements for reporting to SAMA are adequate and are in line with SAMA prudential standards and Article 15 of the BCL. Foreign bank branch applicants must demonstrate that the arrangements for reporting to SAMA and the parent foreign bank or head office are adequate and in compliance with applicable laws and regulations. In assessing whether the proposed policies and procedures for managing and controlling risks are adequate and appropriate for the applicant's operations, SAMA will take into account the size, nature, and complexity of the operations. • Compliance and Anti Money Laundering and Combating Terrorism Financing: Applicants must satisfy SAMA that their proposed compliance and AML and CFT processes, people and systems are adequate and appropriate for ensuring compliance with the regulations titled Rules Governing Anti-Money Laundering and Combating Terrorist Financing, SAMA's Compliance Manual for Banks Working in Saudi Arabia and other KSA regulatory and legal requirements. In assessing whether the proposed bank's compliance and AML/CFT processes, people and systems are adequate and appropriate for the applicant's operations, SAMA will have regard to the size, nature, and complexity of those operations. • Information Technology (IT), Accounting Systems, and Outsourcing: All Banks are required to submit prudential returns to SAMA. Required reporting forms and the frequency for banks depend on the type of bank. Applicants must satisfy SAMA that their proposed information technology and accounting systems will be adequate for maintaining up-to-date records of all transactions and commitments undertaken by an applicant, so as to keep management and SAMA continuously and accurately informed of the bank's condition and the risks to which it is exposed. • Applicants are required to demonstrate to SAMA that their proposed IT and accounting systems will be capable of producing all required statutory and prudential information in an accurate and timely manner from the commencement of their banking operations. In assessing the overall adequacy of the proposed information and accounting systems, SAMA will have regard to the integrity and security of the systems and arrangements for Business Continuity Management |
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| | <p>(BCM) and Disaster Recovery Planning (DRP) as per SAMA's regulations titled Cyber Security Framework and BCM framework.</p> <ul style="list-style-type: none"> • Any planned outsourcing of material processes, people and systems must satisfy SAMA's outsourcing requirements set out in SAMA's Instructions for Outsourcing. • External and Internal Audit Arrangements: Applicants must demonstrate to SAMA that arrangements have been established with external auditors in accordance with the requirements of the BCL and other relevant laws and regulations. • Applicants are required to satisfy SAMA on the adequacy of proposed internal audit arrangements and requirements as set out in SAMA's regulations titled Principles of Corporate Governance for Banks Operating in Saudi Arabia. • Supervision by Home Supervisor (Foreign Bank Branch Application): Foreign bank branch applicants must have received a written consent from their home supervisor for the establishment of a banking operation in KSA. Only applicants that are licensed banks in their home country and are listed in their domestic stock exchange will have their applications processed for granting of a license to operate as a foreign bank branch. • Foreign bank branch applicants must satisfy SAMA that they are subject to adequate prudential supervision in their home country. In considering the standard of supervision exercised by the home supervisor, SAMA will have regard to the Core Principle 7 of Banking Supervision (Core Principles) promulgated by the BCBS. This includes whether the home supervisor supervises the foreign bank applicant on a consolidated basis in accordance with the principles contained in the Basel rules and is prepared to cooperate with SAMA in the supervision of the bank branch in Kingdom of Saudi Arabia. <p>While the licensing criteria are aligned to those applied in ongoing supervision for conventional banks, this is not the case for digital banks. SAMA is working on a project to identify the supervisory approach for supervising digital banks once they become operational.</p> |
| EC4 | <p>The licensing authority determines that the proposed legal, managerial, operational and ownership structures of the bank and its wider group will not hinder effective supervision on both a solo and a consolidated basis.²¹ The licensing authority also determines, where appropriate, that these structures will not hinder effective implementation of corrective measures in the future.</p> |
| Description and findings regarding EC4 | <p>The main dimensions and issues examined while processing a new bank license application are as follows:</p> <ul style="list-style-type: none"> • Name of the proposed bank. • Ownership structure: Names and percentages of proposed ownership of the promoter (or main shareholders) and other shareholders, discussion on the proposed shareholders who plan to own more than 5 percent, and their fulfilment of the fit and proper requirements, their integrity, reputation, competencies, financial strength, etc. |

²¹ Therefore, shell banks shall not be licensed. (Reference document: BCBS paper on shell banks, January 2003.)

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| | <ul style="list-style-type: none"> • Proposed board members: names and positions, and initial fit and proper checks (i.e., review of resumes, internal background checks, and internet searches). • Proposed senior management: Names and positions, and initial fit and proper checks. • Business strategy: Proposed business focus (portfolio segmentation with respective shares), projected business plan for first seven years. • Capital deployment plan. • Target market. • Product deployment plan. • Financial projections: Projected balance sheet, income-expenditure, key financial and prudential ratios, and deposit growth for seven years. • Legal issues: Memorandum of Association, Articles of Association, other by laws: review comments from SAMA’s legal department. • IT issues: IT blueprint, disaster recovery manual, information security manual, dependence on cloud service providers • Human resources: Organization structure, resumes, and roles. Senior management responsibilities, salary projections, and Saudisation. • Exit plan. • Recommendations. • Appendices: Financial projections, key ratios, and list of documents reviewed—mainly pertain to risk management and compliance (e.g., risk management framework and manual, AML-CTF policy, code of conduct, corporate governance manual, and internal audit manual). <p>The license screening and scrutiny processes do not explicitly include review of how the legal, managerial, operational, and ownership structures of the proposed bank’s wider group will not hinder effective supervision on both a solo and a consolidated basis, or how these could or could not hinder effective implementation of corrective measures in future.</p> |
| EC5 | <p>The licensing authority identifies and determines the suitability of the bank’s major shareholders, including the ultimate beneficial owners, and others that may exert significant influence. It also assesses the transparency of the ownership structure, the sources of initial capital and the ability of shareholders to provide additional financial support, where needed.</p> |
| Description and findings regarding EC5 | <p>Please see the description and finding under EC4 that provides an overview of the key areas of focus and analyses during the screening or analyses of a license application. Among others, the screening and analyses include the ownership structure, shareholder details (names and percentages of proposed ownership of the promoter (or main shareholders) and other shareholders), discussion on the proposed shareholders who plan to own more than 5 percent, and their fulfilment of the fit and proper requirements, their integrity, reputation, competencies, financial strength, etc.</p> <p>Of the two licensing files reviewed by the assessors, one was an application for opening a branch by a foreign government owned bank. In the other application for a digital bank license, the applicant shareholders included unlisted legal entities and individuals. In this</p> |

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| | <p>instance the processing note recommending the application and supporting documents did not include details of the UBOs, and the interconnections (related parties), if any, among the applicant shareholders. Consequently, the license processing did not include due diligence on the fit and proper status of the prospective bank's major shareholders. The processing note and supporting documents did not mention the source of funds, and the due diligence performed by SAMA, though these mentioned that the applicant shareholders had deposited the initial capital in a local licensed bank to evidence the availability of the start-up capital and thus their financial strength. The financial strength of the main shareholders was not quantified, and the main sources of the capital were not identified. The analyses did not assess or document the ability of shareholders to provide additional financial support, where needed. Supervisors maintain that SAMA has the right to ask and examine the source funds based on the licensing guideline. They also mention that, in addition, SAMA might require the applicant to provide it with an escrow certificate that demonstrates that the applicant has deposited the required capital. They mention that when the applicant deposits the money/capital in an escrow account, the bank (the one opening the escrow account) will conduct the required know your customer (KYC) and due diligence to satisfy its obligations as per the relevant laws and regulations. This check fulfils the verification of the source of funds from an AML-CFT perspective. This however does not confirm the shareholders' financial strength and rule-out the possibility of the shareholder relying on borrowed funds to fund the investment in the equity of the new bank.</p> <p>In the light of the significant gaps with regards to the requirements in this EC, it would be relevant that internal guidelines are established to guide the new bank license applications scrutiny and processing, to ensure that the main requirements established in this EC and others are assessed explicitly, among others.</p> |
| EC6 | A minimum initial capital amount is stipulated for all banks. |
| Description and findings regarding EC6 | <p>As per Article 3 of the BCL, the minimum paid up capital of a domestic bank is SAR 2.5 million. As the law was passed in 1966, the minimum capital will not be adequate for establishing a new bank in 2024. Hence, SAMA relies on the provisions of the regulations on licensing criteria which provide that SAMA will also assess the adequacy of capital for an applicant on a case-by-case basis depending on the scale, nature and complexity of the operations as proposed in the business plan. In a recent case of a digital bank that was licensed, the initial capital was set at SAR 1.5 billion. In this background, laws should be revised to establish a much higher minimum (absolute) initial capital amount that also reflects the infrastructure and technological investment needs for establishing a new bank.</p> <p>Foreign bank branches are not required to maintain capital in KSA, although capital requirements may be set on a case-by-case basis, for example, those intending to conduct high risk businesses and/or wanting to specialize in certain business lines that require specific level of capacity or competence.</p> <p>In addition to the minimum capital requirement set in absolute terms as above, the domestic banks must comply with the risk-based capital adequacy requirements. Foreign</p> |

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| | bank branches are not required to maintain risk-based capital adequacy requirements as well. Please see description and findings under CP16 for details. |
| EC7 | The licensing authority, at authorization, evaluates the bank's proposed Board members and senior management as to expertise and integrity (fit and proper test), and any potential for conflicts of interest. The fit and proper criteria include: (i) skills and experience in relevant financial operations commensurate with the intended activities of the bank; and (ii) no record of criminal activities or adverse regulatory judgments that make a person unfit to uphold important positions in a bank. ²² The licensing authority determines whether the bank's Board has collective sound knowledge of the material activities the bank intends to pursue, and the associated risks. |
| Description and findings regarding EC7 | <p>Laws and regulations establish the following set of requirements for directors and senior management in banks:</p> <ul style="list-style-type: none"> • Article 3 of the BCL, requires, among others, that the members of the board of directors of a new bank (applicant bank) shall be persons of good reputation. • Article 12 and 13 of SAMA regulations on licensing guidelines and minimum criteria require that the founders and members of the board of directors of an applicant are required to demonstrate to SAMA that they are 'fit and proper', are persons of good reputation, are well established and are of financially sound standing and substance. Applicants must satisfy the requirements set out in SAMA's regulations titled Key Principles of Corporate Governance for Banks Operating in Saudi Arabia (henceforth referred to as Key Principles regulation) with regard to the composition and functioning of the board. Applicants must also satisfy SAMA that they have policies and related procedures in place to ensure that persons who hold the key positions (this includes directors and senior management) within the proposed bank are fit and proper, in accordance with SAMA's regulations titled Requirements for Appointments to Senior Positions in Financial Institutions Supervised by the SAMA. <p>The Key principles regulations have established the following requirements, among others, to be fulfilled by board members and senior management (please see description and finding under CP14 for more details).</p> <ul style="list-style-type: none"> • Board members shall be qualified to carry out the work entrusted to them, have a clear understanding of their required roles, and have the ability to make decisions impartially and objectively without any external influence whether from inside or outside the financial institution. They shall particularly fulfill the following: <ul style="list-style-type: none"> ○ Their CVs shall be publicly available to enable stakeholders to assess their experience and ability to carry out their tasks effectively. ○ A member shall have professional competence and shall possess various practical and administrative skills and experiences, as well as appropriate personal qualities, especially honesty and integrity, in addition to the following, namely, leadership, competence, guidance, financial literacy, and physical fitness. |

²² Please refer to Principle 14, Essential Criterion 8.

- A member shall have the following qualities, namely, truthfulness, loyalty, and care.
- Board members shall be aware of the rules, regulations, and instructions related to the financial institution's business, and shall keep pace with any new developments in this regard.
- Board members and senior management (referred to as senior positions in regulations) must meet the following requirement set out in the key principles regulation:
 - Directors and senior management must obtain no-objection from SAMA before they can assume office.
 - The financial institution's board of directors shall be responsible for ensuring the fitness and propriety of candidates for senior positions, in accordance with the financial institution's relevant policy, requirements and procedures.
 - The financial institution shall adopt clear and precise standards and procedures to assess and verify the fitness and propriety of the senior position holders or candidates. The fit and proper criteria shall, as a minimum, include the following for the candidate, who must have: (i) personal qualities, such as honesty; integrity, good reputation, and fairness, and must not have been convicted of any crime impinging on honor or integrity, unless rehabilitated; (ii) the necessary academic qualification, or adequate experience, skills to perform his/her role effectively, as well as the ability to understand the technical requirements of the business, the risks, and the management process (and in addition, the candidate must meet all requirements set forth by SAMA); (iii) the efficiency and experience needed to manage his/her financial obligations and affairs prudently and properly; and (iv) the necessary independence to perform the tasks and duties of the proposed senior position and shall not have employment interests or obligations, or any other situations which might give rise to conflict of interests or which could, in any way, impair the candidate's ability to independently perform the duties of the proposed position.

An applicant's bank is required to provide for SAMA's consideration the details of the board members that it proposes to have. While processing the license application, SAMA performs a summary due diligence on the proposed members. However, as mentioned above in law and regulations, it requires the applicant bank to provide additional details from each board candidate for obtaining SAMA's no objection before they can serve on the bank's board. During the process of assessing the requests for no objection SAMA undertakes a more detailed fit and proper assessment with reference to the requirements established in laws and regulations not only with regards to each member's fit and proper status but also with reference to the various requirements established in laws and regulations with regards to the constitution of the board and board committees. Laws or regulations, however, do not require the bank's board to have collective sound knowledge of the material activities the bank intends to pursue, and their associated risks. Collective knowledge of the board members is not an explicit criterion for new banks and its assessment was not evident in the license processing papers shared with

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| | the assessors. These papers did not include the individual member's background, experience, and skills. SAMA's due diligence on board members' and senior management's skills and experience in relevant financial operations commensurate with the intended activities of the new bank was not evident. |
| EC8 | The licensing authority reviews the proposed strategic and operating plans of the bank. This includes determining that an appropriate system of corporate governance, risk management and internal controls, including those related to the detection and prevention of criminal activities, as well as the oversight of proposed outsourced functions, will be in place. The operational structure is required to reflect the scope and degree of sophistication of the proposed activities of the bank. ²³ |
| Description and findings regarding EC8 | <p>Please see the description and finding under EC4 which describes the contents and processing of license applications.</p> <p>SAMA obtains from the applicants, among others, details of the applicant bank's business strategy (portfolio segmentation with respective shares), projected business plan for first seven years, capital deployment plan, target market, product deployment plan, and financial projections (projected balance sheet, income-expenditure, key financial and prudential ratios, and deposit growth). While processing the license application, SAMA reviews the business strategy, target market segments, the business and operational plans, and determines if these are credible and feasible in the market and macro environment in KSA. The analyses also consider the credibility of the projected financials by comparison with industry level income and cost ratios and profitability. Based on the analyses the bank's projected capital and profitability ratios are adjusted if these are more optimistic to assess the applicant bank's viability and capital plan.</p> <p>SAMA also obtains through the license application process details of the board constitution, senior management, risk management framework and manual, AML-CFT policy, code of conduct, corporate governance manual, internal audit manual, IT blueprint, disaster recovery manual, information security manual, dependence on cloud computing and other service providers. These are analyzed to assess the adequacy of the governance arrangements, senior management capabilities, risk management systems and processes, compliance and internal audit, and outsourcing arrangements in the context of the applicant bank's business strategy and plans.</p> |
| EC9 | The licensing authority reviews pro forma financial statements and projections of the proposed bank. This includes an assessment of the adequacy of the financial strength to support the proposed strategic plan as well as financial information on the principal shareholders of the bank. |
| Description and findings regarding EC9 | Please see description and finding under EC 8 which describes the processing and analyses of the applicant bank's business strategy, target market and business segments, projected financial positions, capital deployment plans and product deployment plans among others. |

²³ Please refer to Principle 29.

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| | Please see description and finding under EC 5 which describes the processing and analyses of the applicant bank's shareholders and their financial strength. As mentioned, the analyses and processing as seen in the papers to which the assessors had access to did not explicitly document the assessment of the main shareholders individual or aggregate net worth or financial strength and the sources of the capital. The analyses consider the applicant bank's capital deployment plan in the context of how it proposes to meet the growing capital needs over the first seven years (presented in the business plan and financial projections). |
| EC10 | In the case of foreign banks establishing a branch or subsidiary, before issuing a license, the host supervisor establishes that no objection (or a statement of no objection) from the home supervisor has been received. For cross-border banking operations in its country, the host supervisor determines whether the home supervisor practices global consolidated supervision. |
| Description and findings regarding EC10 | SAMA does not contact home supervisor of foreign banks that apply for branch license in Saudi Arabia. It does not undertake due diligence on home supervisors' supervisory frameworks and their consolidated supervision capabilities and practices. Instead, SAMA requires the applicant bank to submit an approval from the home supervisor to operate in KSA. The licensing criteria specify that the foreign bank branch applicants must satisfy SAMA that they are subject to adequate prudential supervision in their home country. |
| EC11 | The licensing authority or supervisor has policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that supervisory requirements outlined in the license approval are being met. |
| Description and findings regarding EC11 | When SAMA grants a license to an applicant bank, the applicant bank will have to work with SAMA until it is ready to commence banking operations (day 1). SAMA would permit the bank to commence operations after it has established the relevant operating and safety systems and tested these, hired the required personnel, and senior management, and established the relevant policies and procedures. The new banks are not subjected to a special supervisory regime. Once the bank commences operations, SAMA supervises the new bank as any other licensed bank based on the offsite reporting, and its risk profile based on quarterly and annual supervisory engagements. |
| Assessment of Principle 5 | Materially non-compliant. |
| Comments | The BCL designates the Minister as the licensing authority for new banks and empowers the Council of Ministers to decide on cancellation or revocation of license. While the law is silent on who can set the licensing criteria, SAMA has established these criteria through regulations. These criteria are broadly aligned with those applied in ongoing supervision, except for the digital banks where the supervisory framework is under development. Basic powers and processes for receipt and scrutiny of new bank license applications and issue of new banking licenses are available and functioning, but these must be reviewed and revised significantly to make these more comprehensive to include all specific elements required in this Principle, including the following. |

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| | <p>Laws must be revised to empower SAMA or the Minister or the Council of Ministers to: (i) set licensing criteria; (ii) reject an application if the criteria are not fulfilled or if the information provided is inadequate; and (iii) revoke the license if the license was based on false information. SAMA should also be empowered to impose any special or additional prudential conditions or limitations on the newly licensed banks, where required. In the absence of explicit powers in this regard, the legal validity of the licensing criteria is unclear and untested. The BCL should also be revised to establish a much higher minimum (absolute) initial capital amount that also reflects the infrastructure and technological investment needs for establishing a new bank and its business model. The licensing process should be formalized through a licensing policy or license processing guidelines to streamline and standardize the processing, establish processing timelines, supplement the criteria in the regulations with additional guidance and sub-processes, and make the scrutiny, verification, and analyses more comprehensive. The processing must be revised to explicitly include and document each of these: verification of source of funds for initial capital, assessment and quantification of shareholders' financial strength and their ability to provide additional financial support, where relevant identification and due diligence of UBOs, assessment of the likely hindrance to be posed by ownership and governance structures of the wider group to effective supervision and effective implementation of corrective measures on both a solo and a consolidated basis, and assessment of the collective knowledge of board members, and individual board member's and senior management personnel's background, skills and experience, in relevant financial operations commensurate with the intended activities of the bank. In the absence of binding time limits for commencing operations after obtaining a license approval, and when there are long / indefinite delays in commencing operations, there are high chances of material changes, among others, to the proposed bank's business model viability, shareholders' financial position and their fit and proper status, availability of the identified board members and senior management personnel and their fit and proper status. Such developments could also lead to non-fulfillment of licensing criteria which the applicants once met. Hence, laws, regulations, and internal guidelines should be strengthened to avoid or appropriately respond in such situations. Instead, of relying on the applicant bank, SAMA should contact home supervisor of foreign banks that apply for branch license in KSA and undertake due diligence on their supervisory frameworks and their consolidated supervision capabilities and practices to inform the licensing process. SAMA should establish policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that prudential conditions or limitations in the license approval are being met. It should, therefore, subject the new bank to more rigorous offsite and onsite supervision in the initial years after licensing.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Empower SAMA or the Minister or the Council of Ministers to: (i) set licensing criteria; (ii) reject an application if the criteria are not fulfilled or if the information provided is inadequate; and (iii) revoke the license if the license was based on false information. |
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| | <ul style="list-style-type: none"> • Include criteria to assess whether ownership and governance structures of the wider group are hindering effective supervision, and implementation of corrective actions. Review and revise the licensing criteria for digital banks to align with those applied for ongoing supervision of such banks, when approved. • Establish internal guidelines for ensuring timely and comprehensive processing of license applications, including documentation, explicit assessment of board's collective knowledge, relevance of individual board member and senior management skills and experience in relevant financial operations commensurate with the intended activities of the bank, shareholder financial strength, identification of UBOs and their fit and proper compliance. • Strengthen laws, regulations, and internal guidelines to avoid or appropriately respond to long delays in commencing operations after obtaining license approval. • Assessment of home supervisory practices (consolidated supervision, quality of supervision) should be mandatory. • Place newly licensed banks on enhanced onsite and offsite supervision initially. |
| Principle 6 | Transfer of significant ownership. The supervisor ²⁴ has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties. |
| Essential Criteria | |
| EC1 | Laws or regulations contain clear definitions of "significant ownership" and "controlling interest". |
| Description and findings regarding EC1 | <p>The BCL, SCBL and the Companies law do not define the terms "significant ownership" and "controlling interest."</p> <p>SAMA regulation on Key principles of governance in financial institutions defines a substantial shareholder as any person who owns 5 percent or more of the shares of the financial institution or voting rights therein. This term has been used to define a bank's related party and not with reference to control of transfer of significant ownership in banks.</p> <p>The implementing regulations of the Companies law defines control with reference to joint stock companies as "the ability to influence actions or decisions of another person directly, indirectly, individually, or collectively with a relative or an affiliate" through: (i) owning 30 percent or more of the voting rights in a company; (ii) having the right to appoint 30 percent or more of the administrative team members.</p> |
| EC2 | There are requirements to obtain supervisory approval or provide immediate notification of proposed changes that would result in a change in ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest. |

²⁴ While the term "supervisor" is used throughout Principle 6, the Committee recognizes that in a few countries these issues might be addressed by a separate licensing authority.

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| Description and findings regarding EC2 | <p>BCL, SCBL and SAMA regulations have not established requirements on existing and potential shareholders in banks and the banks, to obtain SAMA approval or provide immediate notification of proposed changes to ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest.</p> <p>SAMA has adopted an indirect approach for transfer of shareholding at or above 5 percent to be referred to it for its no objection. This arrangement has been established through the CMA, the capital market regulator.</p> <ul style="list-style-type: none"> • The MoU between SAMA and CMA dated January 29, 2012, provides in clause VI as follows: CMA shall be responsible for regulating mergers and acquisitions, domination and ownership limits for companies listed in the capital market. Furthermore, CMA must ensure that SAMA has approved all the above when one of the parties thereof is a company whose supervision is entrusted to SAMA. • A letter dated June 2, 2013, from the Governor, SAMA, to the Chairman, CMA elaborates on the above clause in the MoU as follows: "I hope that Your Excellency will support and instruct the specialist colleagues in the CMA to take the necessary measures regarding not allowing any natural or legal person to own 5 percent or more of the shares of any of the entities entrusted to the SAMA to supervise (namely banks, insurance and/or reinsurance companies, and finance companies) that are listed on the financial market or dispose of any of those shares except after obtaining a no objection letter from SAMA." <p>This arrangement is, however, inadequate to effectively control the transfer of beneficial ownership in licensed banks for the following reasons:</p> <ul style="list-style-type: none"> • The informal arrangement between SAMA and CMA is not legally binding requirement for the banks or the existing and prospective shareholders in banks. • The process of controlling transfer of ownership in banks through the CMA would not be adequate for situations involving concerted shareholding by a group of shareholders where each hold less than 5 percent in a bank's equity. • The above arrangement is inadequate as the changes in ultimate beneficial owners would go unnoticed. <p>Besides the above gaps, SAMA does not obtain details of the beneficial ownership in banks that are 5 percent and more, and the beneficial ownership that are just below the 5 percent threshold to be able to detect potential situations of concerted holdings to evade scrutiny.</p> |
| EC3 | <p>The supervisor has the power to reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest, or prevent the exercise of voting rights in respect of such investments to ensure that any change in significant ownership meets criteria comparable to those used for licensing banks. If the supervisor determines that the change in significant ownership was based on false information, the supervisor has the power to reject, modify or reverse the change in significant ownership.</p> |
| Description and findings regarding EC3 | <p>The SCBL and the BCL do not empower SAMA to perform the following when it detects that the change in ownership does not meet the fit and proper criteria for shareholders:</p> |

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| | <ul style="list-style-type: none"> • Reject any proposal for a change in significant ownership, including beneficial ownership, or controlling interest. • Restrict the voting rights of existing shareholders. • To reject, modify or reverse the change in significant ownership when it determines that the change in significant ownership was based on false information. <p>SAMA has not laid down internal procedures or manual for reviewing proposals from shareholders (and potential shareholders) to increase their (or acquire) equity holding or beneficial interest beyond 5 percent, including the minimum details required to be obtained from the shareholders and the due diligence to be performed on the shareholders. The processing note does not mention the date of the last due diligence performed on the shareholder and does not seek to identify the UBO.</p> <p>SAMA does not perform periodic fit and proper assessments on existing shareholders who own more than 5 percent of the bank's equity. Laws, or regulations do not require, and SAMA does not undertake additional due diligence or more intensive fit and proper assessment on the existing shareholders when their holding crosses a higher threshold where they can exercise a greater degree of control.</p> |
| EC4 | The supervisor obtains from banks, through periodic reporting or on-site examinations, the names and holdings of all significant shareholders or those that exert controlling influence, including the identities of beneficial owners of shares being held by nominees, custodians and through vehicles that might be used to disguise ownership. |
| Description and findings regarding EC4 | In terms of CMA's listing requirements, banks are required to disclose in their Annual Reports the names of all shareholders that are holding more than 5 percent in their equity. However, banks disclose their immediate shareholders in their annual reports, and not the ultimate beneficial owners. |
| | SAMA's offsite reporting requirements do not require banks to report: (i) the names and holdings of their shareholders and their ultimate beneficial owners, above a certain threshold; and (ii) details of the changes, if any, in banks' ultimate beneficial owners. |
| EC5 | The supervisor has the power to take appropriate action to modify, reverse or otherwise address a change of control that has taken place without the necessary notification to or approval from the supervisor. |
| Description and findings regarding EC5 | Please see description and finding under ECs 2 and 3. As mentioned there, the legal enforceability of the current arrangement between SAMA and CMA on the bank or the shareholders is in doubt, there are gaps in the present arrangement that might not capture all changes in beneficial interest that cross the 5 percent threshold, and the absence of explicit powers in laws for SAMA to modify or reverse or otherwise address a change in control that might take place without notification to it or without obtaining its non-objection or approval. |
| EC6 | Laws or regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest. |

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| Description and findings regarding EC6 | Laws or regulations do not require banks to notify the supervisor when they become aware of any material information which may negatively affect the suitability of a major shareholder or a party that has a controlling interest. |
| Assessment of Principle 6 | Materially non-compliant. |
| Comments | <p>In the absence of definitions of significant ownership and controlling interest in laws, SAMA is relying on the definition of significant shareholder as used for identifying related parties, for controlling transfer of significant ownership in banks. It has established an arrangement with the CMA to exercise control over transfer of significant ownership in banks that partly addresses the situations envisioned in the core principle.</p> <p>Powers and processes for reviewing, rejecting, and imposing prudential conditions on proposals to transfer significant ownership and controlling interest in existing banks need significant improvement. The current arrangement through a combination of MoU and exchange of letter between SAMA and CMA does not adequately meet the main requirements in this Principle to effectively control change in ownership in existing banks. Laws, regulations, and supervisory processes must be revised along the lines indicated below to achieve the intended outcomes.</p> <p>Laws should be strengthened to empower SAMA to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests, including beneficial interests, in existing banks to other parties. Laws and/or regulations should:</p> <ul style="list-style-type: none"> • Explicitly define the terms “significant ownership” and “controlling interest” for the purpose of controlling transfer of ownership in banks. • Establish requirements on existing and potential shareholders and UBOs in banks and the banks, to obtain SAMA approval for proposed changes to ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest. • Empower SAMA to restrict the voting rights of shareholders; and to reject, modify or reverse the change in significant ownership when it determines that the change in significant ownership was based on false information. • Require banks to notify SAMA as soon as they become aware of any material information which may negatively affect the suitability of a shareholder that has significant ownership or a controlling interest. <p>SAMA should obtain from banks, through periodic reporting or on-site examinations, details of all shareholders with beneficial interest that: (i) can exert controlling influence; (ii) can exert significant influence; and (iii) are just below the threshold to determine significant influence to strengthen its supervisory oversight framework.</p> <p>SAMA should perform periodic fit and proper assessments of existing beneficial owners at or above a certain threshold. SAMA should undertake additional due diligence or more intensive fit and proper assessment on controlling shareholders.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Obtain powers in laws to: |

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| | <ul style="list-style-type: none"> ○ Review, reject and impose conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in banks or prevent exercise of voting rights. ○ Reject or reverse change in ownership or prevent exercise of voting rights when such change was based on false information. ● Define “significant ownership” and “controlling interest” in laws or regulations, for controlling ownership changes in banks. ● Establish explicit requirements on banks and shareholders to obtain prior approval for change in significant ownership and controlling interest, including beneficial ownership. Require periodic reporting by banks on shareholders with beneficial interest beyond a threshold. ● Require banks to notify SAMA as soon as they become aware of any material information which may negatively affect the suitability of a shareholder that has significant ownership or a controlling interest. ● Identify and perform due diligence on UBOs; conduct enhanced due diligence on shareholders with controlling interest; review fit and proper status periodically. ● Establish and publish criteria to assess approvals for transfer of significant ownership or controlling interest, to improve transparency. |
| Principle 7 | Major acquisitions. The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision. |
| Essential Criteria | |
| EC1 | <p>Laws or regulations clearly define:</p> <p>(a) what types and amounts (absolute and/or in relation to a bank’s capital) of acquisitions and investments need prior supervisory approval; and</p> <p>(b) cases for which notification after the acquisition or investment is sufficient. Such cases are primarily activities closely related to banking and where the investment is small relative to the bank’s capital.</p> |
| Description and findings regarding EC1 | <p>Articles 10 and 11 of the BCL list the types of investments and acquisitions banks are allowed to make without obtaining SAMA’s no-objection, and those that require its no-objection. These are listed below.</p> <p>No bank shall undertake any of the following activities:</p> <ul style="list-style-type: none"> ● To have any direct interest, whether as a stock-holder, partner, owner, or otherwise, in any commercial, industrial, agricultural or other undertaking exceeding the limits referred to in para 4 of this Article, except when such interest results from the satisfaction of debts due to the bank, provided that all such interests shall be disposed of within a period of two years or within any such longer period as may be determined in consultation with SAMA (Article 10.2). ● To purchase, without the approval of SAMA, stocks and shares of any bank conducting its business in KSA (Article 10.3). |

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| | <ul style="list-style-type: none"> • To own stocks of any other joint-stock company incorporated in KSA, in excess of ten percent of the paid-up capital of such a company provided that the nominal value of these shares shall not exceed twenty percent of the bank's paid-up capital and reserves; the above limits may, when necessary, be increased by SAMA (Article 10.4). • To acquire or lease real estate except in so far as may be necessary for the purpose of conducting its banking business, housing of its employees or for their recreation or in satisfaction of debts due to the Bank (Article 10.5). • In cases where a bank acquires real estate in satisfaction of debts due to it and such real estate is not necessary for the Bank's own banking business or housing of its employees or for their recreation, it shall dispose it within three years of its acquisition or, in exceptional and justifiable circumstances, within such period or periods as may be approved by SAMA and subject to such conditions as it may deem fit to prescribe (Article 10). • As an exception to the provisions of para 5 of this Article, the bank may, in special and justifiable circumstances and with the approval of SAMA, acquire real estate, the value of which shall not exceed 20 percent of its paid-up capital and reserves (Article 10). <p>Banks are precluded from undertaking any of the following operations except with the written approval of SAMA and according to the conditions it prescribes (Article 11):</p> <ul style="list-style-type: none"> • Entering into any scheme of amalgamation or participation in the business of another bank or another establishment carrying on banking business. • Acquiring shares in a company established outside the Kingdom. <p>The above provisions in law are binding on the licensed bank.</p> |
| EC2 | Laws or regulations provide criteria by which to judge individual proposals. |
| Description and findings regarding EC2 | <p>SAMA circular on major acquisitions dated 21 March 2011 require banks to seek its prior no objection in the following instances:</p> <p>Any proposed restructuring, reorganization, or business expansion (through acquisition and or merger and or investments within the Kingdom or overseas) which could have an impact on the bank's risk profile or resources, including, but not limited to:</p> <ul style="list-style-type: none"> • activities prescribed in Article 10 and 11 of the BCL; or • substantial change or a series of changes in the management and or legal status of a bank; or • commencing the provision of a new type of product or service (whether in KSA or overseas); or • entering into, or significantly changing, a material outsourcing arrangement as governed by SAMA Rules on Outsourcing issued in July 2008. <p>The circular states that SAMA will not provide a no objection if it considers the bank to have inadequate financial and organizational resources or if SAMA considers that supervision will be hindered. It also states that in reviewing requests for no objection by</p> |

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| | banks, SAMA will assess acquisitions against several criteria such as: strategic rationale and business plans; funding and impact on capital; group structure and corporate governance including integrity and probity of management; risk management systems, the risks to the institution and the effect on supervision. |
| EC3 | Consistent with the licensing requirements, among the objective criteria that the supervisor uses is that any new acquisitions and investments do not expose the bank to undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new acquisitions and investments will not hinder effective implementation of corrective measures in the future. ²⁵ The supervisor can prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. The supervisor takes into consideration the effectiveness of supervision in the host country and its own ability to exercise supervision on a consolidated basis. |
| Description and findings regarding EC3 | Please see description and finding under EC2 which mentions the broad criteria applied by SAMA while assessing requests from banks for major acquisitions. These include SAMA's consideration of the risks to the institution, to the bank's financial and organizational resources, and the likely hindrance to SAMA's supervision. In the absence of internal guidelines for assessing proposals for major acquisitions by banks, the criteria established in the circular of March 2011 are the ones that guide the assessment. These criteria do not include assessment of SAMA's ability to require or undertake effective implementation of corrective measure in the banks and across the banking group. Laws or regulations do not articulate SAMA's powers to prohibit major acquisitions or investments by banks on the grounds that these are in countries with laws or regulations prohibiting information flows that are necessary for conducting consolidated supervision. The criteria for major acquisitions by banks do not include assessment of quality of host supervision and SAMA's ability to undertake consolidated supervision in the jurisdictions where the Saudi banks plan to make a major acquisition. SAMA does not undertake systematic assessment of the effectiveness of supervision in the host country. (Please see description and finding under EC3 of CP12 for more details.) |
| EC4 | The supervisor determines that the bank has, from the outset, adequate financial, managerial and organizational resources to handle the acquisition/investment. |
| Description and findings regarding EC4 | Please see description and finding under EC2 which includes the details of the acquisitions that need SAMA's prior approval, and the broad criteria applied while reviewing the requests for SAMA's approval (or no objection) for major acquisitions. The criteria applied include strategic rationale and business plans; funding and impact on capital; group structure and corporate governance including integrity and probity of management; risk management systems, the risks to the institution and the effect on supervision. |

²⁵ In the case of major acquisitions, this determination may take into account whether the acquisition or investment creates obstacles to the orderly resolution of the bank.

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| | Assessors reviewed the documents pertaining to the sole instance over the past five years where a bank proposed to acquire an IT services and solutions provider company as a subsidiary for serving the bank and its group entities. Another instance was from 2015 of a bank increasing the banking group's stake (through an investment company within the group) from 70 percent to 100 percent in an investment company registered in the Cayman Islands. Assessors observed that supervisors consider if the applicant bank has adequate financial, managerial, and organizational resources to handle the acquisition/investment. |
| EC5 | The supervisor is aware of the risks that non-banking activities can pose to a banking group and has the means to take action to mitigate those risks. The supervisor considers the ability of the bank to manage these risks prior to permitting investment in non-banking activities. |
| Description and findings regarding EC5 | <p>As per BCL provisions, banks cannot make business driven acquisitions of commercial, industrial, agricultural, or other undertakings beyond stipulated limits. Where, the banks wish to make investments more than the stipulated limits in joint stock companies, they need to obtain SAMA's approval/non-objection. Key provisions of the BCL relevant for this EC are presented below.</p> <p>No bank shall undertake any of the following activities (Article 10 of BCL):</p> <ul style="list-style-type: none"> • To have any direct interest, whether as a stock-holder, partner, owner, or otherwise, in any commercial, industrial, agricultural or other undertaking exceeding the limits referred to in para 4 of this Article, except when such interest results from the satisfaction of debts due to the bank, provided that all such interests shall be disposed of within a period of two years or within any such longer period as may be determined in consultation with the Agency (Article 10.2). • To own stocks of any other joint-stock company incorporated in KSA, in excess of ten percent of the paid-up capital of such a company provided that the nominal value of these shares shall not exceed twenty percent of the bank's paid-up capital and reserves; the above limits may, when necessary, be increased by SAMA (Article 10.4). <p>Banks are precluded from acquiring shares in a company established outside the KSA except with the written approval of SAMA and according to the conditions it prescribes. When banks approach SAMA for approval or non-objection for investment in joint stock companies in excess of the limits established in Article 10.4, SAMA subjects these to the review and analyses as explained under ECs 2 and 3. Based on its analyses prior to according no objection to banks' proposal to acquire major stake in a non-banking entity, if SAMA does not consider the bank to have adequate financial and organizational resources or if SAMA considers that supervision will be hindered, it can withhold its approval or non-objection to the proposal.</p> <p>In both cases of major acquisition where assessors had access to the processing files, assessment of risks from the activities of the entity being acquired/taken over to the bank and the banking group and their ability to mitigate or manage it was not evident.</p> |
| AC1 | The supervisor reviews major acquisitions or investments by other entities in the banking group to determine that these do not expose the bank to any undue risks or hinder effective supervision. The supervisor also determines, where appropriate, that these new |

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| | acquisitions and investments will not hinder effective implementation of corrective measures in the future. ²⁶ Where necessary, the supervisor is able to effectively address the risks to the bank arising from such acquisitions or investments. |
| Description and findings regarding AC1 | The provisions under Article 10 and 11 of BCL placing limits or restrictions on investments and major acquisitions are applicable to the licensed bank and do not extend to the other entities in the banking group or its wider group. Hence, major acquisitions by bank's subsidiaries and associates do not need SAMA's non-objection or approval. |
| Assessment of Principle 7 | Largely compliant. |
| Comments | <p>The BCL lists the types of investments and acquisitions banks are precluded from making, those that they are allowed to make without obtaining SAMA's no-objection, and those that require its no-objection. Powers and processes are largely established and applied for approving banks' proposals for major acquisitions, but there is scope for improvement to meet the requirements established in this Principle. SAMA has not established internal guidelines for processing proposals from banks to undertake major acquisitions. Currently the processing is guided by the high-level criteria established in regulations issued in 2011. The following criteria must be considered while processing proposals for major acquisitions: (i) SAMA's ability to require or undertake effective implementation of corrective measure in the bank and across the banking group; (ii) effectiveness of supervision in the host country and SAMA's ability to exercise supervision on a consolidated basis; and (iii) assessment of risks from the activities of the entity being acquired/taken over by the bank and the banking group and the bank's ability to mitigate or manage these. In practice, SAMA does not:</p> <p>(i) undertake systematic assessment of the effectiveness of supervision in the host country; and (ii) assessment of risks from the activities of the entity being acquired/taken over to the bank and the banking group and their ability to mitigate or manage it. This considerably weakens the scrutiny of cross-border acquisitions.</p> <p>Laws or regulations do not articulate SAMA's powers to prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Enhance legal powers to: <ul style="list-style-type: none"> ○ Require entities in the banking group to obtain SAMA's no-objection before making major acquisitions. ○ Prohibit banks from making major acquisitions/investments in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. • Develop internal guidelines for processing proposals for major acquisitions. Include the following criteria for processing bank proposals for major acquisitions: (i) SAMA's |

²⁶ Please refer to Footnote 33 under Principle 7, Essential Criterion 3.

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| | <p>ability to require or undertake effective implementation of corrective measure in the bank and across the banking group; (ii) effectiveness of supervision in the host country and SAMA's ability to exercise supervision on a consolidated basis; and (iii) assessment of risks from the activities of the entity being acquired/taken over by the bank and the banking group and the bank's ability to mitigate or manage these.</p> |
| Principle 8 | <p>Supervisory approach. An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.</p> |
| Essential Criteria | |
| EC1 | <p>The supervisor uses a methodology for determining and assessing on an ongoing basis the nature, impact, and scope of the risks:</p> <p>(a) which banks or banking groups are exposed to, including risks posed by entities in the wider group; and</p> <p>(b) which banks or banking groups present to the safety and soundness of the banking system</p> <p>The methodology addresses, among other things, the business focus, group structure, risk profile, internal control environment and the resolvability of banks, and permits relevant comparisons between banks. The frequency and intensity of supervision of banks and banking groups reflect the outcome of this analysis.</p> |
| Description and findings regarding EC1 | <p>SAMA's overall supervisory approach is risk-based supported by a structured Risk Based Supervisory Framework (RBS Framework). BSD has the overall responsibility for supervision of the banking sector in KSA and is supported by the General Department of Cyber Risk Control (GDCRC) which supervises information technology (IT) related risks and the AML/CFT Department that supervises the AML/CFT risks. These two departments provide their inputs to BSD to complete the risk assessment and risk profiling of each bank.</p> <p>The supervisory process is the same for conventional banks (local bank and foreign bank branches), for Islamic banks and for digital banks. For banks conducting Shariah compliant banking, assessment of compliance with Islamic banking regulations is included as applicable.</p> <p>Digital banks have not yet started their business activities. SAMA is working on a project to identify the changes, if any, required for supervising digital banks once they become operational.</p> <p>The five main components in the overall supervisory process are described briefly below.</p> <p>Continuous Monitoring (off-site) consists of the following:</p> <ul style="list-style-type: none"> • Ongoing risk assessment and rating process for each supervised entity involves both quantitative and qualitative analyses to understand the nature of each inherent risk, the controls used to mitigate that risk and the bank-wide oversight functions. The |

quarterly risk assessment is largely system driven that updates the inherent risk ratings, while the annual exercise includes review and reassessment of the qualitative (control risk) parameters for each risk, and the oversight functions as well. At the same time, the finding from onsite inspections and other supervisory meetings during the year can be reflected in a revision to the qualitative assessments ahead of the next annual scheduled revision.

- Once all risks, controls and oversight functions are rated, supervisors apply qualitative judgment to determine whether the previously calculated rating is appropriate or whether additional contextual information justifies raising or lowering the rating.
- Capital and earnings ratings are calculated based on the supervised entity's capital adequacy as defined on annual basis after the ICAAP review of capital adequacy.
- The Risk Matrix automatically combines the scores for the inherent risks, controls, oversight functions, and capital and earnings to arrive at the final risk rating for the supervised entity.
- The impact rating is then calculated and combined with the final risk rating to determine the supervisory stance for the bank.
- Direction of risk rating is assigned to the final rating, based on the macroeconomic outlook and the supervisor's professional judgment about the supervised entity's outlook over the next 12 months.
- The supervisory stance and the direction of risk determines the frequency and nature of onsite activity and supervisory actions.
- The Risk Profile is a document that summarizes the risk assessment and supervisors' views for each supervised entity.

Planning and scheduling supervisory activities is an annual process that sets forth the supervisory calendar for the upcoming 12 months in the supervisory plan. This outlines the number, length, and focus of inspections, as well as identifying required resources.

Defining inspection activities extends the supervisory plan by identifying the scope, key objectives, and activities of each targeted inspection. It involves a comprehensive review of relevant reports and current developments related to the supervised entity.

Performing inspection activities refers to the execution of activities by the inspection team in accordance with the relevant work plans tailored to each supervised entity's key areas of risk.

Reporting findings and follow-ups involves submitting the inspection report to SAMA management, the supervised entity's senior management/ board, and setting action plans with the supervised entity to address any deficiencies identified during supervisory interactions.

The risk profile of each bank is updated to reflect the changes that emanate from the supervisory processes mentioned above.

SAMA's RBS framework is based on the Risk Assessment Model (RAM) that captures both quantitative and qualitative factors to measure risks in banks and related controls used by the banks. The RAM provides a standardized methodology to assess the inherent risks and level of internal controls applied by the banks which yields results that are

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| | <p>comparable across the banking sector. The RAM also evaluates the bank's oversight framework that include board of directors, senior management, operational management, financial control, risk management, internal audit, and compliance. The main features of the RAM include the following:</p> <ul style="list-style-type: none"> • The RAM assesses the following nine risk categories: credit risk, liquidity risk, market risk, interest rate risk in the banking book (IRRBB), operational risk, technology risk, legal and regulatory risks, AML/CFT related risk, and strategic risk. • Risk categories are assessed based on the inherent level of risk and the related controls that are in place for that risk. • Prudential returns are used to generate key risk indicators (KRIs) at risk and sub-risk level that feed into the overall inherent risk rating of a bank. • Controls and oversight functions are rated through banks' responses (and supporting evidence) to a set of questions for each control, and for each oversight function. • Supervisors can exercise supervisory judgment through a prescribed override process where they can override ratings at the indicator, sub-risk, or inherent risk levels. This process entails the consideration of supervisory judgment within individual factors and modules of the RBS model. These overrides go through a governance process and cannot be made by an individual supervisor. Overrides allow Relationship Managers and supervisors to apply a certain level of judgment and discretion in determining the risk profile of supervised entities and are reserved for cases in which, if left unadjusted, the economic substance of the institution will not be accurately reflected. To ensure consistency, overrides must be reviewed by the Head of the Bank Division and subsequently approved by the Head of Banking Supervision before they can be applied. • Outcomes of the risk assessment or risk rating of the banks guide the supervisory actions and measures for the supervised entity. • The systemic importance of individual banks is included in the RBS framework by assessing the impact rating which refers to the systemic relevance of a supervised entity with respect to the total banking system, and the effect that its failure would have on the system. The impact of a supervised entity is assessed in terms of the following dimensions, which follow SAMA's DSIB framework: <ul style="list-style-type: none"> ○ Size: Total exposure (per Basel III leverage ratio), including derivatives exposure and off balance-sheet items. ○ Interconnectedness: Intra-financial system assets and liabilities, Marketable securities. ○ Substitutability: Payments activity. ○ Complexity: Over the counter (OTC) derivatives notional value. • Combination of the risk rating and the impact rating determines the supervisory stance for the bank. • Direction of Risk is assessed for each bank either increasing, decreasing or stable with the help of micro and macro risk indicators for the upcoming 12-month period (please see description and finding under EC2 for more details). |
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| | <ul style="list-style-type: none"> • The supervisory stance and direction of risk for each bank determines the frequency and nature of the onsite inspections and supervisory actions to be undertaken and therefore the allocation of resources. • The result and trend of the risk matrix helps to guide the supervisory strategy, as well as the resources that will be allocated to each bank and the depth and scope of the examinations. <p>Through this continuous supervisory process, supervisors build an understanding about the major issues faced by the entities under their supervision and use this understanding to inform their overall view.</p> <p>The RAM and supervisory processes are largely focused on the consolidated bank,²⁷ either at the global consolidated level or at the domestic consolidated level. As a result, the risk rating and risk profile of the standalone banks are not performed and hence not available. At the same time, the data used for compiling the risk indicators do not cover the whole banking group, but only the group's operations in KSA. The RAM does not include reputation risk and contagion risk. The risk assessments do not incorporate or reflect the complexity of the group structure, the material activities conducted by entities in the wider group, the impact of the risks from the entities in the wider group on the banks' financial position, the group-wide board and senior management oversight, the group risk management, compliance and internal audit frameworks, and the resolvability of banks and the banking groups. The scope of onsite inspections does not include the above elements.</p> <p>Quality assurance is applied to the activities around determination of risk profile of banks and is less evident with reference to the outputs under onsite inspections. Even at the stage of determining the risk profile of banks using the RAM, the rating and inputs pertaining to AML-CTF risk and cybersecurity risks are outside the purview of the quality assurance conducted in BSD. This is because these risks are assessed by two separate departments that are not within GDBC.</p> |
| EC2 | <p>The supervisor has processes to understand the risk profile of banks and banking groups and employs a well defined methodology to establish a forward-looking view of the profile. The nature of the supervisory work on each bank is based on the results of this analysis.</p> |
| Description and findings regarding EC2 | <p>Please see the description and finding under EC1 that provides an overview of the RBS framework, the RAM and the ongoing supervisory processes. As mentioned under EC1, SAMA applies the RBS framework, RAM and RBS supervisory processes at the level of banking groups and does not use these for understanding the risk profile of the solo banks within the groups.</p> <p>Supervisors' determination and understanding of the risk profile of each bank group is supported by a process of continuous monitoring. In addition to continuous monitoring,</p> |

²⁷ Based on the data available with SAMA, banks' group entities collectively account for 3 to 22 percent of the net profits, 1 to 7 percent of total assets and 3 to 18 percent of capital of the respective consolidated banks. In 9 of the 11 banks, at least one of these three parameters is about 10 percent or more, and in two it is 5 to 10 percent. This shows that the group entities of the Saudi banks are not immaterial.

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| | <p>Inspection Division, conducts onsite inspections including targeted inspections, investigations, and thematic inspections. (Please see description and finding under EC1 for details of continuous monitoring). SAMA's onsite inspections are mainly compliance focused and need to migrate to a broader and more qualitative assessment of the bank. Since 2019, SAMA has not conducted full-scope inspection in any bank though at least two banks were placed in "high" supervision stance in each of the past three years (2020 to 2022), one bank was placed in that stance for all three years and one bank was placed in that stance for two of the three years. While the application of a risk-based approach allows prioritization based on the level of risk posed by different aspects of a bank's operations, a thorough onsite examination of all activities at least once in three to five years is necessary to ensure there are no supervisory blind spots.</p> <p>The direction of risk is a component of the RAM that is assessed on an annual basis for each bank. The direction of risk assessment provides an input on the expected future state of the bank's risk profile. Direction of risk is assessed based on micro and macro risk factors. Macro risk factors are characteristics of real economy and micro risk factors are risk attributes at a bank's level. Macro factors include commodity price volatility, in particular, oil price volatility, fluctuations of equity markets, changes in the real estate market supply and demand, interest rates, and inflation or deflation. Micro factors include cultural and behavioral issues relating to the board of directors or senior management of the supervised entity, departure of key individuals (board or senior management), high employee turnover, especially key employees in critical areas such as risk management, information technology, internal audit and finance, vulnerabilities in the supervised entity's information technology architecture, control issues identified by internal or external audit, which if unaddressed, could lead to a material loss, changes in the strategic plan, performance of senior management and the board of directors, planned and future regulation (e.g., future regulation impacting the business model of the supervised entity, or impacting the level of capital required), and the results of internal stress tests conducted by supervised entities.</p> <p>The assessment of Direction of Risk leads to three potential outlooks:</p> <ul style="list-style-type: none"> • Positive: Projections from the assessment of internal and external factors indicate that the supervised entity's final rating will likely improve over the next 12 months. • Negative: Projections from the assessment of internal and external factors indicate that the supervised entity's final rating will likely deteriorate over the next 12 months. • Stable: Projections from the assessment of internal and external factors indicate that the supervised entity's final rating will likely remain unchanged over the next 12 months. <p>The Direction of Risk is used in determining SAMA's supervisory stance for the supervised entity. In addition to the supervisory action required based on the result of the supervisory stance, if the direction of risk is increasing, SAMA will take the following complementary actions.</p> <p><u>Final rating = 1 or 2 and Direction of Risk is increasing</u></p> <ul style="list-style-type: none"> • The Relationship Manager will send a supervisory letter to the supervised entity asking the entity to provide specific commentary on risks of high concern and |
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| | <p>request information on how the supervised entity intends to address those concerns, especially if macroeconomic conditions deteriorate. The Relationship Manager will also request a formal meeting with the supervised entity at the senior management level.</p> <p><i>Final rating = 3 and Direction of Risk is increasing</i></p> <ul style="list-style-type: none"> In addition to the above, the supervised entity will be asked to submit an action plan to address deficiencies. The Relationship Manager, in consultation with the Deputy Governor of Supervision, may also impose additional Supervisory Inquiries or inspections. <p>The direction of risk component influences the intensity of supervision and does not explicitly influence the risk profile or risk rating of banks and banking groups.</p> |
| EC3 | The supervisor assesses banks' and banking groups' compliance with prudential regulations and other legal requirements. |
| Description and findings regarding EC3 | <p>As per regulations, SAMA prudential requirements are to be implemented at both solo and consolidated levels. However, some prudential requirements established by SAMA such as capital adequacy, LCR, NSFR, and leverage are monitored and enforced at a global consolidated basis. These are not monitored and enforced at the level of the standalone bank. The prudential requirements on large exposures, and related party exposures are monitored and enforced at the domestic consolidated level (excludes foreign branches and foreign subsidiaries). These are neither monitored and enforced at the level of the standalone bank nor at the level of the global consolidated bank.</p> <p>Supervisors monitor banks' compliance with prudential regulations and legal requirements through various channels such as, reviewing periodic regulatory returns submitted by banks, quarterly monitoring meeting with the banks, annual Supervisory Visits (SV) to banks, annual review of ICAAP documents, onsite inspections, etc.</p> <p>The review of bank's compliance with the applicable rules and regulations is covered during the onsite inspections, both targeted and thematic inspections. In case of non-compliance with the regulations, supervisory actions may be taken. The scope of onsite inspections is focused on compliance by the bank, and the instances where sanctions have been imposed also pertain to non-compliance in the bank.</p> |
| EC4 | The supervisor takes the macroeconomic environment into account in its risk assessment of banks and banking groups. The supervisor also takes into account cross-sectoral developments, for example in non-bank financial institutions, through frequent contact with their regulators. |
| Description and findings regarding EC4 | Please see description and finding under EC2 for details about the direction of risk component of the RAM and how this informs supervisory actions. As described there, the direction of risk considers both micro and macro risk factors. The macro risk factors that are explicitly considered in this assessment are commodity price volatility, in particular, oil price volatility, fluctuations of equity markets, changes in the real estate market supply and demand, interest rates, and inflation or deflation. However, the direction of risk rating influences the supervisory intensity rather than the risk assessment of the banking group. Further, as mentioned in the description and finding under ECs 1 and 2, the RBS |

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| | <p>framework and RAM are applied in the risk assessment of banking groups, and not for the solo banks within the groups.</p> <p>The NFSC serves as a coordinating committee for assessing risks and vulnerabilities related to financial stability. Please see description and finding under EC1 of CP3 for more details of the main inputs and details exchanged among NFSC members. The inputs or analyses available through the NFSC and FSD inform the supervisors about the macro environment and system level risk factors. These tend to influence the supervisory intensity through the direction of risk component in the RAM.</p> <p>SAMA's MOU with CMA provides for cooperation and collaboration, including exchange of confidential data and information. However, the MOU does not provide for systematic, ongoing, and proactive sharing of data and information on a regular basis that could inform the RAM of individual banks. SAMA is yet to establish MoU with the newly established Insurance Authority. In this background, the risk assessment and RAM are not well informed by developments in the non-bank financial institutions sector.</p> |
| EC5 | <p>The supervisor, in conjunction with other relevant authorities, identifies, monitors and assesses the build-up of risks, trends and concentrations within and across the banking system as a whole. This includes, among other things, banks' problem assets and sources of liquidity (such as domestic and foreign currency funding conditions, and costs). The supervisor incorporates this analysis into its assessment of banks and banking groups and addresses proactively any serious threat to the stability of the banking system. The supervisor communicates any significant trends or emerging risks identified to banks and to other relevant authorities with responsibilities for financial system stability.</p> |
| Description and findings regarding EC5 | <p>FSD uses macro stress testing exercise to assess resilience of the banking system to solvency and liquidity stress. FSD also uses the Aggregate Financial Stability Index (AFSI), which measures the overall stability by aggregating multiple sub-indices covering the developments in the main financial sectors. The AFSI is constructed using, among others, Credit-GDP gap, growth in bank credit, growth in real estate credit, liquidity indicators, reserves-to-external debt ratio, and equity prices. Financial Soundness Indicators are also monitored on a regular basis to capture any signs of accumulation of risk in the banking sector. The findings and concerns arising from the monitoring are communicated to the senior management, primarily through SAMA's Financial Stability Committee, along with recommendations on ways to mitigate risks, using the appropriate macro prudential or micro prudential tools. The AFSI and other analyses are shared with the CMA and the MoF through NFSC. Please also see description and finding under EC1 CP3 for more details of the coordination and collaboration among the members of the NFSC.</p> <p>The BSD offsite function prepares quarterly dashboards that provide insights on the risks within and across the banking system with reference to key prudential indicators and financial ratios relating to capital, liquidity, leverage, asset quality, profitability, efficiency, size, and segment (corporate, retail, treasury, and others). The dashboard presents the indicators and ratios for the system and for each local bank.</p> <p>The macro risk assessments feed into the direction of risk component which informs supervisory intensity. Together with the dashboards and other offsite analyses, it informs</p> |

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| | <p>the focus of supervisory activities, including the areas to be covered during thematic onsite inspections.</p> <p>Sector-wide trends and emerging risks are communicated to banks through SAMA's annual reports, but as these are issued with a long lag the information is dated by the time these are published. Some of the sector level trends and concerns are discussed at the senior management level committees (like the CEO committee and the CRO committee) that include representatives from the banks and corresponding senior-level participation from SAMA.</p> |
| EC6 | <p>Drawing on information provided by the bank and other national supervisors, the supervisor, in conjunction with the resolution authority, assesses the bank's resolvability where appropriate, having regard to the bank's risk profile and systemic importance. When bank-specific barriers to orderly resolution are identified, the supervisor requires, where necessary, banks to adopt appropriate measures, such as changes to business strategies, managerial, operational and ownership structures, and internal procedures. Any such measures take into account their effect on the soundness and stability of ongoing business.</p> |
| Description and findings regarding EC6 | <p>As mentioned in the description and finding under CP1-EC6, the SIFIL, defines the competent authority for resolution of financial institutions as SAMA or the CMA, each with respect to financial institutions falling under its supervision. Article 2 of the SIFIL requires that a financial institution shall be classified as SIFI pursuant to a decision by the competent authority based on criteria set thereby for institutions falling under its supervision, provided such criteria includes the size of the financial institution, interconnectedness, and the complexity of its relations with local and foreign financial institutions, its modus operandi, and associated risks. Accordingly, SAMA will be the sole resolution authority for banks that are designated as SIFIs. SIFIL defines a SIFI as "a financial institution designated by the competent authority as SIFI in accordance with Article 2 of this Law." SAMA is yet to formally designate a bank as a SIFI under the SIFIL. Articles 6 and 7 of SIFIL establish the legal requirements with regards to preparation of recovery plans by the SIFIs, their submission to the competent authority for approval, and the according of approval by the competent authority. These articles also stipulate the broad contents of the recovery plans. Article 6(1) states that the financial institution shall, within 180 days from the date of the request of the competent authority, prepare a recovery plan of the steps and procedures to be taken towards recovering its financial position upon exposure to fundamental changes with a negative impact. Article 6(2) states that if the financial institution is a holding company, it shall prepare a recovery plan for the financial group and a recovery plan for each subsidiary financial institution. The DSIBs have submitted their first recovery plans to SAMA in the first half of 2023, but these have not been processed by SAMA as it is in the process of establishing the SIFI resolution division.</p> <p>Articles 8 and 9 of SIFIL establish the legal requirements with regards to the preparation of resolution plans by the competent authority, their broad contents and submission of these plans to the Council of Economic and Development Affairs for approval. SAMA has yet to prepare a resolution plan for any of the SIFIs.</p> |

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| | <p>The main reason for slow progress in implementing the several key requirements in SIFIL is that the implementing regulations for the SIFIL are yet to be issued.</p> <p>The RAM used by SAMA for ongoing supervision does not include bank's resolvability and barriers to resolution, if any, as risk factors for determining the risk profile or corrective actions.</p> |
| EC7 | <p>The supervisor has a clear framework or process for handling banks in times of stress, such that any decisions to require or undertake recovery or resolution actions are made in a timely manner.</p> |
| Description and findings regarding EC7 | <p>Please see description and finding under EC6. Though the SIFIL was issued on December 10, 2020, the implementing regulations for this law are yet to be issued. SAMA is in the process of establishing a methodology/framework to review and assess the recovery plans received from the SIFIs. It is yet to prepare the resolution plans for any SIFI and establish the framework or process for handling banks in times of stress.</p> <p>Please also see description, finding and assessment/comments under CP11 on the corrective action framework in the KSA.</p> |
| EC8 | <p>Where the supervisor becomes aware of bank-like activities being performed fully or partially outside the regulatory perimeter, the supervisor takes appropriate steps to draw the matter to the attention of the responsible authority. Where the supervisor becomes aware of banks restructuring their activities to avoid the regulatory perimeter, the supervisor takes appropriate steps to address this.</p> |
| Description and findings regarding EC8 | <p>Finance Companies (FC) are non-bank financial institutions (NBFIs) that undertake lending activities and are regulated by SAMA under Finance Companies Control Law and other related regulation. The regulatory and supervisory regime of FCs compared with banks are very different given the different laws that are applicable to each sector and the associated risks. SAMA has issued Deposit Taking Finance Companies Regulations in 2020 which set the minimum requirements for Finance Companies (Non-bank) that intend to carry out the business of taking deposits. However, as of December 31, 2023, no FC has been authorized to accept deposits.</p> <p>Banks and FCs have some interlinkage since FCs use bank credit as a source of funding for their activities. Some Banks do have stakes (or full ownership) at FCs (such as Arab National Bank ownership in Saudi Home Loans, Banque Saudi Fransi ownership in Saudi Fransi Leasing, Alrajhi Bank ownership in Emkan Finance, Saudi Investment Bank ownership in Amex Saudi Arabia and Amlak International). As at end June 2023, FCs held a 1.3 percent market share in financial system assets and 3.1 percent market share in financial system loans.</p> <p>Government Specialized Credit Institutions: These institutions include National Development Fund (NDF) and its affiliates (SIDF, SDB, ADF and REDF Etc.), that are public institutions funded by the government and offer specialized lending to drive the development of specified sectors/economic activity. Such entities are not governed nor supervised by SAMA. Except for the Government Specialized Credit Institutions mentioned above, no other entity can undertake lending activities without obtaining a license from SAMA as per Article 4 of Finance Companies Control Law. However, the</p> |

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| | <p>share of these entities in investment and lending at the system level is significant but are outside the purview of prudential regulation and supervision by SAMA.</p> <p>When SAMA becomes aware of bank-like activities being performed by other entities that are fully or partially outside the regulatory perimeter or becomes aware of banks restructuring their activities to avoid the regulatory perimeter, SAMA can engage with the relevant market players to make an assessment of such activity, verify compliance with legal provisions, cooperate and coordinate with CMA or other regulators and law enforcement agencies before deciding on enforcement actions and penalty or sanctions.</p> |
| Assessment of Principle 8 | Materially non-compliant. |
| Comments | <p>SAMA is adopting a risk-based approach to banking supervision that includes risk profiling of banking groups, updates these at least annually, uses systemic importance in combination with risk profile to determine supervisory stance, and adopts a forward-looking approach that informs supervisory intensity and helps determine allocation of resources. The supervisory approach includes interaction between offsite and onsite functions, at all stages of the supervisory cycle, and is informed by system-level analyses of risks and vulnerabilities, including from macroeconomic risks. The supervisory framework includes a corrective action and sanctions component.</p> <p>At the same time, there are several areas where the risk assessment methodology and supervisory approach fall short of the requirements in this CP. Among others, these include the following:</p> <ul style="list-style-type: none"> • The methodology used to risk profile licensed banks does not: (i) generate the risk profile of the bank or the banking group, it focuses on the bank's domestic consolidation (excludes business and exposures in foreign branches and foreign entities); (ii) consider reputation risk and contagion risk, and cross-sectoral developments; and (iii) establish a forward-looking view of the risk profile. • Supervision is not focused adequately on the solo bank having regard to the materiality of the group entities. Prudential requirements are not established, monitored, and enforced for the solo banks. Periodic reporting by banks at the level of solo bank is not adequate to determine risk profiles, monitor and enforce prudential requirements, and to facilitate resolution planning. • Resolvability assessments have not been undertaken and barriers to resolution, if any, are not identified and do not feed into risk profile assessments and corrective actions. • Crisis preparedness, crisis management, recovery, and resolution plans are yet to be established in partnership with other relevant authorities to be able to resolve banks and banking crisis in an orderly manner, where this becomes necessary. • While adopting a risk-based approach to supervision, full scope inspections are not considered even for banks that have been placed on high supervisory stance for several years. • Supervisors do not engage formally with the banks' board of directors, the non-executive or independent board members in the context of individual bank's |

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| | <p>supervisory examinations, external audits, and to challenge them on board strategy and business models.</p> <ul style="list-style-type: none"> • SAMA's onsite inspections are mainly compliance focused and need to migrate to a broader and more qualitative assessment of the bank. • Quality control framework is not applied to all components of the RAM and to the supervisory outputs. <p>The gaps that pertain to supervisory methodology for assessing risks and risk profiling, prudential framework for solo banks, supervision of solo banks, and recovery and resolution of solo banks have been considered for grading the level of compliance in this CP and for framing the related recommendations.</p> <p>In addition to the above, the gaps observed under CP 9 (Supervisory techniques and tools) that pertain to supervision methodology and approach, and CP 12 (Consolidated Supervision) that pertain to supervision of each bank within the group on a standalone basis, including reputation and contagion risks, have been considered for grading the level of compliance in this CP and for framing the related recommendations.</p> <p>The gaps that pertain to risk profiling of banking groups, prudential framework for banking groups, supervision of banking groups, and recovery and resolution of banking groups have been considered for grading the level of compliance in CP 12 (Consolidated Supervision) and for framing the related recommendations.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Review and revise supervisory approach and methodology to include: <ul style="list-style-type: none"> ○ Assessment of the risk profile of the solo bank distinctly on an on-going basis. ○ Contagion risk and reputation risk in the supervisory rating/risk profile methodology. ○ Establish a forward-looking view of bank risk profiles by including macroeconomic environment and cross sectoral developments in determining risk profile of banks, rather than in determining supervisory intensity. ○ Resolvability assessment of banks barriers to resolution, if any. ○ Full-scope inspection of all banks at least once in a certain number of years (for example, three to five years) to avoid supervisory blind spots. • Engage with banks' board of directors and separately with the non-executive or independent board members on strategies, business models, supervisory findings, recurring and outstanding action points, and external audits. • Modify onsite inspections methodology to migrate to a broader and more qualitative assessment of the bank, and away from a compliance focus. • Establish, monitor, assess and enforce prudential requirements for solo bank distinctly. • Address periodic reporting gaps for solo banks. • Establish, in partnership with other relevant authorities, the framework and process for handling banks in times of stress, including timely recovery or resolution actions. • Strengthen the quality control framework to apply to all components of the RAM and to the supervisory outputs. |
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| Principle 9 | Supervisory techniques and tools. The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks. |
| Essential Criteria | |
| EC1 | The supervisor employs an appropriate mix of on-site ²⁸ and off-site ²⁹ supervision to evaluate the condition of banks and banking groups, their risk profile, internal control environment and the corrective measures necessary to address supervisory concerns. The specific mix between on-site and off-site supervision may be determined by the particular conditions and circumstances of the country and the bank. The supervisor regularly assesses the quality, effectiveness and integration of its on-site and off-site functions, and amends its approach, as needed. |
| Description and findings regarding EC1 | <p>Offsite monitoring is performed by the Banking Supervision Divisions (BS Division) and the onsite activities are performed by the Banking Inspection Division (BI Division) within the Banking Supervision Department. The supervisory cycle of off-site monitoring and onsite inspection is explained in the RBS Framework Policy Document.</p> <p>The BS division prepares the risk rating of each banking group by performing the risk assessment of banking groups based on offsite reports, data and information, plans and conducts Supervisory Review Visits (SRVs), conducts quarterly monitoring meetings (QMM), Internal Capital Adequacy Assessment Process (ICAAP) meetings, Internal Liquidity Adequacy Assessment Process (ILAAP) meetings and other activities of offsite supervision. The risk rating of banking groups is based on a risk matrix that includes inherent risk assessment of nine key risks, evaluation of risk level and entity level internal controls, and analysis of qualitative and quantitative risk drivers. All these supervisory activities inform and determine the risk profile of each banking group. Please see description and finding under CP 8 for more details of the offsite processes that lead to the determination of risk profile of each banking group.</p> <p>The supervisory stance and direction of risk determine the volume and scope of inspections and supervisory actions. Based on these, planning for targeted inspections and thematic inspections is carried out. BI Division conducts inspection as planned and issues the inspection reports to the banks. Where the BI division is unable to fulfil the plan, the changes to the plan with the reasons therefor are submitted to the Deputy Governor for approval.</p> <p>After issuing inspection reports and letters based on other supervisory activities, a structured follow up process is carried out by the BI division to ensure implementation of</p> |

²⁸ On-site work is used as a tool to provide independent verification that adequate policies, procedures and controls exist at banks, determine that information reported by banks is reliable, obtain additional information on the bank and its related companies needed for the assessment of the condition of the bank, monitor the bank's follow-up on supervisory concerns, etc.

²⁹ Off-site work is used as a tool to regularly review and analyze the financial condition of banks, follow up on matters requiring further attention, identify and evaluate developing risks and help identify the priorities, scope of further off-site and on-site work, etc.

the post inspection action plans by the bank. The BS division also picks up the results of the inspections and incorporates these into the updated risk profile of each banking group.

The stages in the supervisory processes are presented in the table below:

| Table 1. Stages in the Supervisory Process | | | | | |
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| Continuous Monitoring →→ | | Supervisory Planning →→ | Inspection Planning →→ | Performing Inspections →→ | Reporting Inspection Findings |
| Process data into Risk Matrix | Write Management Letter | Schedule supervisory activities (each entity) | Translate Supervisory Plan to Inspection Plans | Execute inspection | Report inspection findings |
| Conduct ICAAP assessment | Communicate findings | Consolidate Supervisory Plans | | | Thematic: Post-inspection activities |
| Analyze changes in ratings and indicators | Conduct the quarterly monitoring meeting | Review and approve Supervisory Plan | | | |
| Perform rating overrides | Interface between Supervisors and Enforcement | Plan for thematic inspections | | | |
| Assign Direction of Risk | Convene Supervisory Steering Committee | | | | |
| Update Risk Profile | | | | | |
| Review Risk Profile | | | | | |

Framework Oversight Section (FOS) is an independent section in BSD that does not conduct direct supervisory activities such as inspection or off-site supervision but has quality control responsibility across BSD. FOS is responsible for quality assurance to ensure consistent application of the RBS Framework across relevant teams (e.g., supervisors, inspectors, etc.). Its approach consists principally of reviewing a sample of individual bank risk rating/risk profiles and other reports (e.g., inspection reports), assessing consistency and compliance of the supervisory process followed by the supervisors and inspectors while conducting supervisory activities including assessment of adherence to the RBS principles, and review of supervisory processes followed to ensure compliance with the procedure manual. FOS responsibilities include coordination of the meetings to approve the final ratings. FOS role is to communicate their findings to the supervisory teams and attend those meetings as observers to ensure adequacy and consistency of final ratings and recommendations.

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| | <p>While the mix of offsite and onsite activities is broadly balanced, and FOS provides quality assurance for individual bank ratings and recommendations, and compliance with the RBS procedures manual, SAMA does not have an arrangement for regular independent assessment of the quality, effectiveness, and integration of its on-site and off-site functions.</p> |
| EC2 | <p>The supervisor has a coherent process for planning and executing on-site and off-site activities. There are policies and processes to ensure that such activities are conducted on a thorough and consistent basis with clear responsibilities, objectives and outputs, and that there is effective coordination and information sharing between the on-site and off-site functions.</p> |
| Description and findings regarding EC2 | <p>The BSD follows Risk-Based Supervision Framework Policy and Procedure Manuals that govern the process for planning and executing on-site and off-site activities. On-site and off-site functions share information during planning and execution of the supervisory activities, and finalization of reports, as laid down in the Banking Supervision Procedure Manual (April 2021).</p> <p>Supervisory Planning is an annual process to establish the schedule and scope of inspections for supervised entities over the next year. Below are the key activities:</p> <p>Scheduling of activities: This establishes the calendar of inspections for each supervised entity for the next 12 months based on the supervisory stance. The four supervisory stances are low supervision, medium-low supervision, medium-high supervision, and high supervision. The supervisory stance dictates the minimum number of targeted inspections, supervisory meetings with the bank's senior management and other supervisory actions. During the past five years (July to June of 2019 to 2023), SAMA conducted targeted onsite inspections in six, eight, nine, nine and ten banks respectively. During the period of July 2022 to September 2023, SAMA conducted targeted onsite inspections that covered corporate loan portfolios, personal loans, internal audit function, and compliance functions. During the same period, SAMA conducted thematic inspections of home supervision and dormant accounts,</p> <p>For banks with high supervision stance, full-scope inspection targeting several areas can be executed on an exceptional basis with approval from the General Director of Banking Control. Since 2019, SAMA has not conducted full-scope inspection in any bank though at least two banks were placed in "high" supervision stance in each of the past three years. (Please see description and finding under EC2, CP8 for details). While the application of a risk-based approach allows prioritization based on the level of risk posed by different aspects of a bank's operations, a thorough onsite examination of all activities at least once in three to five years is necessary to ensure there are no supervisory blind spots.</p> <p>Defining the scope of each activity: Once the scheduling is completed, the supervisory team defines the assessment scope for inspection. Key inputs into this process are:</p> <ul style="list-style-type: none"> • Risk assessment and risk profile to identify areas of focus for inspections. • Material areas of risk that were not covered in the prior year and that will be considered as priority for review in the current year. |

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| | <ul style="list-style-type: none"> • Previous inspection reports and corrective action plans to ensure that planned inspections include checks of previously identified issues. • Inputs from other departments with SAMA. <p>On-site inspections are planned based on the risk profile of each bank. When inspection reports are prepared, they are reviewed by offsite teams, and the results and finding from inspection reports are incorporated into the risk profile of the banks. The topics selected for targeted inspection along with the scope are shared with inspection (onsite) teams to seek their feedback and to plan resource requirements. Offsite teams also liaise with onsite inspection teams while reviewing the risk assessment and risk profile for individual banks to identify areas of focus for inspections, and to identify the material areas of risk that were not covered in the prior year and that could be considered a priority for review in the current year.</p> <p>There would be merit in reviewing the focus of on-site inspections. Currently, these are a thorough and useful check on banks' compliance with SAMA's and their own internal policies. This approach could be enriched by holding meetings with senior management and relevant Board members and tilting towards a broader and more qualitative assessment of the bank and its risk culture.</p> <p>Determining human resource requirements: The Supervisory teams discuss the scope of requirements with the inspection team who then determine resourcing needs from each of the following three areas: BSD supervisors and inspectors, SAMA specialists, and external resources (e.g., audit firm resources, IT auditors, experts, etc.)</p> <p>Thematic inspection planning: In addition to the core supervisory plan covering targeted inspections derived from the risk assessment, the inspection team prepares or updates the thematic inspection plan and invites input from several individuals/departments on thematic inspection topics. These include, among others, BS Division, supervisory teams, specialists, advisors, data team, FOS, Enforcement Department, Consumer Protection Department, Policy Department, Licensing Division, AML Department, and FSD.</p> <p>Developing a consolidated supervisory plan: The last activity in supervisory planning is to consolidate the individual supervisory plans. The Supervisory Steering Committee (SSC) approves and signs-off the consolidated supervisory plan. SSC considers the following factors in reviewing and approving the consolidated supervisory plan:</p> <ul style="list-style-type: none"> • Review and approve scheduled activities and their scope (risks and control areas) for each supervised entity. • Discuss any supervisory benchmarking activities to be completed for the sector (e.g., as part of thematic reviews). • Finalize the allocation of resources across the planned activities. • Resolve resource and timing conflicts, allocating resources based on the urgency of the need for inspection. |
| EC3 | <p>The supervisor uses a variety of information to regularly review and assess the safety and soundness of banks, the evaluation of material risks, and the identification of necessary corrective actions and supervisory actions. This includes information, such as prudential reports, statistical returns, information on a bank's related entities, and publicly available</p> |

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| | information. The supervisor determines that information provided by banks is reliable, ³⁰ and obtains, as necessary, additional information on the banks and their related entities. |
| Description and findings regarding EC3 | <p>SAMA uses a variety of information to review and assess the safety and soundness of banks that includes but not limited to periodic prudential and statistical returns submitted to SAMA at weekly, monthly, quarterly, semiannual, and annual basis (such as Basel III and risk assessment returns), ICAAP and ILAAP documents, supervisory review visit presentation, and Quarterly Monitoring Meeting. Supervisors also use as a reference the quarterly financial statements which are jointly reviewed by two firms (from the big four auditing firms).</p> <p>Banks submit data through SAMA's Returns Management System (RMS) which uses more than 450 validation rules to spot any data quality issues in banks' regular submission of returns. Once data in RMS is approved after passing through automated validations, the supervisory returns data is extracted to SAP BI where the database and reports (Global folder) are immediately updated. The RMS also has a risk framework engine that is used for monitoring KRIs in banks. For quarterly assessment of banking groups, supervisors also use a validation tool prepared specifically to test the accuracy of data used for the purpose of the qualitative assessment (KRIs) of individual banking groups.</p> <p>RMS and SAP BI allow and support the analysis needed for banking supervision including prudential, statistical, and financial data received from banks. Users can refresh reports generated in SAP BI to view any additional data loaded to RMS by banks. The RMS system also has early warning ratios that detects breaches. SAP BI reports also support review of data between reporting periods.</p> <p>SAP database allows BSD team members to generate customized reports to support analyses. Standard SAP BI reports are also available to BSD team members that allow for selection of, for example, single or multiple reporting periods, single or multiple data points, single or multiple banks, and reporting levels.</p> <p>Dashboards have also been developed in SAP for SAMA management's use. Senior management receive standardized reports at different frequencies (weekly, monthly, quarterly, etc.), which include and reflect financials that are received from the banking sector. Among others, the reports to SAMA senior management include banking sector deposits by type and sectors, banking sector consumer loans, banking sector financial results, and credit facilities by economic activity.</p> <p>Supervisors determine the individual bank's risk rating and risk profile as explained in the description and finding under CP8. The periodic inherent risk assessment is conducted for local banking groups on quarterly basis and for foreign bank branches on a semi-annual basis.</p> <p>Please see description under EC2, which provides details of how the supervisory stance determines the scope, depth and frequency of inspections, and the other supervisory processes that are followed to assess the risk profile of banks, to identify the areas that</p> |

³⁰ Please refer to Principle 10.

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| | <p>may need improvement in the banks, and the action plans to be pursued by the banks to achieve the recommended improvements.</p> <p>As mentioned in the description and finding under CP12, the RBS framework and RAM do not include assessment of risks arising from the individual entities within the banking group and the entities in the wider group.</p> |
| EC4 | <p>The supervisor uses a variety of tools to regularly review and assess the safety and soundness of banks and the banking system, such as:</p> <ul style="list-style-type: none"> (a) analysis of financial statements and accounts; (b) business model analysis; (c) horizontal peer reviews; (d) review of the outcome of stress tests undertaken by the bank; I (e) analysis of corporate governance, including risk management and internal control systems. <p>The supervisor communicates its findings to the bank as appropriate and requires the bank to take action to mitigate any particular vulnerabilities that have the potential to affect its safety and soundness. The supervisor uses its analysis to determine follow-up work required, if any.</p> |
| Description and findings regarding EC4 | <p>Please see description and finding under EC1, 2, and 3, that describes how supervisors periodically assess the safety and soundness of banks through offsite and onsite tools, which includes, among others, analysis of financial statements, periodic offsite reporting, ICAAP and ILAAP documents, supervisory review visits, Quarterly Monitoring Meeting, and onsite inspections (thematic, and targeted). The offsite and onsite supervisory processes include assessment of inherent risk, risk controls, corporate governance, board and senior management oversight, internal control, risk management, compliance, and internal audit. The description above also provides details of supervisory communication to the bank on the inspection finding, recommended action plans and follow-up of the implementation of the agreed action plans.</p> <p>On annual basis, the BSD, along with representatives from various other SAMA departments meet with banks' senior managements to discuss high-level matters including their business strategies, risk management frameworks, stress testing results as well as ICAAP and ILAAP documents. Once these meetings are completed, BSD shares with the bank CEOs letters containing key high-level observations.</p> <p>Within SAMA's continuous supervisory process, supervisors build an understanding about the major issues faced by the entities under their supervision, and use this understanding to inform their overall view when reviewing a supervised entity's risk profile, major activities, strategic direction etc. Details of continuous monitoring are described under CP8.</p> <p>During the annual SRV and ICAAP discussions the bank's strategy and business plans are discussed with the bank's top management and key issues, if any, are flagged for the bank management's attention. Supervisors have not undertaken documented business</p> |

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| | <p>model analyses of banks during the past five years. The thematic inspections undertaken by SAMA during this period also do not include business model analyses.</p> <p>SAMA's stress testing rules (November 2011) requires all domestic banks and foreign bank branches whose market share in total assets is more than 0.5 percent to undertake their own stress tests on a regular basis (bottom-up stress tests) considering the bank's nature, size, and complexity of their business and risk profile. Banks may include their subsidiaries and associates in the scope of stress tests conducted by them if the risks faced by such subsidiaries/associates are material and have bearing on the solvency of the bank. Foreign bank branches may apply these rules with such modifications as may be considered expedient keeping in view the size and complexity of their business activities.</p> <p>Banks are required to conduct stress testing of their portfolio on regular basis at the end of every calendar half-year and report the results thereof to SAMA in the specified manner. Banks are expected to draw a list of the major risk factors that need to be stressed after careful analysis and studying the inter-relationship of various risks to which their business is exposed to. Banks are required to apply three levels of shocks (mild, moderate, and severe) to each of the identified risk factors for the stress testing and conduct reverse stress testing as well. Banks are required to measure the impact of the stress tests on the following indicators: (i) assets quality—increase or decrease in classified assets particularly loans and the infection ratio thereof (i.e., classified assets to total assets and classified loans to total loans); (ii) profitability—increase or decrease in the accounting profit or loss; (iii) capital adequacy—measured in terms of the changes in total amount of capital and the capital adequacy ratio; and (iv) liquidity position—measured in terms of changes in key liquidity indicators and any funding gaps.</p> <p>Supervisors discuss the results of banks' stress testing during the annual ICAAP and ILAAP discussions.</p> |
| EC5 | <p>The supervisor, in conjunction with other relevant authorities, seeks to identify, assess and mitigate any emerging risks across banks and to the banking system as a whole, potentially including conducting supervisory stress tests (on individual banks or system-wide). The supervisor communicates its findings as appropriate to either banks or the industry and requires banks to take action to mitigate any particular vulnerabilities that have the potential to affect the stability of the banking system, where appropriate. The supervisor uses its analysis to determine follow-up work required, if any.</p> |
| Description and findings regarding EC5 | <p>SAMA monitors risk accumulation in the system using the macro stress testing exercise, the Aggregate Financial Stability Index (AFSI), Financial Soundness Indicators (FSI), and the semi-annual assessment of vulnerabilities in the system. SAMA currently conducts the macroprudential stress tests at annual intervals. The AFSI measures the overall stability by aggregating multiple sub-indices covering the developments in the main financial sectors. The AFSI comprises a set of indicators that include, for instance, credit-GDP gap, growth in bank credit, growth in real estate credit, liquidity indicators, and reserves-to-external debt ratio, and equity prices. Financial Soundness Indicators (FSI) are also monitored on a regular basis to capture any signs of accumulation of risk in the banking sector.</p> |

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| | <p>FSD conducts semi-annual assessment of vulnerabilities in the system in the context of its participation in the Financial Stability Board's (FSB) Standing Committee on Assessment of Vulnerabilities.</p> <p>The findings and concerns arising from the above monitoring are communicated to SAMA's senior management, primarily through the Financial Stability Committee with recommendations, as relevant, on ways to mitigate risks, using the appropriate macro prudential and/or micro prudential tools.</p> <p>The Financial Stability Committee, chaired by the Governor, with the attendance of all relevant departments including members from Supervision deputyship meets on a quarterly basis. The FSC discussions consists of two main areas:</p> <ul style="list-style-type: none"> • Periodic Assessment: This covers the internal financial stability index, as well as an update of the major developments in the global and domestic economies, financial system (banks, insurance companies, finance companies, and capital market), and emerging risks (climate change, and technological developments). • Featured Assessment: This covers impact assessments, risks analysis, and studies on an ad-hoc basis targeting one issue either based on previous guidance or the FSD decides on the need to discuss and investigate. <p>SAMA uses its Financial Stability Reports (FSRs) to share its assessment of the stability and vulnerabilities in the financial system. The FSRs published in 2022 and 2023, presented a rather benign assessment of the financial sector in general and the banking sector. These reports did not flag any specific vulnerabilities in the banking sector but flagged a few in the broader financial sector context.</p> <ul style="list-style-type: none"> • The 2022 report flagged the following risk: Emerging vulnerabilities stemming from financial innovation risks present their own challenges to the stability of the financial system. • The 2023 report flagged the following risks: <ul style="list-style-type: none"> ○ The new potential risks faced by fintech companies may affect the financial system's integrity. ○ Third-party providers pose concentration risks that may become systemic. ○ Cyber fraud threats continue to grow in complexity and sophistication. <p>Please also see description and finding under EC5 CP8 for more details of SAMA's assessment of system-wide risks, sharing the finding with banks and their use in supervision of individual banks and the banking system.</p> |
| EC6 | The supervisor evaluates the work of the bank's internal audit function, and determines whether, and to what extent, it may rely on the internal auditors' work to identify areas of potential risk. |
| Description and findings regarding EC6 | <p>SAMA has issued a regulation in December 2021 on internal audit in banks (titled Principles of internal auditing for local banks operating in the Kingdom of Saudi Arabia) that lays down the minimum requirements and supervisory expectations for banks' guidance and compliance. These principles are intended to ensure the effective functioning and performance of the internal audit function in banks.</p> <p>The RBS framework implemented by SAMA includes qualitative assessment and rating of controls and oversight functions through questions for each control area at the entity</p> |

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| | <p>level, one of which is the internal audit function. Supervisors assess banks' internal audit through the continuous monitoring and onsite inspection tools. The qualitative offsite assessment is guided by a "Non-Credit Control Assessment Questionnaire" supplemented by supervisory judgement that is informed by the continuous monitoring. Review of the oversight functions includes evaluating their mandates, responsibilities, organizational structures, independence, reports, policies and processes, their competence, and their skill level. Further, in the assessment of the Direction of Risk, the internal audit function is one of the micro factors that is considered. Based on the ongoing assessment and the supervisory stance, targeted inspection of the internal audit department could be included in the supervisory plan.</p> <p>The review of audit function of the banks can also be undertaken during the onsite inspections. The frequency of review of internal audit function is determined in the annual inspection plan. The reviews either cover the entire internal audit function or the audit coverage related to a particular area, depending on scope of the inspection. While carrying out inspection of any area in the banks, the role and effectiveness of the internal audit function pertaining to that area is also assessed in that inspection. Though the inspection teams use SAMA's internal risk profiling as main source document for defining scope of the inspection, major findings of the internal audit reports are also used as an important input for the inspection work scope/program.</p> <p>SAMA relies on banks' internal audit functions to conduct self-assessments as a part of its thematic inspection plan. In such instances, SAMA conducts inspection on three selected banks based on a set of criteria and shares the common observations and work programs with internal audit departments in the remaining banks requesting them to conduct a self-assessment in the identified areas and share their finding and corrective action plans for SAMA's review and approval.</p> |
| EC7 | <p>The supervisor maintains sufficiently frequent contacts as appropriate with the bank's Board, non-executive Board members and senior and middle management (including heads of individual business units and control functions) to develop an understanding of and assess matters such as strategy, group structure, corporate governance, performance, capital adequacy, liquidity, asset quality, risk management systems and internal controls. Where necessary, the supervisor challenges the bank's Board and senior management on the assumptions made in setting strategies and business models.</p> |
| Description and findings regarding EC7 | <p>SAMA meets with banks' senior management on different occasions throughout the year as mentioned below:</p> <ul style="list-style-type: none"> • Supervisory Review Visit (SRV): The SRV includes discussion of the bank's overall strategy, risk management framework, control functions performance and findings, business developments and plans. These meetings are attended by the banks' senior executives that includes but not limited to CEO, CRO, CFO, Head of Retail, Head of Corporate, Treasurers, Head of Compliance, and Head of Internal Audit. • ICAAP and ILAAP discussion: SAMA meets with each bank at least once annually to discuss the banks' ICAAP and ILAAP reports. These meetings are attended by senior executives and middle management that includes but not limited to CRO, CFO, Treasurers, Head of Compliance, and Head of Internal Audit. |

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| | <ul style="list-style-type: none"> • Regular meetings by Supervisory Teams: These are meeting that are conducted throughout the year mostly with control function department, namely, compliance, internal audit and risk departments, to discuss latest developments and to follow up on progress of corrective actions outstanding (if any). • Chairmen’s Meetings: SAMA top management (led by Governor, Vice Governor, and Deputy Governor of Supervision) meets with bank Chairmen collectively on a quarterly basis. • CEOs Meetings: SAMA’s top management (Led by Deputy Governor of Supervision, GM of Banking Control) meets with banks CEOs collectively on a quarterly basis. <p>In addition, SAMA representatives attend specialized sectoral committees in different areas that include banks’ Chief Financial Officer (CFO), Chief Risk Officer (CRO), human resources (HR) and treasurers’ committees to discuss related developments and events concerning each function.</p> <p>Depending on the meeting the following subjects are covered, bank’s strategic plan, financial performance, risk management, ICAAP process and Governance Framework, implementation of BASEL III reforms and any challenges, capital availability vs capital requirements, Pillar II—explanation of methodology and outputs, and stress testing. For the ILAAP meeting, the topics covered include strategy and financial projections, governance and control environment, liquidity adequacy and funding strategy, risk management, stress testing and Contingency Funding Plan (CFP), and recent regulatory developments and challenges.</p> <p>Those meetings provide supervisors with inputs and insights that informs the banking supervision cycle as it provides clarity of the bank strategic direction, recent developments, and areas of concerns. Banks’ strategic plans, capital and liquidity planning are discussed during the SRV meeting and ICAAP/ILAAP meetings and SAMA observations and concerns, if any, are shared in an official letter after the meeting requesting the bank to prepare action plans for implementing the suggested remedies. Means of communications include but not limited to official letters, emails, phone conferences, meetings (in-person/virtual), inspection visits.</p> <p>SAMA supervisors and management do not engage with the banks’ board of directors or the non-executive board members in the context of individual bank’s supervisory concerns. The quarterly meetings with the chairmen and CEOs of banks are collective meetings and hence are not a forum where bank specific supervisory issues or concerns could be discussed.</p> |
| EC8 | <p>The supervisor communicates to the bank the findings of its on- and off-site supervisory analyses in a timely manner by means of written reports or through discussions or meetings with the bank’s management. The supervisor meets with the bank’s senior management and the Board to discuss the results of supervisory examinations and the external audits, as appropriate. The supervisor also meets separately with the bank’s independent Board members, as necessary.</p> |
| Description and findings regarding EC8 | <p>The continuous monitoring consists of ongoing risk assessment which involves interactions with the supervised entity during quarterly monitoring meetings, and supervisory inquiries. During the continuous monitoring, supervisors review, among</p> |

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| | <p>others, banks' risk appetite framework, early warning indicators and escalation processes, which would normally enable the bank to take early actions.</p> <p>BSD holds QMMs with the bank managements once each calendar quarter. QMMs occur after quarterly updates to the risk profile of each bank. The Relationship Manager (RM) conducts the QMM at the supervised entity with the CEO and other relevant employees who are deemed most able to adequately discuss and address SAMA's supervisory concerns. QMMs are designed to be dynamic and as such the list of attendees from the supervised entity will vary from meeting to meeting. The RM also uses the QMM as an opportunity to gather status updates on outstanding action items from previous inspections or supervisory actions.</p> <p>As per SAMA's Risk Based Supervision Policy Document, the risk assessment and risk profile for each bank are updated once a year. The key findings of the risk assessment are communicated to the supervised entity through a management letter which is addressed to the CEO.</p> <p>Supervisors assess systems and controls at the banks in various areas during the onsite inspections. During the fieldwork, the draft inspection findings are shared with the banks. After receiving the bank's responses, the pre-closing meetings are arranged by the inspection team with the banks to discuss any remaining issues where there may be differences and to ensure factual accuracy. At the end of the fieldwork, a closing meeting is held with the bank's senior management, which is also attended by the senior management from SAMA's Inspection Division, wherein key inspection findings are discussed. Subsequently, the inspection team prepares the inspection report and submits it to SAMA management for internal review and approval. Once the report is approved by SAMA senior management, the same is sent to the banks advising them to submit time bound action plans to rectify the issues. The banks are advised to share the inspection report at the Board/Board committee level.</p> <p>While SAMA adopts a structured approach to communicating its findings to the senior management in banks, supervisors do not meet with the board to discuss the results of supervisory examinations and external audits. Supervisors also do not meet or communicate with independent members on the banks' boards.</p> |
| EC9 | <p>The supervisor undertakes appropriate and timely follow-up to check that banks have addressed supervisory concerns or implemented requirements communicated to them. This includes early escalation to the appropriate level of the supervisory authority and to the bank's Board if action points are not addressed in an adequate or timely manner.</p> |
| Description and findings regarding EC9 | <p>After the key gaps have been identified through the onsite inspection activities, the supervised entity submits an action plan to mitigate these gaps. Every action plan includes the topic of the action plan, the key steps to be implemented by the supervised entity as well as the timeframe to implement the action plan. When a bank reports full implementation of the planned actions, the supervision team goes onsite to verify implementation.</p> <p>The Head of the Bank Division monitors the inventory of action plans that are due to be implemented for all supervised entities in the respective Bank Divisions. At the same time, the RMs, as the key persons managing the supervision of the supervised entity, is</p> |

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| | <p>responsible for knowing the status of action plans for their respective supervised entities. After receiving the pending action plan from the Head of the Bank Division, the RM contacts the senior management of the supervised entity to set a deadline for receiving an update on the outstanding action items. The supervised entity is expected to proactively return to the RM within the agreed to deadline. Where this does not occur, remedial actions including a face-to-face supervisory inquiry meeting may be convened. Banks' internal auditors are also required to monitor compliance with SAMA action plans and periodically report the status to SAMA. When action plans have been implemented, internal auditors verify implementation before reporting full implementation to SAMA. When supervisors receive from the supervised entity a confirmation letter that the actions in the action plans were successfully completed, they visit the supervised entity and conduct a check to confirm whether the action plan was implemented or is being implemented. Follow up visits are carried out to assess correctness of the actions taken/reported by the banks.</p> <p>If the confirmation letter is not received from the supervised entity or if the supervisor is unable to verify the implementation of the action plan, the supervised entity is considered not to have implemented the action plan and the RM initiates additional actions. The issues are escalated to the higher levels in the SAMA, including the Enforcement department. These may also be escalated to the banks' senior management if circumstances warrant.</p> |
| EC10 | <p>The supervisor requires banks to notify it in advance of any substantive changes in their activities, structure and overall condition, or as soon as they become aware of any material adverse developments, including breach of legal or prudential requirements.</p> |
| <p>Description and findings regarding EC10</p> | <p>Laws and regulations require banks to notify or report to SAMA in the following circumstances:</p> <ul style="list-style-type: none"> • Breaches to large exposure limits (para 4.3 of large exposure rules for banks, August 2019). • Disruptive incidents classified as "Medium" or "High" (Business Continuity Management Framework, February 2017)—immediately on occurrence, and post-incident report after the resumption of normal operations. • Cybersecurity incidents classified as medium or high security incidents (Cyber Security Framework, May 2017)—immediately when it has occurred and identified, and a formal incident report after resuming operations. • IT incidents (IT Governance Framework, November 2021): <ul style="list-style-type: none"> ○ 'Medium' or above classified IT incident that have impact on customers—immediately upon identification. ○ Disruption and slowness in the critical operations and/or other application(s) impacting customers—immediately upon identification, ○ All incidents—before disclosing any information about the incident to the media. ○ All incidents—a detail incident report within five days. • Frauds (Counter Frauds Framework, October 2022)—immediately notify SAMA of new fraud typologies and significant fraud incidents to mitigate the risk of the fraud |

impacting additional customers, other organizations, or the financial sector in the KSA. These include the following:

- Any new fraudulent typology whether it resulted in financial loss or not (e.g., type of fraud not previously observed or new scam attempt detected).
- Where an external person has committed or attempted to commit a significant fraud against the bank.
- Where an employee of a bank has committed a significant internal fraud against one of its customers or may be guilty of serious misconduct concerning honesty or integrity related to the bank's regulatory obligations.
- Where Wholesale Payment Endpoint Security Fraud is suspected or identified.
- Where a significant irregularity is identified in the bank's accounting records that may be indicative of fraud.
- Fitness and propriety developments (Requirements for Appointments to Senior Positions, September 2019).
 - Banks shall periodically, and at least annually, assess the fitness and propriety of the Senior Position holders. In the event of such assessments leading to any information or findings that may materially compromise the fitness and propriety of the candidates, the bank shall immediately report such information and findings.
 - Banks shall notify when the person appointed commence his/her work, when resignation is accepted, when position holder leaves work and when employment is terminated for whatever reason, within five business days from the date of such events.

In a letter dated February 19, 2011, SAMA advised all Managing Directors and General Managers in banks to notify SAMA immediately if the banks become aware, or have information which reasonably suggests, that any of the following has occurred, may have occurred, or may occur in the foreseeable future:

- The bank failing to satisfy one or more of its license conditions.
- Any matter which could have a significant adverse impact on the bank's reputation.
- Any matter which could affect the bank's ability to continue to provide adequate services to its customers and which could result in serious detriment to a customer of the bank.
- Any matter in respect of the bank which could result in serious financial consequences to the financial system or to other banks.
- Any breach of Rules and or Regulations by the bank.
- Any civil or criminal proceedings are brought against the bank and the amount of claim is significant in relation to the bank's financial resources and or its reputation.
- Any disciplinary measures and or sanctions have been imposed on the bank by any statutory or regulatory body both inside and or outside the KSA.
- Any event which has or may have a significant impact on the bank's financial condition and or ability to provide services to its customers.

Regulations can be expanded to explicitly require banks to notify SAMA in advance of any substantive changes in their activities, structure, and overall condition.

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| EC11 | The supervisor may make use of independent third parties, such as auditors, provided there is a clear and detailed mandate for the work. However, the supervisor cannot outsource its prudential responsibilities to third parties. When using third parties, the supervisor assesses whether the output can be relied upon to the degree intended and takes into consideration the biases that may influence third parties. |
| Description and findings regarding EC11 | <p>SAMA can engage consultants (third parties/firms) to achieve its objectives and duties, including undertake inspections of banks by virtue of the powers drawn from Articles 4(13) and 13(8) of the SCBL. SAMA hires consultants for undertaking inspections in some highly specialized or technical areas (e.g., Stress testing, IRRBB, Data quality, Treasury, etc.). While hiring consultants, Head of BSD performs internal due diligence of the outsourced firms in line with the guidelines provided in the RBS Procedure Manual to ensure their competence and absence of any conflict of interest. Where SAMA relies on consultants, the inspections are jointly carried out by the staff from the Banking Inspection Division and the outsourced firms. In these situations, the Team Lead is always from SAMA. SAMA management also exercises oversight of the outsourced projects. Through these processes, SAMA seeks to reduce or eliminate the consultant bias in the outputs of the onsite inspection. This allows SAMA to place reliance on the work done by the consultants for regulatory and supervisory purposes.</p> <p>In brief, the processes required under the RBS Procedures Manual for hiring consultants by SAMA for supporting banking supervision are as below:</p> <ul style="list-style-type: none"> • The Head of Banking Supervision seeks proposals from consulting firms including the qualification and experience levels of external consultants. • The Head of Banking Supervision selects an external consultant based on his review of the qualifications and consultation with specialists (to ascertain appropriate qualifications of the consultants) and approves the team of external inspectors as necessary. • The following criteria are considered in selecting an external consulting firm to assist SAMA in performing onsite inspections: <ul style="list-style-type: none"> ○ The consulting firm must be a respected firm with experience inspecting supervised entities; for example, one of the “Big Four” accounting firms (Deloitte, Ernst & Young, KPMG, or PwC). ○ The firm must not be the external auditor of the supervised entity or must not be extending other services (such as tax or advisory) that could cause or be perceived as creating a conflict of interest. ○ The firm must have the appropriate resources and skills based in Saudi Arabia to carry out the proposed inspection. ○ The fee to the consulting firm must be agreed to by SAMA in order to ensure the firm’s independence since the fee will be borne by the bank subject to inspection. • SAMA staff should be involved in performing on-site inspections of the supervised entities in the following ways: |

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| | <ul style="list-style-type: none"> ○ Once the external firm is assigned to a workstream, SAMA staff will be involved throughout the on-site inspection process, from the specific work stream preparation stage to the issuance of the report. ○ The inspection planning will be at a sufficiently granular level such that the work of SAMA staff and the external firm is specifically identifiable and delineated. ○ Division of work between SAMA and the external firm may be formalized in an agreement or MoU between SAMA and the firm, or through the conduct a face-to-face meeting between SAMA and the firm. ● Complete confidentiality will be maintained by both SAMA's team and the external firm's inspection teams on the information received during the inspection process. ● The work conducted by the external consultants must use SAMA methodology and work programs in the execution of their work. External consultants may propose other topics and tools for consideration based on their expertise and experience, but the Head of Inspection Pool in SAMA, will make the final decision on the topics and tools that are used. |
| EC12 | The supervisor has an adequate information system which facilitates the processing, monitoring and analysis of prudential information. The system aids the identification of areas requiring follow-up action. |
| Description and findings regarding EC12 | <p>SAMA has established reliable information systems (RMS and SAP BI) to facilitate processing, monitoring and analyses of offsite inputs received from banks.</p> <p>SAMA uses a variety of information to review and assess the safety and soundness of banking groups that includes but not limited to periodic prudential and statistical returns submitted to SAMA at weekly, monthly, quarterly, semiannual, and annual basis (such as Basel III and risk assessment returns), ICAAP and ILAAP documents, supervisory review visit presentation, and Quarterly Monitoring Meeting. Supervisors also use as a reference the quarterly financial statements which are jointly reviewed by two firms (from the big four auditing firms).</p> <p>Banks submit data through SAMA's Returns Management System (RMS) which uses more than 450 validation rules to spot any data quality issues in banks' regular submission of returns. Once data in RMS is approved after passing through automated validations, the supervisory returns data is extracted to SAP BI where the database and reports (Global folder) are immediately updated. The RMS also has a risk framework engine that is used for monitoring key risk indicators (KRI) in banks. For quarterly assessment of banks, supervisors also use a validation tool prepared specifically to test the accuracy of data used for the purpose of the qualitative assessment (KRIs) of individual banks.</p> <p>RMS and SAP BI allow and support the analysis needed for banking supervision including review of prudential, statistical, and financial data received from banks. Users can refresh reports generated in SAP BI to view any additional data loaded to RMS by banks. The RMS system also has early warning ratios that detects breaches. SAP BI reports also support review of data between reporting periods.</p> <p>SAP database allows BSD team members to generate customized reports to support analyses. Standard SAP BI reports are also available to BSD team members that allow for</p> |

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| | <p>selection of, for example, single or multiple reporting periods, single or multiple data points, single or multiple banks, and reporting levels.</p> <p>Dashboards have also been developed in SAP for SAMA management's use. There are number of reports submitted to senior management with different frequencies (e.g., weekly, monthly, quarterly, etc.), where many reports include and reflect financials that are received from the banking sector. Among others, the reports to SAMA senior management include banking sector deposits by type and sectors, banking sector consumer loans, banking sector financial results, and credit facilities by economic activity.</p> |
| Additional Criteria | |
| AC1 | The supervisor has a framework for periodic independent review, for example by an internal audit function or third party assessor, of the adequacy and effectiveness of the range of its available supervisory tools and their use, and makes changes as appropriate. |
| Description and findings regarding AC1 | <p>SAMA's Internal Audit Department reviews BSD every three years and follows a risk-based approach. The audit plan is based on a risk assessment of key risks and areas of emerging corporate importance and risks. Internal audit performs a study and evaluation of the adequacy and effectiveness of on-site inspection and offsite supervisory process in BSD and the associated internal controls to the extent these are considered necessary to evaluate the system. The following areas are reviewed during internal audits:</p> <ul style="list-style-type: none"> • Offsite supervisory review. • Risk profiling process. • On-site inspection planning, execution, reporting and follow-up process. • Documentation and database management related to supervisory and inspection process. <p>The audit review is carried out in accordance with professional auditing standards guidelines as laid down by the Institute of Internal Auditors. In particular, the audit covers the following:</p> <ul style="list-style-type: none"> • Understanding the processes. • Identifying controls in place to address significant risks. • Assessment of the effectiveness of control procedures in addressing or mitigating the identified risks. • Assessing processes and controls against best practice. • Controls validation and testing to confirm if key controls are operating as intended. • Identification of performance improvement opportunities (if any). <p>SAMA internal audit's overall rating assigned in 2020 for internal controls relating to the BSD's on-site inspections and offsite supervisory process is "Generally Satisfactory." The 2023 audit findings were yet to be finalized at the time of this assessment.</p> <p>The internal audit is focused on the processes/procedures and controls rather than the adequacy and effectiveness of the range of its available supervisory tools and their use.</p> |
| Assessment of Principle 9 | Largely compliant. |

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| Comments | <p>SAMA uses a range of supervisory techniques and tools to implement its supervisory approach, which helps it in deploying supervisory resources in proportion to the risk profile and systemic relevance of individual banking groups. The RAM and risk profile tool is the basic supervisory tool which is used extensively by the supervisors for determining the supervisory focus. This is supplemented by the series of meetings that the supervisors hold with the senior management in banks (SRV, ICAAP, and ILAAP), and a mix of targeted and thematic onsite inspections. SAMA's follow-up on inspection findings and implementation of action plans by banks, and the returns management systems ably support banking supervision. There are a few areas or elements where these can be improved to meet the requirements articulated in this Principle. Among others, these include need for: (i) periodic formal assessment of the quality, effectiveness, and integration of SAMA's on-site and off-site functions, including the integration of the inputs and outputs of the specialist departments (like the ones regulating and supervising AML-CFT and cybersecurity risks); (ii) undertaking full-scope inspections in all banks at least once in a certain number of years to ensure there are no supervisory blind spots; (iii) re-orienting onsite inspections towards more substantive and qualitative assessments and away from the currently predominant compliance orientation; (iv) engaging formally with the banks' board of directors, the non-executive or independent board members in the context of individual bank's supervisory examinations, external audits, and to challenge them on board strategy and business models; (v) explicitly requiring banks to notify it in advance of any substantive changes in their activities, structure and overall condition; and (vi) periodic Independent review of the adequacy and effectiveness of the range of its available supervisory tools and their use, to adapt to the changing business models and operating environment in banks.</p> <p>The gaps observed at Items (ii) to (iv) are seen as gaps in the supervisory methodology and approach. Hence, these gaps have been considered in the grading and recommendations in CP8 and not this CP.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Undertake regular assessment of the quality, effectiveness, and integration of on-site and off-site functions to inform supervisory approach. • Explicitly require banks to notify SAMA in advance of any substantive changes in their activities, structure, and overall condition. • Institute periodic independent review of the adequacy and effectiveness of the range of supervisory tools and their use. |
| Principle 10 | Supervisory reporting. The supervisor collects, reviews, and analyses prudential reports and statistical returns ³¹ from banks on both a solo and a consolidated basis, and independently verifies these reports through either on-site examinations or use of external experts. |
| Essential Criteria | |

³¹ In the context of this Principle, "prudential reports and statistical returns" are distinct from and in addition to required accounting reports. The former are addressed by this Principle, and the latter are addressed in Principle 27.

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| EC1 | The supervisor has the power ³² to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance, and risks, on demand and at regular intervals. These reports provide information such as on- and off-balance sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, risk concentrations (including by economic sector, geography, and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk, and market risk. |
| Description and findings regarding EC1 | <p>Articles 15, 17, and 18 of the BCL empower SAMA to have full access to books, records, and information for overseeing and supervising financial institutions. While SAMA has access to information relating to the bank both offsite and onsite, the access to banks' books and accounts is onsite. Supervisors have access to information and records such as records of board resolution, minutes of meeting, internal policies, procedures, and operational manuals, for purposes of ongoing supervision and inspection of books and accounts. Article 15 of the BCL, provides that every bank shall furnish SAMA by the end of the following month with a consolidated monthly statement of its financial position relating to the previous month, which shall be true and correct, and be in the form prescribed by SAMA. Every bank shall also furnish SAMA within six months of the close of its financial year with a copy of its annual balance sheet and profit and loss accounts certified by its auditors in the form prescribed by SAMA. Article 17 of the BCL provides that SAMA may request, at any time, any bank to supply it within a time limit it will specify and in the manner it will prescribe, with any information that it deems necessary for ensuring the realization of the purposes of this Law. Article 18 of the BCL provides that SAMA may, with the approval of the Minister, conduct an inspection of the books and accounts of any bank, either by SAMA's own staff or by outside auditors assigned by it. The examination of the bank's books and accounts should take place in the bank's premises. In such a case the bank staff must produce all the required books and records of accounts and other documents in their custody or within their authority and must furnish any information they have relating to the bank.</p> <p>For situations where SAMA does not have explicit powers to obtain data and information from banks, supervisors mention that they rely on the following broad and specific powers in the SCBL, the SIFIL and the Anti-Money Laundering Law (AMLL) to obtain all required data and information. The specific provisions in these laws are as below:</p> <ul style="list-style-type: none"> • Article 4 of SCBL provides, among others, that "...to achieve its objectives, SAMA shall have all the necessary powers..." • Article 24 of SIFIL provides that "To carry out resolution procedures, the competent authority shall have the powers To: 1. demand any person to provide any information or documents relevant to the implementation of this Law..." • Article 24 of the Anti-Money Laundering Law (AMLL) provides that "While carrying out their duties, monitoring agencies shall: a) collect data and information from financial institutions, designated non-financial businesses and professions, and non-profit organizations and apply appropriate supervisory procedures, including field |

³² Please refer to Principle 2.

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| | <p>and office inspections; b) require financial institutions, designated non-financial businesses and professions, and non-profit organizations to provide any information that the monitoring agency deems necessary for carrying out its duties, and obtain copies of documents and files regardless of the manner and medium of storage...”</p> <p>The SCBL and the BCL do not include powers to require banks to submit information both on a solo and consolidated basis on their financial condition, performance, and risks, on demand and at regular intervals. However, the broad powers in the BCL and the SCBL, along with the provisions in the SIFIL and the AML Law (AMLL) are available to SAMA. In practice, it is observed that SAMA is obtaining periodic reporting on several items and areas at the global consolidated (banking group) level and at the domestic consolidated level (excluding foreign branches and foreign group entities) as detailed below. However, the offsite reports do not include data or information about the standalone bank and the individual entities in the banking group. Since the SIFIL is not yet operational, and the scope and focus of the SIFIL and AMLL are limited to the mandates within the respective laws, those powers are not adequate for enforcing supervisory reporting to meet the needs of conducting ongoing supervision. With a view to placing supervisory reporting on firm and enforceable legal basis, laws should be strengthened with relevant powers as flagged here and elsewhere in this assessment. SAMA uses a variety of information to review and assess the safety and soundness of banks that includes but not limited to periodic prudential and statistical returns submitted to SAMA at weekly, monthly, quarterly, semiannual, and annual basis, ICAAP and ILAAP documents, supervisory review visit presentation, and Quarterly Monitoring Meeting. Supervisors also use as a reference the quarterly financial statements which are jointly reviewed by two firms (from the big four auditing firms). Furthermore, SAMA can request banks to resubmit data to ensure data quality received and can also request ad-hoc data.</p> <p>Of the approximately 190 offsite returns obtained from banks by SAMA: (i) 23 are obtained both at the level of the solo bank (includes foreign branches) and consolidated bank (banking group); (ii) about 105 are obtained only at the level of the global consolidated bank; (iii) about 66 are obtained only for the domestic consolidated bank (that is global consolidated bank excluding the foreign branches and foreign group entities); and (iv) about 6 are obtained separately for the domestic branches (that is solo bank excluding the foreign branches) and separately for foreign branches and subsidiaries.</p> <p>The returns where data is obtained only for the global consolidated bank (that is banking group) mainly pertain to capital adequacy, leverage ratio, LCR, NSFR, and liquidity monitoring indicators.</p> <p>The returns where data is obtained only for the domestic consolidation mainly pertain to classification of credit and loan loss provisions by economic sectors, letters of credit issued, coordinated portfolio investment survey, disposal of other real estate owned by the bank, personal and consumer loans, private sector import and export financing, financing to MSMEs, exposures to related parties, large exposures, loans and deposits by business segments, secured and unsecured loans, analysis of secured loans by underlying</p> |
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| | <p>collateral, statutory deposits pursuant to Article 7 of BCL, maturity schedule-analysis for deposits, purchase and sale of foreign currency, transfers and remittances, loan to deposit ratio, SWIFT transactions, foreign currency flow scheme, key risk indicators (KRI) that serve as inputs for risk assessment and risk profile determination, and assets held or taken over by banks pursuant to settlement on claims, fixed assets, disposals, and acquisitions.</p> <p>The periodic offsite reporting required from banks helps SAMA obtain all the items listed in the EC except reporting on bank's large exposures and related party transactions (SAMA obtains details of large exposures to counterparties and related party exposures at domestic consolidated level) and does not obtain details of related party transactions (please see description and finding under CP 19 and CP 20 for more details about the gaps in offsite monitoring of large exposures and related party exposures and transactions). Offsite reporting is highly limited for the solo bank. Besides, SAMA does not obtain data and information at the standalone bank level for most risks and prudential requirements, at the entity level for the entities belonging to the banking groups and where relevant of the entities in the wider group.</p> |
| EC2 | <p>The supervisor provides reporting instructions that clearly describe the accounting standards to be used in preparing supervisory reports. Such standards are based on accounting principles and rules that are widely accepted internationally.</p> |
| Description and findings regarding EC2 | <p>Article 13 (2) of SAMA's Rules and Guidance for banks in Saudi Arabia to organize their Audit Committees (July 1996) requires the Audit Committees to, among others, review and approve the annual financial statements with management and external auditors, and ensure the consistent application of generally accepted accounting principles by referring to accounting and disclosure requirements promulgated by SAMA's Accounting Standards and accounting policies generally followed in the financial services industry. SAMA has issued a commercial banks accounting standards manual in 2009, which covers financial accounting standards for commercial banks which have been prepared by SAMA and comprises texts of the recommended standards which are to be applied by the banks in Saudi Arabia. The text of each standard contains definition of principal terms used, scope and provisions.</p> <p>These recommended standards are as follows:</p> <ul style="list-style-type: none"> • Standard of Investment and Trading in Securities. • Standard of Loans. • Standard of Deposits. • Standard of Accounting Changes and Correction of Errors. • Standard of Foreign Currency Translation. • Standard of Fixed Assets and Other Real Estate. • Standard of Consolidated Financial Statements and Investments in Subsidiaries. • Standard of Presentation and General Disclosure. <p>The manual also states that the standards issued by the Ministry of Trade can be used for any other accounting issues not covered in the manual.</p> |

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| | <p>The SCBL and the BCL do not require banks to adopt IFRS or other internationally recognized accounting standards. Banks in KSA follow the international accounting standards endorsed by the Saudi Organization for Certified and Professional Accounting (SOCPA). These standards include guidance on the preparation and presentation of financial statements including those specific to the banking sector.</p> <p>"National standards that are closely converged with full "IFRSs" as issued by the SOCPA are IFRSs with some options removed and some disclosure requirements added as well as additional standards and pronouncements endorsed by the SOCPA for matters not covered by IFRSs but that are relevant in Saudi Arabia (for example for religious reasons). Similarly, additional disclosure requirements have been added to the IFRS for Small and Medium enterprises (SMEs).</p> |
| EC3 | <p>The supervisor requires banks to have sound governance structures and control processes for methodologies that produce valuations. The measurement of fair values maximizes the use of relevant and reliable inputs and is consistently applied for risk management and reporting purposes. The valuation framework and control procedures are subject to adequate independent validation and verification, either internally or by an external expert. The supervisor assesses whether the valuation used for regulatory purposes is reliable and prudent. Where the supervisor determines that valuations are not sufficiently prudent, the supervisor requires the bank to make adjustments to its reporting for capital adequacy or regulatory reporting purposes.</p> |
| Description and findings regarding EC3 | <p>SAMA has established requirements and provided guidance through several regulations on valuation. The main requirements on this topic are summarized below:</p> <ul style="list-style-type: none"> • Commercial banks accounting standards issued by SAMA (2009), lays down the rules about valuation at recognitions, periodic revaluation, and valuation at derecognition of various trading and banking book positions. • SAMA Circular on loan classification, provisioning, and credit review (2004), lays down the following requirements for collateral valuation. Prudent and proper valuation of collateral is critical to the determination of provisions. Proper procedures should be put into place to value collateral on a periodic basis, at least once a year, using external appraisers or external reliable published information. In cases where judgment is used in the valuation of the collateral and where the collateral or the credit is significant, valuations should be carried out by more than one external appraiser. In general, collateral obtained for consumer credit and similar credits where large number of relatively small balances is outstanding would be excluded from such requirements. The valuations so obtained should be adjusted downwards by an appropriate percentage to reflect costs of disposal, fluctuations in market values and the inherent lack of accuracy in such valuations. • Rules on Management of Problem Loans issued by SAMA in 2020, lays down additional requirements for valuation of collateral, which include the following, among others. <ul style="list-style-type: none"> ○ Article 7.1.ii: Consistent with SAMA's requirements on valuation of real-estate collateral, banks should institute an appropriate governance process with respect to valuers and their performance standards. Banks should monitor and review |

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| | <p>the valuations performed by internal or external valuers on a regular basis, as well as develop and implement a robust internal quality assurance of such valuations.</p> <ul style="list-style-type: none"> ○ Article 7.1.iii requires internal audit function to, among others, review the independence of the valuers' selection process and the appropriateness of the valuations carried out by valuers. ○ Article 7.5 on valuation frequency requires that banks' collateral policies and procedures should also provide for the following: (i) banks monitor the value of each type of collateral on a defined frequent basis; (ii) more frequent valuations where the market is subject to significant negative changes and/or where there are signs of a significant decline in the value of an individual collateral; (iii) defined criteria for determining that a significant decline in collateral value has taken place; (iv) revaluation of collateral for restructuring cases should be done only where necessary, and should be done in accordance with the requirements; (v) banks should have appropriate IT processes and systems in place to flag outdated valuations and to trigger valuation reports. ○ Article 7.6 lays down the following specific requirements for valuers. Banks valuation process should be carried out by valuers who possess the necessary qualifications, ability, and experience to execute a valuation and who are independent of the credit decision process. ● The Rules and guidance for banks in Saudi Arabia to organize their audit committee (1996) lays down the following requirements that are relevant for valuation. <ul style="list-style-type: none"> ○ Require the external auditor to perform evaluation of the accounting and internal control systems (page 19). ○ Review the evaluation of internal controls carried out by internal and external audit (page 30). ○ Review regulatory examiners reports and any international developments such as recommendation from the Basel committee, International Organization of Securities and Exchange Commissions, etc., which may impinge on financial reporting or any other relevant banking aspects (page 30). ○ Discuss any major problem anticipated by the external auditors, in relation to accounting treatment, valuation of loans and investments, derivatives such as options, swaps, futures, forward transactions, etc. (page 35). ○ Discuss with senior management and external auditors any significant international accounting development which may impact the current accounting, valuation and disclosure rules followed by the bank (page 36). <p>SAMA inspection teams review banks' data quality frameworks pertaining to the areas covered during the targeted and thematic inspection, which include governance, procedures, systems, internal controls, etc. Recently, thematic inspections of banks were carried out on data quality where a comprehensive assessment of all the aspects related to validity of the data submitted by the banks in the prudential returns was done. These inspections have not flagged significant gaps in valuation practices and processes in banks and the identified gaps are followed-up till full closure.</p> |
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| EC4 | The supervisor collects and analyses information from banks at a frequency commensurate with the nature of the information requested, and the risk profile and systemic importance of the bank. | | | | | | | | | | | | | | |
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| Description and findings regarding EC4 | <p>SAMA has required banks to submit a variety of prudential and statistical information on a weekly, monthly, quarterly, semiannual, and annual basis. Of the 190 returns required from banks, 75 percent are reported every quarter and 18 percent are reported monthly. A brief description of the type of information obtained at each frequency is presented in the table below. The frequency of obtaining the information is broadly commensurate with the nature of the information requested, though there may be a case for obtaining liquidity related returns at weekly frequency.</p> <table border="1" data-bbox="423 590 1411 1665"> <thead> <tr> <th colspan="2" data-bbox="423 590 1411 632">Table 2. Details of Supervisory Reporting by Banks</th> </tr> <tr> <th data-bbox="423 632 597 699">Frequency (number)</th> <th data-bbox="597 632 1411 699">Subject</th> </tr> </thead> <tbody> <tr> <td data-bbox="423 699 597 737">Weekly (2)</td> <td data-bbox="597 699 1411 737">Money supply return, statement of financial position.</td> </tr> <tr> <td data-bbox="423 737 597 1056">Monthly (35)</td> <td data-bbox="597 737 1411 1056">Statement of assets and liabilities, foreign currency exposure analysis, Import financing statistics, derivative activity, maturity schedule-analysis for deposits, credit facilities and investments, SWIFT, foreign currency flow scheme, loan-to-deposit ratio, inbound and outbound remittances, statement of branches, ATMs, cash deposit machines, and transfer and service centers, credit facilities by economic activity, purchase and sale of foreign currency, capital adequacy. statutory deposits and liquid reserves pursuant to Articles 6 and 7 of BCL, secured and unsecured loans, analysis of secured loans by underlying collateral, details of guarantees issued and changes.</td> </tr> <tr> <td data-bbox="423 1056 597 1375">Quarterly (142)</td> <td data-bbox="597 1056 1411 1375">Quarterly financial position and results, KRIs, Basel returns (capital adequacy, LCR, NSFR, leverage, large exposures, related party exposures, sovereign exposures by country and currency), coordinated portfolio investment survey, non-resident liabilities and assets by country, deposit structure by amount and number of accounts, maturity schedule of assets and liabilities by major currencies, statement of private sector exports and imports financing through commercial banks, letters of credit, personal and consumer loans, revenues and expenses, break-down of credit by sector, syndicated loans, real estate finance, deposits and credit facilities for MSMEs.</td> </tr> <tr> <td data-bbox="423 1375 597 1568">Semi-annual (7)</td> <td data-bbox="597 1375 1411 1568">Analysis of doubtful loans and advances, loan loss provisions-specific by major categories of loans, classification of credit facilities, investments and commitments by economic sectors, capital or long-term loans to overseas subsidiaries, agencies and branches, due from/ due to head office/branches/subsidiaries exclusive of capital, investments by country.</td> </tr> <tr> <td data-bbox="423 1568 597 1665">Annual (4)</td> <td data-bbox="597 1568 1411 1665">Significant shareholdings, assets held or taken over by banks pursuant to settlement on claims, fixed assets, disposals and acquisitions, board of directors.</td> </tr> </tbody> </table> <p>The scope and details of data and information obtained through the periodic returns and their frequency are uniform across all banks irrespective of their risk profile and systemic relevance, except for the following limited exceptions:</p> | Table 2. Details of Supervisory Reporting by Banks | | Frequency (number) | Subject | Weekly (2) | Money supply return, statement of financial position. | Monthly (35) | Statement of assets and liabilities, foreign currency exposure analysis, Import financing statistics, derivative activity, maturity schedule-analysis for deposits, credit facilities and investments, SWIFT, foreign currency flow scheme, loan-to-deposit ratio, inbound and outbound remittances, statement of branches, ATMs, cash deposit machines, and transfer and service centers, credit facilities by economic activity, purchase and sale of foreign currency, capital adequacy. statutory deposits and liquid reserves pursuant to Articles 6 and 7 of BCL, secured and unsecured loans, analysis of secured loans by underlying collateral, details of guarantees issued and changes. | Quarterly (142) | Quarterly financial position and results, KRIs, Basel returns (capital adequacy, LCR, NSFR, leverage, large exposures, related party exposures, sovereign exposures by country and currency), coordinated portfolio investment survey, non-resident liabilities and assets by country, deposit structure by amount and number of accounts, maturity schedule of assets and liabilities by major currencies, statement of private sector exports and imports financing through commercial banks, letters of credit, personal and consumer loans, revenues and expenses, break-down of credit by sector, syndicated loans, real estate finance, deposits and credit facilities for MSMEs. | Semi-annual (7) | Analysis of doubtful loans and advances, loan loss provisions-specific by major categories of loans, classification of credit facilities, investments and commitments by economic sectors, capital or long-term loans to overseas subsidiaries, agencies and branches, due from/ due to head office/branches/subsidiaries exclusive of capital, investments by country. | Annual (4) | Significant shareholdings, assets held or taken over by banks pursuant to settlement on claims, fixed assets, disposals and acquisitions, board of directors. |
| Table 2. Details of Supervisory Reporting by Banks | | | | | | | | | | | | | | | |
| Frequency (number) | Subject | | | | | | | | | | | | | | |
| Weekly (2) | Money supply return, statement of financial position. | | | | | | | | | | | | | | |
| Monthly (35) | Statement of assets and liabilities, foreign currency exposure analysis, Import financing statistics, derivative activity, maturity schedule-analysis for deposits, credit facilities and investments, SWIFT, foreign currency flow scheme, loan-to-deposit ratio, inbound and outbound remittances, statement of branches, ATMs, cash deposit machines, and transfer and service centers, credit facilities by economic activity, purchase and sale of foreign currency, capital adequacy. statutory deposits and liquid reserves pursuant to Articles 6 and 7 of BCL, secured and unsecured loans, analysis of secured loans by underlying collateral, details of guarantees issued and changes. | | | | | | | | | | | | | | |
| Quarterly (142) | Quarterly financial position and results, KRIs, Basel returns (capital adequacy, LCR, NSFR, leverage, large exposures, related party exposures, sovereign exposures by country and currency), coordinated portfolio investment survey, non-resident liabilities and assets by country, deposit structure by amount and number of accounts, maturity schedule of assets and liabilities by major currencies, statement of private sector exports and imports financing through commercial banks, letters of credit, personal and consumer loans, revenues and expenses, break-down of credit by sector, syndicated loans, real estate finance, deposits and credit facilities for MSMEs. | | | | | | | | | | | | | | |
| Semi-annual (7) | Analysis of doubtful loans and advances, loan loss provisions-specific by major categories of loans, classification of credit facilities, investments and commitments by economic sectors, capital or long-term loans to overseas subsidiaries, agencies and branches, due from/ due to head office/branches/subsidiaries exclusive of capital, investments by country. | | | | | | | | | | | | | | |
| Annual (4) | Significant shareholdings, assets held or taken over by banks pursuant to settlement on claims, fixed assets, disposals and acquisitions, board of directors. | | | | | | | | | | | | | | |

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| | <ul style="list-style-type: none"> • Only local banks are required to submit the quarterly Basel returns in line with SAMA's Guidance note on the scope of application of SAMA's Basel Framework December 2022. • KRI returns are obtained from the local banks, and a modified version is required from foreign bank branches. The KRI returns provide the quantitative indicators used to assess banks' risk rating and risk profile, which feed into the risk assessment of each bank under the RBS framework. |
| EC5 | In order to make meaningful comparisons between banks and banking groups, the supervisor collects data from all banks and all relevant entities covered by consolidated supervision on a comparable basis and related to the same dates (stock data) and periods (flow data). |
| Description and findings regarding EC5 | <p>Please see description under EC4. As mentioned there, SAMA obtains data at uniform frequency across all banks using uniform reporting templates. One exception to the above are the Basel III returns (capital adequacy, leverage, LCR, NSFR, sovereign exposures, etc.) that are obtained only from local banks. The other exception is the quarterly KRI returns used to complete the quarterly risk assessment and risk profiling of banks under the RBS framework, where the local banks have to submit uniform set of returns and the foreign bank branches in Saudi Arabia have to submit a differentiated set of KRI returns. Please also see description under EC1 and EC4, where the levels and frequency at which various offsite returns are obtained have been discussed.</p> <p>The combined outcome of the finding under ECs1 and 4, as summarized above, is that the data and information obtained through offsite reporting do not adequately cover data and information at the level of the solo bank. Besides, SAMA does not obtain data at individual entity level for the entities belonging to the banking groups and, where relevant, for the parent (or controlling entity) and entities in the wider group to support assessment of their risks, financial strength, or weakness.</p> <p>The offsite returns package does not obtain data on a flow basis. As a result of this, sometimes supervisors are unable to have a view on the movements in key portfolios between two reporting dates or obtain a fuller view of the extent of risk assumed by a bank between reporting dates (e.g., related party transactions,³³ intragroup transactions, and turnover.)</p> |
| EC6 | The supervisor has the power to request and receive any relevant information from banks, as well as any entities in the wider group, irrespective of their activities, where the supervisor believes that it is material to the condition of the bank or banking group, or to the assessment of the risks of the bank or banking group or is needed to support resolution planning. This includes internal management information. |

³³ Article 43 of "Key Principles of Governance in Financial Institutions under the Control and Supervision of the Saudi Central Bank" requires the banks' board to set clear procedures when the financial institution enters into a transaction with a related party, which shall include notifying the public and the Central Bank without delay about this transaction if it is equal to or exceeds 1 percent of the total revenues of the financial institution pursuant to the latest annual audited financial statements.

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| Description and findings regarding EC6 | <p>Please see description and finding under EC1 which presents the powers available to SAMA under Article 4 of SCBL, Articles 15, 17, and 18 of BCL, Article 24 of SIFIL and Article 24 of AMLL. As noted there, the SCBL and the BCL are not explicit about SAMA's powers to require banks to submit information on a solo and consolidated basis on their financial condition, performance, and risks, on demand and at regular intervals. These powers are also not explicit about requesting and receiving any relevant information from individual entities in the banking group or wider group.</p> <p>The broad powers in the BCL and the SCBL allow SAMA to seek any information that it deems necessary from the licensed bank. These laws do not extend the scope of this power to requesting and receiving information from all entities in the banking group or from the entities in the wider group. The provisions in the SIFIL are available to SAMA for the purposes of resolving banks that are SIFIs, but these are not available for conducting ongoing supervision. As SAMA has not yet fully established the SIFI resolution function, it is not collecting data or information to support assessment of recovery plans or resolution planning.</p> <p>The powers under the AMLL are available to the SCBL for fulfilling its mandate under that law and these are not extended to other prudential or legal needs to fulfil ongoing prudential supervision of banks.</p> <p>With a view to placing supervisory reporting on firm and enforceable legal basis, laws should be strengthened with relevant powers as flagged here and elsewhere in this assessment.</p> |
| EC7 | <p>The supervisor has the power to access:³⁴ all bank records for the furtherance of supervisory work. The supervisor also has similar access to the bank's Board, management, and staff, when required.</p> |
| Description and findings regarding EC7 | <p>Articles 17 and 18 of the BCL empower SAMA to have access to books, records, and information for overseeing and supervising financial institutions. While SAMA has access to information relating to the bank both offsite and onsite, the access to banks' books and accounts is available only onsite. Supervisors have access to information and records such as records of board resolution, minutes of meeting, internal policies, procedures, and operational manuals, for purposes of ongoing supervision and inspection of books and accounts. Article 17 of the BCL provides that SAMA may request, at any time, any bank to supply it within a time limit it will specify and in the manner, it will prescribe, with any information that it deems necessary for ensuring the realization of the purposes of this Law. Article 18 of the BCL provides that SAMA may, with the approval of the Minister, conduct an inspection of the books and accounts of any bank, either by the Agency's own staff or by outside auditors assigned by it. The examination of the bank's books and accounts should take place in the bank's premises. In such a case the bank staff must produce all the required books and records of accounts and other documents in their custody or within their authority and must furnish any information they have relating to the bank.</p> |

³⁴ Please refer to Principle 1, Essential Criterion 5.

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| | <p>The SCBL and the BCL are silent about SAMA's powers to access banks' boards, and banking group's boards, management, and staff, and to supervise the foreign activities of banks incorporated in the KSA.</p> <p>Please see description and finding under CP1-EC5 for more details of SAMA's powers. Supervisors are able to access banks' records, management, and staff. However, they do not meet with the banks' boards, and banking group's boards, management, and staff.</p> |
| EC8 | <p>The supervisor has a means of enforcing compliance with the requirement that the information be submitted on a timely and accurate basis. The supervisor determines the appropriate level of the bank's senior management is responsible for the accuracy of supervisory returns, imposes sanctions for misreporting and persistent errors, and requires that inaccurate information be amended.</p> |
| Description and findings regarding EC8 | <p>Articles 17 and 18 of the BCL allows SAMA to request and obtain data and information from banks offsite and onsite. (Please see details under EC7 for details of these powers). A bank's failure to comply with these requirements, including provision of incomplete, inaccurate, or late reporting, can lead to monetary penalties and other enforcement actions provided in Articles (22) and (23) including suspension or removal of any director or officer of the bank and/or the revoke the bank's license. If SAMA finds that a bank continues to violate BCL's provisions or the rules and resolutions issued for its implementation, it can require the violating bank to provide justifications therefor along with a plan to rectify the violation within a period determined by SAMA. If SAMA deems that the plan is not sufficient or if the bank fails to carry out a measure it pledged to carry out within said period, the Minister of Finance may, upon approval of the Council of Ministers, revoke the bank's license. (Please see description and finding under CP1-EC6 for details of the powers available to SAMA under Articles 22 and 23 of BCL for taking corrective actions, enforcement actions, and imposing penalties.)</p> <p>According to Article 24 of the BCL, the Chairman, the Managing Director, the members of the board of Directors, head office Manager and Branch manager shall be responsible, each within his own jurisdiction, for any contravention of the BCL or the decisions and rules issued for its execution. Therefore, if SAMA specifies a time limit, accuracy, and comprehensiveness level of the information to be submitted, the bank is expected to comply and if it fails to comply, this is considered violation of the law and SAMA proceeds accordingly. Besides, in the event of misreporting, SAMA requires the bank to submit amended but accurate information.</p> <p>While deciding on the sanction(s), SAMA considers the circumstances of the case, including the sensitivity and frequency of misreporting, non-submission, or delayed submission of requested information.</p> |
| EC9 | <p>The supervisor utilizes policies and procedures to determine the validity and integrity of supervisory information. This includes a program for the periodic verification of supervisory returns by means either of the supervisor's own staff or of external experts.³⁵</p> |

³⁵ Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

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| Description and findings regarding EC9 | Returns requested from banks have supporting guidelines to ensure consistency of reporting by banks. All submitted data goes through a verification by the relationship team who are supported by automated validations within the RMS system. This system ensures that similar data across different returns are valid and generates early warning ratios which flags significant variations in a data point and provides a heat map of certain key data items. RMS system has an automated workflow that assists in the review and approval of data. RMS system is maintained by SAMA's Business and Technology department with agreed quarterly service level meetings taking place where performances and incidents are reviewed with system users. On a routine basis, the validations are reviewed by relationship teams and offsite teams. In addition to this routine validation of submitted data, inspection team reviews data/information related aspects pertaining to the scope of the specific onsite reviews that they undertake covering governance, procedures, systems, internal controls, etc. Recently, thematic inspections of banks were carried out on data quality wherein a comprehensive assessment was done covering all the related aspects to assess validity of the data submitted by the banks in the prudential returns. This review covered board/board committees' oversight, management's actions/controls regarding the quality of data submitted to SAMA and the role of second and third lines of defense. |
| EC10 | The supervisor clearly defines and documents the roles and responsibilities of external experts, ³⁶ including the scope of the work, when they are appointed to conduct supervisory tasks. The supervisor assesses the suitability of experts for the designated task(s) and the quality of the work and takes into consideration conflicts of interest that could influence the output/recommendations by external experts. External experts may be utilized for routine validation or to examine specific aspects of banks' operations. |
| Description and findings regarding EC10 | External experts are generally engaged to undertake supervisory tasks that are highly specialized or technical in nature. SAMA follows the due process in line with the guidelines given in BSD Procedure Manual for appointing the experts including assessment of any conflict of interest. Further, the suitability of the experts for undertaking specific tasks is assessed to ensure quality output and coverage. The roles and responsibilities of the experts are clearly defined and documented. The quality of their work is ensured through regular oversight by SAMA senior management. Please also see description and finding under CP9-EC11 that provides more details about the systems, processes and governance arrangements followed by SAMA while engaging external experts for performing some supervisory tasks. |
| EC11 | The supervisor requires that external experts bring to its attention promptly any material shortcomings identified during the course of any work undertaken by them for supervisory purposes. |

³⁶ Maybe external auditors or other qualified external parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions. External experts may conduct reviews used by the supervisor, yet it is ultimately the supervisor that must be satisfied with the results of the reviews conducted by such external experts.

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| Description and findings regarding EC11 | As mentioned in the description and finding under EC10, and under CP9-EC11, the Team Lead of all outsourced inspections is from SAMA Inspection Division. The Team Leader is aware of all the activities and developments during the field work. Further, there is adequate oversight by the Inspection Division Manager and the respective Section Heads through their weekly inspection updates. SAMA internal practice is that the Team Lead should bring any material shortcomings identified during inspection to the attention of the SAMA's senior management. Thus, any material shortcomings identified during the inspection is brought to the attention of SAMA's senior management promptly. |
| EC12 | The supervisor has a process in place to periodically review the information collected to determine that it satisfies a supervisory need. |
| Description and findings regarding EC12 | <p>BSD reviews returns obtained from banks as part of the annual system development of the RMS system. During annual RMS scoping for development, the process would involve discussion with Return owners among BSD and other business stakeholders (e.g., Banking Policy Department (BPD), Data and Statistics Centre, etc.) and to agree on:</p> <ul style="list-style-type: none"> • Any enhancements to existing returns. • New reporting forms/templates to be added. • Redundant returns no longer required. <p>BSD is also involved in any changes that may occur to regulatory requirements for banks, which require them to submit data on a regular basis. For instance, in Q1 2023, an updated LDR calculation guidance was introduced for banks, in coordination with RMS development team, BPD, and BSD, which required amendments to the existing LDR form/template to align the reporting to the changes in SAMA guidance and regulation, in coordination with RMS development team, BPD, and BSD. During the past five years, 12 returns were enhanced, revised (modification of reporting template), or made frequent. No returns have been discontinued.</p> <p>The process as it currently operates is oriented towards modifying the existing returns rather than undertaking a more fundamental review of the reporting in entirety to weed out those returns that might have become obsolete from a supervisory need perspective. The scope for making this review more effective is also flagged by the new areas identified in this assessment where obtaining periodic reporting from banks can improve the quality and effectiveness of supervision.</p> |
| Assessment of Principle 10 | Largely compliant. |
| Comments | SAMA obtains a large set of prudential, statistical, and financial returns from banks for use in the prudential supervision of banks and banking groups. These are obtained at different frequency from weekly to annual, and at the level of global consolidation and domestic consolidation. The quality and integrity of reporting is verified through automated checks on the returns management system, through verification of supervisory reporting pertaining to the area covered by targeted onsite inspections and through thematic inspections on data quality. Areas where the structured supervisory reporting can improve include: (i) lack of adequate and clear powers to require banks to submit any relevant data and information, including internal management information, on a solo and consolidated basis, about individual entities in the banking group, the |

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| | <p>parent (or controlling entity) and its affiliated entities to support assessment of their risks, financial strength, or weakness; (ii) reporting requirements (contents, frequency) do not reflect risk profile, risk rating and systemic relevance; (iii) lack of adequate reporting on solo bank, and lack of reporting to assess contagion risk and to facilitate resolution planning; (iv) reporting on large and related party exposures not comprehensive; (v) reporting does not include flow data such as turnover, related party transactions and intragroup transactions; and (vi) effectiveness of the system of periodic review of returns and information collected from banks to determine that it satisfies a supervisory need. The gaps identified under (iii), and (iv) have been considered in the assessment and grading of CPs 8, 12, 19, and 20, as relevant for the adequacy and effectiveness of the legal, regulatory, and supervisory arrangements as relevant for those CPs.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Enhance offsite returns package to: <ul style="list-style-type: none"> ○ Obtain data and information on a solo and consolidated basis on banks' financial condition, performance, and risks. ○ Make contents and frequency of reporting sensitive to the risk profile and systemic relevance of banks and banking groups. ○ Obtain data or information on individual entities in the banking group, the parent (or controlling entity) and its affiliated entities to support assessment of their risks, financial strength, or weakness. ○ Enhance scope of reporting on related party and large exposures. ○ Obtain KRIs both for solo bank and banking group. ○ Obtain flow data (related party transactions, intragroup transactions, turnover or average over reporting period—where relevant). ○ Obtain data and information relevant for assessing banks' recovery plans and for preparing SAMA's resolution plans for each SIFI. • Ensure specific powers in law to request and receive any relevant information, including internal management information, from banks, as well as any entities in the banking group and in the wider group. • Strengthen the process to periodically review the data and information collected to determine that it satisfies a supervisory need. |
| Principle 11 | Corrective and sanctioning powers of supervisors. The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to revoke the banking license or to recommend its revocation. |
| Essential Criteria | |
| EC1 | The supervisor raises supervisory concerns with the bank's management or, where appropriate, the bank's Board, at an early stage, and requires that these concerns be addressed in a timely manner. Where the supervisor requires the bank to take significant corrective actions, these are addressed in a written document to the bank's Board. The supervisor requires the bank to submit regular written progress reports and checks that |

| | corrective actions are completed satisfactorily. The supervisor follows through conclusively and in a timely manner on matters that are identified. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Description and findings regarding EC1 | <p>As part of its continuous supervision process, SAMA meets with banks' senior management on different occasions throughout the year for ICAAP, ILAAP discussions and Supervisory Review Visit (SRVs). After completion of these visits/meetings, SAMA issues a supervisory letter containing its observations and recommendations for consideration by banks and requires bank's responses on each observation within 30 calendar days of the letter date. The supervisory team follows up with the bank regularly to submit their response and ensure such issues are addressed. The supervisory team may return to the bank for clarification of amendment if necessary.</p> <p>During onsite inspections, the findings are communicated to the banks during the field work. Subsequently, the closing meeting is held at the conclusion of the fieldwork between the senior management from the SAMA and the bank to discuss the final inspection findings. After that, the inspection report is finalized and shared with the bank with the advice to place the report before the Board of Directors.</p> <p>Banks are required to submit progress about actions taken on the inspection findings as per the given timelines on quarterly basis. Further, follow up visits are carried out to assess correctness of the actions taken/reported by the banks. The issues are escalated to the higher levels in SAMA and to the bank's senior management in case banks fail to implement the inspection recommendations in a timely manner.</p> <p>The table below provides an overview of the number of corrective actions/sanctions (referred to as "actions") taken by SAMA against banks during the past five years.</p> <table border="1" data-bbox="430 1081 1404 1612"> <thead> <tr> <th colspan="6" style="text-align: center;">Table 3. Details of Actions Taken by SAMA</th> </tr> <tr> <th style="text-align: left;">Type of Actions</th> <th>2019</th> <th>2020</th> <th>2021</th> <th>2022</th> <th>2023</th> </tr> </thead> <tbody> <tr> <td>Actions related to SAMA supervisory and regulatory regulations (including cyber security risk regulations)</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of actions</td> <td>182</td> <td>220</td> <td>204</td> <td>265</td> <td>160</td> </tr> <tr> <td>No. of banks</td> <td>17</td> <td>24</td> <td>25</td> <td>21</td> <td>19</td> </tr> <tr> <td>Actions related to AML/CFT regulations</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of actions</td> <td>11</td> <td>13</td> <td>30</td> <td>13</td> <td>7</td> </tr> <tr> <td>No. of banks</td> <td>7</td> <td>12</td> <td>14</td> <td>7</td> <td>4</td> </tr> <tr> <td>Actions related to consumer protection regulations</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>No. of actions</td> <td>37</td> <td>38</td> <td>36</td> <td>20</td> <td>2</td> </tr> <tr> <td>No. of banks</td> <td>10</td> <td>14</td> <td>13</td> <td>5</td> <td>2</td> </tr> </tbody> </table> <p>Corrective actions and sanctions most considered by SAMA for breaches include rectification of the breach, imposing penalties, drawing attention of the bank to the breach or irregularity, requiring the senior management or the bank's board to: (i) issue a warning to the concerned employee and place that in the personal files of the employee; or or (ii) requiring a change of position for the concerned employee.</p> | Table 3. Details of Actions Taken by SAMA | | | | | | Type of Actions | 2019 | 2020 | 2021 | 2022 | 2023 | Actions related to SAMA supervisory and regulatory regulations (including cyber security risk regulations) | | | | | | No. of actions | 182 | 220 | 204 | 265 | 160 | No. of banks | 17 | 24 | 25 | 21 | 19 | Actions related to AML/CFT regulations | | | | | | No. of actions | 11 | 13 | 30 | 13 | 7 | No. of banks | 7 | 12 | 14 | 7 | 4 | Actions related to consumer protection regulations | | | | | | No. of actions | 37 | 38 | 36 | 20 | 2 | No. of banks | 10 | 14 | 13 | 5 | 2 |
| Table 3. Details of Actions Taken by SAMA | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Type of Actions | 2019 | 2020 | 2021 | 2022 | 2023 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actions related to SAMA supervisory and regulatory regulations (including cyber security risk regulations) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of actions | 182 | 220 | 204 | 265 | 160 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of banks | 17 | 24 | 25 | 21 | 19 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actions related to AML/CFT regulations | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of actions | 11 | 13 | 30 | 13 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of banks | 7 | 12 | 14 | 7 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Actions related to consumer protection regulations | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of actions | 37 | 38 | 36 | 20 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of banks | 10 | 14 | 13 | 5 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | <p>SAMA generally engages with the senior management and the CEO in banks while flagging its supervisory concerns, and while seeking and enforcing corrective actions or measures to address its supervisory concerns. The letters forwarding SAMA's inspections reports are addressed to the bank's CEO requesting that the report be placed before the board. SAMA does not engage directly with bank boards at an early stage to require its concerns to be addressed in a timely manner. They also do not meet with the board when there is a need for taking significant corrective actions or when the banks' corrective actions are not adequate or ineffective.</p> |
| EC2 | <p>The supervisor has available:³⁷ an appropriate range of supervisory tools for use when, in the supervisor's judgment, a bank is not complying with laws, regulations or supervisory actions, is engaged in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened.</p> |
| Description and findings regarding EC2 | <p>As mentioned in the description and finding under CP1-EC6, the SCBL and the BCL, and their implementing regulations have empowered SAMA to take (and/or require a bank to take) corrective action and impose a range of penalties, some with the approval of the Minister and some by SAMA based on the powers delegated to it under Article V of the Implementing Rules of the BCL. These powers can be used when a bank has failed to comply with the provisions of BCL, or with the provisions of any regulations issued under this law or if a bank adopts a policy that might seriously affect its solvency or liquidity. The law has also empowered the Minister to revoke a bank's license with the approval of the Council of Ministers.</p> <p>At the same time, these powers are not available where the bank is or is likely to be engaging in unsafe or unsound practices or when the interests of depositors are otherwise threatened. Laws or regulations have not defined or articulated what would be construed as unsafe or unsound practices, or situations where the interests of depositors are threatened. These terms and how these are to be applied are also not articulated in the internal guidelines and manuals available to supervisors. Such guidance will encourage supervisors to use their judgment when situations arise and will also promote consistency in the exercise of supervisory judgment across time and across institutions. For several situations where the BCL does not explicitly empower SAMA to either require a certain measure or initiate a certain measure, the supervisors point to the powers available to SAMA under Article 22 (d) of the BCL which empowers SAMA to, with the approval of the Minister, "require the bank to take such other steps, as it may consider necessary." However, this power has not been used by SAMA. The supervisors also point to the powers available under the SIFIL which is, however, not yet operational as explained above.</p> <p>During the past five years SAMA has not taken any material corrective actions and has not imposed sanctions against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement though one local bank</p> |

³⁷ Please refer to Principle 1.

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| | <p>was placed on “high” supervisory stance over the past three years and one other local bank was placed on similar supervisory stance for two of the past three years. In this background, SAMA could be severely challenged in taking corrective measures or to act in the following situations:</p> <ul style="list-style-type: none"> • Taking enforcement action based on qualitative assessments or supervisory judgment. • Resorting to a merger or a purchase and assumption transaction when minority shareholders are unwilling (only majority shareholders with 90 percent voting power can impose this on minority shareholders through appropriate changes in relevant bank’s Articles of Association—under Article 113 of Companies Law 2022). • Replacing or restricting the powers of board members or senior managers or controlling owners (with the approval of the Minister, SAMA can only suspend or remove board members and bank officers—Article 22(b)). • Requiring a bank or the banking group to change their organizational structure. • Restricting a bank or banking group’s activities by requiring the bank to eliminate or reduce business lines or to limit asset growth. • Suspending payments to shareholders or share repurchases unless the bank is in breach of capital conservation buffer. • Barring individuals from the banking sector, except as directors or managers. |
| EC3 | <p>The supervisor has the power to act where a bank falls below established regulatory threshold requirements, including prescribed regulatory ratios or measurements. The supervisor also has the power to intervene at an early stage to require a bank to take action to prevent it from reaching its regulatory threshold requirements. The supervisor has a range of options to address such scenarios.</p> |
| Description and findings regarding EC3 | <p>The main areas where SAMA has established prudential (regulatory) ratios and limits include capital adequacy, LCR, NSFR, leverage, large exposures, related party exposures, limit on deposit liabilities in relation to paid-up capital and reserves, and statutory deposit with SAMA as a percentage of deposit liabilities. SAMA monitors banks’ compliance with these requirements during continuous supervision through review of periodic regulatory returns received from banks, annual ICAAP and ILAAP documents, and annual Supervisory Review Visits. These are also reviewed during onsite inspections as relevant for the scope of the inspection.</p> <p>SAMA has the powers under Articles 22 and 23 of the BCL to propose to the Minister that banks take corrective actions, or it will take corrective actions, and propose withdrawal of the bank’s license where the bank repeatedly contravenes the provisions in the BCL or does not take adequate action or if the actions are not effective. The powers are not explicit or adequate for intervening at an early stage to require a bank to take action to prevent it from breaching its regulatory threshold requirements.</p> <p>Article 22 of the BCL empowers SAMA to take, with the approval of the Minister, one or more of the following measures or require banks to take steps as considered necessary when it finds that a bank has failed to comply with the provisions of this law, or with the provisions of any regulations issued under this law, or if a bank adopts a policy that might seriously affect its solvency or liquidity: (i) appoint one or more advisers to advise</p> |

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| | <p>the bank in the conduct of its business; (ii) order the suspension or removal of any director or officer of the bank; (iii) limit or suspend the granting of credits or the acceptance of deposits; and (iv) require the bank to take such other steps, as it may consider necessary.</p> <p>Article 22 of the BCL and Article V of the Implementing Rules for the BCL allow SAMA to take one or more of the following measures:</p> <ul style="list-style-type: none"> • Imposing the penalties stipulated in Article (23) of the BCL. • Suspending or dismissing the bank employee who deliberately provided false data, information, or facts. • Informing the bank about its violations and requiring it to take corrective measures within a period determined by SAMA. This can be done either in writing or by calling the bank's board chairperson, the managing director, or the general manager in charge. • In case of the bank's non-compliance with SAMA's instructions, SAMA may take some or all the measures below: <ul style="list-style-type: none"> ○ Informing the chairperson of the bank's board of directors, through a representative from SAMA or by any other means, of the importance of convening a board meeting within a period determined by SAMA to review the bank's violations and take the necessary corrective measures. ○ The meeting shall be attended by one or more of SAMA representatives. ○ Requiring the bank to take any corrective measures deemed necessary by SAMA. ○ Assigning one or more advisors to assist the bank in managing its business. ○ Appointing an observer to the bank's board of directors for a period determined by SAMA. The observer shall have the right to participate in the discussions held during the board's meetings and write down their opinion on the decisions taken by the board during these meetings. ○ Taking any other measures SAMA deems necessary after obtaining the approval of the Minister. <p>Corrective actions and sanctions most considered by SAMA for breaches include rectification of the breach, imposing penalties, drawing attention of the bank to the breach or irregularity, requiring the senior management or the bank's board to: (i) issue a warning to the concerned employee and place that in the personal files of the employee; or</p> <p>(ii) requiring a change of position for the concerned employee.</p> <p>Also please see description and finding under EC2, about SAMA not taking any material corrective actions during the past five years despite potential situations warranting such action.</p> |
| EC4 | <p>The supervisor has available a broad range of possible measures to address, at an early stage, such scenarios as described in essential criterion 2 above. These measures include the ability to require a bank to take timely corrective action or to impose sanctions expeditiously. In practice, the range of measures is applied in accordance with the gravity of a situation. The supervisor provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, imposing</p> |

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| | <p>more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, Board members or controlling owners, facilitating a takeover by or merger with a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking license.</p> |
| <p>Description and findings regarding EC4</p> | <p>As mentioned in the description and finding under CP1-EC6, and EC2 of this CP, the SCBL and the BCL, and their implementing regulations have empowered SAMA to take (and/or require a bank to take) corrective action and impose a range of penalties, some with the approval of the Minister and some by SAMA based on the powers delegated to it under Article V of the Implementing Rules of the BCL. These powers can be used when a bank has failed to comply with the provisions of BCL, or with the provisions of any regulations issued under this law or if a bank adopts a policy that might seriously affect its solvency or liquidity. Laws have also empowered the Minister to revoke a bank's license with the approval of the council of ministers.</p> <p>These powers are not explicitly available where the bank is or is likely to be engaging in unsafe or unsound practices or when the interests of depositors are otherwise threatened. Laws or regulations have not explicitly defined or articulated what would be construed as unsafe or unsound practices, or situations where the interests of depositors are threatened. These terms and how these are to be applied are also not articulated in the internal guidelines and manuals available to supervisors.</p> <p>Corrective actions and sanctions most considered by SAMA for breaches include rectification of the breach, imposing penalties, drawing attention of the bank to the breach or irregularity, requiring the senior management or the bank's board to: (i) issue a warning to the concerned employee and place that in the personal files of the employee; or (ii) requiring a change of position for the concerned employee.</p> <p>The current powers available to SAMA under the BCL do not articulate the types of actions specified in this EC. For several situations where the BCL does not explicitly empower SAMA to either propose requiring a certain measure or initiating a certain measure, the supervisors point to the powers available to SAMA under Article 22 (d) of the BCL which empowers SAMA to, with the approval of the Minister, "require the bank to take such other steps, as it may consider necessary." However, this power has not been used by SAMA. The supervisors also point to the powers available under the SIFIL (please see description under EC6, CP1 for details) which are, however, not yet operational as explained above. In this background, as described under EC 2, SAMA would be severely challenged in taking legally enforceable corrective measures listed in this EC.</p> |
| EC5 | <p>The supervisor applies sanctions not only to the bank but, when and if necessary, also to management and/or the Board, or individuals therein.</p> |
| <p>Description and findings regarding EC5</p> | <p>Articles 23 and 24 of the BCL empower SAMA to propose sanctions against "any person" who contravenes the specified Articles in the BCL. Article 24 of the BCL states explicitly that the Chairman, the Managing Director, the Directors, head office Manager and Branch manager shall be responsible, each within his own jurisdiction, for any contravention of this Law or the decisions and rules issued for its execution. The sanctions against the</p> |

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| | <p>bank, senior management, board, and board members can be imposed only with the approval of the Minister, and as specified under the BCL.</p> <p>In practice, as mentioned under EC3, corrective actions and sanctions most considered by SAMA for breaches include rectification of the breach, imposing penalties, drawing attention of the bank to the breach or irregularity, requiring the senior management or the bank's board to: (i) issue a warning to the concerned employee and place that in the personal files of the employee; or (ii) requiring a change of position for the concerned employee. There are no instances of sanctions against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement.</p> |
| EC6 | <p>The supervisor has the power to take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures and other related entities in matters that could impair the safety and soundness of the bank or the banking system.</p> |
| Description and findings regarding EC6 | <p>Please see description and finding under ECs 1 to 4 which present details of the powers available (or not) to SAMA to propose corrective measures and sanctions against a bank, its directors, and officers. The description also flags the absence of powers in the laws that can allow SAMA to take measures or impose sanctions as per the expectations articulated in this CP. In this situation, the supervisors maintain that SAMA can rely on the omnibus provisions in Article 22(d) of the BCL and a similar provision in the Article V of the Implementing Rules of the BCL, which states that SAMA can "require the bank to take such other steps, as it may consider necessary." The above description also presents how SAMA would be challenged in initiating several specific measures and/ or responding to specific situations. A few of these are presented in the description and finding under EC2. A few more that are relevant with reference to corrective actions that could help address the risks to the safety and soundness of the bank or the banking system from the entities in the banking group, the bank's parent companies, and entities in the wider group are listed here:</p> <ul style="list-style-type: none"> • Initiating enforcement actions against shareholders that may own or co-own a bank. • Requiring banks' existing shareholders to increase or inject more capital in the bank. • Ring-fencing the bank from the actions of parent companies, subsidiaries, parallel-owned banking structures, and other related entities. |
| EC7 | <p>The supervisor cooperates and collaborates with relevant authorities in deciding when and how to effect the orderly resolution of a problem bank situation (which could include closure, or assisting in restructuring, or merger with a stronger institution).</p> |
| Description and findings regarding EC7 | <p>SAMA is the resolution authority for banks designated as SIFIs under the SIFIL. The other banks are subject to resolution under the Bankruptcy Law. SAMA is yet to formally designate a bank as a SIFI under the SIFIL. Though SIFIL was issued on December 10, 2020, it has not been operationalized yet as the implementing regulations for this law are yet to be issued. SAMA is yet to review the recovery plans received from the relevant banks and prepare the resolution plans for the SIFIs under its supervision. As a result, although the law is in place, the operating framework for timely and orderly resolution of</p> |

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| | <p>banks by SAMA in cooperation and collaboration with other relevant authorities in and outside the Kingdom is yet to be established.</p> <p>The Bankruptcy Law issued by Royal Decree number (M/50) dated February 14, 2018, in Article 92 gives SAMA the power to file a petition with the court to initiate a liquidation procedure against a distressed or bankrupt bank. While SAMA can initiate liquidation proceedings for the non-SIFI banks, it would still need to cooperate and collaborate with the other regulators and agencies since all banks belong to a banking group and in some instances belong to a wider group. Currently, SAMA does not have MoUs that includes cooperation and collaboration with domestic and foreign authorities that will be relevant for deciding and managing an orderly resolution of a problem bank situation.</p> |
| Additional Criteria | |
| AC1 | Laws or regulations guard against the supervisor unduly delaying appropriate corrective actions. |
| Description and findings regarding AC1 | <p>Laws or regulations do not include provisions that would prevent SAMA from unduly delaying appropriate corrective actions.</p> <p>As mentioned in the description and finding under EC 1, the laws explicitly empower SAMA to take corrective actions when banks breach the provisions in laws or regulations. When a breach occurs, these are reviewed by the offsite team, and where required, these are also reviewed by the onsite team. Based on the onsite finding, banks are required to develop time-bound action plans to remedy the breach and submit these for SAMA's approval. Banks are required to submit periodic progress reports to SAMA on the progress made in the implementation of the agreed action plans. Supervisors pursue with the banks until the action plans are fully implemented. Where required, they undertake onsite visits to confirm full implementation or implementation progress.</p> <p>The above process will be applicable where breach has occurred and where corrective actions have been initiated. The Additional criterion (AC) is in the context of initiating timely corrective actions ahead of a breach and initiating actions where a breach might not have occurred, but it would be imminent if the bank did not take any corrective action. Laws or regulations do not have provisions that can avoid or restrict delays in initiating corrective actions.</p> |
| AC2 | When taking formal corrective action in relation to a bank, the supervisor informs the supervisor of non-bank related financial entities of its actions and, where appropriate, coordinates its actions with them. |
| Description and findings regarding AC2 | <p>Laws or regulations or internal guidelines do not explicitly require SAMA to inform the supervisors of non-bank related financial entities of its actions, or coordinate with them, while taking formal corrective action in relation to the bank.</p> <p>All financial entities in the banking group and activities in the bank are regulated and supervised by SAMA except for capital market activities, which fall within the purview of the CMA, and the insurance activities that are regulated by the recently established IA. The MoU with the CMA does not explicitly require SAMA to inform the CMA when it</p> |

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| | <p>takes formal corrective action in relation to the bank. SAMA is yet to execute an MoU with the IA.</p> <p>In practice, SAMA does not inform the other supervisors (other domestic regulators, home, and host) of its corrective actions or sanctions or coordinate its actions with them.</p> |
| Assessment of Principle 11 | Materially non-compliant. |
| Comments | <p>Supervisors engage bilaterally with the supervised banks at the senior management level during the SRV, ICAAP and ILAAP discussions. Following these meetings supervisors require banks to undertake some corrective actions that are improvements required in banks' ICAAP and ILAAP documents or adjustments to their strategies and risk appetite statements. SAMA inspection reports are shared with the bank, and they are required to submit progress about actions taken on the inspection findings as per the given timelines on quarterly basis. Further, follow up visits are carried out to assess correctness of the actions taken/reported by the banks. The issues are escalated to the higher levels in SAMA and to the bank's senior management in case banks fail to implement the inspection recommendations in a timely manner.</p> <p>SAMA takes corrective actions when a bank breaches any requirement set in law or regulations. Though it has powers to take corrective action (with the approval of the Minister, where required), when a bank adopts a policy that could threaten its solvency or liquidity, SAMA has not used this power. The powers do not extend to taking corrective actions ahead of a regulatory or legal breach or in response to unsound or unsafe practices.</p> <p>Supervisors do not engage directly with bank boards at an early stage to require its concerns to be addressed in a timely manner. They also do not meet with the board when there is a need for taking significant corrective actions or when the banks' corrective actions are not adequate or are ineffective.</p> <p>The provisions in the laws (and implementing regulations) are not fully clear if SAMA can take material corrective actions or impose significant sanctions without the prior approval of the Minister. In either case, during the past five years, SAMA has not taken any material corrective actions, and has not imposed sanction against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement though one local bank was placed on "high" supervisory stance over the past three years and one other local bank was placed on similar supervisory stance for two of the past three years.</p> <p>On sanctions or penalties, SAMA largely relies on monetary penalties, drawing the banks' attention to the breach or violation, requiring the bank to warn the concerned employee. It needs the prior approval of the Minister to apply other types of sanctions.</p> <p>The other areas where the powers available to SAMA are inadequate or not available for taking corrective actions or imposing sanctions are: for ring-fencing the bank, restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, suspending payments to shareholders or share repurchases, restricting asset transfers, barring</p> |

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| | <p>individuals from the banking sector, and replacing or restricting the powers of managers, board members or controlling owners.</p> <p>SAMA is yet to establish cooperation and collaboration arrangements with relevant authorities in deciding when and how to effect orderly resolution of a problem bank situation. The framework for resolving banks, and recovery and resolution plans for SIFIs are yet to be established. Currently, SAMA does not inform the other supervisors (other domestic regulators, home, and host) of its corrective actions or sanctions or coordinate its actions with them. The laws do not have requirements or provisions that can avoid undue delay in taking appropriate corrective actions.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Obtain explicit powers under law to: <ul style="list-style-type: none"> ○ Take corrective actions and impose sanctions without having to seek the Minister’s prior approval. ○ Enhance engagement with board: raise supervisory concerns with them, write to bank’s board as needed. ○ Take corrective actions, based on supervisory judgment, when bank is engaging in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened. ○ Intervene at an early stage, based on supervisory judgment, to require a bank to take action to prevent it from breaching its legal or regulatory threshold requirements. ○ Take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, and other entities in the banking group and wider group. ○ Include additional corrective actions in supervisory toolkit such as restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, board members or controlling owners. ○ Guard against undue delay in taking appropriate corrective actions. • Develop internal guidelines for exercising the corrective actions and sanctioning powers based on supervisory judgment (ahead of legal or regulatory breaches) and in a manner that is consistent across banks and across time. • Establish arrangements with resolution authorities in and outside KSA in deciding when and how to effect orderly resolution of banks. • Inform supervisors of non-bank related financial entities of actions and, where appropriate, coordinate with them. |
| Principle 12 | Consolidated supervision. An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring |

| | and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide. ³⁸ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|------------------------------|-------------------|--|--|--|---------------------------------------|--|------------------------------|--|---------------------|-------------------|---------------------|-------------------|---|-----------|----------|----------|----------|---------------------------------------|-----------|-----------|-----------|----------|--------------------------|--|--|--|--|------------------|---|---|---|---|--------------------|---|---|---|---|--|---|---|---|---|------------------------|----|----|----|---|
| Essential Criteria | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| EC1 | The supervisor understands the overall structure of the banking group and is familiar with all the material activities (including non-banking activities) conducted by entities in the wider group, both domestic and cross-border. The supervisor understands and assesses how group-wide risks are managed and takes action when risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, may jeopardize the safety and soundness of the bank and the banking system. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Description and findings regarding EC1 | <p>Saudi Arabian banks (local banks) have 69 subsidiaries (51 domestic and 18 foreign), and 24 associates (20 domestic and 4 foreign). These banking groups have amongst them 3 banking entities, 10 insurance entities, 8 securities market or other financial entities, and 72 non-financial entities, of which 14 are outside Saudi Arabia. About 71 percent of these entities belong to five banks; two banks have 17 group entities each, two have 11 group entities, and one has 10 group entities. All 11 local banks have at least two domestic subsidiaries, and nine have foreign subsidiaries. Details of banking group entities are provided in Table 4 below. Based on the data available with SAMA, these collectively account for 3 to 22 percent of the net profits, 1 to 7 percent of total assets, and 3 to 18 percent of capital of their respective consolidated bank. In 9 of the 11 banks at least one of these three parameters is about 10 percent or more and in two it is 5 to 10 percent. This shows that the group entities of the Saudi banks are not immaterial.</p> <p>Saudi banks (local banks) have 18 subsidiaries, 4 Associates, and 8 branches in foreign jurisdictions. These include three banking subsidiaries in three jurisdictions.</p> <table border="1" data-bbox="418 1108 1409 1812"> <thead> <tr> <th colspan="5">Table 4. Entities Belonging to Banking Groups</th> </tr> <tr> <th rowspan="2"></th> <th colspan="2">Group Entities in Saudi Arabia</th> <th colspan="2">Group Entities Abroad</th> </tr> <tr> <th>Subsidiaries</th> <th>Associates</th> <th>Subsidiaries</th> <th>Associates</th> </tr> </thead> <tbody> <tr> <td>No. of banks that have subsidiaries and associates</td> <td>11</td> <td>3</td> <td>9</td> <td>9</td> </tr> <tr> <td>No. of subsidiaries/associates</td> <td>51</td> <td>20</td> <td>18</td> <td>4</td> </tr> <tr> <td>Of which, no. of:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Banking entities</td> <td>0</td> <td>0</td> <td>3</td> <td>0</td> </tr> <tr> <td>Insurance entities</td> <td>8</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Securities market and other financial entities</td> <td>2</td> <td>1</td> <td>5</td> <td>0</td> </tr> <tr> <td>Non-financial entities</td> <td>41</td> <td>17</td> <td>10</td> <td>4</td> </tr> </tbody> </table> | Table 4. Entities Belonging to Banking Groups | | | | | | Group Entities in Saudi Arabia | | Group Entities Abroad | | Subsidiaries | Associates | Subsidiaries | Associates | No. of banks that have subsidiaries and associates | 11 | 3 | 9 | 9 | No. of subsidiaries/associates | 51 | 20 | 18 | 4 | Of which, no. of: | | | | | Banking entities | 0 | 0 | 3 | 0 | Insurance entities | 8 | 2 | 0 | 0 | Securities market and other financial entities | 2 | 1 | 5 | 0 | Non-financial entities | 41 | 17 | 10 | 4 |
| Table 4. Entities Belonging to Banking Groups | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Group Entities in Saudi Arabia | | Group Entities Abroad | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Subsidiaries | Associates | Subsidiaries | Associates | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of banks that have subsidiaries and associates | 11 | 3 | 9 | 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| No. of subsidiaries/associates | 51 | 20 | 18 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Of which, no. of: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Banking entities | 0 | 0 | 3 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Insurance entities | 8 | 2 | 0 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Securities market and other financial entities | 2 | 1 | 5 | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Non-financial entities | 41 | 17 | 10 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

³⁸ Please refer to footnote 19 under Principle 1.

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| | <p>SAMA's overall supervisory approach involves the following five main activities namely, continuous monitoring (off-site), planning and scheduling supervisory activities, defining inspection activities, performing inspection activities, reporting findings and follow-up on the findings. These feed into the ongoing risk assessment and rating process for each supervised banking group. Risk profile of each banking group is updated to reflect the changes that emanate from the supervisory processes mentioned above. Continuous monitoring involves review of periodic regulatory returns submitted by banks, quarterly monitoring meetings, supervisory inquires, annual SRVs, and discussion of ICAAP and ILAAP documents.</p> <p>SAMA's RBS framework is based on the RAM that captures both quantitative and qualitative factors to measure risks and related controls in line with banks' business model and strategy. The RAM provides a standardized methodology to assess the inherent risks and level of controls. The RAM also evaluates the oversight framework that include board of directors, senior management, operational management, financial control, risk management, internal audit, and compliance. The inherent risk indicators used by SAMA are based on a set of returns (KRI returns) received from banks that is reported on a domestic consolidated basis, which excludes the business and exposures conducted outside Saudi Arabia through foreign branches and foreign subsidiaries. The RAM and the related supervisory processes do not include the material activities conducted by entities in the wider group, understanding and assessment of how group-wide risks are managed, assessment of risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, the complexity of the group structure, the group-wide board and senior management oversight, compliance and internal audit frameworks, and the resolvability of banks and the banking group. The scope of onsite inspections does not include the above elements as well. Besides the RAM and related processes, SAMA obtains and analyzes periodic regulatory returns for: (i) capital adequacy, liquidity (LCR and NSFR), and leverage on a global consolidated basis; and (ii) large exposures and related party exposures on domestic consolidated basis. Supervisors also review banks' consolidated financial statements on a quarterly basis. The annual SRV exercise covers high-level topics including but not limited to the group strategy, risk management framework and business forecasts. The annual supervisory engagements include review of ICAAP, ILAAP, and banks' stress testing. The RAM and other supervisory processes do not include assessment of the risk profiles or riskiness of the bank's group entities, do not include review of the risks that emanate from the parent or controlling shareholders, and the entities in the wider group.</p> |
| EC2 | The supervisor imposes prudential standards and collects and analyses financial and other information on a consolidated basis for the banking group, covering areas such as capital adequacy, liquidity, large exposures, exposures to related parties, lending limits and group structure. |
| Description and findings regarding EC2 | The table below provides a summary of the prudential requirements for banks, the scope of their application and the level at which these are monitored and enforced. |

| | Prudential Requirements | Scope of Application | Level at Which Monitored and Enforced |
|--|---|--------------------------------------|--|
| | Capital adequacy, Leverage ratio, LCR, NSFR | Banking group (Global consolidation) | Banking group |
| | Large exposures, Related party exposures | Banking group | Domestic consolidation |
| | Loan to deposit ratio, Statutory deposits ratio, Liquid reserves ratio | KSA branches | KSA branches |
| | <p>The supervisors' access to data and information on the consolidated bank is through the periodic offsite reporting from banks, which covers the consolidated financial statements, prudential requirements on capital adequacy, leverage, LCR and NSFR. They also engage with banks' senior management during the SRV and annual meetings that include discussion on bank's ICAAP and ILAAP. Based on the above, SAMA monitors and enforces the prudential requirements at the levels indicated in the table above. From a banking group perspective, there is a gap in the monitoring and enforcement of the prudential requirements on large exposures and related party exposures.</p> <p>Please also see description and finding under EC 1 of CP 10 for more details of periodic returns obtained at the level of global consolidated bank.</p> <p>The above prudential requirements are not applied to the three subsidiary banks in foreign jurisdiction at the sub-consolidated level. Accordingly, SAMA does not obtain data to assess the levels of these prudential ratios at the level of each of the three banking subsidiaries abroad.</p> | | |
| EC3 | <p>The supervisor reviews whether the oversight of a bank's foreign operations by management (of the parent bank or head office and, where relevant, the holding company) is adequate having regard to their risk profile and systemic importance and there is no hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries. The supervisor also determines that banks' policies and processes require the local management of any cross-border operations to have the necessary expertise to manage those operations in a safe and sound manner, and in compliance with supervisory and regulatory requirements. The home supervisor takes into account the effectiveness of supervision conducted in the host countries in which its banks have material operations.</p> | | |
| Description and findings regarding EC3 | <p>As mentioned under EC1, Saudi banks (local banks) have 18 subsidiaries, 4 Associates, and 8 branches in foreign jurisdictions.</p> <p>The key controls assessments with regards to bank's foreign presence or operations included in the control risk assessment questionnaires are as follows:</p> <ul style="list-style-type: none"> • Credit risk: <ul style="list-style-type: none"> ○ Does the Bank conduct SIMAH inquiry (or a suitable credit bureau for non-KSA borrowers serviced by either the local or foreign branches) at regular intervals to assess the credit history of the borrowers? (Assessed for portfolios of corporate loans, personal loans, and SME loans). • Board of directors: | | |

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| | <ul style="list-style-type: none"> ○ In case of overseas subsidiaries or branches licensed and operating out of Saudi Arabia, is the credit policy approved by Chief Executive or a relevant management committee at Head Office (or the Board of Directors)? ○ In case the bank has foreign branches, do the policies and procedures cover loan origination, monitoring and special asset management pertaining to overseas activities? ○ In case the bank has majority owned subsidiary(ies) operating in the financial sector, does it formulate group level credit policy or ensure that the subsidiary's credit policies and procedures are in line with SAMA rules and regulations? ○ Does the bank have policies to manage and organize the oversight on the subsidiaries (Bank's representation on the subsidiary's board committees, the frequency of reports to the bank, etc.)? ● Risk management: <ul style="list-style-type: none"> ○ Does the Bank have a group wide risk register in place? ● Compliance: <ul style="list-style-type: none"> ○ Is compliance function appropriately organized not only at group-level but also at individual level where group's compliance officer has responsibility for all of the group's heads of compliance? ○ Does the bank have formally documented reporting requirements from subsidiaries? ● Internal audit: <ul style="list-style-type: none"> ○ Does the Internal Audit function have a documented list of all the bank's department/units, and its subsidiaries that are subject to the audit review? ○ Has the internal audit reviewed the bank subsidiaries activities? (In case the subsidiary does not have internal audit function.) <p>At the time of permitting or authorizing establishment of foreign branches or subsidiaries, SAMA assesses if there is any hindrance in host countries for the parent bank to have access to all the material information from their foreign branches and subsidiaries.</p> <p>The scope, depth, and frequency of SAMA supervisors' review of the bank management's oversight of the bank's foreign branches or subsidiaries are not adequately recorded in the supervisory documents. SAMA undertakes controls assessment based on each bank's self-assessment of the above questions, which feed into the determination of the control ratings for the relevant individual risks. These do not feed into or lead to focused assessment of the bank management's oversight of the bank's foreign operations. Review of policies applied by the head offices on the local management of their cross-border operations is not undertaken during the annual SRV meetings. For the first time, during August 2023 and January 2024, SAMA undertook onsite inspections of how Saudi banks' management oversee their banks' foreign branch operations. Please see description and finding under EC4 for more details of these inspections.</p> <p>SAMA has not undertaken formal assessment of the adequacy of supervision conducted in the host countries. Currently, this does not feed into the RAM.</p> |
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| EC4 | The home supervisor visits the foreign offices periodically, the location and frequency being determined by the risk profile and systemic importance of the foreign operation. The supervisor meets the host supervisors during these visits. The supervisor has a policy for assessing whether it needs to conduct on-site examinations of a bank's foreign operations, or require additional reporting, and has the power and resources to take those steps as and when appropriate. |
| Description and findings regarding EC4 | <p>SAMA's powers for supervising banks' subsidiaries and group entities, and accessing their books, records, staff, management, and board members are not available in laws. Article 18 of the BCL and Article 4 of the Implementation Rules of BCL do not include such powers. SAMA policy and practice with reference to foreign subsidiaries or foreign operations are not documented in the RBS manual. SAMA does not have a policy for assessing whether it needs to conduct onsite examinations of a bank's foreign operations or require additional reporting from banks' foreign branches/subsidiaries. SAMA had not undertaken onsite inspection of Saudi banks' foreign operations—both branches and subsidiaries, until August 2023.</p> <p>In August 2023, SAMA commenced a thematic inspection of Saudi banks' foreign branches in four jurisdictions (UK, Jordan, UAE, and Bahrain) to review home (parent) oversight over the foreign branch operations. As part of this inspection, the onsite inspection team is meeting with the relevant host supervisors to understand their supervisory priorities in general and any concerns they may have on the Saudi banks' foreign branches. The inspection reports of the foreign bank branches are yet to be finalized.</p> |
| EC5 | The supervisor reviews the main activities of parent companies, and of companies affiliated with the parent companies, that have a material impact on the safety and soundness of the bank and the banking group, and takes appropriate supervisory action. |
| Description and findings regarding EC5 | <p>Please see description under EC1 on SAMA's supervisory approach. As mentioned there, SAMA's RAM and other supervisory processes are applied to the banking group (consolidated bank) and these processes do not include review of the main activities or the risks that emanate from the parent or controlling shareholders, and the entities under their respective control.</p> <p>Of the eleven local banks operating in Saudi Arabia, one is a subsidiary of a foreign bank from a neighboring jurisdiction and in two other local banks, foreign banks licensed in other jurisdictions have a controlling interest. There are at least three other banks whose controlling shareholders/parent entities have investment in several other entities. These six banks have a significant market share in the Saudi banking system. In all these cases, the RAM and the supervisory processes do not review the main activities or the risks that emanate from the parent or controlling shareholders, and the entities under their respective control.</p> <p>The offsite and onsite supervision through the above engagements do not provide adequate details of the activities of parent companies, and of companies affiliated with the parent companies. The supervisory outputs during 2022 and 2023 did not include such assessment for the local banks that belong to a banking group or a wider group. The risk assessment and risk profiling methodologies for banking groups, do not</p> |

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| | <p>incorporate the risks from the parent companies or the companies affiliated to the parent companies. These elements are not assessed or considered by supervisors while assessing the banking group's risk profile and supervisory stance.</p> <p>SAMA does not obtain periodic offsite reporting on intra-group transactions and related party transactions. The reporting by counterparty is presently limited to exposures on related parties who individually own more than 5 percent of the bank's eligible capital base. This does not provide adequate insight on the extent of interconnectedness and the potential impact that the parent entity or the companies affiliated with the parent entities might have on the bank. The supervisory approach also does not explicitly consider the reputation risk and the risk arising from technological and other dependencies that arise from the group entities to the supervised banking group.</p> <p>The powers available to SAMA are not clear with regards to its ability to take pre-emptive action for addressing any adverse impact from a bank's parent company or the companies affiliated to the parent company, to preserve the safety and soundness of the bank or the banking system. (Please see description and finding under CP1 where the powers available to SAMA under the BCL have been explained in detail.)</p> |
| EC6 | <p>The supervisor limits the range of activities the consolidated group may conduct and the locations in which activities can be conducted (including the closing of foreign offices) if it determines that:</p> <ul style="list-style-type: none"> (a) the safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed; (b) the supervision by other supervisors is not adequate relative to the risks the activities present; and/or (c) the exercise of effective supervision on a consolidated basis is hindered. |
| Description and findings regarding EC6 | <p>Please see description and finding under EC6 CP1 where the powers available to SAMA under the BCL have been explained in detail. In terms of these powers, SAMA can take corrective actions and impose sanctions—and penalties—some with the prior approval of the Minister and some as per delegation. This includes withdrawal of the bank's license, but with the prior approval of the council of ministers.</p> <p>As described in CP1 finding, SAMA does not have powers to take corrective actions when a bank has not breached legal or regulatory requirements or when it engages in unsafe or unsound practices. Similarly, the clarity and adequacy of the powers to respond in the circumstances specified in this EC and in the manner specified is not established, for the following reasons:</p> <ul style="list-style-type: none"> • SAMA can use the powers only when the bank has failed to comply with the provisions of BCL, or with the provisions of any regulations issued under the BCL, or if a bank adopts a policy that might seriously affect its solvency or liquidity. • Regarding the types of corrective actions that SAMA can take, the BCL does not include limiting the range of activities of the consolidated group in terms of locations at which they can undertake the activities or the types of activities that they can undertake—except placing limits on granting of credits and taking of deposits. |

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| | <ul style="list-style-type: none"> The powers in the BCL allow SAMA to require corrective action from the bank. These powers do not allow SAMA to take or require corrective actions from the entities in the banking group or in the wider group. <p>Supervisors maintain that SAMA will be able to use the powers in Articles 4 of the SCBL. This Article states that SAMA shall carry out its duties in accordance with the provisions of this Law, the regulations and policies issued by the Board, and best international standards and practices. SCBL also states that to achieve its objectives, SAMA shall have all the necessary powers and carry out the following, and lists 18 duties, powers, and competences, which do not include the actions expected under this EC.</p> <p>In practice, SAMA has not taken the types of action specified in this EC for the reasons specified in this EC.</p> |
| EC7 | In addition to supervising on a consolidated basis, the responsible supervisor supervises individual banks in the group. The responsible supervisor supervises each bank on a stand-alone basis and understands its relationship with other members of the group. ³⁹ |
| Description and findings regarding EC7 | Please see description under ECs 1 and 2, which describe SAMA's supervisory rating systems (RAM and risk profile) and supervisory processes which bring out that supervision of banking groups is at the levels of domestic consolidation for the risk rating elements (KRIs) and some of the prudential requirements. The rating systems are applied at the level of global consolidation for income and capital, and oversight elements in the RAM and for a few other prudential requirements. As a result, the risk rating and risk profile of the eleven local standalone banks and their three foreign banking subsidiaries are not performed and hence not available. The RAM and other supervisory processes do not include assessment of each bank's relationship with other members of the group, and the risk profiles or riskiness of the bank's group entities, do not include review of the risks that emanate from the parent or controlling shareholders, and the entities in the wider group. |
| Additional Criteria | |
| AC1 | For countries which allow corporate ownership of banks, the supervisor has the power to establish and enforce fit and proper standards for owners and senior management of parent companies. |
| Description and findings regarding AC1 | Laws and regulations allow corporates to own equity in banks. As mentioned in the description and finding under CPs 5 and 6, Article 3 of the BCL requires SAMA to review the fitness and propriety of the bank's founders to confirm their "good reputation." Under the law, fit and proper assessment of the bank's owners is not an ongoing requirement and hence the fit and proper assessments of shareholders is not undertaken periodically after licensing. |
| | The laws or regulations do not empower SAMA to establish and enforce fit and proper requirements for the owners and senior management of the corporates that have a |

³⁹ Please refer to Principle 16, Additional Criterion 2.

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| | significant or controlling share in the bank. Currently, SAMA does not require or enforce these requirements. |
| Assessment of Principle 12 | Materially non-compliant. |
| Comments | <p>SAMA's RBS framework for consolidated supervision is based on the RAM that captures both quantitative and qualitative factors to measure risks and related controls in line with banks' business model and strategy. The RAM provides a standardized methodology to assess the inherent risks and level of controls. The RAM also evaluates the oversight framework that include board of directors, senior management, operational management, financial control, risk management, internal audit, and compliance. Besides the RAM and related processes, SAMA obtains and analyzes periodic regulatory returns. The annual SRV exercise covers high-level topics including but not limited to the group strategy, risk management framework and business forecasts. The annual supervisory engagements include review of ICAAP, ILAAP, and banks' stress testing.</p> <p>All eleven local banks in the Saudi banking system are part of banking groups and several are part of a wider group that include corporate owners, including foreign banks, and their subsidiaries. Two banks have banking subsidiaries within the group. Local banks have 69 subsidiaries (51 domestic and 18 foreign), and 24 associates (20 domestic and 4 foreign). These banking groups have amongst them: 3 banking entities, 10 insurance entities, 8 securities market or other financial entities, and 72 non-financial entities, of which 14 are outside Saudi Arabia. Based on the data available with SAMA, these collectively account for 3 to 22 percent of the net profits, 1 to 7 percent of total assets, and 3 to 18 percent of capital of the respective consolidated banks. In 9 of the 11 banks at least one of these three parameters is about 10 percent or more and in two it is 5 to 10 percent. This shows that the contribution of the group entities in each of the 11 banks is not immaterial. Of the 11 local banks, at least 6 have controlling shareholders/parent entities that have investment in several other entities. These banks have a significant market share in the Saudi banking system.</p> <p>Some of the main gaps or areas for improvement include the following: (i) the RAM and the related supervisory processes do not include the material activities conducted by entities in the wider group, understanding and assessment of how group-wide risks are managed, assessment of risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, the complexity of the group structure, the group-wide board and senior management oversight, compliance and internal audit frameworks, and the resolvability of banks and the banking group; (ii) the KRIs used for assessing the risk profile of banking groups is compiled for the domestic consolidated group instead of the global consolidated group; (iii) some prudential requirements (for example, large exposures and related party transactions) are not required at the level of the global consolidation and some others (for example, liquidity requirements) are monitored and enforced at the level of domestic consolidation; (iv)</p> |

offsite and onsite supervision of the three foreign banking subsidiaries is minimal, hence, assessment of risks in and from these subsidiaries is absent; (v) scope, depth, and frequency of SAMA supervisors' review of the bank management's oversight of the bank's foreign branches or subsidiaries are not adequate; onsite inspection of foreign branches of local banks has not been undertaken, exception being the recent first onsite inspection of foreign branches of Saudi banks; (vi) effectiveness of host supervision not assessed and does not feed into the risk profile or inform supervisory approach; (vii) the powers available to SAMA are unclear and untested with regards to taking pre-emptive action for addressing any adverse impact from a bank's parent company or the companies affiliated to the parent company, and with regards to limiting the range of activities the consolidated group may conduct and the locations in which activities can be conducted; (viii) resolvability assessments of the banking group have not been undertaken and barriers to resolution, if any, are not identified and do not feed into risk profile assessments and corrective actions; and (ix) recovery and resolution plans for banking groups, including the cross-border elements, are yet to be developed. The gaps that pertain to supervision of each bank within the group on a standalone basis, review of impact of the activities of the parent entity and its affiliated entities on the solo bank, including reputation and contagion risks have been considered for grading the level of compliance in CP 8 (Supervisory approach) and for framing the related recommendations.

The gap at item (iii) has been used to assess the grades in the relevant individual CPs and not in this CP.

Recommendations:

- Obtain powers in the laws to:
 - Limit the range of activities of the consolidated group, and the locations in which activities can be conducted (including closure of foreign offices).
 - Establish and enforce fit and proper standards for owners and senior management of parent companies.
- Revise the RAM and related supervisory processes, including reporting by banks, to fully address the gaps in the assessment and supervision of banking groups.
- Review and revise, as appropriate, the prudential requirements framework and related reporting by banks, to facilitate monitoring and enforcement at the level of global consolidation.
- Include explicit assessment of risks from entities in the banking group, the controlling entity, and entities in the wider group (for example reputation, and contagion risks (including financial, technology and other interdependencies), incorporate these in the risk profile and RAM, modify offsite reporting to support such assessment.
- Assess effectiveness of supervision conducted in the host countries, to inform risk profile and supervisory approach.
- Establish policy on scope and frequency of offsite and on-site examinations of local bank's foreign operations, and/or require additional reporting on them.

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| | <ul style="list-style-type: none"> Establish, in partnership with other relevant domestic and foreign authorities, the framework and process for handling banking groups in times of stress, including timely recovery or resolution actions. |
| Principle 13 | Home-host relationships. Home and host supervisors of cross-border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks. |
| Essential Criteria | |
| EC1 | The home supervisor establishes bank-specific supervisory colleges for banking groups with material cross-border operations to enhance its effective oversight, taking into account the risk profile and systemic importance of the banking group and the corresponding needs of its supervisors. In its broadest sense, the host supervisor who has a relevant subsidiary or a significant branch in its jurisdiction and who, therefore, has a shared interest in the effective supervisory oversight of the banking group, is included in the college. The structure of the college reflects the nature of the banking group and the needs of its supervisors. |
| Description and findings regarding EC1 | <p>An overview of Saudi bank presence abroad and the presence of foreign banks in KSA is as below:</p> <ul style="list-style-type: none"> Saudi banks (local banks) have 18 subsidiaries, 4 Associates, and 8 branches in foreign jurisdictions. These include three banking subsidiaries in Turkey, Pakistan, and Malaysia. Of the eleven Saudi banks, one is a subsidiary of a foreign bank from a neighboring jurisdiction and in two other local banks, foreign banks licensed in other jurisdictions have a controlling interest. These three banks account for about 16 percent market share of KSA banking system assets (as of June 2023). Foreign banks operating through branch presence in Saudi Arabia are from 16 jurisdictions and these branches account for about four percent of banking system assets. <p>Four Saudi Arabian (local) banks have established six foreign branches and three banking subsidiaries in eight jurisdictions. SAMA does not consider these foreign operations as material both at the systemic level and at the level of individual banks. Hence, it has not established supervisory colleges for any of the local banks.</p> <p>SAMA was invited to participate in the supervisory colleges of four foreign banks (i.e., Deutsche Bank, First Abu Dhabi Bank, Emirates NBD, and HSBC) that are operating branches in Saudi Arabia. SAMA does not consider these banks' operations in Saudi Arabia as material or significant in terms of their market shares in total banking system assets. The last two supervisory college meetings attended by SAMA were in November 2022 (HSBC at Dubai) and July 2023 (Standard Chartered in London).</p> |
| EC2 | Home and host supervisors share appropriate information on a timely basis in line with their respective roles and responsibilities, both bilaterally and through colleges. This includes information both on the material risks and risk management practices of the |

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| | banking group, ⁴⁰ and on the supervisors' assessments of the safety and soundness of the relevant entity under their jurisdiction. Informal or formal arrangements (such as memoranda of understanding) are in place to enable the exchange of confidential information. |
| Description and findings regarding EC2 | <p>Please see description and finding under EC1 of this CP for details on oversight through supervisory colleges and for an overview of Saudi banks' presence abroad and the presence of foreign banks in KSA.</p> <p>Of the eight host jurisdictions where Saudi banks are operating branches or subsidiaries, SAMA has MoUs with one jurisdiction (UAE), and a split of responsibilities agreement with another (Prudential Regulatory Authority in United Kingdom (PRA-UK)). SAMA has yet to sign MoUs with the home supervisory authorities in 16 jurisdictions whose banks have established branch operations in Saudi Arabia.</p> <p>In addition to the above, it would be relevant for SAMA to establish MoUs with the supervisory authorities in UK, Bahrain and Jordan, whose banks have controlling interests in three Saudi banks, which account for about 16 percent of the Saudi banking system (as of June 2023).</p> <p>SAMA has MoUs with the Korean Financial Services Commission, Korean Financial Supervisory Service, and Hong Kong Monetary Authority whose banks are not operating in Saudi Arabia and Saudi banks are not present in those jurisdictions as well. These MoUs cover topics of common interest such as financial supervision, innovation and fintech.</p> <p>The information sharing arrangements under the lone MoU with a host supervisor is not systematic, ongoing, and proactive, but reactive. SAMA shares information with the host supervisor when requested. There is no systematic, ongoing, periodic, and proactive exchange of data or information between SAMA and the other host authorities. Similarly, SAMA does not share or receive data or information on ongoing basis from the home supervisors of the foreign banks operating in KSA.</p> <p>SAMA occasionally engages with some home supervisors through participation in supervisory colleges and while facilitating home supervisors' inspection of their banks' operations in KSA.</p> |
| EC3 | Home and host supervisors coordinate and plan supervisory activities or undertake collaborative work if common areas of interest are identified in order to improve the effectiveness and efficiency of supervision of cross-border banking groups. |
| Description and findings regarding EC3 | SAMA has conducted first onsite inspections of the foreign branches of the local banks between August 2023 and January 2024. This was a thematic inspection of foreign operations of Saudi banks that reviewed the head office oversight of the foreign branch operations. During the above onsite visits, SAMA inspection team(s) met with the host supervisors in these jurisdictions to understand their supervisory priorities in general and any specific concerns that they might have with regards to the operations of Saudi banks |

⁴⁰ See Illustrative example of information exchange in colleges of the October 2010 BCBS Good practice principles on supervisory colleges for further information on the extent of information sharing expected.

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| | <p>in their jurisdictions. During the same visit, the inspection team was invited to join an offsite supervisory engagement by UK PRA with the Saudi branches of the UK bank(s). The inspection team is in process of sharing draft observations with the respective banks. Besides this, there were no other onsite visits by SAMA to the foreign branches and subsidiaries of domestic banks.</p> <p>During the past five years, SAMA did not undertake any supervisory activity in collaboration with a host supervisor or with a home supervisor, including the supervisors from the three jurisdictions whose banks have controlling interest in three local banks. During this period, the home supervisors from one jurisdiction (Oman) undertook onsite supervisory visits of the branch of their bank operating in Saudi Arabia.</p> |
| EC4 | <p>The home supervisor develops an agreed communication strategy with the relevant host supervisors. The scope and nature of the strategy reflects the risk profile and systemic importance of the cross-border operations of the bank or banking group. Home and host supervisors also agree on the communication of views and outcomes of joint activities and college meetings to banks, where appropriate, to ensure consistency of messages on group-wide issues.</p> |
| Description and findings regarding EC4 | <p>SAMA has not developed a communication strategy or arrangement with relevant host supervisors and does not see a need for such strategy because it does not consider the foreign operations of Saudi Arabian banks as material. Please see description and finding under EC1 of this CP and EC1 of CP12 for a brief overview of the significance of Saudi bank's operations in foreign jurisdictions and operations of foreign banks in KSA. It also does not have agreed communication strategies or arrangements with any of the 16 home supervisors whose supervised banks have operational presence in KSA, including those who are hosting supervisory colleges. SAMA does not have agreed communication strategies with the supervisors and resolution authorities from the three jurisdictions (UK, Bahrain, and Jordan) whose banks have controlling interest in three local banks.</p> |
| EC5 | <p>Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities, develops a framework for cross-border crisis cooperation and coordination among the relevant home and host authorities. The relevant authorities share information on crisis preparations from an early stage in a way that does not materially compromise the prospect of a successful resolution and subject to the application of rules on confidentiality.</p> |
| Description and findings regarding EC5 | <p>Please see description and finding under EC 6 CP 1 which details SAMA's powers for resolution of SIFIs available under SIFIL, the yet to be issued implementation rules for the SIFIL, and the work-in-progress status of the recovery plans prepared by SIFIs as these are yet to be reviewed by SAMA. The description in that EC also includes non-availability of the resolution plans for banks that are SIFIs and their respective banking groups, and possible additional work required in the SIFIL to include the newly established insurance regulator as a competent authority to deal with resolution of insurance entities that could be a SIFI. The above-mentioned description and finding also point to the yet to be established operational elements for resolution of a SIFI, including formal determination and designation of institutions as a SIFI, and cooperation and coordination with the</p> |

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| | <p>relevant resolution authorities within Saudi Arabia and in other jurisdictions. SAMA has yet to establish a framework for cross-border crisis cooperation and coordination. Some provisions of Article 30 of the SIFIL (relevant extracts are below) empowers the SAMA to choose not to support the foreign resolution and/or supervisory authorities in the event of resolution of a FBB in Saudi Arabia. This might need a revisit to ensure that the provisions in this law do not undermine the crisis preparedness and crisis management frameworks and operations:</p> <ul style="list-style-type: none"> • Article 30(1): The foreign branch shall notify the competent authority when the parent financial institution is subject to resolution procedures. • Article 30(2): Without prejudice to relevant international agreements and conventions to which the Kingdom is party, the competent authority may, upon its knowledge that the foreign branch is subject to resolution procedures, accept or reject wholly or partially such procedures to achieve the objectives of this Law. • Article 30(3): Acknowledgement of resolution procedures taken by a foreign competent authority against a foreign branch shall not prejudice the provisions of the Bankruptcy Law in applicable cases. <p>Given the significance of the cross-border presence/ operations of Saudi banks (please see description and finding under EC1 of this CP and CP12 for details), cross border crisis cooperation and coordination is relevant. This would also be the case for the three Saudi banks where foreign banks have a controlling interest. Cross-border crisis cooperation and coordination is necessary to ensure that the foreign creditors, foreign shareholders of parent entities and affiliates, and foreign supervisory and resolution authorities do not either stall the resolution by SAMA or trigger parallel or prior resolution actions, and to be able to manage the process if any of the above happened.</p> |
| EC6 | <p>Where appropriate, due to the bank's risk profile and systemic importance, the home supervisor, working with its national resolution authorities and relevant host authorities, develops a group resolution plan. The relevant authorities share any information necessary for the development and maintenance of a credible resolution plan. Supervisors also alert and consult relevant authorities and supervisors (both home and host) promptly when taking any recovery and resolution measures.</p> |
| Description and findings regarding EC6 | <p>Please see description and finding under EC5, that covers the elements pertaining to resolution plans, group resolution plans including cross-border resolution plans, cooperation, and coordination.</p> <p>The DSIBs have developed and submitted their first recovery plans to SAMA during the first half of 2023. However, SAMA is yet to review and approve these. As regards resolution plans, SAMA is yet to develop one. While developing the resolution plans for local banks, SAMA should also develop group resolution plans, in coordination with the relevant home and host supervisory authorities and resolution authorities.</p> <p>The MoUs that SAMA has established till date do not include in relevant detail the information sharing and cooperation/coordination arrangements that can facilitate development of cross border resolution plans.</p> |

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| EC7 | The host supervisor's national laws or regulations require that the cross-border operations of foreign banks are subject to prudential, inspection and regulatory reporting requirements similar to those for domestic banks. |
| Description and findings regarding EC7 | <p>The banking sector of Saudi Arabia has not been hosting subsidiaries of foreign banks except GIB that is a subsidiary of GIB Bahrain and GIB Bahrain is a subsidiary of PIF Saudi Arabia. For all practical purposes, SAMA treats GIB as a domestic bank. Excluding GIB, sixteen foreign banks are operating in Saudi Arabia through branch presence and are subject to separate set of regulations (Regulations for Foreign Banks Branches (FBB) (September 2019).</p> <p>There are differences between the prudential, regulatory, and supervisory frameworks of domestic banks and foreign bank branches (FBBs) operating in Saudi Arabia due to inherent variations in their business model, regulatory requirements, and the level of materiality in the domestic banking system. FBBs constitute less than four percent of the total banking assets, and hence SAMA believes that level of materiality does not demand a similar level of supervision as that of domestic banks. A summary of the main differences in the prudential and regulatory requirements applicable to FBBs are listed here and the details of the requirements applicable to the FBBs are provided below:</p> <ul style="list-style-type: none"> • FBBs are not required to maintain capital adequacy and leverage ratio as per Basel III norms. Instead, SAMA can require FBBs that are engaged in significant retail activities in Saudi Arabia to maintain quasi-capital in the form of a Funding Ratio requirement. • Only FBBs that take significant retail deposits or are identified as a systemically important wholesale FBB must meet minimum LCR requirements. • Only FBBs with significant retail activities or are a systemically important wholesale FBB must meet minimum NSFR requirements. • They are not subject to the large exposure limits that are applied to domestic banks but should provide periodic reporting to SAMA on their large exposures. <p>Additional details of the prudential requirements established for FBBs is presented below. In addition, if SAMA determines that a parent (foreign) bank is operating in a country where the supervisory framework may have some weaknesses, it can consider restricting some of the activities that the FBB can engage in:</p> <ul style="list-style-type: none"> • FBB with significant retail activity: SAMA considers retail banking activities to be significant where an FBB has: (i) more than SAR 5 billion of retail and micro, small and medium-sized enterprises (MSME) account balances or more than 1,000 retail and MSME account holders; or (ii) undertakes deposit activity and the total number of branches in Saudi Arabia exceeds five. • Systemically important wholesale FBB: Wholesale only FBB are those that are not engaged in significant retail activities as defined above. To assess whether a branch is systemically important, SAMA looks at whether the overall Saudi Arabian footprint represented by total gross assets of the branch exceeds an average of SAR 10 billion. This threshold is only indicative, and SAMA will also consider the scale of provision of Critical Economic Functions (CEFs) the FBB undertakes in KSA. For this purpose, CEFs are defined as activities, services, or operations the discontinuance of which is likely to lead to the disruption of services that are essential to the real economy due to the |

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| | <p>size, market share, external and internal interconnectedness, complexity, or cross border activities of the FBB, about the substitutability of those activities, services, or operations.</p> <ul style="list-style-type: none"> • Wholesale only FBBs will be considered as being systemically important if they undertake the CEFs under A and B below. SAMA may also designate a wholesale only FBB as systemically important if its activities under C below are considered systematically important: <ul style="list-style-type: none"> ○ A: Payments, cash, settlements, clearing and custody, sub categorized as: (i) payment services; and (ii) cash services. ○ B: Lending, sub categorized as: (i) securities settlement services; (ii) CCP clearing services; and (iii) custody services. ○ C: Capital markets, sub categorized as: (i) OTC derivatives held-for-trading; (ii) non-OTC derivatives held-for-trading; (iii) secondary markets/trading (held-for-trading only); and (iv) primary markets/underwriting. • Funding Ratio (FR) Requirements: FBBs are not required to maintain capital in Kingdom of Saudi Arabia. However, SAMA can require FBBs to maintain quasi-capital in the form of a Funding Ratio requirement on a case-by-case basis. This ratio may be required, for example, for those FBBs that intend conducting high-risk businesses and/or want to operate specialized business lines such as significant retail business operations that require specific level of capacity or competence. Funding ratio requirements are established for those FBBs that are engaged in significant retail activities in Saudi Arabia. A significant retail FBB is, at a minimum, required to always maintain the greater of SAR 1 billion or 8 percent of FBB's total risk weighted assets (RWA) for Pillar 1 and Pillar 2 risks. The Pillar 1 RWAs shall be that of the Saudi Arabian branch(es), and the Pillar 2 RWAs shall be that assigned for the Saudi Arabian business by the FBB's head office. SAMA may require a FBB to maintain additional assets where in its opinion they are necessary to protect the FBB's retail depositors. • Liquidity Coverage Ratio (LCR): A FBB that takes significant retail deposits or is a systemically important wholesale FBB shall be subject to minimum LCR requirements. The LCR ratio must not be less than 100 percent on an all-currencies basis. SAMA may require an LCR FBB to maintain a higher minimum LCR if it has concerns about the FBB's liquidity risk profile or the quality of its liquidity risk management. • Statutory Liquidity and Reserve Ratios, and loan-to-deposit ratio: On par with domestic banks, all FBBs must maintain the required statutory reserves and a minimum holding of its liabilities in specified liquid assets, in accordance with Article 7 of the BCL and in line with SAMA's reserve requirements. SAMA may require a FBB to maintain higher minimum liquidity holdings if it has concerns about the FBB's liquidity risk profile or the quality of its liquidity risk management. FBBs are also required to comply with the loan-to-deposit ratio requirements (90 percent cap) established for domestic banks. • Net Stable Funding Ratio (NSFR): An FBB with significant retail activities or that is a systemically important wholesale FBB must meet minimum NSFR requirements. Such |
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| | <p>FBB must always maintain an NSFR of at least 100 percent. SAMA may require an FBB with significant retail activities to maintain a higher minimum NSFR where considered appropriate to do so, including if it has concerns about the FBB's funding or liquidity risk profile or the quality of its liquidity risk management.</p> <ul style="list-style-type: none"> • Large Exposures: FBBs are required to comply with the relevant reporting clauses in SAMA's large exposure limit rules. <p>The qualitative regulatory requirements such as for risk management and liquidity are applicable to both domestic banks and FBBs. While domestic banks are subject to detailed regulations regarding governance and market conduct, SAMA has articulated separately the FBB requirements for governance and risk management, as the framework applied to domestic banks may not be equally applicable to branches.</p> <p>Another important area where there is a difference pertains to the supervisory framework. The RBS framework applied to domestic banks is quite sophisticated and extensively detailed. Hence, SAMA applies a relatively simplified version of the RBS Framework for FBBs. Preparation of risk profile assessment of KPIs and controls, onsite inspections and other supervisory activities are conducted both for domestic and FBBs.</p> |
| EC8 | The home supervisor is given on-site access to local offices and subsidiaries of a banking group in order to facilitate their assessment of the group's safety and soundness and compliance with customer due diligence requirements. The home supervisor informs host supervisors of intended visits to local offices and subsidiaries of banking groups. |
| Description and findings regarding EC8 | <p>During the past five years there were two instances where the home supervisors visited Saudi Arabia to conduct supervisory activities in the branches of the banks from their jurisdictions. In both cases, SAMA allowed the home supervisors to undertake inspection of the Saudi Arabian branches of their local banks.</p> <p>During the past five years, SAMA undertook onsite visits to the foreign branches of Saudi Arabian banks in four jurisdictions. The host supervisors in these jurisdictions have allowed SAMA to undertake onsite inspections. As part of these visits, SAMA informed all host supervisors of the intended visits.</p> |
| EC9 | The host supervisor supervises booking offices in a manner consistent with internationally agreed standards. The supervisor does not permit shell banks or the continued operation of shell banks. |
| Description and findings regarding EC9 | SAMA does not license shell banks or booking offices. SAMA confirms that there are no shell banks or booking offices operating in Saudi Arabia. |
| EC10 | A supervisor that takes consequential action on the basis of information received from another supervisor consults with that supervisor, to the extent possible, before taking such action. |
| Description and findings regarding EC10 | During the past five years there were no instances where SAMA took action based on information received from another supervisory authority. |
| Assessment of Principle 13 | Materially non-compliant. |

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| Comments | <p>SAMA was invited to participate in the supervisory colleges of four foreign banks that are operating branches in KSA. Of the eight host jurisdictions, where Saudi banks are operating branches or subsidiaries, SAMA has MoUs with one jurisdiction and a split of responsibilities agreement with another. Under the lone MoU with a host supervisor, SAMA shares information when requested. SAMA recently conducted its first onsite inspections of foreign branches of local banks between August 2023 and January 2024 (reports were undergoing finalization during the assessment mission).</p> <p>Given the significance of the cross-border presence/operations of Saudi banks and the three Saudi banks where foreign banks have controlling interest (please see description and finding under EC1 of this CP and CP12 for details), robust and effective home-host relationship is required for sharing information and cooperating to ensure effective supervision of the group and group entities, and effective handling of crisis situations. The cross-border cooperation and coordination arrangements between SAMA and the relevant home and host supervisors for sharing information and cooperating for effective supervision of the banking group and group entities, and effective handling of crisis situations is largely yet to be established and functional.</p> <p>SAMA has established MoUs and information sharing arrangements with only 1 of the possibly 24 relevant home and host jurisdictions. Even in this instance where SAMA has MoU, there is no systematic, ongoing, and proactive sharing of information between the supervisors on the material risks and risk management practices of the bank and the banking group, and supervisors' assessments of the safety and soundness of the relevant entity under their supervision. Information sharing, if any, is generally initiated by a request from one of the supervisors. SAMA and the host/home authorities do not undertake collaborative supervisory exercises, as a practice. They generally undertake these independently but keep each other informed ahead of the exercise. Since these exercises have been few and far between, SAMA has not felt the need to coordinate or plan the supervisory activities. Though SAMA has participated in a couple of supervisory colleges hosted by home supervisors, they have not yet established joint communication strategy. SAMA does not have such communication strategies with any of the host supervisors and with the supervisors from the three jurisdictions whose banks have controlling interests in three Saudi Banks. In light of the nascent stage of inter-institutional crisis management and resolution arrangements in KSA, SAMA has not yet established cross-border crisis management or resolution arrangements with the relevant home or host supervisors.</p> <p>The regulatory and supervisory frameworks applied by SAMA to the foreign bank branches (FBB) operating in KSA, is different and less onerous than the framework applied to domestic banks. FBBs are subject to a different set of prudential, inspection and regulatory reporting requirements compared to other domestic banks.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Establish cooperation and collaboration arrangements (MoUs) with remaining host and home supervisors, including the relevant foreign resolution authorities. |
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| | <ul style="list-style-type: none"> • Make exchange of information with host and home supervisors systematic, ongoing, and proactive; consider sharing financial and prudential indicators, risk assessments, supervisory finding, corrective actions, and sanctions. • Plan and undertake collaborative supervisory exercises with foreign supervisors, as relevant. • Establish communication strategy with relevant home/ host supervisors and resolution authorities. • While developing crisis management arrangements and resolution framework in KSA, consider cross-border dimension as relevant. • While developing the resolution plans for local banks, SAMA should also develop group resolution plans, in coordination with the relevant home and host supervisory authorities and resolution authorities. |
| A. Prudential Regulations and Requirements | |
| Principle 14 | Corporate governance. The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organizational structure, control environment, responsibilities of the banks' Boards and senior management, ⁴¹ and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank. |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor establish the responsibilities of a bank's Board and senior management with respect to corporate governance to ensure there is effective control over the bank's entire business. The supervisor provides guidance to banks and banking groups on expectations for sound corporate governance. |
| Description and findings regarding EC1 | SAMA regulation titled Key Principles of Governance in Financial Institutions under the control and supervision of SAMA (June 2021) (referred to as Key Principles, henceforth) lay Down SAMA principles. expectations and requirements on corporate governance in banks with regards to the following: qualifications of board members, formation, appointment and board affairs, responsibilities of the board and executive management, committees formed by board, rights of shareholders, and disclosure and transparency. SAMA has also issued a few other regulations that deal with elements related to corporate governance in banks. These include: (i) the whistle blowing policy for financial institutions; (ii) bank remuneration rules; (iii) code of conduct and work ethics in financial institutions; (iv) requirements for appointments to senior positions in financial institutions supervised by SAMA (this establishes the fit and proper requirements for directors, and senior management); (v) rules and guidance for banks in Saudi Arabia to organize their audit committee; and (vi) Shariah governance framework for local banks operating in KSA. Collectively, these regulations establish the supervisory requirements, expectations, and guidance for sound corporate governance in banks. |

⁴¹ Please refer to footnote 27 under Principle 5.

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| EC2 | The supervisor regularly assesses a bank's corporate governance policies and practices, and their implementation, and determines that the bank has robust corporate governance policies and processes commensurate with its risk profile and systemic importance. The supervisor requires banks and banking groups to correct deficiencies in a timely manner. |
| Description and findings regarding EC2 | <p>The risk assessment model used by SAMA for periodically assessing each bank's risk profile includes a component that assesses the risk controls and oversight arrangements in banks. While the risk controls assessment is focused on the individual risks, the oversight assessment includes assessment of board of directors, senior management, risk management, operational management, financial control, compliance, and internal audit. The oversight assessment utilizes a questionnaire that has a set of questions on each sub-component. Each bank is required to provide a "yes" or "no" answer to these questions annually and support their responses with evidence of implementation or fulfilment of elements covered in each question. The supporting documents from banks must evidence implementation of the necessary policies, practices, and controls referred to in the questionnaire. The questionnaire responses by each bank and the supporting evidence are required to be reviewed by its internal audit function before submission to SAMA. Supervisors assess and validate banks' responses, identify the oversight deficiencies, if any, and assign a supervisory grade or score (on a scale of 1 to 4) to rate each sub-component of the oversight framework.</p> <p>The deficiencies observed by supervisors during the questionnaire review are discussed with the bank's senior management during the annual SRV and followed up through letters, requiring banks to address these issues within a specified timeframe.</p> <p>During the annual targeted inspections, the onsite inspection review board and senior management role and oversight, internal control, compliance, and internal audit as relevant to the area that is the focus of the targeted inspections, such as interest rate risk in the banking book, treasury function, and cyber risk management.</p> <p>Apart from the annual questionnaire review, SAMA conducted the following onsite inspection related to corporate governance during the past few years:</p> <ul style="list-style-type: none"> • A thematic inspection of corporate governance during 2017–2018. • A thematic inspection of people risk in 2018–2019 that included compensation, conduct, and ethics. • Targeted inspections of the internal audit functions in select banks during 2019 and 2022. <p>After the inspections, as a general practice, SAMA requires banks to provide formal action plans to address the observed deficiencies. Banks provide periodic status updates on the progress in implementation of the action plans till closure of all deficiencies. The actions taken by the banks are validated by supervisors through onsite visits before considering these as closed.</p> <p>SAMA has not undertaken comprehensive assessment of banks' corporate governance policies and practices since 2017–2018. The supervisors also lack detailed guidance on undertaking such assessments. The annual supervisory review of banks' self-assessment of their corporate governance arrangements attempts to fill the gap, but these reviews</p> |

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| | do not include a detailed review of banks' policies and practices, and their implementation, and do not clearly address the proportionality element. |
| EC3 | The supervisor determines that governance structures and processes for nominating and appointing Board members are appropriate for the bank and across the banking group. Board membership includes experienced non-executive members, where appropriate. Commensurate with the risk profile and systemic importance, Board structures include audit, risk oversight and remuneration committees with experienced non-executive members |
| Description and findings regarding EC3 | <p>The Key principles regulations have established that the number of committees to be formed by the Board shall be determined pursuant to the nature of operations and the size of the financial institution, in addition to the relative experience and qualifications of the board members. These committees shall comprise the following, among others, the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee (NRC), and the Risk Committee. SAMA regulation titled Shariah governance framework for local banks operating in Saudi Arabia requires bank boards to establish a Shariah Committee that is responsible for supervising compliance with Shariah principles and rules and their application in the banks.</p> <p>The Key Principles have established the following responsibilities and expectations of the NRC in banks: the NRC shall consist of no less than three and no more than five members, including at least two independent members. It shall be chaired by an independent member and shall not be chaired by the Chairman of the board. The General Assembly shall, upon a recommendation of the board, approve the NRC work regulations, provided that they include its working rules and procedures, tasks, procedures for appointing its members, and their membership term and remuneration. The committee shall be in charge of identifying and proposing candidates for selection as members of the board and the executive management and preparing a clear policy for the remuneration of said members, as per the relevant SAMA instructions. The NRC shall hold no less than two meetings per year, to examine' and evaluate members' performance, nominate new members, and discuss the policy for remunerations and incentives. NRC tasks shall include the following:</p> <ul style="list-style-type: none"> • Coordinate with the Human Resources Department to develop the replacement and succession policy and ensure the executive management's compliance therewith. • Establish a record of the qualifications and skills of board members to identify the additional skills required to activate the role of the board and ensure implementation of its tasks and responsibilities. • Ensure that the remuneration amount is consistent with the prevailing local norms and control systems; it is appropriate to achieve the shareholders' interests and the financial institution's long-term strategic goals; ensure that the incentive system is reviewed periodically; and ensure that it does not encourage participation in high-risk operations to achieve short-term profits. <p>The Key Principles regulations have established the following requirements to be fulfilled by board members. Board members shall be qualified to carry out the work entrusted to them, have a clear understanding of their required roles, and have the ability to make</p> |

decisions impartially and objectively without any external influence whether from inside or outside the financial institution. They shall particularly fulfill the following:

- Their Curriculum Vitae (CVs) shall be publicly available to enable stakeholders to assess their experience and ability to carry out their tasks effectively.
- A member shall have professional competence and shall possess various practical and administrative skills and experiences, as well as appropriate personal qualities, especially honesty and integrity, in addition to the following, namely, leadership, competence, guidance, financial literacy, and physical fitness.
- A member shall have the following qualities, namely, truthfulness, loyalty, and care.

The Key principles regulations have established the following requirements pertaining to the formation, appointment, and board affairs:

- The bylaws of the financial institution shall specify the number of members in proportion to its size and the nature of its business, taking into account the following:
 - (i) the number of members shall be no less than 5 and no more than 11; (ii) the number of independent members shall be no less than two members, or one-third of the Board members, whichever is greater; and (iii) the number of executive members shall not exceed two.
- The General Assembly shall elect board members for the period stipulated in the bylaws of the financial institution, provided that their term does not exceed three years; these members may be re-elected unless the bylaws of the financial institution stipulate otherwise.
- The procedures for nominating and selecting board members shall be clear-cut and explicit, and shall observe the diversity of experiences, qualifications, and qualities referred to above.
- Members shall choose a non-executive member to serve as the chairman of the board and another as his deputy, provided that the chairman and his deputy do not exercise any of the functions of the executive management.
- The board shall conduct an annual evaluation of the extent of independence of the independent member and shall ensure that there are no relationships or circumstances that affect or may affect his independence; the member shall also inform the board in the event that circumstances affecting his independence may arise.
- A written no-objection letter shall be obtained from SAMA prior to nominating any member of the Board and its committees, or appointing any of the holders of leadership positions, in accordance with the relevant SAMA instructions. SAMA shall be notified in writing upon accepting the resignation/ departure from work/termination of service of any holder of a leadership position, the termination of membership of any member of the board and its committees, or the independent member's loss of independence, within five working days.
- A member may not become a member of the board of directors of a similar financial institution operating inside the Kingdom.

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| | <ul style="list-style-type: none"> • A member may not become a member of the board of directors of more than five joint stock companies listed on the stock market simultaneously; in the event of a conflict of interest, said member shall be subject to the conflict-of-interest policy. • A member may preferably retain his membership for a period not exceeding 12 consecutive or inconsecutive years. • Any person who wishes to nominate himself for board membership shall disclose to the board and the General Assembly any of the following cases of conflict of interest: (i) if he has a direct or indirect interest in the businesses and contracts made for the benefit of the financial institution wherein he desires to be nominated as a board member; and/or (ii) if he engages in a business that may compete with the financial institution or with any of its activities. • Each member shall immediately inform the board of any direct or indirect interest he has in the businesses and contracts executed for the financial institution's account and shall not participate in voting on the decision to be taken in this regard. • Each member shall maintain the confidentiality of the information of the financial institution and shall not disclose any information that he has been privy to through his board membership to third parties, or to any of the shareholders of the financial institution, unless such disclosure takes place during the General Assembly meetings. • Each member shall be presented with an induction program that explains the mission, strategic objectives, and activities of the financial institution, and with a memorandum explaining the duties and responsibilities of his membership. • Members shall carry out the tasks and responsibilities assigned to them through explicit and appropriate procedures; the board shall review the effectiveness of these procedures on an ongoing basis and shall identify weaknesses and make the necessary changes whenever required. • Members shall be aware of the rules, regulations, and instructions related to the financial institution's business, and shall keep pace with any new developments in this regard. • The board shall hold at least four meetings per year, with one meeting every three months, in order to exercise its duties and responsibilities effectively. Meetings shall also be held whenever required. Non-executive and independent members may preferably hold closed meetings without the attendance of the executive board members, by at least one meeting per year. • Board meetings shall only be valid if attended by half the members, provided that the number of attending members be not less than three, unless the bylaws of the financial institution provide for a larger number. All decisions shall be made by the majority votes of the members; in case of a tie, the Chairman of the board shall have the casting vote. • Members shall attend board meetings regularly, and may do so by technological means; they shall only be absent with an acceptable reason to be reported to the Chairman of the board in advance. In the event that a member fails to attend three meetings per year without a valid reason, another member shall be appointed to replace his membership. |
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| | <ul style="list-style-type: none"> • The Board shall draft meeting minutes wherein to note the meeting place, date, beginning and ending time, names of attending and absent members, names of attendees from outside the board, including an external party such as an external auditor or an internal party such as the financial manager, and a statement of the meeting discussions and deliberations, and the reservations expressed—if any— together with an explanation of the reasons. The meeting minutes shall be signed by all attendees, attested with the decisions and voting results, and kept in a special and organized register. • The Board shall, at the beginning of each year, set a specific schedule for receiving reports from committees and internal and external auditors, and shall ensure that the mechanism for drafting, collecting, and submitting reports is appropriate and consistent with the approved internal policy, including submitting same to the board at the due times. • The board shall appoint a secretary from among its members or others, and shall determine the conditions to be met by him. He shall hold a university degree in law, finance, accounting, or administration—or its equivalent—and shall have relevant practical experience of not less than three years. In the event that he does not hold a university degree in any of these disciplines, he shall have at least five years of relevant work experience. • If a member resigns and he has comments on the performance of the financial institution, he shall submit a written statement to the Chairman of the board. Said statement shall be presented to the rest of the members, and a copy thereof shall be furnished to SAMA. <p>Please refer to the description in EC2 of the supervisory assessment of the oversight functions and the onsite inspection on areas that are related to corporate governance. In addition, during the annual SRV, ICAAP, and ILAAP review meetings, supervisors verify the performance of the board committees with reference to their respective mandates. Further, nomination and appointment of board members and nomination of the members to the board committees require SAMA's no objection. On receipt of the requests for no objection, SAMA reviews the CVs of the candidates and their fulfilment of the fit and proper requirements established by SAMA in the regulation titled Requirements for appointments to senior positions before it accords it no objection. (Please see description and finding under EC6 for details of the fit and proper norms established by SAMA.)</p> |
| EC4 | Board members are suitably qualified, effective and exercise their "duty of care" and "duty of loyalty". ⁴² |

⁴² The OECD (OECD glossary of corporate governance-related terms in "Experiences from the Regional Corporate Governance Roundtables," 2003, [https://one.oecd.org/document/DAFFE/CA/CG\(2003\)9/en/pdf](https://one.oecd.org/document/DAFFE/CA/CG(2003)9/en/pdf)) defines "duty of care" as "The duty of a board member to act on an informed and prudent basis in decisions with respect to the company. Often interpreted as requiring the board member to approach the affairs of the company in the same way that a 'prudent man' would approach their own affairs. Liability under the duty of care is frequently mitigated by the business judgment rule." The OECD defines "duty of loyalty" as "The duty of the board member to act in the interest

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| Description and findings regarding EC 4 | <p>Please see the description and finding under EC3 for details of the qualities expected of a member on bank boards. Among others, the Key Principles states that a member shall have the following qualities, namely, truthfulness, loyalty, and care.</p> <p>The Key Principles elaborate on “loyalty” as follows: he shall avoid transactions that may entail a conflict of interest and shall ensure the fairness of dealings and their conduct for the benefit of the financial institution and stakeholders.</p> <p>The Key Principles elaborate on “care” as follows: he shall perform his duties and responsibilities effectively and shall be keen to provide all the information that would ensure that the decisions made are in the interest of the financial institution. In order to achieve the foregoing, he shall undertake the following responsibilities:</p> <ul style="list-style-type: none"> • Attend Board meetings regularly, and not be absent without a justifiable excuse, and prepare for such meetings and effectively participate therein, including raising relevant questions and holding discussions with senior executives. • Make decisions on the basis of complete information and in good faith. A member shall not be relieved of responsibility if he abstains from voting without clarifying his opinion on the decision in question. • Develop his knowledge of the financial institution's activities and other related areas. • Ensure that significant and major topics are included in the Board meeting agenda. • An executive member shall provide full information to the Board when requested. <p>Please refer to the description in EC2 of the supervisory assessment of the oversight functions and the onsite inspection on areas that are related to corporate governance. In addition, during the annual SRV, ICAAP and ILAAP review meetings, supervisors can verify if the board is fulfilling its duty with reference to the bank’s strategy, ICAAP and ILAAP documents. Supervisory reviews do not assess effectiveness of the boards and board committees, or the performance of individual board members with reference to duty of care and duty of loyalty. The guidance to supervisors and manuals do not include guidance on assessing, board member effectiveness and their fulfilment of duty of care and duty of loyalty. The onsite inspection reports do not document SAMA’s assessments in the above areas.</p> |
| EC5 | <p>The supervisor determines that the bank’s Board approves and oversees implementation of the bank’s strategic direction, risk appetite,⁴³ and strategy, and related policies, establishes and communicates corporate culture and values (e.g., through a code of conduct), and establishes conflicts of interest policies and a strong control environment.</p> |
| Description and findings regarding EC5 | <p>Article 3 of the Key Principles regulation lays down the responsibilities of the board of directors which include the following, among others:</p> |

of the company and shareholders. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and all shareholders.”

⁴³ “Risk appetite” reflects the level of aggregate risk that the bank’s Board is willing to assume and manage in the pursuit of the bank’s business objectives. Risk appetite may include both quantitative and qualitative elements, as appropriate, and encompass a range of measures. For the purposes of this document, the terms “risk appetite” and “risk tolerance” are treated synonymously.

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| | <ul style="list-style-type: none"> • Set and monitor the implementation of the plans, policies, strategies, and main objectives of the financial institution, and review same on a regular basis. • Ensure the existence and development of effective units for compliance, internal auditing, and risk management, make sure that such departments are independent from business departments, ensure the availability of the adequate powers and resources therein, and train their staff and develop their capabilities in the field. • Develop and monitor the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the financial institution's activities, and review same on an annual basis, considering the links between the level of risks that the financial institution desires to bear in a specific period of time, its strategy and capital plan. • Set a clear written policy to deal with actual or potential cases of conflict of interest that may affect the performance of members, executive management, or other employees of the financial institution upon dealing therewith or with other stakeholders provided that said policy at least includes the following rules: <ul style="list-style-type: none"> ○ Emphasize that members, senior executives, and other employees of the financial institution avoid situations that may lead to a conflict of their interests with those of the financial institution, and deal with such cases as per the provisions of the relevant laws and regulations. ○ Provide illustrative examples of conflict-of-interest situations that are relevant to the nature of the financial institution's activities. ○ Set clear procedures for disclosing conflict of interest in businesses over which a conflict of interest may arise and obtain the necessary license or approval. ○ Make sure to constantly disclose any situations that may lead to a conflict of interest or upon the occurrence of such conflicts. ○ Abstain from voting or taking part in decision-making when there is a conflict of interest. ○ Set clear procedures when the financial institution enters into a transaction with a related party. Said transactions shall be carried out on a commercial basis only and shall include notifying the public and SAMA without delay about this transaction if it is equal to or exceeds 1 percent of the total revenues of the financial institution pursuant to the latest annual audited financial statements. • Subject to the relevant SAMA instructions, the board shall ensure the operation and effectiveness of the following policies and procedures, including, for example: <ul style="list-style-type: none"> ○ Policies and procedures for IT and cybersecurity governance. ○ A policy for the professional conduct and business ethics to be applied in the financial institution. ○ A policy defining the mechanism for reporting violations in the financial institution and protecting whistleblowers. ○ Policies and procedures for resolving complaints and objections that may arise between the financial institution and stakeholders. ○ Policies and procedures to maintain the confidentiality of information. |
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| | <ul style="list-style-type: none"> • Ensure that the financial institution adopts social responsibility programs, in line with the social responsibility policy approved by the General Assembly, and that the objectives of these programs are directed towards supporting various social projects, increase financial awareness, meet the credit needs of the local economy through granting loans and facilities for productive businesses, and innovate products that encourage economic development without compromising the solvency of the financial institution and stakeholders. • Ensure that the services rendered by the financial institution meet the needs and requirements of society at fair costs, and that the financial institution takes the initiative to provide facilities to support and encourage small and medium enterprises. <p>SAMA regulations on code of conduct and work ethics in financial institutions establish additional expectations for dealing with conflicts of interest and whistle blowing. These are listed below:</p> <ul style="list-style-type: none"> • The staff shall be responsible for identifying any potential or actual conflict of interest that may adversely affect the financial institution and/or stakeholders. In cases where a conflict of interest is not possible to be prevented, the financial institution shall properly manage such conflict through a set of controls, policies, and procedures. • The financial institution shall provide effective methods of communication to receive reports of actual or potential violations. Financial institution staff shall report any suspicious activities carried out by employees who have insider or confidential information. In addition, cases of fraud or attempted fraud, money or business paper loss, potential violation of the laws, regulations, instructions or policies of the financial institution or unusual transactions that the reporting employee believes that they do not conform with the financial status of stakeholders shall be reported as well through the different reporting lines provided. The financial institution shall protect the confidentiality of whistleblowers, protect employees reporting in good faith and not tolerate any form of retaliation against whistleblowers. • The financial institution shall hold employees who deliberately ignore reporting wrongdoings that violate the relevant laws, regulations, instructions, or policies accountable. <p>Please also see description and finding under EC2 that describes how supervisors review the performance of the board through the annual assessment of oversight through a questionnaire, SRV, ICAAP, and ILAAP meetings, and thematic and targeted onsite inspections. Through these assessments supervisors ascertain, among others, the existence and comprehensiveness of board approved strategy, risk appetite, code of conduct, conflict of interest policies, and procedures.</p> |
| EC6 | <p>The supervisor determines that the bank's Board, except where required otherwise by laws or regulations, has established fit and proper standards in selecting senior management, maintains plans for succession, and actively and critically oversees senior management's execution of Board strategies, including monitoring senior management's performance against standards established for them.</p> |

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| <p>Description and findings regarding EC6</p> | <p>SAMA's Key Principles regulation requires the nomination and remuneration committee of the board to coordinate with the bank's Human Resources Department to develop the replacement and succession policy and ensure the executive management's compliance therewith.</p> <p>The regulations on requirements for appointments to senior positions in financial institutions supervised by SAMA establishes the fit and proper criteria for banks' senior management as follows:</p> <ul style="list-style-type: none"> • Directors and senior management (referred to as senior positions in regulations) must obtain no-objection from SAMA before they can assume office. • The financial institution's board of directors shall be responsible for ensuring the fitness and propriety of candidates for senior positions, in accordance with the financial institution's relevant policies, requirements, and procedures. • The financial institution shall adopt clear and precise standards and procedures to assess and verify the fitness and propriety of the senior position holders or candidates. The fit and proper criteria shall, as a minimum, include the following: <ul style="list-style-type: none"> ○ Honesty, integrity, good reputation, and fairness: The candidate must have personal qualities, such as honesty, integrity, good reputation, and fairness, and must not have been convicted of any crime impinging on honor or integrity, unless rehabilitated. ○ Competence and capability: The candidate must have the necessary academic qualification, or adequate experience, skills to perform his/her role effectively, as well as the ability to understand the technical requirements of the business, the risks, and the management process. In addition, the candidate must meet all requirements set by SAMA. ○ Financial capability efficiency: The candidate must have the efficiency and experience needed to manage his/her financial obligations and affairs prudently and properly. ○ Independence: The candidate must have the necessary independence to perform the tasks and duties of the proposed senior position and shall not have employment interests or obligations, or any other situations which might give rise to conflict of interests or which could, in any way, impair the candidate's ability to independently perform the duties of the proposed position. • The assessment process carried out by the financial institution, on a regular basis or prior to requesting SAMA non-objection, shall be documented, and supported by relevant documents and information. The financial institution shall check the validity of the information provided by the candidates for the senior positions from independent and reliable internal and external sources. The information and the results of the assessment process obtained by the financial institution shall be kept confidential. The approval of the candidate, if necessary, shall be obtained to access the information. • The financial institution shall explain the fit and proper form to candidates and ensure the completeness and accuracy of the information provided. The financial institution shall also disclose in writing to SAMA any information it may find relevant |
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| | <p>to the fitness and propriety of the candidate and any changes that may affect the validity, accuracy, and completeness of the information provided in the Form, even if after obtaining SAMA's non-objection, within a period not exceeding five business days from the date on which such information was obtained or the change has occurred.</p> <ul style="list-style-type: none"> • The financial institution and candidates for senior positions shall fully and clearly disclose to SAMA all information relevant to the fit and proper requirements. The information provided shall, as a minimum, include the following: <ul style="list-style-type: none"> ○ All the information and documents required in the fit and proper form. ○ Any material information that may affect SAMA's decision to issue non-objection on the nomination, appointment, interim appointment, or the renewal of interim appointment term. ○ Any other relevant information that becomes known to the financial institution or candidate. • SAMA may request any information or documents it deems necessary for evaluating requests for non-objection on the nomination, appointment, interim appointment, or the renewal of interim appointment term and may request to interview the candidate as well. The financial institution shall provide SAMA with the required information and documents within a period determined by SAMA or within 10 business days, as a maximum, from the date of requesting such information and/or documents. If the financial institution fails to provide so within the specified period, SAMA shall have the right to close the request. • SAMA may conduct background checks using various means it deems appropriate to ensure the validity, accuracy and completeness of the information and documents provided by the Financial Institution, and to ensure the fitness and propriety of candidates. Accordingly, SAMA will take actions it deems appropriate whether to grant non-objection on requests received or to reject such requests without any responsibility whatsoever on SAMA. • SAMA may cancel the non-objection granted to the financial institution on the appointment, interim appointment or the renewal of interim appointment term for a current senior position holder if SAMA finds that he/she does not cooperate, neglects or omits his/her duties, or if SAMA detects any concealment, misrepresentation or misreporting of information or any violation or circumvention of these requirements or any other instructions issued by SAMA without prejudice to the statutory procedures towards the financial institution and the person concerned. • The financial institution shall periodically, and at least annually, assess the fitness and propriety of the senior position holders. In the event of such assessments leading to any information or findings that may materially compromise the fitness and propriety of the candidates, the financial institution shall immediately report such information and findings to SAMA. • The financial institution shall notify SAMA in writing, when the person appointed commence his/her work, when resignation is accepted, when position holder leaves |
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| | <p>work and when employment is terminated for whatever reason, within five business days from the date of such events.</p> <ul style="list-style-type: none"> • The financial institution shall provide SAMA with biannual reports (at the end of both June and December) including data of senior position holders and data on vacant senior positions. <p>The Key Principles regulation also establishes the responsibilities of the directors. Among others, the board must:</p> <ul style="list-style-type: none"> • Form the executive management, regulate, monitor, and supervise its operating procedures, and ensure its performance of the tasks assigned thereto. • Set and monitor the implementation of the plans, policies, strategies, and main objectives of the financial institution, and review same on a regular basis. • Ensure the integrity and financial solvency of the financial institution and maintain effective relationships with the supervisory authorities. • Set and comply with clear limits for responsibility and accountability at all levels of the financial institution. Responsibilities shall be completely separated at the level of the executive management. • The organizational structure of the financial institution shall determine the competencies and the distribution of tasks between the Board and the executive management as per the best governance practices, improve the efficiency of decision-making, and achieve balance between powers and authorities. • Select senior executives and ensure that an appropriate replacement policy is applied and that the substitute is highly qualified and possesses the required skills. <p>Please also see description and finding under EC2 that describes how supervisors review implementation of governance related requirements established in SAMA regulations through the annual assessment of oversight through a questionnaire, and SRV, ICAAP, and ILAAP meetings, and thematic and targeted onsite inspections. Through these assessments supervisors ascertain, among others, the compliance with the fit and proper requirements established through laws or regulations, availability, and adequacy of plans for succession, and board oversight of senior management’s execution of board strategies, related policies and procedures, and performance.</p> |
| EC7 | <p>The supervisor determines that the bank’s Board actively oversees the design and operation of the bank’s and banking group’s compensation system, and that it has appropriate incentives, which are aligned with prudent risk taking. The compensation system, and related performance standards, are consistent with long-term objectives and financial soundness of the bank and is rectified if there are deficiencies.</p> |
| Description and findings regarding EC7 | <p>SAMA’s key principles regulation establishes, among others, the responsibilities of the directors and senior management with regards to remuneration and compensation. Among others, these include the following:</p> <ul style="list-style-type: none"> • Senior management must propose a policy for the remuneration granted to employees, including, at minimum, the types of remunerations, such as fixed or performance-related remunerations or remunerations granted in the form of shares, and submit same to the Board for approval. |

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| | <ul style="list-style-type: none"> • Board must approve the remuneration policy for the financial institution employees, which shall include, at a minimum, the types of remuneration (e.g., fixed or performance-related remunerations, or remunerations granted in the form of shares). • The NRC must ensure that the remuneration amount is consistent with the prevailing local norms and control systems, and is appropriate to achieve the shareholders' interests and the financial institution's long- term strategic goals, and ensure that the incentive system is reviewed periodically and that it does not encourage participation in high-risk operations to achieve short-term profits, in addition to its agreement with the risk policy of the financial institution approved by the Board. <p>SAMA's regulation on bank remuneration rules (2023) establishes the following additional requirements, among others, with regards to remuneration:</p> <ul style="list-style-type: none"> • The board shall be responsible for the overall design and oversight of the remuneration system that promote prudent risk-taking behaviors and business practices and accordingly shall not delegate this responsibility to senior management. • The board shall be ultimately responsible for promoting effective governance, sound remuneration practices, ethical behavior and compliance with laws, regulations, and internal conduct standards, and for ensuring accountability for misconduct, in addition to the following: <ul style="list-style-type: none"> ○ Overseeing and holding senior management accountable for implementing and participating in the design of the remuneration system that effectively delineates how remuneration tools address misconduct risk or other imprudent risk-taking behavior. ○ Engaging actively with senior management, including challenging senior management's remuneration assessments and recommendations if warranted when serious or recurring misconduct occurs and ensure that root cause analysis is performed, lessons learned are promulgated bank-wide and new policies are adopted, as necessary, to prevent it from happening again. • The board shall ensure that senior management puts in place policies and procedures that ensure effective control and adherence to these rules, and any relevant laws, regulations, principles, and standards. • The board shall review and, if satisfied, approve the remunerations of the senior management based on the recommendations of the NRC. • The board shall ensure that an annual review of the remuneration (internally through internal audit or externally commissioned by a recognized firm) is carried out independently without the intervention of senior management. The review must assess the compliance with these rules and any relevant laws, regulations, principles, and standards, as well as the bank's internal policies that are prepared according to these rules. The board shall take into account the results of such a review when making decisions related to remuneration and could briefly disclose those results in the annual report. • Banks are required to submit a semiannual compliance report to SAMA that includes an assessment of the bank's existing remuneration practices and alignment with |
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| | <p>these rules; by assuring full compliance, or highlighting gaps along with an action plan (how to cover the gap, responsible persons/department, and target date) in addition to updates on the progress of the action plan until all gaps are covered.</p> <ul style="list-style-type: none"> • Banks shall submit, along with the compliance report, the following about all types of remuneration: <ul style="list-style-type: none"> ○ Details of total remuneration including break-up of fixed and variable remuneration, and remuneration adjustments. ○ Details of remuneration of the top 12 highly compensated employees of the bank. • Banks are expected to use these rules in identification and assessment of risks arising out of remuneration policies and practices as part of its Internal Capital Adequacy Assessment Plan (ICAAP) and Internal Liquidity Adequacy Assessment Plan (ILAAP). • In case of material deficiencies from these rules or from the bank's policies, SAMA could direct the concerned bank for rectification of deficiencies and may also prescribe increased capital or liquidity requirements for such bank. SAMA may also impose penalty or any other necessary measures in case of serious violations. • If needed, SAMA may limit a bank's total variable remuneration as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital or liquidity base or with sound risk management practices. In addition, SAMA may also impose certain limits and constraints on bank's remuneration structure, forms, and deferment. <p>Banks' Pillar III disclosures include their remuneration policy, remuneration awarded during the financial year and deferred remunerations.</p> <p>Please also see description and finding under EC2 that describes how supervisors review implementation of governance related requirements established in SAMA regulations through the annual assessment of oversight through a questionnaire, SRV, ICAAP, and ILAAP meetings, and thematic and targeted onsite inspections. Through these assessments supervisors ascertain, among others, banks' remuneration policies and their implementation, and compliance with SAMA regulations.</p> |
| EC8 | <p>The supervisor determines that the bank's Board and senior management know and understand the bank's and banking group's operational structure and its risks, including those arising from the use of structures that impede transparency (e.g., special purpose or related structures). The supervisor determines that risks are effectively managed and mitigated, where appropriate.</p> |
| Description and findings regarding EC8 | <p>The Key principles regulations require that the board be aware of the main risks that may affect the financial institution and its affiliate companies, and exercise an appropriate supervisory role over these companies, considering the legal independence and governance requirements of these affiliates. These regulations require the senior management to understand and direct the financial and non-financial structures at the group level and provide an appropriate mechanism to obtain updated information on the group structure.</p> <p>The Key principles regulations articulate that the organizational structure of the financial institution shall determine the competencies and the distribution of tasks between the</p> |

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| | <p>Board and the executive management as per the best governance practices, improve the efficiency of decision-making, and achieve balance between powers and authorities. To achieve this, the Board shall:</p> <ul style="list-style-type: none"> • Approve and develop the internal policies related to the financial institution’s business; this shall include defining the tasks, competencies and responsibilities assigned to the various organizational levels. • Approve a written and detailed policy that defines the powers delegated to the executive management, provided that it includes an account of each power, its method of implementation, and delegation period; it may request the executive management to submit periodic reports on its exercise of the delegated powers. • Determine the issues that it has the power to decide on. <p>Please see description and finding under EC2 that describes how supervisors review implementation of governance related requirements established in SAMA regulations through the annual assessment of oversight through a questionnaire, SRV, ICAAP, and ILAAP meetings, and thematic and targeted onsite inspections. Through these assessments supervisors ascertain, among others, banks’ remuneration policies and their implementation, and compliance with SAMA regulations. Supervisors review the risks from the group entities during the ICAAP exercise more closely. During such reviews the supervisors’ focus is on the senior management, and less on the directors as the supervisors’ engagement with the board is limited.</p> <p>SAMA top management (led by Governor, Vice Governor, and Deputy Governor of Supervision) meets with bank Chairmen collectively on a quarterly basis. However, these meetings are not designed or used for discussing individual bank issues or to assess the bank boards. Supervisors do not meet with the boards, board committees and board members in a systematic manner to assess their knowledge and understanding of the bank’s and banking group’s operational structure and risks.</p> |
| EC9 | <p>The supervisor has the power to require changes in the composition of the bank’s Board if it believes that any individuals are not fulfilling their duties related to the satisfaction of these criteria.</p> |
| Description and findings regarding EC9 | <p>Please see description and finding under EC 6 which describes the fit and proper requirements established by SAMA for directors, and senior management, and that banks have to obtain SAMA’s non objection before they can assume the position to which they have been nominated or selected. Among others, these rules state that SAMA may cancel the non-objection granted to the financial institution on the appointment, interim appointment or the renewal of interim appointment term for a current senior position holder (that is director and senior management) if SAMA finds that he/she does not cooperate, neglects or omits his/her duties, or if SAMA detects any concealment, misrepresentation or misreporting of information or any violation or circumvention of the requirements in these rules or any other instructions issued by SAMA.</p> <p>As per Article 22 of the BCL, SAMA can, with the approval of the Minister, order the suspension or removal of any director or officer of a bank if it finds that a bank has failed to comply with the provisions of this law, or with the provisions of any regulations issued</p> |

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| | <p>under this law, or if a bank adopts a policy that might seriously affect its solvency or liquidity.</p> <p>The above powers, however, do not address situations where one or more board members are not fulfilling the duties or are not exercising their duty of care or duty of loyalty, adequately or effectively.</p> |
| Additional Criteria | |
| AC1 | Laws, regulations or the supervisor require banks to notify the supervisor as soon as they become aware of any material and bona fide information that may negatively affect the fitness and propriety of a bank's Board member or a member of the senior management. |
| Description and findings regarding AC1 | <p>Para 12 of the Key Principles requires banks to notify SAMA in writing upon accepting the resignation/departure from work/termination of service of any holder of a leadership position, the termination of membership of any member of the Board and its committees, or the independent member's loss of independence, within five working days.</p> <p>Para 16 of the regulation titled Requirements for Appointments to Senior Positions in Financial Institutions Supervised by SAMA (September 2019) requires that banks shall disclose in writing to SAMA any information it may find relevant to the fitness and propriety of the candidate and any changes that may affect the validity, accuracy and completeness of the information provided in the form submitted by the senior position holder within a period not exceeding five business days from the date on which such information was obtained or the change has occurred.</p> <p>Para 21 of the above regulation requires that banks shall periodically, and at least annually, assess the fitness and propriety of the senior management (referred to as Senior Position holders). In the event of such assessments leading to any information or findings that may materially compromise the fitness and propriety of the candidates, the bank must immediately report such information and findings to SAMA.</p> |
| Assessment of Principle 14 | Largely compliant. |
| Comments | <p>SAMA has established the regulatory requirements on key elements relevant for corporate governance arrangements in banks. These encourage the banks to establish healthy corporate governance policies and processes that include strategy, organizational structures, control environment, responsible remuneration frameworks, and board and senior management oversight. Banks' compliance with these requirements and implementation of the established policies and procedures are topics of supervisory assessments both during offsite and onsite engagements. While offsite assessments are at a higher-level (that is institution-wide), the onsite engagements are largely in the context of the governance arrangements as relevant for the area of focus during the onsite visit.</p> <p>SAMA has not undertaken comprehensive assessment of banks' corporate governance policies and practices since 2017–2018. The annual supervisory review of banks' self-assessment of their corporate governance arrangements attempts to fill the gap, but these reviews do not include a detailed review of banks' corporate governance policies</p> |

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| | <p>and practices, and their implementation, and do not clearly address the proportionality element. The supervisors lack detailed guidance on undertaking such assessments. There are a few other areas where changes in laws, regulations and supervision can focus a bit more closely on certain specific areas to better assess the adequacy and effectiveness of the corporate governance arrangements in banks. For example: (i) supervisors do not meet with the boards, board committees and board members in a systematic manner to assess their collective and individual performance, effectiveness and knowledge of the bank's and banking group's operational structure and risks; (ii) supervisors do not assess performance of individual board members with reference to duty of care and duty of loyalty; and (iii) SAMA does not have the power to require changes in the composition of the bank's board if it believes that any individuals are not fulfilling their duties or are not exercising their duty of care or duty of loyalty adequately or effectively.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Obtain explicit power to require changes in the composition of the bank's board if the board or any individuals are not fulfilling their duties and responsibilities or are not exercising their duty of care or duty of loyalty adequately or effectively. • Undertake periodic systematic assessments of: <ul style="list-style-type: none"> ○ Effectiveness of board and board committees. ○ Performance of individual board members, and their exercise of duty of care and duty of loyalty. ○ Adequacy and effectiveness of board and senior management knowledge and understanding of the bank's and banking group's operational structure and its risks, including those arising from the use of complex or opaque structures. • Formalize internal guidance for supervisors to undertake assessments of corporate governance policies and processes, board member effectiveness, and their fulfilment of duty of care and duty of loyalty. |
| <p>Principle 15</p> | <p>Risk management process. The supervisor determines that banks⁴⁴ have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report, and control or mitigate⁴⁵ all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of contingency arrangements (including robust and credible recovery plans where warranted) that take into account the specific</p> |

⁴⁴ For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

⁴⁵ To some extent the precise requirements may vary from risk type to risk type (Principles 15 to 25) as reflected by the underlying reference documents.

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| | circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank. ⁴⁶ |
| Essential Criteria | |
| EC1 | <p>The supervisor determines that banks have appropriate risk management strategies that have been approved by the banks' Boards and that the Boards set a suitable risk appetite to define the level of risk the banks are willing to assume or tolerate. The supervisor also determines that the Board ensures that:</p> <p>(a) a sound risk management culture is established throughout the bank;</p> <p>(b) policies and processes are developed for risk-taking, that are consistent with the risk management strategy and the established risk appetite;</p> <p>(c) uncertainties attached to risk measurement are recognized;</p> <p>(d) appropriate limits are established that are consistent with the bank's risk appetite, risk profile and capital strength, and that are understood by, and regularly communicated to relevant staff; and</p> <p>(e) senior management takes the steps necessary to monitor and control all material risks consistent with the approved strategies and risk appetite.</p> |
| Description and findings regarding EC1 | <p>SAMA's Key Principles of Governance Circular of July 2021 requires Boards to "develop and monitor the implementation of a comprehensive risk management strategy and to review on annual basis" (para 37). It also specifies that this should be linked to the desired risk appetite.</p> <p>SAMA's ICAAP guideline of 2008 notes that an important purpose of an ICAAP is for senior management to inform the Board of Directors and SAMA on the bank's risk profile, appetite, strategic plan and capital adequacy, and how it intends to manage these risks. The ICAAP is an important mechanism for Boards and senior management in a bank to record its risk appetite, the different risks it is exposed to and how these are managed. Banking Supervision determines the appropriateness of risk management strategies and the board role through the following:</p> <ul style="list-style-type: none"> • Continuous monitoring (day to day offsite supervision). • Control Assessment and KRIs as part of the quarterly/annual risk assessment. • On-site activities (inspection). • The annual supervisory review visit (SRV), where supervisors discuss with banks' senior management various aspects that include the risk management framework, adequacy of internal controls, strategy execution and governance. • The risk management framework is covered through the ICAAP and ILAAP both of which must be approved by the Board. SAMA supervisors analyze the ICAAP and |

⁴⁶ For the purposes of assessing risk management by banks in the context of Principles 15 to 25, a bank's risk management framework should take an integrated "bank-wide" perspective of the bank's risk exposure, encompassing the bank's individual business lines and business units. Where a bank is a member of a group of companies, the risk management framework should in addition cover the risk exposure across and within the "banking group" (see footnote 19 under Principle 1) and should also take account of risks posed to the bank or members of the banking group through other entities in the wider group.

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| | <p>may raise issues around risk management. Following the ICAAP exercise, SAMA issues a supervisory letter to require banks to address supervisory observations and any deficiencies in risk management practices within defined timelines.</p> <p>SAMA's onsite inspections assess a bank's compliance with their own policies and SAMA's requirements. The files reviewed by assessors suggested that the process meets the expectations of this EC.</p> <p>In substance, the supervisor assesses the Board's ownership of risk management and the comprehensiveness of their framework and oversight. One area of this EC (that of recognizing the uncertainties attached to risk measurement) is not explicitly covered in any SAMA circular or in the processes. But in substance, the whole supervisory and regulatory framework is sufficiently comprehensive.</p> |
| EC2 | <p>The supervisor requires banks to have comprehensive risk management policies and processes to identify, measure, evaluate, monitor, report and control or mitigate all material risks. The supervisor determines that these processes are adequate:</p> <ul style="list-style-type: none"> (a) to provide a comprehensive "bank-wide" view of risk across all material risk types; (b) for the risk profile and systemic importance of the bank; and (c) to assess risks arising from the macroeconomic environment affecting the markets in which the bank operates and to incorporate such assessments into the bank's risk management process. |
| Description and findings regarding EC2 | <p>SAMA's Key Principles of Governance Circular of July 2021, requires Boards to "develop and monitor the implementation of a comprehensive risk management strategy and to review on annual basis, taking into account to link the level of risks that the financial institution desires to bear in a specific period of time with its strategy and capital plan" (para 37). It also specifies that this should be linked to the desired risk appetite.</p> <p>The Corporate Governance Principles set out a number of responsibilities for the Risk Management Committee (a required Board Sub-Committee), including:</p> <ul style="list-style-type: none"> • Develop a comprehensive risk management strategy and policies, in line with the nature and size of the financial institution's activities, and taking into account cyber and technical risks, ensure their implementation, and review and update same pursuant to the internal and external changes that occur to the financial institution (para 94a). • Oversee the financial institution's risk management system, and evaluate the effectiveness of the systems and mechanisms for identifying, assessing and monitoring the risks that may endanger the financial institution so as to determine areas of inadequacy therein (para 94d). <p>The ICAAP guideline of September 2008, on page 9 requires the bank to develop an approach which includes an assessment of the following, and requires banks to act on gaps found (by the bank or by SAMA):</p> <ul style="list-style-type: none"> • The various markets in which the bank operates. • The products it offers. • The organizational structure. • Its financial position. |

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| | <ul style="list-style-type: none"> • Its experience from various disruptions and problems previously experienced, and assessments of what might happen to the banks if risk materializes. • Strategies, plans and ideas about entering new markets or product areas must also be considered. • Reviews and analyses of data as well as qualitative assessments. <p>SAMA verifies through its supervisory process (especially on-site visits/Control Assessment Questionnaire) that the banks have in place comprehensive and updated risk management policies and procedures to identify, measure, evaluate, monitor, report, and control or mitigate all material risks and that they are adequate for banks' risk profiles. The qualitative part of the risk assessment (Control Assessment Questionnaire) is submitted on an annual basis. Such questionnaires assess bank controls and management oversight over multiple risks covering policies and procedures. SAMA's risk-based supervision framework considers both the inherent risk of a bank based on its current activities, strength and weakness of its risk controls in mitigating inherent risks, and the systemic importance and impact of the bank to the broader financial system. SAMA's onsite inspections assess a bank's compliance with their own policies and SAMA's requirements.</p> |
| EC3 | <p>The supervisor determines that risk management strategies, policies, processes, and limits are:</p> <ul style="list-style-type: none"> (a) properly documented; (b) regularly reviewed and appropriately adjusted to reflect changing risk appetites, risk profiles and market and macroeconomic conditions; and (c) communicated within the bank. <p>The supervisor determines that exceptions to established policies, processes and limits receive the prompt attention of, and authorization by, the appropriate level of management and the bank's Board where necessary.</p> |
| Description and findings regarding EC3 | <p>As per SAMA's Guideline document on the Internal Capital Adequacy Assessment Plan (ICAAP), banks are required, each year, to identify and describe the major risks with an explanation of how each of the risk has been identified, assessed, measured and the methodology and/or models currently or to be employed in the future, and the quantitative results of that assessment. The banks are required to include, as part of their ICAAP and ILAAP documents, a full and clear articulation of the bank's approved risk appetite.</p> <p>Outside of specific risk areas, such as credit risk, there is no overall requirement to document limits. Nevertheless, in practice this is a clear supervisory expectation, and the assessors have seen evidence of comprehensive inspections covering limit setting and risk management processes generally.</p> <p>The risk management framework is reviewed while undertaking the inspection of the risk management functions. Further, targeted inspections of various risks including credit risk, market risk, operational risk, etc., are also conducted on a regular basis, and risk management strategies, policies, processes, and limits pertaining to the respective risks</p> |

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| | <p>are reviewed. While carrying out inspections of other areas such as corporate loans, retail loans, treasury, etc., the related risk management practices and policies are also reviewed. The exceptions to the regulatory and the banks' internal requirements, if any, are highlighted in the inspection reports and communicated to the bank's top management. There is a follow-up mechanism in place in SAMA to ensure that the banks rectify the identified deficiencies in a timely and effective manner.</p> <p>In addition, the Inspection team assesses that the exceptions to bank's internal policies and limits are escalated and authorized at the defined authority level.</p> |
| EC4 | <p>The supervisor determines that the bank's Board and senior management obtain sufficient information on, and understand, the nature and level of risk being taken by the bank and how this risk relates to adequate levels of capital and liquidity. The supervisor also determines that the Board and senior management regularly review and understand the implications and limitations (including the risk measurement uncertainties) of the risk management information that they receive.</p> |
| Description and findings regarding EC4 | <p>SAMA's Key Principles of Governance set out responsibilities of both the Board of Directors and the senior management. They require both Board and senior management to obtain sufficient information on, and understand the risks.</p> <p>How these relate to adequate capital and liquidity is a matter that is required to be covered in banks' ICAAP and ILAAP documents.</p> <p>To determine that the Board and senior management obtain sufficient information on risks taken by the bank, the effectiveness of the Board and Board Sub-committees (including Board Risk Committee) and the management committees (including management risk committees) is assessed during the onsite inspections by reviewing minutes of the meetings.</p> <p>The quality and sufficiency of the information and data submitted to the board, board committees and management committees are assessed by reviewing the agenda packs submitted to them. Regular MIS reports to the senior management are also reviewed during the inspections. The purpose of such reviews is to ensure that the governing bodies and the senior management receive adequate information about the bank's strategies and major risks.</p> <p>Supervisors have no program or framework for interacting with the Board or Board members on a regular basis. It is recommended that they increase their direct interactions with the Board in order to understand and test Board members' understanding of risk issues.</p> <p>Relatedly, on-site inspections place low relative emphasis on testing and assessing the risk culture in a bank. On-site visits are an opportunity to explore cultural aspects through direct engagement with staff at all levels. The approach to on-site inspections could be enriched by holding meetings with senior management and relevant Board members and tilting away from a mainly compliance focus towards a broader and more qualitative assessment of the bank's culture—and for this to be recorded.</p> |
| EC5 | <p>The supervisor determines that banks have an appropriate internal process for assessing their overall capital and liquidity adequacy in relation to their risk appetite and risk</p> |

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| | profile. The supervisor reviews and evaluates banks' internal capital and liquidity adequacy assessments and strategies. |
| Description and findings regarding EC5 | <p>SAMA's guidelines on ICAAP (2008) and ILAAP (2011) require local banks to prepare annually an Internal Capital Adequacy Assessment Plan (ICAAP) and Internal Liquidity Adequacy Assessment Plan (ILAAP). According to these guidelines, the ICAAP has to be derived from a formal internal process through which a bank estimates its capital requirements in relation to its risk profile, strategy, business plans, governance structures, internal risk management systems, etc. The ICAAP process needs to cover all risks (including Pillar 2 risks) as well as risk management strategies, risk appetite and stress testing. The ILAAP contains qualitative and quantitative information to underpin the risk appetite, including the description of the systems, processes, and methodology to measure and manage liquidity and funding risks.</p> <p>SAMA undertakes a detailed review of the ICAAP and ILAAP documents, discusses them at senior level meetings and provides feedback. The process is well-embedded.</p> |
| EC6 | <p>Where banks use models to measure components of risk, the supervisor determines that:</p> <ol style="list-style-type: none"> banks comply with supervisory standards on their use; the banks' Boards and senior management understand the limitations and uncertainties relating to the output of the models and the risk inherent in their use; and banks perform regular and independent validation and testing of the models <p>The supervisor assesses whether the model outputs appear reasonable as a reflection of the risks assumed.</p> |
| Description and findings regarding EC6 | <p>SAMA's guidelines on ICAAP and ILAAP require the banks to present the list of models utilized in the formulation of the ICAAP/ILAAP giving relevant and appropriate details as follows (Section 7 of the ICAAP guidelines and Section 8 of the ILAAP guidelines):</p> <ul style="list-style-type: none"> • The key assumptions and parameters within the capital/liquidity modeling work and background information on the derivation of any key assumptions. • How parameters have been chosen including the historical period used and the calibration process. • The limitations of the model. • The sensitivity of the model to changes in the key assumptions or parameters chosen. • The validation work undertaken to ensure the continuing adequacy of the model. • Whether the model is internally or externally developed. If externally acquired its generic name and details on the model developer. • The extent of its acceptance by other regulatory bodies, users in the international financial/treasures' community, overall reputation, and market acceptance. • Specific details on the applications within the Bank. • Major merits and demerits of the chosen models. • Results of the model validation obtained through: <ul style="list-style-type: none"> ○ Back testing/scenario testing. ○ Analysis of the internal logic. |

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| | <ul style="list-style-type: none"> • Major methodologies or statistical technique used. • Confidence levels embedded for regulatory capital/ liquidity, economic capital/ liquidity, or for external rating purposes. <p>If the bank uses internal models other than those approved by SAMA for pillar 1 purposes or any regulatory methodologies approved for LCR and NSFR, the bank has to provide a detailed comparison explaining both the methodological and parameterization differences between the internal models and the regulatory models and how those affect the capital measures for ICAAP/ILAAP purposes.</p> <p>Section 11 of the ICAAP and Section 12 of the ILAAP requires banks to recognize the inherent uncertainty in any modelling approach and any weaknesses in bank's processes, procedures, and systems.</p> <p>SAMA undertakes a detailed review of the ICAAP and ILAAP documents, and discusses them at senior level meetings and provides feedback. The process is well-embedded. Engagement with senior management is effective. The effectiveness of the ICAAP and ILAAP processes could be enhanced by engaging directly with the Board to ensure they are fully cognisant of the issues SAMA wishes to raise. It would also enable SAMA to test their understanding of the bank's risk profile and the control frameworks in place.</p> |
| EC7 | <p>The supervisor determines that banks have information systems that are adequate (both under normal circumstances and in periods of stress) for measuring, assessing, and reporting on the size, composition, and quality of exposures on a bank-wide basis across all risk types, products, and counterparties. The supervisor also determines that these reports reflect the bank's risk profile and capital and liquidity needs, and are provided on a timely basis to the bank's Board and senior management in a form suitable for their use.</p> |
| Description and findings regarding EC7 | <p>SAMA's ILAAP Guidelines require banks to have the framework and IT systems for identifying, measuring, managing, and monitoring and both internal and external reporting of liquidity and funding risks, including intraday risk. The assumptions and methodologies adopted should be described, key indicators should be evidenced, and the internal information flows described. There is no equivalent requirement in the ICAAP Guidelines.</p> <p>SAMA's Rules on Credit Risk Management for Banks (2013) set out, among other matters, the requirements for, systems and procedures, requirements for stress testing of credit risk and management information system and internal controls system.</p> <p>The ILAAP and Credit Risk Circular set out requirements for specific risk areas. At a general level, the Key Principles for Corporate Governance, issued in 2021, requires the Risk Committee (para 94d) to:</p> <ul style="list-style-type: none"> • Oversee the financial institution's risk management system, and evaluate the effectiveness of the systems and mechanisms for identifying, assessing and monitoring the risks that may endanger the financial institution so as to determine areas of inadequacy therein (para 94d) . • Prepare and submit to the Board detailed reports on exposure to risks and the proposed steps to manage these risks (para 94f). |

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| | <p>Adherence to these requirements and verification of the information systems, the reports that go to Senior Management and the Board are verified via offsite and onsite supervision.</p> <p>As part of the annual control assessment questionnaire completed by the banks on an annual basis, questions relate to the banks' systems for different risk areas and the reporting framework to senior management.</p> <p>SAMA's onsite inspectors test the design and operational effectiveness of controls in risk areas as part of thematic or targeted inspections. This also encompasses testing the adequacy and effectiveness of the controls implemented within the information systems. Risks identified during these assessments are monitored and followed up according to an established and embedded process.</p> <p>Whilst the overall regulatory and supervisory framework appears to adequately cover the supervisory assessment of information systems, adoption of a holistic regulation for risk management would ensure full coverage.</p> |
| EC8 | <p>The supervisor determines that banks have adequate policies and processes to ensure that the banks' Boards and senior management understand the risks inherent in new products,⁴⁷ material modifications to existing products, and major management initiatives (such as changes in systems, processes, business model and major acquisitions). The supervisor determines that the Boards and senior management are able to monitor and manage these risks on an ongoing basis. The supervisor also determines that the bank's policies and processes require the undertaking of any major activities of this nature to be approved by their Board or a specific committee of the Board.</p> |
| Description and findings regarding EC8 | <p>SAMA issued a "New banking products and services guideline" in October 2017. It also covers "An existing product or service that has undergone material/significant modifications to the product structure, characteristics and risk profile." It contains the following requirements:</p> <ul style="list-style-type: none"> • Section 2.1: "Banks are required to have a board (or its delegated authority) approve new products/services policy to guide the development and approval process for new banking products." • Section 2.2: "The board of directors (the board) and senior management of the bank are responsible to ensure that the new product/services risks are well managed." <p>The control functions in banks, including risk management and compliance, are required to review the new products to ensure that the associated inherent risks and operational aspects are studied and fully understood. This is as well as the requirement in the corporate governance guidance for Board and senior management ownership of all new products and major initiatives. Post-launch review must be carried out by the internal audit within a SAMA-specified timeline.</p> <p>The entire framework around new and materially modified products and services is reviewed during the onsite inspections of relevant business departments, and of the Internal Audit Department. The inspection team assesses whether banks have performed an adequate risk assessment before approval of new products or amending those. The</p> |

⁴⁷ New products include those developed by the bank or by a third party and purchased or distributed by the bank.

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| | shortcomings identified, if any, are highlighted in the inspection reports and communicated to the banks. |
| EC9 | The supervisor determines that banks have risk management functions covering all material risks with sufficient resources, independence, authority and access to the banks' Boards to perform their duties effectively. The supervisor determines that their duties are clearly segregated from risk-taking functions in the bank and that they report on risk exposures directly to the Board and senior management. The supervisor also determines that the risk management function is subject to regular review by the internal audit function. |
| Description and findings regarding EC9 | <p>SAMA's Key Principles for Corporate Governance issued in 2021 require banks to put in place policies covering major risks, and to have adequate resources to monitor those risks (para 94).</p> <p>The risk functions at the banks are required to, and have, direct reporting lines to the CEO/Board Risk Committees, and their duties are segregated from risk-taking functions, in order to ensure their independence (Corporate Governance Guidelines para 36).</p> <p>The risk functions at the banks are required to be subject to review by the internal auditors on a regular basis.</p> <p>The risk management functions at the banks are also regularly reviewed during the onsite inspections. Such reviews cover the entire risk management framework including Board/Board Committees oversight, policies, procedures, limits, organizational structure, resources, major risks, etc. The shortcomings identified with regard to the risk management framework, if any, are highlighted in the inspection reports and communicated to the banks for taking corrective actions. Completion of these corrective actions is monitored by the onsite inspection team.</p> |
| EC10 | The supervisor requires larger and more complex banks to have a dedicated risk management unit overseen by a Chief Risk Officer (CRO) or equivalent function. If the CRO of a bank is removed from his/her position for any reason, this should be done with the prior approval of the Board and generally should be disclosed publicly. The bank should also discuss the reasons for such removal with its supervisor. |
| Description and findings regarding EC10 | <p>SAMA circular no. 3411000036442 dated January 2013 concerning Rules on Credit Risk Management requires banks to have a credit risk framework with an organizational structure that is commensurate with the bank's size, complexity of operations, and diversification of activities. The organizational structure should facilitate effective management oversight and proper execution of credit risk management and control processes.</p> <p>SAMA's key principles of governance in financial institutions require the establishment of a Board Risk Committee through which the bank's risk manager must report to the Board (para 92). The Risk Committee is required to submit its opinion on the risk management reports to the Board (para 93). The risk committee is responsible to provide recommendations to the Board as per the appointment/termination of service of the manager of the risk unit or department.</p> |

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| | <p>Paragraph 36 of the document sets out that banks must: "Ensure the existence and development of effective units for compliance, internal auditing and risk management, make sure that such departments are independent from business departments, ensure the availability of the adequate powers and resources therein, and train their staff and develop their capabilities in the field."</p> <p>The Circular titled "Appointment Requirements for Leadership Positions in the Financial Institutions Under the Supervision of SAMA" requires (Article 9):" The financial institution must conduct an assessment of the suitability of holders of leadership positions on a</p> |
| | <p>regular basis, and at a minimum once a year, and the financial institution must immediately inform the Central Bank of any information or observations that emerge during the suitability assessment process and that have a material impact on their eligibility and suitability."</p> <p>There is no requirement to publicly disclose a CRO's departure or the reasons for it.</p> |
| EC11 | <p>The supervisor issues standards related to, in particular, credit risk, market risk, liquidity risk, interest rate risk in the banking book, and operational risk.</p> |
| Description and findings regarding EC11 | <p>SAMA has issued the following requirement which covered credit risk, market risk, liquidity risk, interest rate risk in the banking book, and operational risk:</p> <ul style="list-style-type: none"> • Rules on Credit Risk Management which was issued via circular no. 341000036442, dated February 2, 2013. The objective of these rules is to set the minimum requirement for banks in the area of credit risk management. • Principals for Sound Liquidity Risk Management and Supervision which was issued via circular no. 351000147075, dated September 19, 2017. • Risk Management Framework for Banks Practicing Islamic Banking Activities which was issued via circular no. 43038156, dated December 2, 2021. The objective of this framework is to provide a set of rules for establishing and implementing effective risk management in banks offering Shariah compliant products and services. • Guidelines on the Internal Liquidity Adequacy Assessment Plan (ILAAP) was issued via circular no. 42012157, dated October 18, 2020. <p>There is no specific standard covering market risk. The Circular covering operational risk (see CP25), issued in 2014 was "for information purposes" and therefore does not set standards.</p> <p>SAMA's Guideline Document on The Internal Capital Adequacy Assessment Plan (ICAAP) issued via circular no. 581, dated September 22, 2008, and the Enhancements to the ICAAP Document, dated September 10, 2011, go some way to close these gaps. They include requirements for identification and appropriate description of the major risks faced in each of the following categories:</p> <ul style="list-style-type: none"> • Credit Risk (Additional to Pillar 1). • Market Risk (Additional to Pillar 1). • Operational Risk (Additional to Pillar 1). • Liquidity Risk. • Concentration Risk. • Securitization Risk. • Strategic Risk. |

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| | <ul style="list-style-type: none"> • Interest Rate Risk in the Banking Book. <p>It is recommended that gaps are filled. An overarching risk management standard would unambiguously ensure full coverage of risks, including new and emerging ones, and Shariah risk. The operational risk circular of 2014 should be refreshed to make it clear it sets minimum requirements.</p> |
| EC12 | <p>The supervisor requires banks to have appropriate contingency arrangements, as an integral part of their risk management process, to address risks that may materialize and actions to be taken in stress conditions (including those that will pose a serious risk to their viability). If warranted by its risk profile and systemic importance, the contingency arrangements include robust and credible recovery plans that take into account the specific circumstances of the bank. The supervisor, working with resolution authorities as appropriate, assesses the adequacy of banks' contingency arrangements in the light of their risk profile and systemic importance (including reviewing any recovery plans) and their likely feasibility during periods of stress. The supervisor seeks improvements if deficiencies are identified.</p> |
| Description and findings regarding EC12 | <p>SAMA has issued stress testing guidelines for the banks in 2011. In line with these guidelines, the banks undertake stress tests at least twice a year, covering various areas including liquidity. The inspection teams undertake review of the stress testing frameworks of banks, including policies, systems, models, etc., during relevant onsite inspections. The assessment is made with regard to level of integration of the stress testing framework with the overall risk management framework, and how the stress test results are used for making contingency arrangements.</p> <p>Under the ICAAP and ILAAP frameworks, banks are required to assess risks that might materialize during stress conditions and provide a contingency plan to secure liquidity or capital needs if required. Such plans are discussed and challenged during ICAAP and ILAAP discussions to ensure that plan in place is specific, timely and tested periodically. This is required under ILAAP Guidelines (Section C: Contingency Funding Plan (CFP)) and Rules on Stress Testing (Section 9: Remedial Actions).</p> <p>With regards to the development of robust and credible recovery plan, Article 6 of the Systemically Important Financial Institution Law issued by Royal Decree no. 253 issued December 2020 provides details on the required components within recovery plans prepared by Systemically Important Financial Institution (SIFIs):</p> <ul style="list-style-type: none"> • The recovery plan must include: <ul style="list-style-type: none"> ○ A summary of its key components and an indication of the financial institution's ability to recover its position. ○ A summary of the fundamental changes in the financial institution since the last recovery plan submitted to the competent authority. ○ An outreach and disclosure plan to address any anticipated negative reaction from the markets as a result of the impact of the fundamental changes on the financial institution. ○ Steps to recover capital and liquidity requirements, preserve the financial institution, and regain its financial position. |

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| | <ul style="list-style-type: none"> ○ An estimation of the timeframe required to implement the primary components of the plan. ○ A detailed description of potential risks which may hinder implementation. ○ identification of the critical activities provided by the financial institution. ○ A detailed description of procedures for determining the market value of each activity in the financial institution as well as its operations and assets, and their potential to be marketed and sold. ○ Arrangements and procedures to obtain liquidity, including identification of potential sources for liquidity and evaluation of the guarantees available for acquiring such liquidity. ○ Arrangements and procedures for rescheduling the financial institution's debts; structuring or restructuring its activities; and reducing any potential risks. ○ Arrangements and procedures required to ensure the continued access to settlement systems. ○ Arrangements necessary for the sale of certain assets or activities of the financial institution in order to recover its financial position within an appropriate time. ○ Governance procedures of the plan, including identification of persons in charge of its preparation and implementation. <ul style="list-style-type: none"> ● The competent authority may require the financial institution to include in its recovery plan quantitative and qualitative indicators reflecting the position of the financial institution, as well as the actions the institution may take with regards to each indicator in order to recover its financial position. ● The competent authority may include in the Implementing Regulations additional rules and provisions governing the preparation and implementation of the recovery plan. <p>Article (7) of the Systemically Important Financial Institution Law states:</p> <ul style="list-style-type: none"> ● The financial institution shall, upon the approval of its management, submit the recovery plan or any update thereto to the competent authority for approval. ● The competent authority shall, within 90 days from receipt of the recovery plan, approve the plan or return it to the financial institution for amendment and resubmission within a period specified by the competent authority. ● The financial institution shall update the recovery plan at the request of the competent authority within a period specified thereby. ● The competent authority shall, upon requesting a recovery plan, take into account the importance of the financial institution, its size, interconnectedness and the complexity of its relations with local and foreign financial institutions, its modus operandi, and associated risks. <p>The legal framework for SIFI resolution is in place. SAMA has begun the process of implementation but this is at an early stage. SAMA are encouraged to progress this work.</p> |
| EC13 | <p>The supervisor requires banks to have forward-looking stress testing programs, commensurate with their risk profile and systemic importance, as an integral part of their risk management process. The supervisor regularly assesses a bank's stress testing program and determines that it captures material sources of risk and adopts plausible</p> |

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| | <p>adverse scenarios. The supervisor also determines that the bank integrates the results into its decision-making, risk management processes (including contingency arrangements) and the assessment of its capital and liquidity levels. Where appropriate, the scope of the supervisor's assessment includes the extent to which the stress testing program:</p> <ul style="list-style-type: none"> (a) promotes risk identification and control, on a bank-wide basis (b) adopts suitably severe assumptions and seeks to address feedback effects and system-wide interaction between risks; (c) benefits from the active involvement of the Board and senior management; and (d) is appropriately documented and regularly maintained and updated. <p>The supervisor requires corrective action if material deficiencies are identified in a bank's stress testing program or if the results of stress tests are not adequately taken into consideration in the bank's decision-making process</p> |
| Description and findings regarding EC13 | <p>SAMA's Rules on Stress Testing for Banks was issued via circular no. 60697.BCS.28747, dated November 23, 2011. It requires banks to adopt robust stress testing techniques and use stress tests as a tool of risk management. Banks are required to conduct a comprehensive stress testing that covers all material risks faced by the banks on regular basis, they should design, develop, and implement their own stress testing programs in line with the nature, size and complexity of their businesses and risk profile.</p> <p>The integration of stress testing results into banks' overall risk management is evidenced via the ICAAP and ILAAP documents. These include assessing risk identifications, suitability of scenarios, board and senior management involvement, documentation, and comprehensiveness to ensure that it is applied on a bank wide level. SAMA shares its observations with banks and, as necessary, requires banks to submit corrective actions in the annual ILAAP and ICAAP letters. SAMA may also review the stress testing frameworks of banks during their on-site examination. The review process will assess banks' efforts to embedding the relevant SAMA's requirements into their risk management framework.</p> <p>In addition, SAMA requires banks to take remedial action to address potential risks and vulnerabilities identified by the stress testing results.</p> <p>The Board is required to sign off on both the stress testing itself and the ICAAP and ILAAP documents. SAMA could increase their level of comfort with the nature and extent of the Board's ownership and understanding of the stress tests by direct bilateral meetings with key Board members.</p> |
| EC14 | <p>The supervisor assesses whether banks appropriately account for risks (including liquidity impacts) in their internal pricing, performance measurement and new product approval process for all significant business activities.</p> |
| Description and findings regarding EC14 | <p>As part of SAMA's guideline document on the internal capital adequacy assessment plan (ICAAP), the initial point for a bank's capital requirement and strategic plans is to identify all of the risks to which it is exposed, and which may be of significance. Also, the object is that a well thought-out and a clear decision emerges as to how these risks are to be managed. This requires an approach which includes an assessment of the following:</p> |

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| | <ul style="list-style-type: none"> • The various markets in which the bank operates. • The products it offers. • The organizational structure. • Its financial position. • Its experience from various disruptions and problems previously experienced, and assessments of what might happen to the banks if risk materializes. <p>Discussions during the annual Supervisory Review Visits and ICAAP meetings cover matters such as: how the result of the assessment of these risks are reflected in their business, performance measures, and the risk appetite statement.</p> <p>The BCP assessors did not evidence pricing being covered in the files reviewed, nor is this covered in SAMA's New Banking Products and Services Guideline (2017). Funds Transfer Pricing can be covered during ILAAP meetings.</p> <p>Regarding the approval process banks must do their due diligence within the SAMA New Banking Products and Services Guidelines and apply for non-objection letter for the new product/service. SAMA then reviews the submission to ensure that banks assess the risks associated with the product/service.</p> |
| Additional Criteria | |
| AC1 | The supervisor requires banks to have appropriate policies and processes for assessing other material risks not directly addressed in the subsequent Principles, such as reputational and strategic risks. |
| Description and findings regarding AC1 | <p>SAMA's Key Principles of Governance Circular of July 2021 requires Boards to "develop and monitor the implementation of a comprehensive risk management strategy and to review on annual basis, taking into account to link the level of risks that the financial institution desires to bear in a specific period of time with its strategy and capital plan" (para 37). Implicitly, this —and other sections in the document—cover risks holistically, including those that are not directly addressed in other policies, but there is no specific reference to the need to do so, nor are any such risks mentioned.</p> <p>The Guidelines require banks to prepare Risk Appetite Statement (RAS), which is reviewed and approved on an annual basis by banks' board of directors. The RAS should cover all material risks. The review of the banks' policies and practices with regard to RAS, operational and strategic risks is undertaken while carrying out onsite inspections of the risk management functions at the banks.</p> |
| Assessment of Principle 15 | Largely compliant. |
| Comments | <p>SAMA's framework around risk management requirements is largely complete. The Corporate Governance Principles require a Board Risk Committee, a separate risk function and a risk appetite statement supported by reporting and monitoring systems.</p> <p>There are two key gaps (EC11):</p> <ul style="list-style-type: none"> • There are circulars covering individual risks such as credit risk (currently one of the largest risks for the Saudi banking system), cyber risk, business continuity |

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| | <p>management. But there are no detailed requirements for an overall risk management framework.</p> <ul style="list-style-type: none"> • Some important areas of risk (market risk and operational risk) lack a single enforceable document. <p>In practice, SAMA cover these areas via the ICAAP and ILAAP frameworks and SAMA's detailed assessment of the banks' documents, and through onsite work. Nevertheless, a more comprehensive regulatory foundation would be helpful to ensure offsite and onsite work provides full coverage (EC11).</p> <p>SAMA supervisors meet Board members rarely and have no structured framework for doing so. We recommend that they put one in place to ensure Board members are fully across risk management issues. (EC4). This recommendation is cross-referenced to CP9, which is the only place where it influences the CP's grade.</p> <p>Relatedly, it is recommended that on-site inspections afford more relative emphasis on testing and assessing the risk culture in a bank, with a tilt away from a mainly compliance focus to a broader and more qualitative assessment of the bank and its approach to risk (EC4).</p> <p>There are no requirements to publicly disclose the dismissal or replacement of a bank's CEO, CRO, Chief Compliance Officer, and Internal Audit Executives, and also the reasons (EC10).</p> <p>The BCP assessors did not evidence pricing being covered in the files reviewed, nor is this covered in SAMA's New Banking Products and Services Guideline (2017) (EC14)</p> <p>The SIFIL was passed in 2021 and will enable SAMA to build a full resolution and recovery framework for SIFIs. We encourage continued attention to full implementation.</p> |
| Principle 16 | Capital adequacy. ⁴⁸ The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses. At least for internationally active banks, capital requirements are not less than the applicable Basel standards. |
| Essential Criteria | |
| EC 1 | Laws, regulations or the supervisor require banks to calculate and consistently observe prescribed capital requirements, including thresholds by reference to which a bank might be subject to supervisory action. Laws, regulations or the supervisor define the qualifying components of capital, ensuring that emphasis is given to those elements of capital permanently available to absorb losses on a going concern basis. |
| Description and findings regarding EC1 | The Banking Control Law of 1966 sets a minimum capital requirement of SAR 2.5mn. In practice, SAMA require much higher levels for new banks (making that known to potential applicants), and all existing banks also have paid-up capital well in excess of this |

⁴⁸ The Core Principles do not require a jurisdiction to comply with the capital adequacy regimes of Basel I, Basel II, and/or Basel III. The Committee does not consider implementation of the Basel-based framework a prerequisite for compliance with the Core Principles, and compliance with one of the regimes is only required of those jurisdictions that have declared that they have voluntarily implemented it.

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| <p>level. It is recommended that the minimum required capital in legislation be updated to reflect this.</p> <p>SAMA has issued two key documents that implement the Basel III framework. These are:</p> <ul style="list-style-type: none"> • ‘Finalized Guidance Document Concerning the Implementation of Basel III’ issued December 2012. • ‘Guidance Note on the Scope of Application of SAMA’s Basel Framework’ issued December 2022. <p>Although these documents are labeled as guidance, they are enforceable.</p> <p>The requirements apply to locally incorporated banks. There are no capital requirements for Foreign Bank Branches (FBB). At the time of licensing, SAMA checks capital adequacy at the level of the bank as a whole and reliance is then placed on the home supervisor. However, SAMA can require FBBs to maintain quasi-capital in the form of a Funding Ratio requirement on a case-by-case basis. For a fuller description, see CP13, EC7. This approach seems reasonable given the relatively small size of FBBs and the reliance on parent capital supported by the funding ratio.</p> <p>The former 2012 document specifies minimum capital ratios in line with the Basel III framework. Section A, Paragraph 2.1 on page 7 specifies minimum ratios for CET1 (4.5 percent), Tier1 capital ratio (6 percent) and total capital ratio (8 percent) that banks must meet.</p> <p>The definitions of each tier of capital are in line with Basel standards. The 2012 document defines the qualifying components of the capital and specifies the criteria for each component to be considered eligible for capital calculation.</p> <p>Capital permanently available to absorb losses on a going concern basis (Tier 1) forms the majority (75 percent) of the baseline minimum capital requirements.</p> <p>SAMA has also introduced a capital conservation buffer at 2.5 percent, which must be comprised of CET1 capital (SAMA’s Final Guidance Document Concerning Implementation of Capital Reforms Under Basel III Framework issued in December 2012) and a DSIB buffer which is set at up to 2.5 percent based on a formula that includes size and interconnectedness metrics (see circular titled ‘Domestic Systematically Important Banks (D-SIBs) Framework’ issued in 2014).</p> <p>The Counter Cyclical Capital Buffer was added to SAMA’s prudential toolkit in 2016 (circular titled ‘Applicability of Counter Cyclical Capital Buffer in Saudi Arabia’ dated January 4, 2016) and a box in the 2016 Financial Stability Report set out SAMA’s high-level approach to operationalizing it. SAMA has put in place reciprocity arrangements to reflect other countries’ impositions of a CCyB. SAMA is encouraged to develop a fuller set of indicators and market guidance on criteria for changing the level of the CCyB.</p> |
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| EC2 | At least for internationally active banks, ⁴⁹ the definition of capital, the risk coverage, the method of calculation and thresholds for the prescribed requirements are not lower than those established in the applicable Basel standards. |
| Description and findings regarding EC2 | <p>SAMA's Final Guidance Document Concerning Implementation of Capital Reforms Under Basel III Framework was issued in December 2012. The definition of capital, risk coverage, method of calculation, required deductions and thresholds for prescribed requirements (including buffers) are as per the applicable Basel standards. The 2018 RCAP confirmed that this was the case.</p> <p>SAMA circular no. 44047144 dated December 2022 regarding Basel III Final Reforms requires banks to calculate capital requirements based on the Basel risk weighted assets (RWA) framework. It covers credit, market and operational risk and minimum capital requirements for CCR and CVA.</p> <p>SAMA has the power to apply capital requirements on a solo basis. The requirements set out in 'SAMA's Final Guidance Document Concerning Implementation of Capital Reforms Under Basel III Framework issued in December 2012' apply on a consolidated basis.</p> <p>The assessors noted files where the risk weight on home loans reported by a bank appeared unduly low, and out of line with SAMA's Basel-based risk weights. Although it appears that the actual risk weight on this book is closer to expectations, the correct calculation cannot easily be made from the reporting template. There are embedded validations within the reporting system, but supervisors cannot always rely on these, and this case demonstrates that these may not always pick up potential issues. It is recommended that supervisors carry out a sense check on key risk weighting numbers on receipt of the relevant returns.</p> <p>Supervisors pay limited attention paid to solo capital adequacy and it is recommended that SAMA supervisors consistently check banks' solo capital adequacy.</p> |
| EC3 | The supervisor has the power to impose a specific capital charge and/or limits on all material risk exposures, if warranted, including in respect of risks that the supervisor considers not to have been adequately transferred or mitigated through transactions (e.g., securitization transactions) ⁵⁰ entered into by the bank. Both on-balance sheet and off-balance sheet risks are included in the calculation of prescribed capital requirements. |
| Description and findings regarding EC3 | <p>Article 22 of the Banking Control Law grants SAMA the authority to impose specific capital requirements.</p> <p>SAMA Guidelines on the Internal Capital Adequacy Assessment Plan (ICAAP) dated September 2008 includes identifying and quantifying risks beyond the minimum requirements set by Pillar 1. SAMA independently assesses risks not captured</p> |

⁴⁹ The Basel Capital Accord was designed to apply to internationally active banks, which must calculate and apply capital adequacy ratios on a consolidated basis, including subsidiaries undertaking banking and financial business. Jurisdictions adopting the Basel II and Basel III capital adequacy frameworks would apply such ratios on a fully consolidated basis to all internationally active banks and their holding companies; in addition, supervisors must test that banks are adequately capitalized on a stand-alone basis.

⁵⁰ Reference documents: 'Enhancements to the Basel II Framework,' July 2009; and 'International convergence of capital measurement and capital standards: a revised framework, comprehensive version,' June 2006.

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| | <p>under the Pillar 1 calculations. SAMA has the power to impose additional capital charges to ensure the bank's overall capital adequately covers these risks. It does so by way of increasing a bank's minimum capital adequacy ratio.</p> <p>SAMA's December 2022 Final Guidance Document Concerning Implementation of Capital Reforms Under Basel III Framework includes both on and off-balance sheet risks in the calculation of capital requirements, and a methodology for converting off-balance sheet items into credit exposures for capital requirements calculation purposes. These requirements have been fully implemented: banks disclose the calculations quarterly under Pillar 3.</p> |
| EC4 | <p>The prescribed capital requirements reflect the risk profile and systemic importance of banks,⁵¹ in the context of the markets and macroeconomic conditions in which they operate and constrain the build-up of leverage in banks and the banking sector. Laws and regulations in a particular jurisdiction may set higher overall capital adequacy standards than the applicable Basel requirements.</p> |
| Description and findings regarding EC4 | <p>Capital ratios are varied according to a bank's risk profile and systemic importance. In terms of systemic importance, SAMA circular no. 351000138356 dated September 2014 titled "Domestic Systematically Important Banks (D-SIBs) Framework" has an assessment methodology based on an indicator-based measurement approach for assessing and designating D-SIBs in Saudi that is consistent with Basel D-SIB assessment methodology. Saudi D-SIBs that are identified and designated by SAMA under this methodology are required to comply with higher Loss Absorbency (HLA) requirement that should be met fully by CET1. This D-SIB capital add-on can be up to 2.5 percent. SAMA has the power to increase or vary a bank's minimum capital adequacy ratio to reflect its risk profile. It does so by way of increasing the required total capital ratio under Pillar 2. In substance this process ensures that the matters covered under footnote 46 are taken into account in the setting of minimum capital ratios and in monitoring a bank's capital adequacy generally.</p> <p>SAMA circular no. 341000015689 dated 06/02/1434AH regarding SAMA Implementation of Capital Reforms under Basel III Framework introduced the concept of the countercyclical buffer and leverage ratio requirements. See EC1 for a fuller description of the state of play in this regard.</p> <p>SAMA circular no. 44047144 dated December 2022 regarding Basel III Final Reforms includes leverage requirements. These are consistent with the Basel framework and aim to improve the measurement and management of banks' leverage.</p> |
| EC5 | <p>The use of banks' internal assessments of risk as inputs to the calculation of regulatory capital is approved by the supervisor. If the supervisor approves such use:</p> |

⁵¹ In assessing the adequacy of a bank's capital levels in light of its risk profile, the supervisor critically focuses, among other things, on: (i) the potential loss absorbency of the instruments included in the bank's capital base; (ii) the appropriateness of risk weights as a proxy for the risk profile of its exposures; (iii) the adequacy of provisions and reserves to cover loss expected on its exposures; and (iv) the quality of its risk management and controls. Consequently, capital requirements may vary from bank to bank to ensure that each bank is operating with the appropriate level of capital to support the risks it is running and the risks it poses.

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| | <p>(a) such assessments adhere to rigorous qualifying standards;</p> <p>(b) any cessation of such use, or any material modification of the bank's processes and models for producing such internal assessments, are subject to the approval of the supervisor;</p> <p>(c) the supervisor has the capacity to evaluate a bank's internal assessment process in order to determine that the relevant qualifying standards are met and that the bank's internal assessments can be relied upon as a reasonable reflection of the risks undertaken;</p> <p>(d) the supervisor has the power to impose conditions on its approvals if the supervisor considers it prudent to do so; and</p> <p>(e) if a bank does not continue to meet the qualifying standards or the conditions imposed by the supervisor on an ongoing basis, the supervisor has the power to revoke its approval.</p> |
| Description and findings regarding EC5 | <p>SAMA circular no. 44047144 of December 2022 regarding Basel III Final Reforms allows banks the option to use their internal assessments, subject to SAMA's approval. There are clear qualifying standards.</p> <p>All banks in Saudi are using the standardized approaches and no bank has yet indicated any intention to apply for SAMA's approval for implementation of IRB or advanced models for market or operational risk.</p> |
| EC6 | <p>The supervisor has the power to require banks to adopt a forward-looking approach to capital management (including the conduct of appropriate stress testing).⁵² The supervisor has the power to require banks:</p> <p>(a) to set capital levels and manage available capital in anticipation of possible events or changes in market conditions that could have an adverse effect; and</p> <p>(b) to have in place feasible contingency arrangements to maintain or strengthen capital positions in times of stress, as appropriate in the light of the risk profile and systemic importance of the bank.</p> |
| Description and findings regarding EC6 | <p>SAMA circular no. 60697.BCS.28747 dated November 23, 2011, 'Rules on Stress Testing for Banks' requires banks to undertake stress tests.</p> <p>SAMA's Guideline Document on the Internal Capital Adequacy Assessment Plan (ICAAP) 2008 and Enhancement to the ICAAP Document 2011 emphasize the importance of a forward-looking approach to capital management and require banks to conduct stress tests to assess their capital adequacy under adverse scenarios and have contingency arrangements to address the potential impact of severe economic or financial stress events.</p> <p>Banks are required to submit at least two stress tests each year.</p> <p>SAMA has the power under the Central Banking Law (Article 4) to require banks to set capital levels and manage their available capital in anticipation of possible events or</p> |

⁵² "Stress testing" comprises a range of activities from simple sensitivity analysis to more complex scenario analyses and reverse stress testing.

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| | <p>changes in market conditions that could have an adverse effect. See ICAAP guidelines (3.2 SAMA Role and Responsibility in the ICAAP Process). SAMA requires banks to include three-year forward capital plans in the ICAAP.</p> <p>SAMA reviews each bank's minimum capital requirements as part of the annual ICAAP process and will adjust the Pillar 2 add-on requirement at this time. Account will be taken of risks revealed by the ICAAP process as well as the stress tests and any other relevant information.</p> |
| AC1 | For non-internationally active banks, capital requirements, including the definition of capital, the risk coverage, the method of calculation, the scope of application and the capital required, are broadly consistent with the principles of the applicable Basel standards relevant to internationally active banks. |
| Description and findings regarding AC1 | SAMA's capital adequacy requirements, which are consistent with Basel standards, are applicable to all locally-incorporated banks operating in Saudi. |
| AC2 | The supervisor requires adequate distribution of capital within different entities of a banking group according to the allocation of risks. ⁵³ |
| Description and findings regarding AC2 | <p>The supervisor does not require adequate distribution of capital in any law or regulation. In practice, in their review of Pillar 2 during the ICAAP assessment, supervisors may assess the allocation of capital across the group.</p> <p>SAMA Guidelines on the Internal Capital Adequacy Assessment Plan (ICAAP) dated September 2008 require (Section 8) banks to recognize restrictions on the ability to transfer capital across entities during stressed conditions. See, though, the comment in EC2 about monitoring of the solo bank.</p> |
| Assessment of Principle 16 | Largely compliant. |
| Comments | <p>SAMA has a comprehensive capital adequacy framework whose requirements on capital instrument eligibility, capital deductions and risk weightings are consistent with Basel III. They assess risks under Pillar 2 and adjust minimum capital ratios accordingly.</p> <p>The key gap is that SAMA do not consistently monitor capital adequacy requirements of the bank on a solo basis (EC2). This could lead to the bank as a legal entity being undercapitalized relative to its risks and it is recommended a monitoring framework be established. The risk is not immaterial for some Saudi banks: group entities account for 3 to 18 percent of capital of the respective consolidated banks. Furthermore, many banks are looking to grow their overseas and non-banking operations.</p> <p>It is also recommended that supervisors carry out a sense check on key risk weighting numbers on receipt of the relevant returns (EC2).</p> <p>It is recommended that the minimum capital requirement in legislation, currently set at SAR 2.5 million be updated to reflect current reality (EC1).</p> <p>SAMA are encouraged to develop a fuller set of indicators and market guidance on criteria for changing the level of the CCyB (EC1).</p> |

⁵³ Please refer to Principle 12, Essential Criterion 7.

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| Principle 17 | Credit risk. ⁵⁴ The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk ⁵⁵ (including counterparty credit risk) ⁵⁶ on a timely basis. The full credit lifecycle is covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios. |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to have appropriate credit risk management processes that provide a comprehensive bank-wide view of credit risk exposures. The supervisor determines that the processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank, take into account market and macroeconomic conditions and result in prudent standards of credit underwriting, evaluation, administration and monitoring. |
| Description and findings regarding EC1 | <p>SAMA issued its Rules on Credit Risk Management for Banks in 2013 (circular no. 341000036442). These Rules set out the Board and senior management responsibilities, requirements for credit policy and procedures, requirements for the overall structure for credit risk management, systems and procedures, requirements for stress testing of credit risk and management information system and internal controls system.</p> <p>In these Rules, all banks are required (para 2 iv) to ensure that they have put in place an elaborate credit risk management framework to effectively manage their credit risk. Key elements are:</p> <ul style="list-style-type: none"> • Formulating a credit risk policy that is approved by its board of directors which determines its risk appetite and risk tolerance levels. • Establishing a credit risk management department and credit risk management committee to monitor the overall credit risk management. • Using techniques to measure credit risk including qualitative and quantitative techniques. <p>The bank's Credit Policy must be submitted to SAMA within 30 days of approval (page 9 of the document).</p> <p>SAMA circular no. 44047144 of December 2022 regarding Basel III Final Reforms has further enhanced the regulatory framework for credit risk management by improving risk measurement, increasing risk coverage, strengthening capital requirements and enhancing transparency through disclosures.</p> <p>SAMA's Guideline Document on the Internal Capital Adequacy Assessment Plan (ICAAP) and the Enhancement to the ICAAP Document issued in 2011 also mandate that banks implement an ICAAP as part of their risk management framework. During the ICAAP</p> |

⁵⁴ Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

⁵⁵ Credit risk may result from the following: on-balance sheet and off-balance sheet exposures, including loans and advances, investments, inter-bank lending, derivative transactions, securities financing transactions and trading activities.

⁵⁶ Counterparty credit risk includes credit risk exposures arising from OTC derivative and other financial instruments.

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| | <p>assessment, SAMA supervisors review and assess the risk appetite and credit risk exposures.</p> <p>SAMA determines the appropriateness of credit risk management and compliance with related rules and regulations through:</p> <ul style="list-style-type: none"> • Off-site activities through continuous monitoring that includes regular assessment of banks' inherent credit risk and related controls, and asset quality data. They also hold regular and ad hoc supervisory meetings. Credit is a key focus for supervision: more than half of the 115 KRIs used by supervisors are related to credit risk. • Review of the credit risk management framework is regularly carried out during the onsite inspections. The review covers the credit risk management strategy, policies, approval authorities, organizational structure, systems, risk reports, risk appetite/limits, quality of data/MIS, oversight by the governing bodies and senior management, credit administration, integration between business strategies and credit risk management strategy, etc. Such reviews assess whether the banks have in place an appropriate and fully operational credit risk management framework in line with the regulatory guidelines and. Any deviations from the regulatory guidelines and/or the banks' internal policies are highlighted in the inspection reports, and communicated to the banks for corrective action. <p>While assessors' file reviews found that the on-site activity is largely focused on assessing compliance with SAMA policies and the bank's own credit framework, this also includes verification of the Board's role and of senior management engagement.</p> |
| EC2 | <p>The supervisor determines that a bank's Board approves, and regularly reviews, the credit risk management strategy and significant policies and processes for assuming,⁵⁷ identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating credit risk (including counterparty credit risk and associated potential future exposure) and that these are consistent with the risk appetite set by the Board. The supervisor also determines that senior management implements the credit risk strategy approved by the Board and develops the aforementioned policies and processes.</p> |
| Description and findings regarding EC2 | <p>SAMA circular no. 42081293 dated June 2021 on Corporate Governance Principles sets out the required roles and responsibilities of both the board members and senior management in relation to risk management. According to the circular, the Board is responsible for developing and monitoring the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the bank's activities, and to review this on an annual basis.</p> <p>The document requires senior management to be responsible for applying appropriate control systems for risk management. This covers: implementing internal control and risk management systems, including the conflict-of-interest policy, verifying the effectiveness and efficiency of these systems, and ensuring their compliance with the level of risk approved by the board. Senior management must submit to the board an annual report on the internal control system and the implementation thereof to enable the board to</p> |

⁵⁷ "Assuming" includes the assumption of all types of risk that give rise to credit risk, including credit risk or counterparty risk associated with various financial instruments.

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| | <p>review the system and ensure its effectiveness. The senior management is required to keep the board constantly and adequately informed of substantial issues, and provide it with such information as it may require in order to carry out its responsibilities and to supervise the executive management and evaluate its quality.</p> <p>SAMA's 2013 credit risk management circular covers the full lifecycle of credit evaluation, including identifying, measuring, evaluating, monitoring, reporting and controlling/mitigating credit risk. It also covers the board's role and responsibilities. This regulation outlines the requirement for the board of directors to approve and regularly review the credit risk management strategy, policies, and processes. These should be consistent with the board's risk appetite.</p> <p>SAMA determines the appropriateness of credit risk management and compliance with related rules and regulations through the following:</p> <ul style="list-style-type: none"> • Off-site activities through continuous monitoring. This includes regular assessment of banks' inherent credit risk and related controls, asset quality data and supervisory meetings where credit risk is discussed. • The review of the credit risk management framework is regularly carried out during the onsite inspections. The review covers the credit risk management strategy, policies, approval authorities, organizational structure, systems, risk reports, risk appetite/limits, quality of data/MIS, oversight by the governing bodies and senior management, credit administration, integration between business strategies and credit risk management strategy, etc. Such reviews assess whether the banks have in place credit risk management framework in line with the SAMA regulatory guidelines. The deviations from the regulatory guidelines and/or the banks' internal policies are highlighted in the inspection reports and communicated to the banks for taking corrective actions. <p>This process seems generally effective in determining the appropriateness of a bank's credit risk policies and of the overall governance of credit risk management. Off-site and on-site supervisors have relatively high levels of understanding of credit risk and of the mechanisms for managing it.</p> |
| EC3 | <p>The supervisor requires, and regularly determines, that such policies and processes establish an appropriate and properly controlled credit risk environment, including:</p> <ol style="list-style-type: none"> (a) a well documented and effectively implemented strategy and sound policies and processes for assuming credit risk, without undue reliance on external credit assessments; (b) well defined criteria and policies and processes for approving new exposures (including prudent underwriting standards) as well as for renewing and refinancing existing exposures, and identifying the appropriate approval authority for the size and complexity of the exposures; (c) effective credit administration policies and processes, including continued analysis of a borrower's ability and willingness to repay under the terms of the debt (including review of the performance of underlying assets in the case of securitization exposures); monitoring of documentation, legal covenants, |

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| | <p>contractual requirements, collateral and other forms of credit risk mitigation; and an appropriate asset grading or classification system;</p> <p>(d) effective information systems for accurate and timely identification, aggregation and reporting of credit risk exposures to the bank Board and senior management on an ongoing basis;</p> <p>(e) prudent and appropriate credit limits, consistent with the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff;</p> <p>(f) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board where necessary; and</p> <p>(g) effective controls (including in respect of the quality, reliability and relevancy of data and in respect of validation procedures) around the use of models to identify and measure credit risk and set limits.</p> |
| Description and findings regarding EC3 | <p>SAMA circular no. 34100036442 dated 2013 regarding credit risk management requires bank boards to implement, and regularly review, the credit risk strategy.</p> <p>The document covers in substance all of the matters (a) to (g) under this EC. The exception is that it is silent on the use of external credit ratings. In practice these are used by banks for both internal rating purposes and for capital calculations. There is not undue reliance on them.</p> <p>It notes the importance of effective credit administration policies and processes. It requires banks to conduct continuous analysis of a borrower's ability and willingness to repay under the terms of the debt. It highlights the need for monitoring documentation, legal covenants, contractual requirements, collateral, and other forms of credit risk mitigation. Additionally, it requires an internal credit rating framework.</p> <p>The Guidance requires banks to establish prudent and appropriate credit limits that are consistent with the bank's risk appetite, risk profile, and capital strength, and that these limits need to be understood and regularly communicated to relevant staff.</p> <p>Section 5.6 sets out the credit risk monitoring requirements, enabling them to monitor individual credits as well as the overall credit portfolio.</p> <p>The regulation also emphasizes the need for effective controls around the use of models to identify and measure credit risk and set limits. It specifies the requirement for controls related to the quality, reliability, and relevance of data, as well as validation procedures for the models being used.</p> <p>SAMA circular no. 44047144 dated December 2022 concerning Basel III Reforms, Section 6.3 requires that: "Banks should have in place effective internal policies, processes, systems and controls to ensure that the appropriate risk weights are assigned to counterparties. Banks must be able to demonstrate to SAMA that their due diligence analyses are appropriate." In addition, the rules also describe the credit risk mitigation techniques (Chapter 9) and require banks to have clear and robust procedures that should be integrated in into their credit policies.</p> <p>SAMA determines the appropriateness of credit risk management and compliance with related rules and regulations through both off-site and on-site tools.</p> |

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| | <p>Off-site activities through the continuous monitoring that include regular assessment of banks' inherent credit risk, via KRIs for example, and related controls, asset quality data. The assessors noted that credit risk management is a common topic for supervisory meetings.</p> <p>Onsite inspections can target either credit risk management generally or a particular area such as corporate lending. Credit is a regular subject matter for onsite review. It covers the credit risk management strategy, policies, approval authorities, organizational structure, systems, risk reports, risk appetite/limits, quality of data/MIS, oversight by the governing bodies and senior management, credit administration, integration between business strategies and credit risk management strategy, etc. Such reviews assess whether the banks have in place a credit risk management framework in line with the regulatory guidelines and international best practices. The deviations from the regulatory guidelines and/or the banks' internal policies are highlighted in the inspection reports and communicated to the banks for taking corrective actions.</p> <p>The files reviewed by assessors suggested that the onsite review process meets the expectations of this EC. When they need additional expertise, they contract external experts. This allows them to undertake more in-depth assessment of particular specialist portfolios when required.</p> |
| EC4 | The supervisor determines that banks have policies and processes to monitor the total indebtedness of entities to which they extend credit and any risk factors that may result in default including significant unhedged foreign exchange risk. |
| Description and findings regarding EC4 | <p>SAMA circular no. 42081293 dated 21/11/1442 on the Corporate Governance Principles include provisions related to credit risk management and emphasizes the need for banks to have policies and processes to monitor the total indebtedness of borrowers.</p> <p>The Responsible Lending Principles for Individual Customers issued in May 2018 require banks (para 8) to obtain information on all the customer's other credit obligations and to keep this information continuously updated. These principles apply in respect of consumers (individuals) only.</p> <p>There are no such detailed requirements on banks to monitor the total indebtedness of non-retail borrowers. The 2013 Rules on Credit Risk Management require banks (para 5.1) to have a thorough understanding of the borrower.</p> <p>SIMAH is the largest credit bureau in the Kingdom. All banks report both consumer and corporate exposures to SIMAH. The Responsible Lending Principles require banks to check a potential (consumer) borrower's records at SIMAH. The bureau does not systematically collect data on exposures to non-financial entities such as utility companies.</p> <p>Foreign exchange risks that may contribute to default are not explicitly mentioned in the relevant SAMA circulars.</p> <p>The assessors found that the onsite inspection program checks that banks are following the relevant regulations and their own internal policies.</p> |
| EC5 | The supervisor requires that banks make credit decisions free of conflicts of interest and on an arm's length basis. |

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| Description and findings regarding EC5 | SAMA circular no. 43095743 on the Related Party Rules for banks requires that credit decisions involving related parties are free of any conflict of interest and made on an arm's length basis. SAMA circular no. 341000036442 on credit risk management does not have any requirement for staff who participate in credit decisions to be free of conflicts. |
| EC6 | The supervisor requires that the credit policy prescribes that major credit risk exposures exceeding a certain amount or percentage of the bank's capital are to be decided by the bank's Board or senior management. The same applies to credit risk exposures that are especially risky or otherwise not in line with the mainstream of the bank's activities. |
| Description and findings regarding EC6 | Rules around Large Exposures are laid down in SAMA circular no. 391000059150. Neither the Large Exposures Circular nor the Credit Risk management Circular lays down explicit rules around the involvement of the Board or senior management in major, risky, or unusual credit risk exposures. The Credit Risk Management Circular sets requirements for a clear framework for delegation of authority in respect of credit approvals (section 5.3). It describes the role of the Board of Directors as being to set the overall lending authority and delegation framework, including developing and overseeing all credit and Large Exposure delegations. Senior management's role is to put in place a risk-based lending authority structure. Whilst these guiding principles would be expected generally to lead to a risk-based credit approval structure, there are no specific rules and there is the risk that non-mainstream or risky lending are not factored into the bank's approval framework. |
| EC7 | The supervisor has full access to information in the credit and investment portfolios and to the bank officers involved in assuming, managing, controlling and reporting on credit risk. |
| Description and findings regarding EC7 | The Banking Control Law, issued by Royal Decree No. M/5 of 11.6.1966, require banks to submit to SAMA statements of their financial position. The law empowers SAMA to request any bank to supply it with any information it deems necessary for the purposes of the law. It empowers SAMA to inspect the books and accounts of any bank. For a fuller description of SAMA's powers to inspect books and meet bank staff, see EC1. The Implementation Rules for the Banking Control Law, dated 1986, adds more provisions as follows: <ul style="list-style-type: none"> • Article 17: "SAMA may request any bank to submit, within the period and in the manner it prescribes, any information it deems necessary for achieving the purposes of this Law." • Article 18: "SAMA may, upon the approval of the Minister of Finance and National Economy, inspect the records and accounts of any bank, whether by its own staff or by auditors it assigns. Such records and accounts shall be examined on site, and the bank's staff shall make accessible to the inspectors the required records, accounts, and other documents in their possession or under their control, as well as provide them with any bank-related information they are aware of." |

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| | In practice SAMA do not seek the approval of the Minister of Finance and National Economy. The assessors recommend that the redrafted Banking Control Law remove the involvement of the Minister, for the avoidance of doubt. |
| EC8 | The supervisor requires banks to include their credit risk exposures into their stress testing programs for risk management purposes. |
| Description and findings regarding EC8 | SAMA's Rules on Stress Testing 2011 require banks to conduct stress testing to estimate the impact of defined scenarios on their asset qualities, profitability and capital. Credit risk exposures always form a major part of the biannual stress tests that banks are required to undertake. |
| Assessment of Principle 17 | Largely compliant. |
| Comment | <p>The 2013 Circular "Rules on Credit Risk Management:" from 2013 sets requirements for banks to have a full credit risk management framework, including risk appetite, processes, lending authorities and systems. Credit exposures, policies and practices are monitored effectively via offsite and onsite supervisory activities.</p> <p>The Rules date back more than a decade. While they are helpful to banks, set out timeless principles and cover most of the necessary requirements, some areas could be tightened to align more fully with the Basel Core Principles, as described in the following paragraph.</p> <p>The assessors note that there is no explicit requirement for banks to require large, risky, or unusual exposures to be subject to a particular level of approval at Board or senior management level (EC6). There is no specific mention of foreign exchange risk (EC4). And the requirement to identify a customer's total indebtedness sits in the Responsible Lending Guidelines, which only applies to lending to individuals.</p> <p>The assessors also note that the rules on credit risk management do not require loan officers to be free of conflicts for decisions in which they participate (EC5). This should be added when the relevant requirements are revised.</p> <p>Articles 17 and 18 of the BCL empower SAMA to have access to books, records, and information for overseeing and supervising financial institutions. Conducting onsite inspections need the Minister of Finance's approval (see CP2, EC2). While this is a gap in the current framework, it is noted here as a cross-reference, not as a finding under this CP.</p> |
| Principle 18 | Problem assets, provisions and reserves. ⁵⁸ The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves. ⁵⁹ |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to formulate policies and processes for identifying and managing problem assets. In addition, laws, regulations or the supervisor require regular review by banks of their problem assets (at an individual level or at a |

⁵⁸ Principle 17 covers the evaluation of assets in greater detail; Principle 18 covers the management of problem assets.

⁵⁹ Reserves for the purposes of this Principle are "below the line" non-distributable appropriations of profit required by a supervisor in addition to provisions ("above the line" charges to profit).

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| | portfolio level for assets with homogenous characteristics) and asset classification, provisioning and write-offs. |
| Description and findings regarding EC1 | <p>SAMA Rules Governing Loan Classification, Provisioning and Credit Review circular no. 24100000312 dated January 19, 2004, aims to provide a degree of uniformity and consistency by requiring Saudi banks to use defined categories for loan classification. The rules provide specific requirements for asset classification and provisioning. Banks are also required to regularly review their problem assets, both at an individual level and at a portfolio level for assets with homogeneous characteristics. The rules also set out the process for writing off assets when they become non-performing or are considered irrecoverable.</p> <p>In January 2020, SAMA introduced the 'Rules on the Management of Problem Loans' (https://www.sama.gov.sa/en-US/RulesInstructions/BankingRules/Rules_on_Management_of_Problem_Loans-EN.pdf) that require banks to formulate policies and processes for identifying and managing problem assets. Banks are required to establish internal policies and procedures for identifying problem assets and implement appropriate measures. These rules also require banks to assess the quality of their loan portfolio, identify potential problem credit and take timely actions to address them.</p> <p>In addition to the core rules, SAMA also issued the 'Guidelines on Management of Problem Loans.' These guidelines serve as a resource for banks, offering guidance and best practices to aid in the effective implementation of the established rules.</p> <p>The pack of rules and guidance covers the following areas:</p> <ul style="list-style-type: none"> • Facilitating Rehabilitation: These rules aim to create a conceptual framework that streamlines the rehabilitation of viable borrowers. • Promoting Fair Treatment: A crucial aspect of these rules is the emphasis on fair treatment and ethical conduct when managing problem loans, especially when dealing with Micro, Small, and Medium-sized Enterprises (MSMEs). This ensures that borrowers are treated fairly and transparently throughout the process. • Establishing Controls: The rules require banks to establish robust controls over the management and restructuring of non-performing and problem loans. This includes the formulation of documented policies and procedures, which are essential for maintaining accountability and transparency. <p>The rules state that the Bank should develop a clear governance around the establishment of Early Warning Signals (EWS) which are fully integrated into the bank's risk management system. They set criteria that banks' EWS processes must recognize. They also cover the framework around workout plans for returning a non-performing borrower to a fully performing status.</p> |
| EC2 | The supervisor determines the adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels. The reviews supporting the supervisor's opinion may be conducted by external experts, with the supervisor reviewing the work of the external experts to determine the adequacy of the bank's policies and processes |

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| Description and findings regarding EC2 | <p>As part of a risk-based supervision framework, SAMA's offsite supervisors assess prudential returns and review the banks' problem assets both at an individual level and at a portfolio level, for assets with homogenous characteristics. They review KRIs, which include asset classification, provisioning, and write-offs.</p> <p>The adequacy of a bank's policies and processes for grading and classifying its assets and establishing appropriate and robust provisioning levels is assessed during onsite inspection of the related areas including corporate loans, SME loans and retail loans. Such assessment is made by applying the related SAMA guidelines including Rules on Credit Risk Management, Rules on Management of Problem Loans as well as IFRS9. The results of the assessment are included in the banks' risk profile and considered when identifying the targeted inspection and other supervisory activities. Assessors reviewed a sample of files to verify this.</p> <p>In relation to the banks' internal controls, SAMA assess banks' internal controls that mitigate credit risk using the Control Assessment Questionnaires filled by Banks on an annual basis (rated qualitatively through a set of questions for each control). Annual supervisory review visits and ICAAP assessments also cover problem loan policies as deemed necessary.</p> <p>In 2021 SAMA conducted a thematic review of IFRS9 implementation and modelling across all domestic banks. Third party experts were employed for this purpose.</p> |
| EC3 | The supervisor determines that the bank's system for classification and provisioning takes into account off-balance sheet exposures. ⁶⁰ |
| Description and findings regarding EC3 | <p>SAMA Rules Governing Loan Classification, Provisioning and Credit Review circular no. 24100000312 dated January 19, 2004, apply to both on- and off-balance sheet exposures.</p> <p>The bank's system for classification and provisioning is assessed by Supervisors by ensuring the banks comply with SAMA regulations in this regard and by monitoring the data on Banks' Financial statements and Prudential Returns on a timely basis. These include both on and off -balance sheet exposures.</p> |
| EC4 | The supervisor determines that banks have appropriate policies and processes to ensure that provisions and write-offs are timely and reflect realistic repayment and recovery expectations, taking into account market and macroeconomic conditions. |
| Description and findings regarding EC4 | <p>SAMA Rules Governing Loan Classification, Provisioning and Credit Review circular no. 24100000312 dated January 19, 2004, requires banks to have policies and processes to ensure that provisions reflect realistic repayment and recovery expectations. Section II of Minimum Provisioning Requirements, para 2.3 (ii) requires "banks to factor in local and international economic conditions" for general provisions.</p> <p>SAMA determines that banks comply with the requirement through onsite reviews. SAMA have completed inspections of corporate loans and SME loans and retail loans in the last five years, and assessors reviewed a sample of these.</p> |

⁶⁰ It is recognized that there are two different types of off-balance sheet exposures: (i) those that can be unilaterally cancelled by the bank (based on contractual arrangements and therefore may not be subject to provisioning); and (ii) those that cannot be unilaterally canceled.

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| | Banks's IFRS9 methodologies use quantitative and qualitative parameters in IFRS9 staging and ECL assessment, which implicitly take into account market and macroeconomic factors. The onsite inspection covers the assessment of loan classification—their scope is broad and takes account of all relevant aspects. |
| EC5 | The supervisor determines that banks have appropriate policies and processes, and organizational resources for the early identification of deteriorating assets, for ongoing oversight of problem assets, and for collecting on past due obligations. For portfolios of credit exposures with homogeneous characteristics, the exposures are classified when payments are contractually in arrears for a minimum number of days (e.g., 30, 60, 90 days). The supervisor tests banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards (e.g., rescheduling, refinancing or reclassification of loans). |
| Description and findings regarding EC5 | <p>SAMA 2004 Circular on Loan Classification, Provisioning and Credit Review, stipulates the regulatory requirements for asset classification and provisioning, and SAMA monitors this on a quarterly basis where banks submit data under the requirements. Based on such data, SAMA compares the regulatory provisioning with the accounting one and requires banks to allocate more provision (via a reduction in the surplus in the regulatory accounts) if a shortfall exists.</p> <p>The Circular sets specific requirements around classification and provisioning based on days overdue.</p> <p>The policies and practices of banks with regard to provisions classification are reviewed during the onsite inspection of corporate loans and retails loans, and it is determined whether they are in line with SAMA's regulatory guidelines.</p> <p>SAMA issued Rules on Management of Problem Loan in 2020. One of the objectives of these rules is to ensure banks have adequate controls over non-performing and problem loan management and restructuring processes, including documented policies and procedures.</p> <p>The Rules require (Section 2.1) "Banks should develop a clear, robust and demonstrable set of policies, procedures, tools, and governance around the establishment of Early Warning Signals (EWS) which are fully integrated into the bank's risk management system. The established EWS should be comprehensive and relevant to the specific portfolios of the Banks, and should enable Banks to proactively identify potential difficulties, investigate the drivers of the borrower's stress, and act before the borrower's financial condition deteriorates to the point of default."</p> <p>The Rules require (Section 4.1) banks to have a dedicated Workout Department/Section/or Unit to manage all workout related cases in order to effectively manage the NPL resolution process. The Workout Department/Section/or Unit should be independent of the Business/Loan Originating Units to avoid any potential conflicts of interest. Section 4.11 requires banks to ensure that the Workout Unit is properly staffed with resources having the required skill sets to manage workout situations, strong analytical, legal, financial analysis skills, and proper understanding of the workout process.</p> |

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| | <p>SAMA, using the Risk Based Supervision (RBS) Framework Policy, determines if banks comply with the above requirements, including the appropriate policies and processes and organizational resources (through the Workout Unit). As part of the assessment of credit risk, the supervisor will assess the bank's policies and processes for early identification of deteriorating loans, for ongoing oversight of problem loans, provisions, and write-offs.</p> <p>In addition, SAMA requires all banks to provide weekly, monthly, or quarterly reports on asset quality. These are assessed by offsite supervisors.</p> <p>Assessors reviewed a sample of onsite inspections and confirmed that the inspection team checks banks' treatment of assets with a view to identifying any material circumvention of the classification and provisioning standards e.g., rescheduling, refinancing or reclassification of loans. Such reviews are based on IFRS9 and SAMA's 2020 Rules on Management of Problem Loans. The latter's definition of NPLs refers directly to the Basel 2017 Circular 'Guidelines—Prudential treatment of problem assets—definitions of non-performing exposures and forbearance.' In substance, these Rules cover relevant areas: restructuring, classification/staging, and ECL/provisioning.</p> <p>However, the definition of "rescheduled loans" (a term used for forbearance in some jurisdictions including Saudi Arabia) is in the 2004 Circular. It has the same high-level definition as in the Basel 2017 document (the bank grants a concession) but should be brought up to date by using the Basel document's language for the underlying detail: although the 2004 Circular requires the borrower to have met 12 months of timely repayments before being considered for upward reclassification, it does not explicitly say that the counterparty must have resolved its financial difficulties (para 40(ii) of the Basel 2017 Circular).</p> |
| EC6 | <p>The supervisor obtains information on a regular basis, and in relevant detail, or has full access to information concerning the classification of assets and provisioning. The supervisor requires banks to have adequate documentation to support their classification and provisioning levels.</p> |
| Description and findings regarding EC6 | <p>SAMA monitors the data on the RMS, periodical reports, and banks' financial statements on a quarterly basis. In addition, SAMA requires banks to comply with IFRS 9 guidance on implementation and application in the Kingdom of Saudi Arabia which clarify the minimum criteria and requirements to support Banks' classification and provisioning process by applying the IFRS 9 governance requirements. This includes documentation requirements.</p> <p>The inspection teams have full access to information concerning the classification of assets and provisioning during onsite inspection of banks. The adequacy of documentation to support classification and provisioning levels is assessed during onsite inspection by using various methods such as review of credit files, walkthrough of the related systems, obtaining MIS reports, etc.</p> <p>Received through RMS are the following returns:</p> <ul style="list-style-type: none"> • Q41-1 Expected Credit Losses (ECL) by Financial Asset Class. • Q41-2 Exposures by Financial Asset Class. • Q41-3 Monthly Movements in ECL Provisions. |

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| EC7 | The supervisor assesses whether the classification of the assets and the provisioning is adequate for prudential purposes. If asset classifications are inaccurate or provisions are deemed to be inadequate for prudential purposes (e.g. if the supervisor considers existing or anticipated deterioration in asset quality to be of concern or if the provisions do not fully reflect losses expected to be incurred), the supervisor has the power to require the bank to adjust its classifications of individual assets, increase its levels of provisioning, reserves or capital and, if necessary, impose other remedial measures. |
| Description and findings regarding EC7 | <p>The 2004 Circular on Loan Classification, Provisioning and Credit Review sets minimum requirements for classification and provisioning for supervisory reporting purposes. Banks in the Kingdom follow IFRS 9 for audited accounts.</p> <p>There are 60 of SAMA's 115 KRIs that relate to credit risk, with problem asset related metrics forming about half of these. SAMA uses these for their risk assessment and reviews the periodic prudential returns submitted by the banks (weekly, monthly, quarterly, semiannually, and annually). The annual ICAAP documents, and annual Supervisory Visits will contain sections on problem assets and provisioning.</p> <p>The SAMA 2004 Circular on Loan Classification, Provisioning and Credit Review, stipulates the regulatory requirements for asset classification and provisioning, and SAMA monitors this on a quarterly basis where banks submit data as per the abovementioned requirements. Based on such data, SAMA compares the regulatory provisioning with the accounting one and requires banks to allocate more provision if shortfall exists. During 2021, one bank was requested to allocate more provision due to a shortfall between the regulatory and accounting provisioning. However, although SAMA can request a bank to perform a reclassification if needed, there was no case where SAMA requested a bank to reclassify a specific exposure.</p> <p>As an example of supervisory action in this area, in 2023 SAMA requested banks to maintain a NPL coverage ratio above 150 percent. (Coverage ratio calculation is the banks' provisions, including general provisions, over the bank's non-performing loans (NPL)). Some banks needed to increase their provisioning to comply.</p> <p>Onsite inspections check compliance with the relevant SAMA rules. Any shortcomings are noted with required remedial action. In 2021 SAMA undertook (with the assistance of third-party experts) a review of the implementation of IFRS in banks. Based on the shortcomings, SAMA has the power to advise banks to adjust the classification and increase the level of provisioning.</p> |
| EC8 | The supervisor requires banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants, including guarantees, credit derivatives and collateral. The valuation of collateral reflects the net realizable value, taking into account prevailing market conditions. |
| Description and findings regarding EC8 | SAMA circular on Loan Classification, Provisioning and Credit Review and Rules on Management of Problem Loans Section 3.3 requires the banks to have appropriate mechanisms in place for regularly assessing the value of risk mitigants including guarantees, credit derivatives and all types of collateral. It should be revalued at least annually. It is required that the valuations obtained should be adjusted downwards by an |

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| | <p>appropriate percentage to reflect costs of disposal, fluctuations in market values and the inherent lack of accuracy in such valuations.</p> <p>SAMA circular no. 44047144 dated 04/06/1444 regarding Basel III Final Reforms (CRM requirements) also require banks to have appropriate mechanisms in place for regularly assessing the value or risk mitigants including the valuation of collateral. It also emphasizes the importance of accurately valuing collateral and reassessing its value based on market conditions.</p> |
| EC9 | <p>Laws, regulations or the supervisor establish criteria for assets to be:</p> <p>(a) identified as a problem asset (e.g., a loan is identified as a problem asset when there is reason to believe that all amounts due, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement); and</p> <p>(b) reclassified as performing (e.g., a loan is reclassified as performing when all arrears have been cleared and the loan has been brought fully current, repayments have been made in a timely manner over a continuous repayment period and continued collection, in accordance with the contractual terms, is expected).</p> |
| Description and findings regarding EC9 | <p>Saudi Arabia has implemented IFRS 9 effective January 1, 2018, and issued and endorsed the IFRS 9 guidance on implementation and application in the Kingdom in which it explicitly sets the standard criteria for the identification and reclassification of assets under the scope of IFRS 9.</p> <p>SAMA rules on Management of Problem Loans, circular no. 410333430000 dated January 2020, defines 'Problem Loans' as loans that display well-defined weaknesses or signs of potential problems. The rules stipulate that problem loans should be classified by the banks in accordance with accounting standards and consistent with relevant regulations as one or more of:</p> <ul style="list-style-type: none"> • Non-performing. • Subject to restructuring on account of inability to service contractual payments. • IFRS9 Stages 2, and exhibiting signs of significant credit deterioration or Stage 3. • Under watch-list, early warning or enhanced monitoring measures. • Where concerns exist over the future stability of the borrower or on its ability to meet its financial obligations as they fall due. |
| EC10 | <p>The supervisor determines that the bank's Board obtains timely and appropriate information on the condition of the bank's asset portfolio, including classification of assets, the level of provisions and reserves and major problem assets. The information includes, at a minimum, summary results of the latest asset review process, comparative trends in the overall quality of problem assets, and measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred.</p> |
| Description and findings regarding EC10 | <p>SAMA Key Principles of Governance in Financial Institutions issued in June 2021 emphasizes the importance of providing the Board with relevant and up-to-date information regarding the bank's asset quality and potential risks including such information.</p> |

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| | <p>SAMA Rules Governing Loan Classification, Provisioning and Credit Review circular no. 24100000312 dated January 19, 2004, stipulates that the results of the independent credit review system should be communicated directly to senior management, the board of directors, and the audit committee.</p> <p>As noted in EC7, monitoring and supervision of Credit risk is the most important area in the RBS framework, and it carries the highest weight in the overall risk rating of the banks. In addition to offsite monitoring, the Inspection Department carries out verification of the information received by the Board including:</p> <ul style="list-style-type: none"> • Appropriateness of information on the condition of the bank's asset portfolio. • Classification of assets. • The level of provisions and reserves and major problem assets. • Summary results of the latest asset review process. • Comparative trends in the overall quality of problem assets. • Measurements of existing or anticipated deterioration in asset quality and losses expected to be incurred. <p>Reviews of inspection files support the conclusion that SAMA's onsite inspectors conduct thorough checks of compliance with the relevant requirements.</p> |
| EC11 | <p>The supervisor requires that valuation, classification and provisioning, at least for significant exposures, are conducted on an individual item basis. For this purpose, supervisors require banks to set an appropriate threshold for the purpose of identifying significant exposures and to regularly review the level of the threshold.</p> |
| Description and findings regarding EC11 | <p>SAMA circular no. 341000036442 dated 21/3/1434 Rules on credit risk management outlines the requirements for banks in managing credit risk and provide guidance on conducting individual item valuation, and having adequate systems and procedures for credit risk management including for credit origination, limit setting, credit approving authority, credit administration, credit risk measurement and internal rating framework, credit risk monitoring, credit risk review, and management of problem credits.</p> <p>SAMA Rules Governing Loan Classification, Provisioning and Credit Review circular no. 24100000312 dated January 19, 2004, require significant exposures i.e., large commercial loans to corporate, governments, private banking customers are required to be reviewed and assessed on an individual basis.</p> <p>Given that classification and provisioning for all exposures is conducted on an individual customer basis, there is no necessity for a threshold for "significant exposures."</p> |
| EC12 | <p>The supervisor regularly assesses any trends and concentrations in risk and risk build-up across the banking sector in relation to banks' problem assets and takes into account any observed concentration in the risk mitigation strategies adopted by banks and the potential effect on the efficacy of the mitigant in reducing loss. The supervisor considers the adequacy of provisions and reserves at the bank and banking system level in the light of this assessment.</p> |
| Description and findings regarding EC12 | <p>SAMA's Financial Stability Committee (FSC) tracks macro trends and risks across the system. SAMA uses an Aggregate Financial Stability Index (AFSI), which helps synthesize multiple indicators of financial stability, to measure deviations from trend and helps guide the analytical analysis of the Financial Stability Department (FSD). Trends in</p> |

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| | <p>relevant indicators are investigated. FSD staff input into supervisory work and attend relevant supervisory meetings.</p> <p>The biannual stress tests are another tool that provides insights on credit risk concentration. It includes a periodic check on the adequacy of provisions and reserves at the bank. With all stress tests being assessed by SAMA at the same time of year, trends and common issues across the system are more likely to be spotted. SAMA supervisors also expect to spot trends through their onsite and offsite monitoring (credit is a significant part of this). Quarterly FSC meetings feature discussions of macro-financial risks, including credit risks. The outcome can include informing relevant SAMA senior management on the build-up of such risks. This is a useful process and assessors recommend making it more systematic, for example a specific trigger for advising banks of the need to increase provisions.</p> |
| Assessment of Principle 18 | Compliant. |
| Comments | <p>SAMA has in place requirements around Loan Classification, Provisioning and Credit Review (2004) and Rules on Management of Problem Loans (2020). Saudi Arabia follows the international IFRS 9 Standard for loan classification and provisioning.</p> <p>The definition of rescheduled loans should be brought up to date by using the language of the 2017 Basel document ‘Prudential treatment of problem assets—definitions of non-performing exposures and forbearance.’ Although the 2004 SAMA Circular requires the borrower to have met 12 months of timely repayments before being considered for upward reclassification, it does not explicitly say that the counterparty must have resolved its financial difficulties (para 40(ii) of the Basel 2017 Circular). (EC5). Assessors see this as an update to be included when the Circular is next reviewed and revised, which should be within the next two years—but is not of itself of sufficient significance to warrant grading this CP at less than Compliant, given the other substantive measures in place—see below.</p> <p>It is recommended that SAMA should build on the existing FSC framework to embed a more systematic process for taking account of macro indicators and trends across the system, and using specific triggers to advise banks whether a risk build-up should flow through to provisioning levels (EC12).</p> <p>While there are recommendations for improvement within this CP, it is recognized that asset quality and provisioning are in practice important pillars of SAMA’s supervision and are accorded significant supervisory attention via both onsite and offsite. For example, more than half of SAMA’s KRIs relate to credit risk and half of these are directly concerned with asset quality and provisioning. In 2021, SAMA’s thematic review of IFRS9 implementation and modelling across all domestic banks employed third party experts and the assessment was comprehensive.</p> |
| Principle 19 | Concentration risk and large exposure limits. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential |

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| | limits to restrict bank exposures to single counterparties or groups of connected counterparties. ⁶¹ |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to have policies and processes that provide a comprehensive bank-wide view of significant sources of concentration risk. ⁶² Exposures arising from off-balance sheet as well as on-balance sheet items and from contingent liabilities are captured. |
| Description and findings regarding EC1 | <p>The Large Exposure (<u>LEX</u>) Rules for Banks issued by SAMA in August 2019 require banks to manage credit concentration risk emanating from exposures to single counterparties or groups of connected counterparties. These rules include exposures arising from off-balance sheet included in either the banking or trading books and instruments with counterparty credit risk, as well as on-balance sheet items and contingent liabilities.</p> <p>It sets limits on exposures to single counterparties or groups of connected counterparties.</p> <p>The regulations require (Section 3—Governance and Risk Management) that:</p> <ul style="list-style-type: none"> • The Board of Directors of a bank is ultimately responsible for the oversight of the bank’s large exposures and risk concentrations and for approving policies governing large exposures and risk concentrations of the bank. • A bank is required to have policies and procedures on large exposures and risk concentrations. • A bank is required to conduct stress testing and scenario analysis of its large exposures and risk concentrations to assess the impact of changes in market conditions and key risk factors (e.g., economic cycles, interest rates, liquidity conditions or other market movements) on its risk profile, capital, and earnings. • A bank is required to have adequate systems and controls in place to identify, measure, monitor and report large exposures and risk concentrations of the bank on a timely basis and large exposures and risk concentrations of the bank are reviewed at least quarterly. <p>The requirement to manage sources of credit concentration risk is also covered in SAMA’s credit risk management circular of 2013 (Section 3.iv and 6.1).</p> <p>All types of concentration risk are required to be included in banks’ annual ICAAP statements. These cover both on and off-balance sheet risk.</p> |

⁶¹ Connected counterparties may include natural persons as well as a group of companies related financially or by common ownership, management or any combination thereof.

⁶² This includes credit concentrations through exposure to: single counterparties and groups of connected counterparties both direct and indirect (such as through exposure to collateral or to credit protection provided by a single counterparty), counterparties in the same industry, economic sector or geographic region and counterparties whose financial performance is dependent on the same activity or commodity as well as off-balance sheet exposures (including guarantees and other commitments) and also market and other risk concentrations where a bank is overly exposed to particular asset classes, products, collateral, or currencies.

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| EC2 | The supervisor determines that a bank's information systems identify and aggregate on a timely basis, and facilitate active management of, exposures creating risk concentrations and large exposure, ⁶³ to single counterparties or groups of connected counterparties. |
| Description and findings regarding EC2 | <p>Article 7 of SAMA's "Rules on Credit Risk Management for Bank" contains material on Management Information System requiring banks to have robust systems capable of generating reports on composition of the portfolio, concentrations of credit risk and large exposures.</p> <p>The inspection teams review the banks' systems and processes in accordance with the Large Exposures and Credit Risk Management Rules during their onsite credit inspections. The assessors reviewed evidence of appropriate systems during recent onsite inspection reports on corporate credit risk.</p> <p>Supervisory review of most concentration risks is suitably thorough. Exposures to the Saudi government and related entities (such as government-owned commercial enterprises) are reported. SAMA are encouraged to increase their system-wide monitoring of these exposures, given their expected growth as part of Vision 2030. Other non-credit related risks (such as market risk and liquidity risk concentrations) are reviewed through the ICAAP and ILAAP processes. These are in general less material than credit risk for Saudi banks. Nevertheless, the assessors saw numerous references to funding concentration in ILAAP analysis and to market risk in the ICAAP documents.</p> |
| EC3 | The supervisor determines that a bank's risk management policies and processes establish thresholds for acceptable concentrations of risk, reflecting the bank's risk appetite, risk profile and capital strength, which are understood by, and regularly communicated to, relevant staff. The supervisor also determines that the bank's policies and processes require all material concentrations to be regularly reviewed and reported to the bank's Board. |
| Description and findings regarding EC3 | <p>As per SAMA's Large Exposures Rules, the Board of Directors of a bank is ultimately responsible for monitoring the bank's large exposures and risk concentrations and for approving policies governing large exposures and risk concentrations of the bank. The ICAAP process includes a review of concentration risks and the limits that a bank sets for these.</p> <p>During the onsite inspections, the inspection teams review the risk appetite framework and thresholds on concentrations risk and large exposures. This includes a review of whether the policies and processes of banks are in line with relevant regulations/guidelines in particular SAMA's Rules on Large Exposure and the Credit Risk Management Rules. The governance and monitoring around concentrations and large exposures are also assessed during the onsite inspections. Assessors reviewed a sample of inspection files.</p> |

⁶³ The measure of credit exposure, in the context of large exposures to single counterparties and groups of connected counterparties, should reflect the maximum possible loss from their failure (i.e., it should encompass actual claims and potential claims as well as contingent liabilities). The risk weighting concept adopted in the Basel capital standards should not be used in measuring credit exposure for this purpose as the relevant risk weights were devised as a measure of credit risk on a basket basis and their use for measuring credit concentrations could significantly underestimate potential losses (see "Measuring and controlling large credit exposures," January 1991).

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| | There are no specific requirements for all material concentrations to be regularly reviewed and reported to the Board, although onsite credit inspections cover the framework for Board reporting and this allows SAMA to meet the substance of this EC. |
| EC4 | The supervisor regularly obtains information that enables concentrations within a bank's portfolio, including sectoral, geographical and currency exposures, to be reviewed. |
| Description and findings regarding EC4 | <p>SAMA obtains periodic regulatory returns, submitted by the banks through RMS, with data on the bank's portfolio concentration. SAMA reviews this data and can have a view on the potential concentrations by segments of the bank's portfolio: by residents and non- resident, by country, and by economic activity.</p> <p>The relevant returns received through RMS are the following:</p> <ul style="list-style-type: none"> • Sectoral: <ul style="list-style-type: none"> ○ M28 Credit Facilities by Economic Activity. ○ Q16.3 Economic Sector Risk Concentration. ○ Q28.2 Economic Activity for MSME. • Geographical: <ul style="list-style-type: none"> ○ Q2 Non Resident Assets by Country. ○ Q3 Non Residents Exposures by Country. ○ Q4 Non Resident Liabilities by Country. • Currency: <ul style="list-style-type: none"> ○ Q6 Maturity schedule of assets and Liabilities by major currency ○ Q8 Deposit structure by amount and number of accounts and currency. <p>However, it should be noted this reporting is "Domestic" and does not include the bank's overseas branches and subsidiaries. This is a gap in the reporting framework and there is a risk of a bank's total exposures to a counterparty being underreported. It is recommended that SAMA require reporting include all overseas units of a bank. This finding is a prominent example of a general finding in CP8 and is also included here, given the importance of full and accurate information on Large Exposures.</p> |
| EC5 | In respect of credit exposure to single counterparties or groups of connected counterparties, laws or regulations explicitly define, or the supervisor has the power to define, a "group of connected counterparties" to reflect actual risk exposure. The supervisor may exercise discretion in applying this definition on a case-by-case basis. |
| Description and findings regarding EC5 | <p>The Large Exposure (<u>LEX</u>) Rules for Banks, issued by SAMA on 2019, defines a group of connected counterparties as "a group of counterparties with specific relationships or dependencies such that, where one of the counterparties were to fail, all of the counterparties would very likely fail. A group of this sort, referred to in these rules as a group of connected counterparties, must be treated as a single counterparty. The sum of the bank's exposures to all the individual entities within a group of connected counterparties is subject to the large exposure limit and to the regulatory reporting requirements. Two or more natural or legal persons shall be deemed a group of connected counterparties if at least one of the following criteria is satisfied:</p> <p>A. The existence of a control relationship; or</p> <p>B. The existence of Economic interdependence: or</p> |

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| | <p>C. Other connections or relationships which, according to a bank's assessment, identify the counterparties as constituting a single risk.</p> <p>The bank shall assess the relationship amongst counterparties with reference to (a), (b) and (c) above in order to properly assess the existence and the extent of a group of connected counterparties."</p> <p>The rules do allow for exceptional circumstances where a bank can demonstrate to SAMA that, due to specific conditions and robust corporate governance safeguards, such control does not necessarily translate into the entities involved being classified as a "group of connected counterparties." SAMA may also challenge banks' assessment of connected counterparties and require the bank to reclassify the exposure.</p> |
| EC6 | <p>Laws, regulations or the supervisor set prudent and appropriate⁶⁴ requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. "Exposures" for this purpose include all claims and transactions (including those giving rise to counterparty credit risk exposure), on-balance sheet as well as off-balance sheet. The supervisor determines that senior management monitors these limits and that they are not exceeded on a solo or consolidated basis.</p> |
| Description and findings regarding EC6 | <p>The Large Exposure (<u>LEX</u>) Rules for Banks set requirements to control and constrain large credit exposures to a single counterparty or a group of connected counterparties. It states that "Exposures" should "include both on and off-balance sheet exposures included in either the banking or trading books, and instruments with counterparty credit risk under the Basel risk-based capital framework. Banking and trading books have the same meaning as under the Basel risk-based capital framework." These rules set the credit exposure limits and state that the Board of Directors of a bank is ultimately responsible for the oversight of the bank's large exposures and risk concentrations.</p> <p>An exposure is defined as a large exposure when "...the sum of all exposure values of a bank to a single counterparty or to a Group of Connected Counterparties is equal to or above 10 percent of the bank's eligible capital base." Tier 1 capital is used as the denominator. The rules apply on both a consolidated and standalone basis (Section 2.1).</p> <p>The exposure limits as a percent of Tier 1 capital are:</p> <ul style="list-style-type: none"> • 5 percent for individuals and sole proprietorships. • 25 percent for commercial undertakings majority owned by Saudi government. • 25 percent for exposures to banks unless the bank counterparty is a DSIB when the limit is reduced to 15 percent. • 15 percent for all other exposures. <p>SAMA will allow breaches of these limits in exceptional circumstances and with their prior approval. They indicate that the maximum single exposure to a non-bank, non-government entity that they would allow under these circumstances would be 35 percent of Tier 1 capital. The assessors recommend that such exceptions should be strictly temporary.</p> <p>Exposures to, or guaranteed by, the Saudi government are exempt.</p> |

⁶⁴ Such requirements should, at least for internationally active banks, reflect the applicable Basel standards. As of September 2012, a new Basel standard on large exposures is still under consideration.

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| | <p>The aggregate of all large exposures is limited to 600 percent of Tier 1 capital. The above limits are more conservative than the Basel benchmarks.</p> <p>Figures obtained from banks' reports to SAMA showed that, for eight of the domestic banks, the total exposure to the top 20 net exposures was 200 percent of capital or more—with the highest at around 380 percent of capital. These figures imply a high-level of concentration in banks' credit exposures. SAMA should increase their monitoring of government and government-owned commercial companies, in part because of their expected growth as part of Vision 2030.</p> <p>Assessors found that Banking Inspection, as part of their review of targeted and thematic inspections, verify that the senior management monitors these limits and that they are not exceeded.</p> |
| EC7 | The supervisor requires banks to include the impact of significant risk concentrations into their stress testing programs for risk management purposes. |
| Description and findings regarding EC7 | Section 3.iii of the 2019 Large Exposures Rules requires banks to conduct stress testing and scenario analysis of its large exposures and risk concentrations to assess the impact of changes in market conditions and key risk factors (e.g., economic cycles, interest rates, liquidity conditions or other market movements) on its risk profile, capital and earnings. |
| Additional Criteria | |
| AC1 | <p>In respect of credit exposure to single counterparties or groups of connected counterparties, banks are required to adhere to the following:</p> <ul style="list-style-type: none"> (a) ten per cent or more of a bank's capital is defined as a large exposure; and (b) twenty-five per cent of a bank's capital is the limit for an individual large exposure to a private sector non-bank counterparty or a group of connected counterparties. <p>Minor deviations from these limits may be acceptable, especially if explicitly temporary or related to very small or specialized banks.</p> |
| Description and findings regarding AC1 | <p>The Large Exposures Rules define a Large Exposure as 10 percent or more of Tier 1 capital. The rules apply on both a consolidated and solo basis.</p> <p>The sum of all exposures values a bank has to a single non-bank counterparty must not be higher than 15 percent of the banks available eligible capital base at all times, excluding individuals and sole proprietorships which attracts a limit of 5 percent and commercial undertakings majority owned by Saudi government which attracts a limit of 25 percent.</p> <p>The aggregate of all Large Exposures shall not exceed 6 times of the bank's eligible capital.</p> <p>Also, Article 8 of Banking Control Law 1966 states that "No bank shall grant a loan or extend a credit facility, or give a financial guarantee with respect to any natural or juristic person for amounts aggregating more than 25 percent of the Bank's reserves and paid-up or invested capital."</p> |
| Assessment of Principle 19 | Largely compliant. |

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| Comments | <p>The Large Exposures Rules set appropriate limits on exposures to single counterparties or groups of connected counterparties. SAMA has allowed breaches on an exceptional basis with prior approval up to 35 percent of tier 1 capital. The assessors recommend it should be explicit in the rules that this must be on a strictly temporary basis (EC6).</p> <p>Requirements to manage credit concentration risk are contained in the Credit Risk Management Circular of 2013.</p> <p>Verification of compliance and of processes is undertaken as part of the onsite inspection program, which the assessors found to be effective.</p> <p>Even though their rules apply on both a consolidated and solo (legal entity) basis, SAMA's reporting requirements are confined to the "domestic" business of the bank. This is defined as the bank's Saudi branches and subsidiaries. This means that exposures incurred by a bank's overseas branches or subsidiaries are not included, with the risk that breaches and risky concentrations are missed, by the bank and the supervisor (EC4). The fact that overseas offices are currently a small proportion of banks' balance sheets may reduce the risk in practice but SAMA's own rules do not allow for de minimis exclusions.</p> <p>One broader concentration risk that warrants significantly more attention is the connectivity between banks' large exposures. For eight of the domestic banks, the total exposure to the top 20 net exposures was 200 percent of capital or more—with the highest at around 380 percent of capital. SAMA are encouraged to increase their system-wide monitoring of exposures to government and government-owned commercial companies from a concentration risk perspective, in part because of their expected growth as part of Vision 2030 (EC6).</p> |
| Principle 20 | <p>Transactions with related parties. In order to prevent abuses arising in transactions with related parties⁶⁵ and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties⁶⁶ on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.</p> |
| Essential Criteria | |
| EC1 | <p>Laws or regulations provide, or the supervisor has the power to prescribe, a comprehensive definition of "related parties". This considers the parties identified in the footnote to the Principle. The supervisor may exercise discretion in applying this definition on a case-by-case basis.</p> |

⁶⁵ Related parties can include, among other things, the bank's subsidiaries, affiliates, and any party (including their subsidiaries, affiliates and special purpose entities) that the bank exerts control over or that exerts control over the bank, the bank's major shareholders, Board members, senior management and key staff, their direct and related interests, and their close family members as well as corresponding persons in affiliated companies.

⁶⁶ Related party transactions include on-balance sheet and off-balance sheet credit exposures and claims, as well as, dealings such as service contracts, asset purchases and sales, construction contracts, lease agreements, derivative transactions, borrowings, and write-offs. The term transaction should be interpreted broadly to incorporate not only transactions that are entered into with related parties but also situations in which an unrelated party (with whom a bank has an existing exposure) subsequently becomes a related party.

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| Description and findings regarding EC1 | <p>SAMA circular no. 43095743 dated June 2022 defines related parties. Article 9 of the Banking Control Law 1966 also prohibits a limited range of related party transactions (such as all loans to directors) but its coverage is not as broad as the 2022 Circular. The definition of Related parties in the Circular extends coverage to some parties that are not included in footnote 73 of Basel Core Principle 20, in that it includes Shariah Committee members, their interests and their relatives (Article 2.vi of the Circular). However, the definition in Article 2.vi does not include two key groups. The first, and most important, is subsidiaries of the bank’s controlling shareholder and those entities’ directors and senior management. While SAMA’s rules do cover the bank’s “affiliates (Associates and joint ventures as per the definition given by the accounting standard)”, this definition is not as broad as required under Basel and does not cover subsidiaries of a parent entity. Secondly, and this is less material but should be tidied up at an opportune time, the definition does not include key non-managerial advisers. The definition covers “Senior Executives of the bank or any of its subsidiaries/affiliates and their relatives” (Article 2.vi.c and 2.x) but not influential advisers.</p> <p>The rules also exempt (Article 5.2i) exposures to the Saudi Government and (Article 5.2ii) exposures to Entities that are related to the Bank only due to sovereign ownership in both. This also applies if there is a joint Board member in both the Bank and the entity. It is recommended that the rules be revised to be consistent with the Basel definition and that government-owned companies with a director in common with the bank are also treated as related, and the relevant Board member be deemed conflicted, even if the exposure is exempt.</p> |
| EC2 | <p>Laws, regulations or the supervisor require that transactions with related parties are not undertaken on more favorable terms (e.g., in credit assessment, tenor, interest rates, fees, amortization schedules, requirement for collateral) than corresponding transactions with non-related counterparties.⁶⁷</p> |
| Description and findings regarding EC2 | <p>SAMA’s Key Principles of Governance for Financial Institutions Subject to Saudi Central Bank’s Oversight and Supervision which was issued in July 2021, via circular no. 42081293, para 43 requires banks to conduct transactions with related parties on a commercial basis.</p> <p>In addition, the Related Parties Rules for Banks 2022, states in Article 4 (4): “Exposures/transactions to related parties shall only be considered on arm’s length basis and without any preferential treatment. Furthermore, any such credit exposures/ transactions should also be strictly in line with the bank’s credit policy and procedures and policies and procedures on related party exposures/transactions.”</p> |
| EC3 | <p>The supervisor requires that transactions with related parties and the write-off of related-party exposures exceeding specified amounts or otherwise posing special risks are subject to prior approval by the bank’s Board. The supervisor requires that Board members with conflicts of interest are excluded from the approval process of granting and managing related party transactions.</p> |

⁶⁷ An exception may be appropriate for beneficial terms that are part of overall remuneration packages (e.g., staff receiving credit at favorable rates).

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| Description and findings regarding EC3 | <p>Under the Related Parties Rules for Banks clause 4 (v), SAMA requires that any exposure/transaction to a related party or any variation of the terms of a related party exposure/transaction should be approved at the level of “Board of Directors or its delegated authority”. The inclusion of the term delegated authority gives rise to the possibility of approval at a level below that of Board. It could even be below the level of a Board Sub-Committee. Because of the sensitivity of related party transactions, it is appropriate that all such transactions are subject to prior approval by the Board itself. Clause 4 (v) also requires that “while considering any proposal of lending to a board member or any of their connected parties, the Board of Directors shall ensure that the concerned board member would neither participate in the discussion nor influence such a decision.” A stronger requirement would be that the concerned board member be absent from the discussion, as his or her presence, even if silent, may influence the decision.</p> <p>There is no requirement in the rules for write-off of related party exposures to be subject to prior approval by the bank’s Board.</p> |
| EC4 | <p>The supervisor determines that banks have policies and processes to prevent persons benefiting from the transaction and/or persons related to such a person from being part of the process of granting and managing the transaction.</p> |
| Description and findings regarding EC4 | <p>The Related Parties Rules for Banks issued in 2022 set the requirements and their completeness are subject to the comments in ECs 1-3. Some specific gaps were identified, they are not repeated here and the remaining comments under this EC are subject to those being addressed.</p> <p>As part of the assessment of the credit risk, the supervisor will assess the bank’s credit risk policy and processes in terms of the related party exposures/transactions. The results of the assessment are included in the banks’ risk profile and considered when identifying the targeted inspection and other supervisory activities.</p> <p>SAMA’s inspection teams have undertaken targeted inspections on related party exposures and also cover the matter as part of credit inspections. The inspectors review the governance, policies, and processes around related parties to assess compliance with the Related Party Rules, and whether there are any other causes for concern. They conducted a thematic related parties review on all domestic banks in 2017/2018 and have completed two further targeted inspections since then. Assessors see this as low and insufficiently frequent.</p> |
| EC5 | <p>Laws or regulations set, or the supervisor has the power to set on a general or case-by-case basis, limits for exposures to related parties, to deduct such exposures from capital when assessing capital adequacy, or to require collateralization of such exposures. When limits are set on aggregate exposures to related parties, those are at least as strict as those for single counterparties or groups of connected counterparties.</p> |
| Description and findings regarding EC5 | <p>SAMA’s Related Parties Rules for Banks define limits for exposures to related parties, an aggregate limit of related parties exposures to capital and the requirement for collateralization of related parties exposures.</p> <p>The exposure limits of related parties (5 percent of eligible capital except in the case of listed Saudi corporates where the limit is 10 percent) are stricter than the Large Exposures</p> |

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| | <p>limit for single counterparties and groups of connected counterparties (15 percent of eligible capital).</p> <p>There is a limit on the aggregate of exposures to non-bank related counterparties set at 50 percent of the bank's eligible Tier 1 capital. This is higher than the 25 percent maximum required under this EC. There is no limit on exposures to related banks and this is a gap.</p> <p>Data provided by banks to SAMA showed aggregate exposures of more than 50 percent in the case of three banks. This underlines the importance of monitoring related party exposures and understanding exposures to government entities as part of Vision 2030 (see CP19, EC6).</p> <p>Section 5.1 of the Related Party Rules Circular requires banks to report immediately any breaches of the exposure/transaction limits to SAMA. The communication to SAMA must also include the bank's action plan to bring the exposure/transaction to within the required limit.</p> |
| EC6 | <p>The supervisor determines that banks have policies and processes to identify individual exposures to and transactions with related parties as well as the total amount of exposures, and to monitor and report on them through an independent credit review or audit process. The supervisor determines that exceptions to policies, processes and limits are reported to the appropriate level of the bank's senior management and, if necessary, to the Board, for timely action. The supervisor also determines that senior management monitors related party transactions on an ongoing basis, and that the Board also provides oversight of these transactions.</p> |
| Description and findings regarding EC6 | <p>The Governance and risk management section of the Related Party Rules requires the following:</p> <ul style="list-style-type: none"> • The Board of the bank is ultimately responsible for oversight of the bank's associations with its related parties and for approving policies governing the bank's dealings and associations with its related parties. The Board must ensure that these policies are reviewed at least annually and that they remain adequate and appropriate for the bank's risk appetite, risk profile, capital, balance sheet size and the complexity of the bank. • Banks are required to have policies and procedures on related party exposures/transactions. • A bank is required to have adequate systems and controls in place to identify, measure, monitor and report related party exposures/transactions of the bank in a timely basis and ensure related party exposures/transactions of the bank are reviewed at least quarterly. <p>SAMA's inspection teams have reviewed this area as part of various targeted and thematic inspections. During these inspections, the team assess that the banks have related party policies, which are approved by the board, and that banks are adequately identifying all the related parties and getting the approvals from the designated higher levels for all transactions with the related parties. They also reviewed whether the Board Audit Committees are regularly reviewing the related party transactions.</p> |

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| EC7 | The supervisor obtains and reviews information on aggregate exposures to related parties. |
| Description and findings regarding EC7 | <p>The RMS for Large exposures includes the Q27.5 Statement Showing Exposures to Related Counterparties that Exceed 5 percent of Bank's Eligible Capital Base. This is a high threshold—reporting of all related party exposures would be appropriate and normal. However, as with Large Exposures, SAMA's reporting requirements are confined to the "domestic" business of the bank. This is defined as the bank's Saudi branches and subsidiaries. Reporting should be on a solo legal entity and consolidated basis to ensure full capture.</p> <p>The 2022 Circular defines the Scope and Application as "all locally incorporated banks... and all foreign branches and subsidiaries of locally incorporated banks operating outside the Kingdom." This definition does not cover the full consolidated group—it omits subsidiaries of a parent company, and non-banks. It is recommended that SAMA write a fuller definition in the revised policy. This finding is a prominent example of a general finding in CP8 and is also included here, given the importance of full and accurate information on Related Parties.</p> |
| Assessment of Principle 20 | Materially non-compliant. |
| Comments | <p>SAMA has defined related parties in its circular of June 2022. This definition is broader than the BCP definition to the extent that it includes banks' Shariah Committee members, their interests, and their relatives (Article 2.vi of the Circular). SAMA regulations require that exposures/transactions to related parties shall only be considered on arm's length basis and without any preferential treatment. SAMA's Related Party Rules for Banks issued in June 2022 sets limits on exposures to related parties; requires banks to put in place processes to limit the risk from related party transactions; and requires these to be at arm's length. As part of supervisory reporting, SAMA is obtaining details of banks' exposures to their related parties at the level of domestic consolidation.</p> <p>At the same time, there are significant gaps in compliance with this core principle's requirements. These include material gaps in definition of related parties, the limits set for aggregate related party exposures are quite liberal and banks are allowed to exceed the liberal limits, the limits are not applied to related party banks, exposures to related parties from foreign branches and foreign subsidiaries are not considered while measuring exposures to related parties and monitoring compliance with prudential limits, and write-off of related party exposures are permitted below board level.</p> <p>There are five gaps in the Rules:</p> <ul style="list-style-type: none"> • The definition of related party does not include all affiliates, their directors and senior management, nor potentially key staff who do not hold executive positions (EC1). • There is no limit for related parties that are banks (EC5). • The aggregate exposure to related parties (set at 50 percent of Tier 1 capital) should be no higher than that for single counterparties (set at 25 percent of Tier 1 capital). • The rules for write-off of related party exposures permit this to be approved by a delegate, not by the Bord (EC3). |

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| | <ul style="list-style-type: none"> There is no requirement for directors to absent themselves from a meeting which is considering a transaction in which the director has a related party interest (EC3). As with Large Exposures, SAMA's reporting requirements are confined to the "domestic" business of the bank. This is defined as the bank's Saudi branches and subsidiaries. Reporting should be on a solo legal entity and consolidated basis to ensure full capture (EC7). The definition of Scope and Application in the Rules does not extend to the full consolidated group, omitting subsidiaries of a parent and non-banks (EC7). SAMA should extend individual reporting to all related parties (EC7). Compliance with the current rules and adherence to processes is verified by way of on-site inspections which the assessors judge to be appropriately comprehensive. |
| Principle 21 | Country and transfer risks. The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk ⁶⁸ and transfer risk ⁶⁹ in their international lending and investment activities on a timely basis. |
| Essential Criteria | |
| EC1 | The supervisor determines that a bank's policies and processes give due regard to the identification, measurement, evaluation, monitoring, reporting and control or mitigation of country risk and transfer risk. The supervisor also determines that the processes are consistent with the risk profile, systemic importance and risk appetite of the bank, take into account market and macroeconomic conditions, provide a comprehensive bank-wide view of country, and transfer risk exposure. Exposures (including, where relevant, intra-group exposures) are identified, monitored and managed on a regional and an individual country basis (in addition to the end-borrower/end-counterparty basis). Banks are required to monitor and evaluate developments in country risk and in transfer risk and apply appropriate countermeasures. |
| Description and findings regarding EC1 | SAMA's rules contain no specific requirements on banks to give due regard to country and transfer risk. Circular no. 341000036442 dated 2013 on Credit Risk Management requires banks (paragraph 3.ii) to have a Credit Policy that covers "broad parameters for taking credit exposures to...geographic areas/countries." It emphasizes the need for comprehensive risk management processes though neither country nor transfer risk is explicitly mentioned. It should also be noted that the Implementation Rules for the Banking Control Law, dated on 14/10/1406H (Article I. 2(d)). requires banks to obtain SAMA's pre-approval for overseas exposures. In practice, banks request a limit for exposures to a particular class of exposure in a particular currency. Most of the approvals by value relate to banks' |

⁶⁸ Country risk is the risk of exposure to loss caused by events in a foreign country. The concept is broader than sovereign risk as all forms of lending or investment activity whether to/with individuals, corporate, banks or governments are covered.

⁶⁹ Transfer risk is the risk that a borrower will not be able to convert local currency into foreign exchange and so will be unable to make debt service payments in foreign currency. The risk normally arises from exchange restrictions imposed by the government in the borrower's country. (Reference document: 'IMF paper on External Debt Statistics—Guide for compilers and users,' 2003.)

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| | <p>holdings of USD high quality liquid assets, held for liquidity purposes. There are also approvals for direct overseas lending and for branches and subsidiaries of Saudi banks. This process ensures a SAMA-approved cap on direct exposures to individual countries. SAMA circular no. BCS 771 dated December 5, 2008, concerning Principles for Sound Liquidity Risk Management and Supervision, notes the importance of monitoring and managing risks associated with cross-border transactions, including transfer risk. Supervisors monitor country risk on a quarterly basis through data received via RMS for resident and non-resident investments and resident and non-resident loans, and also, the quarterly risk returns used for the purpose of risk assessment. Elements of country risk appear in one of the KRIs (these are used to assess banks periodically): it measures exposures in countries with a sovereign rating of <BBB- as a percentage of all exposures. In these assessments, supervisors consider direct country risk (bank exposures to borrowers in a country) but not indirect country risk (the risk of contagion to the bank's borrowers from events in a country).</p> <p>Similarly, country risk may be a topic of discussion in the supervisory meetings with banks about the ICAAP. An ICAAP letter to a bank has been seen that highlighted risks in a specific country as an action point, evidencing active review of country risk by both the bank and SAMA.</p> <p>This is in the context of relatively limited international activity and exposure on the part of local banks. Less than 10 percent of the banking system's assets are to overseas counterparties. Banks have small operations in a range of countries including Jordan, Malaysia, Turkey, UAE, and UK.</p> <p>To the extent deemed necessary under the risk-based framework, onsite inspection is another tool that is used by supervisors to validate banks' policies, procedures, and practices to control country risk.</p> <p>SAMA's supervisory approach and banks' understanding are oriented towards the direct or immediate risk perspective (for example, the country in which the borrower or the bank branch is located). However, for achieving effective management of country and transfer risks, banks must identify and measure these risks from both immediate risk perspective and ultimate risk perspective (for example, the country, which is the source of repayment of banks' exposures, including location of collateral where relevant). To achieve this, regulation and supervision need to adopt a comprehensive approach. Anecdotal evidence suggests that banks have limited exposure to country and transfer risks through their loan portfolio, but this does not include lending to exporters, where the ultimate risk exposure is to another country. In the absence of comprehensive offsite reporting on all forms of direct and indirect exposures, SAMA is unable to have a complete view on banks' country and transfer risk exposures.</p> <p>It is therefore recommended that SAMA extend their oversight of country and transfer risk, and that country risk covers indirect as well as direct exposures (for example where an exposure to a domestic counterparty has a high dependency on events in another country).</p> |
| EC2 | The supervisor determines that bank' strategies, policies and processes for the management of country and transfer risks have been approved by the banks' Boards and |

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| | that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process. |
| Description and findings regarding EC2 | <p>There is no specific requirement for management of country and transfer risk. It is part of the overall risk-based framework. SAMA have not felt it necessary to issue specific standards in respect of country and transfer risk, given the relatively low direct exposure of the banks.</p> <p>To this end, circular no. 42081293 dated June 2021 on Corporate Governance Principles sets out expectations regarding the roles and responsibilities of both the board members and senior management in relation to risk management. The Board is responsible for developing and monitoring the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the bank's activities, and to review this on an annual basis.</p> <p>Relevant onsite inspections verify the overall credit risk management framework of which country and transfer risk form a part. Again (see EC1), the focus is on direct country risk. Neither SAMA nor, based on assessors' discussions, the banks demonstrate a full awareness of indirect country risk.</p> |
| EC3 | The supervisor determines that banks have information systems, risk management systems and internal control systems that accurately aggregate, monitor and report country exposures on a timely basis; and ensure adherence to established country exposure limits. |
| Description and findings regarding EC3 | <p>There is no specific requirement for information, management and control systems around country and transfer risk. It is part of the overall risk-based framework. SAMA have not felt it necessary to issue specific standards in respect of country and transfer risk, given the relatively low exposure of the banks.</p> <p>Consistent with this, SAMA does not have any specific guidance for supervisors.</p> <p>At the bank-wide level, Article 7 of SAMA 'Rules on Credit Risk Management for Banks' covers Management Information System and requires banks to have robust systems capable of generating MI reports.</p> <p>The inspection teams review the banks' systems and processes in accordance with these guidelines during the onsite inspection of the related areas. Supervisors monitor country risk on a quarterly basis through data received via RMS for resident and non-resident investments and resident and non-resident loans, and also, the quarterly risk returns used for the purpose of risk assessment. Furthermore, during the onsite inspection of the related areas, the inspection teams assess the Bank's information system and whether those are capable of generating robust MIS on all exposures and to monitor exposures against limits. This includes country exposure limits.</p> |
| EC4 | <p>There is supervisory oversight of the setting of appropriate provisions against country risk and transfer risk. There are different international practices that are all acceptable as long as they lead to risk-based results. These include:</p> <p>(a) The supervisor (or some other official authority) decides on appropriate minimum provisioning by regularly setting fixed percentages for exposures to each country</p> |

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| | <p>taking into account prevailing conditions. The supervisor reviews minimum provisioning levels where appropriate.</p> <p>(b) The supervisor (or some other official authority) regularly sets percentage ranges for each country, taking into account prevailing conditions and the banks may decide, within these ranges, which provisioning to apply for the individual exposures. The supervisor reviews percentage ranges for provisioning purposes where appropriate.</p> <p>(c) The bank itself (or some other body such as the national bankers association) sets percentages or guidelines or even decides for each individual loan on the appropriate provisioning. The adequacy of the provisioning will then be judged by the external auditor and/or by the supervisor.</p> |
| Description and findings regarding EC4 | <p>There is no minimum requirement for provisioning for country and transfer risk set by SAMA. If SAMA deemed it necessary, they have the powers to introduce one. Provisioning against all overseas exposures is determined as per IFRS 9.</p> |
| EC5 | <p>The supervisor requires banks to include appropriate scenarios into their stress testing programs to reflect country and transfer risk analysis for risk management purposes.</p> |
| Description and findings regarding EC5 | <p>SAMA circular dated November 23, 2011, on Stress Testing emphasizes that stress tests should cover all material risks (whether internal or external) to which the bank is or can be exposed to and that it should take into account the recent developments in domestic, regional and global financial markets as well as all other relevant development. Banks with cross-border operations are expected to adequately capture these risks and consider it in their stress testing processes, but there is no specific mention of either country or transfer risk concepts.</p> |
| EC6 | <p>The supervisor regularly obtains and reviews sufficient information on a timely basis on the country risk and transfer risk of banks. The supervisor also has the power to obtain additional information, as needed (e.g., in crisis situations).</p> |
| Description and findings regarding EC6 | <p>The Banking Control Law of 1966, Article 17 states: "SAMA may, at any time, request any bank to supply it, within a time limit it will specify and in the manner it will prescribe, with any information that it deems necessary for ensuring the realization of the purposes of this Law."</p> <p>Supervisors receive and review two monthly returns:</p> <ul style="list-style-type: none"> • M26: Inbound and Outbound Remittances for Individuals and Companies by Country. • M27: Outbound Remittances for Individuals and Companies by Currency. <p>These cover banks' exposure to, and transactions with, individual countries. They therefore cover most aspects of country risk as part of this process, but analysis of transfer risk is limited.</p> |
| Assessment of Principle 21 | <p>Materially non-compliant.</p> |
| Comments | <p>SAMA's regulatory framework for country and transfer risk is embedded in its regulations on credit risk management where it requires banks' credit policies to include broad parameters for taking credit exposures to geographic areas/countries. Implementation</p> |

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| | <p>Rules for the Banking Control Law requires banks to obtain SAMA’s pre-approval for overseas exposures from its domestic branches. SAMA’s regulation and supervision are oriented towards direct exposures to country and transfer risk.</p> <p>Country and transfer risk are not currently seen by SAMA to be significant for Saudi Arabian banks. Direct overseas exposures are no more than 3 percent of assets for most banks and account for up to 10 percent in banks with overseas operations. For this reason, SAMA have not put in place specific requirements around country and transfer risk. The more general requirements around credit risk management and governance are intended to capture country and transfer risk as part of the risk-based approach. Supervisors assess direct country risk during the off-site processes and will follow up, via off-site or on-site, to the extent that the risk is significant within the risk-based framework. Banks are expected to put in place country limits where appropriate. There was evidence of direct country risk being actively reviewed by the bank and SAMA in the ICAAP process.</p> <p>Article 16.6 of the Banking Control Law requires banks to obtain SAMA’s pre-approval of all overseas exposures and this acts as a regulatory backstop to control direct country exposures.</p> <p>SAMA note that the current relatively light-handed approach reflects the current exposure levels of Saudi banks to direct country risk. While this is understandable, Saudi banks are becoming more active overseas, are exposed to overseas borrowers, and current coverage of country and transfer risk should be broadened. In particular, the lack of consideration of indirect country risk is a significant gap—for example lending to exporters, where the ultimate risk exposure is to another country. In the absence of comprehensive offsite reporting on all forms of direct and indirect exposures, SAMA is unable to have a complete view on banks’ country and transfer risk exposures.</p> <p>Three matters should be addressed:</p> <ul style="list-style-type: none"> • Country risk should cover indirect as well as direct risks—e.g., the risk that counterparties may be exposed to events in a foreign country (EC1, EC6). • Transfer risk is not fully recognized as a risk for banks. SAMA should consider how to incorporate it within the regulations and supervisory monitoring (EC1, EC5). • Introduce provisioning requirements for country risk (EC4). <p>These matters could be incorporated into revised regulations, standalone or, for example within Credit Risk Management Rules, and into the offsite monitoring, SAMA’s bank risk assessment framework and the stress testing framework. Where material, and on a risk basis, onsite inspections could focus more on these risk categories.</p> |
| Principle 22 | Market risk. The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis. |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require banks to have appropriate market risk management processes that provide a comprehensive bank-wide view of market risk |

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| | <p>exposure. The supervisor determines that these processes are consistent with the risk appetite, risk profile, systemic importance and capital strength of the bank; take into account market and macroeconomic conditions and the risk of a significant deterioration in market liquidity; and clearly articulate the roles and responsibilities for identification, measuring, monitoring and control of market risk.</p> |
| <p>Description and findings regarding EC1</p> | <p>There is no specific discrete SAMA regulation or guidance covering market risk management (on account of low materiality hitherto—on average about 3 percent of banks' RWAs, with a range up to 6 percent). The corporate governance framework requires banks to have risk management frameworks that cover all risks.</p> <p>As part of implementation of Basel III Reforms, SAMA issued circular no. 4407144, titled 'Guidance Note on the Scope of Application of SAMA's Basel Framework' in December 2022. The second section of this circular "Minimum Capital Requirements for Market Risk" sets out the requirements for calculating capital required for market risk. The requirement applies to all domestic banks on a consolidated basis and provides a comprehensive bank-wide measure of market risk exposure.</p> <p>Supervisory assessment of a bank's market risk management processes is effected via SAMA's supervisory processes, notably the ICAAP and the onsite inspection program. Market risk is covered in the Treasury inspections, of which they have completed three in the last three years and have two more planned in 2024. These inspections are detailed and cover all aspects of the risk management process, including risk appetite, governance, reporting, systems, and internal controls.</p> <p>The SAMA requirement for biannual stress tests incorporates market risk elements as appropriate. The severe scenarios take account of the risk of a significant deterioration in market liquidity.</p> |
| EC2 | <p>The supervisor determines that bank' strategies, policies and processes for the management of market risk have been approved by the banks' Boards and that the Boards oversee management in a way that ensures that these policies and processes are implemented effectively and fully integrated into the banks' overall risk management process.</p> |
| <p>Description and findings regarding EC2</p> | <p>SAMA circular no. 361000005794 dated 11/01/1436AH regarding Corporate Governance sets out requirements for the governance framework and responsibilities of banks and their board of directors. These regulations require the board to oversee the management of the bank including ensuring the implementation of effective risk management processes and integrating them into the bank's overall risk management framework (para 37 and 94). These requirements cover all types of risk though market risk is not mentioned explicitly.</p> <p>Within SAMA's Risk Based Supervision (RBS) Framework Policy, the supervisors assess banks' internal controls around market risk using the Control Assessment Questionnaires filled by Banks on an annual basis (rated qualitatively through a set of questions for each control). For Market risk, supervisors will assess three types of controls:</p> <ul style="list-style-type: none"> • Governance and risk appetite. • Risk management and internal controls. • Internal audit. |

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| | <p>For each type of the abovementioned types of controls, there are set of questions in term of the bank' strategies, policies, and processes for the management of market risk, limits, policies approval, and responsibilities of the Board, committees, senior management, etc. The results of the assessment are included in the bank's risk profile and considered when deciding on targeted inspections and other supervisory activities.</p> <p>The bank's strategies, policies, and processes for the management of market risk are assessed during onsite inspections. This assessment includes checking the existence of approvals by the bank's board, as well as their implementation status and integration with the overall risk management process.</p> |
| EC3 | <p>The supervisor determines that the bank's policies and processes establish an appropriate and properly controlled market risk environment including:</p> <ul style="list-style-type: none"> (a) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of market risk exposure to the bank's Board and senior management; (b) appropriate market risk limits consistent with the bank's risk appetite, risk profile and capital strength, and with the management's ability to manage market risk and which are understood by, and regularly communicated to, relevant staff; (c) exception tracking and reporting processes that ensure prompt action at the appropriate level of the bank's senior management or Board, where necessary; (d) effective controls around the use of models to identify and measure market risk, and set limits; and (e) sound policies and processes for allocation of exposures to the trading book. |
| Description and findings regarding EC3 | <p>As part of the Control Assessment, the supervisors assess the bank's policies and processes around a properly controlled risk environment. One tool is the Control Assessment Questionnaires filled by Banks on an annual basis (rated qualitatively through a set of questions for each control). This is not specific to market risk but covers both risk appetite at a high level as well as internal processes and reporting to the Risk Committee. In addition, the ICAAP (an annual document required under the 2008 Circular) contains qualitative and quantitative information that assist supervisory assessment of risk limits and processes.</p> <p>One important tool used by SAMA off-site supervisors is a set of 115 Key Risk Indicators (KRIs). These feed into the overall risk assessment. In the case of market risk, there is only one KRI - Var on FX exposure (over last 250 days). Even though market risk exposure on the reporting dates is currently relatively small (it accounts for an average of 3 percent of RWAs across the market, and no more than 6 percent in any one bank), banks do undertake derivative activity, which is significant in some banks in terms of the flow. The numbers are significant—see table below which summarizes the transactions over a six-month period for the five most active banks.</p> <p>Derivative transactions in SAR million over a six-month period (five banks aggregated).</p> |

| Table 5. Derivative Transactions in Banks | | | |
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| | Total | FX | Interest Rate |
| Amount | 2,601,029 | 2,041,490 | 559,539 |
| o/w trading | 2,191,658 | 1,700,630 | 491,028 |
| o/w customer | 409,371 | 340,860 | 68,511 |
| Trading as % of total | 84% | 83% | 88% |

The above numbers suggest significant trading activity compared to the end-quarter positions and a clear explanation is not available. Reconciliations and a deeper understanding of the flows would help SAMA's supervision of market risk. This gap in SAMA's oversight is significant. Although the end-quarter position of banks as reported is not material, the flow of transactions is far more material than assessors had expected. High transaction flow can give rise to large market positions in the event of stress, such as market disruption or failure of counterparties. The assessors recommend that an interest rate risk KRI be added. Interest rate risk accounts on average for about 50 percent of market risk as reported in the capital returns; and SAMA should future-proof their framework against the possibility of an unexpected increase in market risk. The bank's policies and processes for the management of market risk, including information systems, limits, risk management and controls, are assessed during onsite inspections of the Treasury function. Assessors found these to comprise a thorough review of all aspects of internal control of market and Treasury risks. It should be recorded, though, that the assessors did not see evidence that the onsite process picked up on the size and significance of the flow numbers at any bank.

EC4 The supervisor determines that there are systems and controls to ensure that banks' marked-to-market positions are revalued frequently. The supervisor also determines that all transactions are captured on a timely basis and that the valuation process uses consistent and prudent practices, and reliable market data verified by a function independent of the relevant risk-taking business units (or, in the absence of market prices, internal or industry-accepted models). To the extent that the bank relies on modeling for the purposes of valuation, the bank is required to ensure that the model is validated by a function independent of the relevant risk-taking businesses units. The supervisor requires banks to establish and maintain policies and processes for considering valuation adjustments for positions that otherwise cannot be prudently valued, including concentrated, less liquid, and stale positions.

Description and findings regarding EC4 No banks are approved to use the internal models approach for market risk. The standardized approach under SAMA's Basel III implementation (December 2022) includes some allowance for use of models—e.g., delta and vega calculations (Section 7.25). There is a requirement for these to be managed by an independent risk control unit.

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| | SAMA has no specific requirements around valuation adjustments and these could be introduced over time. As noted above, market risk exposures are small and banks' use of complex products is limited in practice. |
| EC5 | The supervisor determines that banks hold appropriate levels of capital against unexpected losses and make appropriate valuation adjustments for uncertainties in determining the fair value of assets and liabilities. |
| Description and findings regarding EC5 | <p>Banks must fair value daily any trading book instrument and recognize any valuation change in the profit and loss (P&L) account. Circular no. 4407144 of December 2022 sets out requirements for the measurement of market risk, and these are based off the BIS Basel III requirements. The market risk capital requirements specifically address the potential losses from changes in market prices of traded instruments.</p> <p>These requirements are calibrated to cover unexpected losses arising from market risk. The capital requirement is calculated using regulatory measures such as Value-at-Risk (VaR) or Expected Shortfall (ES). These measures estimate the potential loss a bank's portfolio could experience, taking into account market volatility and historical data. Banks must hold capital in proportion to the potential losses they could face within specified confidence intervals, typically 1 day VaR at a 99 percent confidence level.</p> <p>Also, banks must use instrument prices or pricing models for reporting actual P&L to senior management for purposes of determining sensitivities of market prices and market risk capital requirements. The pricing system or models must be reviewed and validated by an independent risk management function.</p> <p>The scope of SAMA's onsite inspections of Treasury functions includes a review of the overall governance, organizational structure, risk management practices, internal controls, policies and procedures, and practices on an end-to-end basis including the fair value of assets and liabilities.</p> |
| EC6 | The supervisor requires banks to include market risk exposure into their stress testing programs for risk management purposes. |
| Description and findings regarding EC6 | <p>SAMA Rules on Stress Testing for Banks circular no. 60697.BCS.28747 dated November 23, 2011, require banks to conduct biannual stress testing. Section 7.2 sets out specific requirements around market risk including testing resilience of their on and off balance sheet exposure (Section 7.2).</p> <p>Banks determine the scope of each half-yearly stress test after consulting SAMA. A market risk element is normally included.</p> |
| Assessment of Principle 22 | Largely compliant. |
| Comments | SAMA follows the Basel III market risk framework in setting capital requirements (Circular no. 4407144). SAMA undertakes supervisory assessment of a bank's market risk management notably through the ICAAP and the onsite inspection program. Market risk is covered in the Treasury inspections, which are detailed and cover all aspects of the risk management process, including risk appetite, governance, reporting, systems, and internal controls. SAMA requirement for biannual stress tests incorporates market risk |

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| | <p>elements as appropriate. The severe scenarios take account of the risk of a significant deterioration in market liquidity.</p> <p>Market risk exposures on the reporting dates for banks in the Kingdom are not currently significant (on average about 3 percent of a bank's RWAs, with a range of up to 6 percent), and their engagement in complex products is said to be generally undertaken on a back-to-back basis.</p> <p>However, data shared with assessors suggest significant trading activity reported by the banks. This needs to be better understood by the supervisors. It is important that much more attention be paid to these numbers given the risk that high transaction levels can give rise to high risks during a crisis, or with the failure of a significant counterparty. It is also important to build the supervisory infrastructure to accommodate increases in the size and nature of these exposures. The assessors recommend that:</p> <ul style="list-style-type: none"> • A market risk guidance document be issued (EC1). • SAMA establish specific requirements around valuation adjustments for less liquid positions (EC4). This could help in understanding the data flow numbers. • SAMA review their market risk KRIs and include some measures on trading activity, risk exposures between reporting dates, and at a minimum one for interest rate risk (EC2). Currently there is just one indicator, which is for FX risk. • SAMA introduce specific and detailed guidance to onsite supervisors for inspection of market risk management systems while building capability. <p>Overall, the need to understand and assess the risk of the apparently high transaction levels is crucial and should be implemented in short order, albeit the relatively low level of end-day positions acts to mitigate the risk in normal times. Rounding out the regulatory and supervisory frameworks in this area is also important, given the likely increase in market risk.</p> |
| Principle 23 | <p>Interest rate risk in the banking book. The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk⁷⁰ in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to have an appropriate interest rate risk strategy and interest rate risk management framework that provides a comprehensive bank-wide view of interest rate risk. This includes policies and processes to identify measure, evaluate, monitor, report and control or mitigate material sources of interest rate risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the risk appetite, risk profile and systemic importance of the bank, take into account market and macroeconomic conditions, and are regularly reviewed and appropriately adjusted, where necessary, with the bank's changing risk profile and market developments.</p> |

⁷⁰ Wherever "interest rate risk" is used in this Principle the term refers to interest rate risk in the banking book. Interest rate risk in the trading book is covered under Principle 22.

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| Description and findings regarding EC1 | <p>There is no one law or regulation that requires a bank to have a strategy and risk management framework specifically around Interest Rate Risk in the Banking Book. Circular no. 381000040243, dated January 12, 2017, references the relevant Basel document and a previous 2004 document (no longer on the website or current) but does not itself set any interest rate management requirements or expectations for Saudi banks. SAMA requires banks to undertake an annual Internal Capital Adequacy Assessment Process (ICAAP), and this requires banks to identify all of the risks to which they are exposed including Interest Rate Risk in the Banking Book (page 6 of ICAAP guidance of 2008). Additionally, banks are required to share the results of their internal measurement systems, presented in terms of economic value relative to capital, using standardized interest rate shocks, in order to facilitate SAMA's monitoring of interest rate risk exposures across institutions.</p> <p>As part of their supervisory reporting, banks are required to submit a yearly regulatory return which includes the following:</p> <ul style="list-style-type: none"> • Table I–RBBA - IRRBB risk management objectives and policies purposed to provide a description of risk management objective and policies concerning IRRBB. • Template I–RBB1 - Quantitative information on IRRBB purposed to provide information on the bank's changes in economic value of equity and net interest income under prescribed interest rate shock scenarios. <p>SAMA's approach to determining that a bank's strategy, policies and processes are consistent with their risk appetite, risk profile and systemic importance of the bank is carried out mainly through three activities, all of which were reviewed by the assessors:</p> <ul style="list-style-type: none"> • Meetings with banks on annual basis for the Supervisory Review Visit (SRV) & ICAAP Discussion. Assessors have seen letters to banks following these ICAAP discussions, evidencing that IRRBB is an important part of these meetings, and that SAMA communicate when they think the bank's approach is deficient. • Supervisors assess banks' internal controls using the Control Assessment Questionnaires filled by banks on an annual basis. The Questionnaire for IRRBB risk cover multiple areas (Governance, risk assessment, internal control and internal audit). Based on the answers and on the views of the supervisory team, a rating is assigned to each risk and oversight function, and reflected in banks' risk profiles. • Onsite inspections of IRRBB framework of banks are carried out to assess the banks' compliance with BCBS standards. These deploy work programs, which are developed based on the BCBS standards on IRRBB. SAMA is in the process of conducting an IRRBB thematic review across four banks. <p>The IRRBB returns require banks to calculate EVE and NII on a Basel-consistent basis. However, SAMA's KRIs, which form an important input to derive an overall risk assessment for a bank, include two measures for IRRBB (out of 115). Both measures reflect risk from a 200bp parallel shift. This means that both measures will reflect the same risk with the possibility that, for example, a steepener or flattener shock will not be captured. The assessors recommend a broader range of scenarios in the KRIs, and also a review of the appropriateness of a 200bp shock.</p> |
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| | <p>Overall, SAMA assesses policies and procedures to identify, measure, etc. IRRBB during the course of their general supervisory activities: onsite inspections, meetings with senior management and assessment of the ICAAP. There is specific supervisory focus on IRRBB in all of these activities. This fulfils the substance of the second part of this EC.</p> <p>It is recommended that SAMA review the IRRBB policy documents on their website as these do not appear to provide a full and coherent requirement for an IRRBB framework. Despite this, in practice, SAMA supervise against established principles for IRRBB risk management, and the banks appear to understand and measure the risk in their ICAAPs.</p> |
| EC2 | <p>The supervisor determines that a bank's strategy, policies and processes for the management of interest rate risk have been approved, and are regularly reviewed, by the bank's Board. The supervisor also determines that senior management ensures that the strategy, policies and processes are developed and implemented effectively.</p> |
| Description and findings regarding EC2 | <p>According to the revised BCBS Principles for the Management and Supervision of Interest Rate Risk which SAMA circulated to domestic banks in 2017 (please refer to the circular referenced above in "EC1"), the board of directors of a bank should approve interest rate risk management strategies and policies and make sure senior management takes the appropriate actions to monitor and manage these risks in line with the approved strategies and policies.</p> <p>As mentioned in EC1, a thematic onsite inspection of the IRRBB framework of banks was in the process of being carried out to assess the banks' compliance with the SAMA regulations and BCBS standards, which require that IRRBB related strategies, policies and processes should be approved and regularly reviewed/updated by the Board. The level of the Bank's senior management adherence to the Board's approved strategies and policies is assessed during the onsite inspection.</p> |
| EC3 | <p>The supervisor determines that banks' policies and processes establish an appropriate and properly controlled interest rate risk environment including:</p> <ul style="list-style-type: none"> (a) comprehensive and appropriate interest rate risk measurement systems; (b) regular review, and independent (internal or external) validation, of any models used by the functions tasked with managing interest rate risk (including review of key model assumptions); (c) appropriate limits, approved by the banks' Boards and senior management, that reflect the banks' risk appetite, risk profile and capital strength, and are understood by, and regularly communicated to, relevant staff; (d) effective exception tracking and reporting processes which ensure prompt action at the appropriate level of the banks' senior management or Boards where necessary; and (e) effective information systems for accurate and timely identification, aggregation, monitoring and reporting of interest rate risk exposure to the banks' Boards and senior management. |
| Description and findings regarding EC3 | <p>As part of the Control Assessment, the supervisors assess the bank's policies and processes for IRRBB.</p> |

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| | <p>SAMA's guideline document on the Internal Capital Adequacy Assessment Plan states "The measurement process should include all material interest rate positions of the bank and consider all relevant repricing and maturity data." The assessors reviewed a number of recent ICAAPs and SAMA's analysis and feedback of these, and IRRBB was always given appropriately full consideration.</p> <p>On an annual basis, banks are required to submit their ICAAP document in line with the SAMA Guidelines, The ICAAP contains qualitative and quantitative information necessary to underpin the risk appetite, including the description of the systems, processes and methodology to measure and manage all risks. Further, all banks are required to follow a detailed assessment of related risks as part of Pillar II risks and stress testing. The ICAAP document is required to be reviewed and approved by the board and reviewed by the bank internal audit or a third party.</p> <p>Following the ICAAP exercise, SAMA issues a supervisory letter to require banks to address supervisory observations and any deficiencies in risk management practices within stipulated timelines. A follow up mechanism is in place in SAMA to ensure that the banks rectify the identified SAMA's observations in a timely and effective manner.</p> <p>In addition, interest rate measurement systems, independent review of models, IRRBB limit structure, exception tracking and reporting, effectiveness of management information system) are the requirements of the BCBS standards on IRRBB. Banks' compliance with these standards is assessed during the onsite inspection. Currently, thematic inspection of the IRRBB framework of four banks is in progress, and the above mentioned areas have been included in the inspection work programs.</p> <p>in summary, requirements to measure and monitor IRRBB are set out in the 2008 ICAAP circular and the 2017 IRRBB circular (which references Basel's requirements). Supervisory validation is achieved via review of ICAAP and review of the IRRBB returns. There was a thematic review underway at the time of the assessment.</p> |
| EC4 | The supervisor requires banks to include appropriate scenarios into their stress testing programs to measure their vulnerability to loss under adverse interest rate movements. |
| Description and findings regarding EC4 | <p>SAMA issued stress testing requirements by way of Circular no. 321000028747 on November 23, 2011). These require banks to conduct stress test for interest rate risk keeping in view the nature and composition of their portfolio. The rules describe plausible scenarios relating to interest rate risk. These scenarios can include the following:</p> <ul style="list-style-type: none"> • Re-pricing Risk: This scenario to assess the impact on profitability of the timing differences in interest rate changes and cash flows in respect of fixed and floating rate positions on both assets and liabilities, including off-balance sheet exposures. • Basis Risk: This scenario would involve assessing the impact on profitability of unfavorable differential changes in key market rates. • Yield curve Risk: This scenario may assess the impact on profitability due to parallel shifts in the yield curve (both up and down shifts) and non-parallel shifts in the yield curve (steepening or flattening on the yield curve). • Option Risk: This stress scenario if the bank has significant exposure to option instruments. This would involve assessing the impact on profitability due to changes |

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| | <p>in the value of both stand-alone option instruments and embedded options due to adverse interest rate movements.</p> <p>Banks are required to design their stress testing to provide information on the kinds of conditions under which the bank's strategies or positions would be most vulnerable, and they should measure their vulnerability to loss under stressful market-conditions, including the breakdown of key assumptions—and consider those results when establishing and reviewing their policies and limits for interest rate risk.</p> <p>Recent stress tests have included scenarios where interest rates move significantly and where banks are exposed to high levels of IRRBB.</p> |
| Additional Criteria | |
| AC1 | The supervisor obtains from banks the results of their internal interest rate risk measurement systems, expressed in terms of the threat to economic value, including using a standardized interest rate shock on the banking book. |
| Description and findings regarding AC1 | <p>As part of SAMA Internal Capital Adequacy Assessment Process (ICAAP) which is conducted annually, banks are required to share the results of their internal measurement systems, presented in terms of economic value relative to capital, using a standardized interest rate shock, in order to facilitate SAMA's monitoring of interest rate risk exposures across institutions.</p> <p>Banks also disclose their IRRBB impact assessment in Pillar 3 comparing both changes in economic value and NII based on the standardized interest rate shock scenarios.</p> |
| AC2 | The supervisor assesses whether the internal capital measurement systems of banks adequately capture interest rate risk in the banking book. |
| Description and findings regarding AC2 | <p>As part of SAMA Internal Capital Adequacy Assessment Process (ICAAP), banks are required to perform their own calculation as to capital required for Interest Rate Risk in the Banking Book. The analysis is reviewed by SAMA, discussed at the annual ICAAP meeting with the bank and compared with SAMA's own IRRBB capital assessment for the bank.</p> <p>On site inspections include an assessment of how the internal capital is measured and covering components and assumptions as well as banks' measurement systems to ensure it adequately captures interest rate risk.</p> |
| Assessment of Principle 23 | Largely compliant. |
| Comments | <p>SAMA require banks to measure IRRBB, to have in place a risk appetite and control framework, and to include detailed analysis of IRRBB as part of the ICAAP. Supervisors understand and assess IRRBB risks and have detailed discussions with banks in the context of Pillar 2.</p> <p>SAMA use the ICAAP process to impose additional Pillar 2 capital add-ons for IRRBB risks. It is generally one of the more important risks in practice within Pillar 2 and capital add-ons were over 100bp in the files reviewed by the assessors. There was evidence of SAMA discussing and providing feedback on IRRBB risk management as part of the ICAAP process.</p> |

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| | <p>The rules and guidance around IRRBB are hard to access via the website. The key document that is referenced in practice is a circular that attaches Basel guidance. While the substance of this remains relevant and appropriate for IRRBB governance and measurement, SAMA should move to a more accessible, enforceable single policy document for IRRBB risk management (EC1).</p> <p>Additionally, SAMA should include KRI measures that are based off measures other than a 200bp parallel shift. As part of this review, SAMA should also extend their collection of measures to include flattener and steeper metrics (EC1).</p> |
| Principle 24 | <p>Liquidity risk. The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons. At least for internationally active banks, liquidity requirements are not lower than the applicable Basel standards.</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to consistently observe prescribed liquidity requirements including thresholds by reference to which a bank is subject to supervisory action. At least for internationally active banks, the prescribed requirements are not lower than, and the supervisor uses a range of liquidity monitoring tools no less extensive than, those prescribed in the applicable Basel standards.</p> |
| Description and findings regarding EC1 | <p>SAMA has adopted Basel liquidity requirements for all local banks and they also apply, using proportionality, to foreign bank branches.</p> <p>Liquidity Coverage Ratio (LCR) requirements were adopted in 2013. These are set out in the Basel III disclosure requirements in the December 2022 Circular and are consistent with Basel III. Run-off assumptions are consistent with Basel III and assessors see this as appropriate in the context of the Saudi banking sector, supported by a deposit insurance safety net.</p> <p>Net Stable Funding Ratio (NSFR) requirements were adopted in 2014 via circular no. 391000059160. These requirements are consistent with Basel III.</p> <p>SAMA compliance with both NSFR and LCR have been assessed by the Basel committee as part of the RCAP assessment, and both were found to be compliant in March 2020.</p> <p>In some areas, SAMA rules are super equivalent to Basel III. In particular, Level 2B Assets are not included for NSFR purposes. HQLA in Saudi Arabia in practice typically comprise local and US government debt. The assessors see inclusion of this in Level 1 as appropriate.</p> <p>SAMA have three additional liquidity requirements, two of which are in the 1966 Banking Control Law (BCL).</p> <p><u>BCL Article 6</u> sets maximum deposit liabilities as a multiple of the reserves and paid-up or invested capital. This is to constrain excessive drain on liquidity. The law requires that</p> |

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| | <p>banks' deposit liabilities shall not exceed fifteen times its reserves and paid-up or invested capital. If the deposit liabilities exceed this limit, the bank must within one month of the relevant date, either increase its capital and reserves to the required level or deposit fifty percent of the excess with SAMA.</p> <p><u>BCL Article 7</u> sets a minimum liquidity assets ratio. Banks are required to maintain a liquid reserve of not less than 15 percent of its deposit liabilities. Such reserve shall be in cash, gold or assets, which can be converted into cash within a period not exceeding 30 days. SAMA may, if deemed necessary, increase the percentage up to twenty percent. The current percentage is 20 percent.</p> <p>The third additional requirement is a maximum loans to deposits ratio of 90 percent as per updated guidelines issued in March 2023 (SAMA circular no. 44071146). The guidelines compare total customers loans to its total customer funding. In addition, SAMA applies a weighted LDR with higher weights are applied on term funds, the purpose of which is to encourage long term funding. SAMA expects banks to maintain the weighted LDR below 90 percent subject to total loans not exceeding the unweighted deposits. The LDR ratio is mainly used for monetary purposes, and SAMA advised the assessors that banks will not be penalized for breaching this ratio. They will, however, be questioned about it and asked to rectify the deficiency.</p> <p>Both LCR and NSFR requirements are set and monitored at a consolidated level. For both, banks are encouraged to take account of liquidity at the level of individual entities. The NSFR Circular states: "a bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity" (Section 3). The risks are mitigated by the small size of overseas subsidiaries and the fact there are unlikely to be barriers to transferability across Saudi entities. Nevertheless, to complete and future-proof the framework, it is recommended that SAMA formalize this by introducing requirements at the solo level and meanwhile start to monitor solo liquidity.</p> |
| EC2 | The prescribed liquidity requirements reflect the liquidity risk profile of banks (including on- and off-balance sheet risks) in the context of the markets and macroeconomic conditions in which they operate. |
| Description and findings regarding EC2 | <p>Saudi banks have a relatively simple business model (deposit-taking and granting of loans) and the LCR and NSFR measures reflect capture their liquidity risks well. Both frameworks take account of off-balance sheet risks.</p> <p>US and Saudi government bonds are the main elements of HQLA, and this is appropriate given the currency peg and the exposure of the Saudi economy. SAMA regularly review the actual content of each bank's HQLA stock.</p> <p>Run-off assumptions are consistent with Basel III requirements and the assessors deem these appropriate in the context of the Saudi banking system.</p> |
| EC3 | The supervisor determines that banks have a robust liquidity management framework that requires the banks to maintain sufficient liquidity to withstand a range of stress events, and includes appropriate policies and processes for managing liquidity risk that have been approved by the banks' Boards. The supervisor also determines that these |

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| | <p>policies and processes provide a comprehensive bank-wide view of liquidity risk and are consistent with the banks' risk profile and systemic importance</p> |
| <p>Description and findings regarding EC3</p> | <p>SAMA assesses the robustness of banks' liquidity management framework through three channels: (i) off-site supervision; (ii) the annual ILAAP assessment; (iii) and on-site inspections.</p> <p>SAMA's off-site supervisors' primary tool for assessing banks' internal controls is the Control Assessment Questionnaire. This is a Self Assessment completed by Banks on an annual basis (rated qualitatively through a set of questions for each control). For liquidity risk, supervisors will assess three types of controls:</p> <ul style="list-style-type: none"> • Governance and risk appetite. • Risk management and internal controls. • Internal audit. <p>For each of these, there are a set of questions in terms of the bank's strategies, policies and processes for the management of liquidity risk, limits, policies approval, liquidity risk stress testing, Contingency Funding Plan, and responsibilities of the Board, committees, senior management, etc.</p> <p>The results of the assessment are included in the banks' risk profile and considered when identifying the targeted inspection and other supervisory activities.</p> <p>SAMA has issued Guidelines for the ILAAP in October 2020 and for stress testing in 2011. During the annual review of the ILAAP, supervisors assess the Plan, including its alignment with SAMA's Guidelines on the Internal Liquidity Adequacy Assessment Plan (ILAAP). Areas covered include Governance and Risk Management. The Board is required to sign off on the ILAAP and on the overall liquidity risk management framework.</p> <p>SAMA conducts ILAAP review sessions with banks once a year. The agenda depends on current market conditions and key risks but will include a review of the liquidity risk management framework, the liquidity ratios, the results of the stress tests and contingency plans.</p> <p>On-site inspections are scheduled according to the risk-based approach. Liquidity risk management is part of Treasury inspections. On-site inspectors review a bank's compliance with liquidity, governance, and risk management requirements and that the bank adheres to its own policies and procedures. The files reviewed by assessors suggested that the process meets the expectations of this EC.</p> |
| <p>EC4</p> | <p>The supervisor determines that banks' liquidity strategy, policies and processes establish an appropriate and properly controlled liquidity risk environment including:</p> <ol style="list-style-type: none"> (a) clear articulation of an overall liquidity risk appetite that is appropriate for the banks' business and their role in the financial system and that is approved by the banks' Boards; (b) sound day-to-day, and where appropriate intraday, liquidity risk management practices; (c) effective information systems to enable active identification, aggregation, monitoring and control of liquidity risk exposures and funding needs (including active management of collateral positions) bank-wide; |

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| | <p>(d) adequate oversight by the banks' Boards in ensuring that management effectively implements policies and processes for the management of liquidity risk in a manner consistent with the banks' liquidity risk appetite; and</p> <p>(e) regular review by the banks' Boards (at least annually) and appropriate adjustment of the banks' strategy, policies and processes for the management of liquidity risk in the light of the banks' changing risk profile and external developments in the markets and macroeconomic conditions in which they operate.</p> |
| Description and findings regarding EC4 | <p>See EC3.</p> <p>Assessors reviewed inspection reports which demonstrated that SAMA inspectors thoroughly review all five items in EC4.</p> <p>Banks' boards are required to engage with liquidity risks and processes at least annually via the ILAAP process. Information systems and banks' processes to manage liquidity risk are also part of the annual ILAAP.</p> <p>The assessors' discussions with banks confirmed that SAMA pay close attention to liquidity risk management and that banks have well-established ALCO committees and Board attention to liquidity risks.</p> |
| EC5 | <p>The supervisor requires banks to establish, and regularly review, funding strategies and policies and processes for the ongoing measurement and monitoring of funding requirements and the effective management of funding risk. The policies and processes include consideration of how other risks (e.g., credit, market, operational and reputation risk) may impact the bank's overall liquidity strategy, and include:</p> <p>(a) an analysis of funding requirements under alternative scenarios;</p> <p>(b) the maintenance of a cushion of high quality, unencumbered, liquid assets that can be used, without impediment, to obtain funding in times of stress;</p> <p>(c) diversification in the sources (including counterparties, instruments, currencies and markets) and tenor of funding, and regular review of concentration limits;</p> <p>(d) regular efforts to establish and maintain relationships with liability holders; and</p> <p>(e) regular assessment of the capacity to sell assets.</p> |
| Description and findings regarding EC5 | <p>The <u>ILAAP guidelines</u> include the following:</p> <ul style="list-style-type: none"> • A requirement to provide full details of the three-year funding strategy (Section 6.3) and some guidance on what should be included. • Requiring banks' liquidity stress testing to select stress scenarios that reveal the vulnerabilities of the bank's funding (Section 5.5.ii). • Risks to the funding plan and the stability of the liabilities (Section 6.3) • The Contingency Funding Plan (CFP) (Annex 1). <p>The ILAAP requirements include the following:</p> <ul style="list-style-type: none"> • The funding strategy should demonstrate how it will support the projected business activities in both business as usual and stress, implementing any required improvements in the funding profile and evidencing that the risk appetite and key metrics will not be breached by the planned changes (page 12). |

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| | <ul style="list-style-type: none"> • The quantification of liquidity risk should fully incorporate Funding diversification and market access (page 15). • In designing a contingency funding plan, a bank should ensure that it takes into account: <ul style="list-style-type: none"> ○ The impact of stressed market conditions on its ability to sell or securities assets. ○ The impact of extensive or complete loss of typically available market funding options. ○ The financial, reputational and any other additional consequences for that bank arising from the execution of the contingency funding plan itself. ○ Its ability to transfer liquid assets having regard to any legal, regulatory or operational constraints. ○ Its ability to raise additional funding from central bank market operations and liquidity facilities (page 22). <p>Testing market access, relationships with wholesale counterparts and funding availability is an established feature of liquidity risk management for Saudi banks.</p> |
| EC6 | <p>The supervisor determines that banks have robust liquidity contingency funding plans to handle liquidity problems. The supervisor determines that the bank's contingency funding plan is formally articulated, adequately documented and sets out the bank's strategy for addressing liquidity shortfalls in a range of stress environments without placing reliance on lender of last resort support. The supervisor also determines that the bank's contingency funding plan establishes clear lines of responsibility, includes clear communication plans (including communication with the supervisor) and is regularly tested and updated to ensure it is operationally robust. The supervisor assesses whether, in the light of the bank's risk profile and systemic importance, the bank's contingency funding plan is feasible and requires the bank to address any deficiencies.</p> |
| Description and findings regarding EC6 | <p>The Internal Liquidity Adequacy Assessment Plan (ILAAP) guidelines issued in 2020 (Section C) requires banks to have a Contingency Funding Plan (CFP). This is reviewed by the SAMA offsite supervisors, discussed at the annual ILAAP meeting with the bank. After the meeting, SAMA may include commentary on the CFP in its feedback letter to the bank.</p> <p>The ILAAP guidelines require that banks ensure the CFP (Section C ii) "meets the following:</p> <ol style="list-style-type: none"> a) Outlines strategies, policies and plans to manage a range of stress; b) Establishes a clear allocation of roles and clear lines of management responsibility; c) Formally documented; d) Includes clear invocation and escalation procedures; e) Regularly tested..." <p>In addition, the stress testing requirements are for banks to submit on a semi-annual basis stress testing documents. These are reviewed by supervisors to ensure compliance with the requirements.</p> <p>SAMA team meets with banks on an annual basis to discuss the ILAAP document and liquidity risk framework including diversification of sources of funds and CFP. The discussion also covers roles and responsibilities of risk committees, systems used, and</p> |

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| | <p>reports raised to top management and the board and escalation process around the contingency funding. The supervisor also ensures that testing is done on a periodic basis and clear communication plans are established. Any deficiencies/weaknesses in CFP that are noted during the visits are communicated to banks in an official letter.</p> <p>This is also examined through an on-site inspection when needed. Relevant SAMA regulations and the Basel guidelines on liquidity risk management are used by the Inspection Division to develop work programs for conducting onsite inspection of the liquidity risk.</p> <p>The assessors reviewed examples of these processes and concluded they worked adequately.</p> |
| EC7 | <p>The supervisor requires banks to include a variety of short-term and protracted bank-specific and market-wide liquidity stress scenarios (individually and in combination), using conservative and regularly reviewed assumptions, into their stress testing programs for risk management purposes. The supervisor determines that the results of the stress tests are used by the bank to adjust its liquidity risk management strategies, policies and positions and to develop effective contingency funding plans.</p> |
| Description and findings regarding EC7 | <p>The <u>ILAAP guidelines</u> of 2020 require banks as part of the stress test under Pillar 1 to:</p> <ul style="list-style-type: none"> • Consider the potential impact of institution-specific, market-wide and combined alternative scenarios. • Do historical scenarios with and without simulation. <p>The <u>Rules on stress testing</u> issued in 2011 require banks to conduct a comprehensive stress testing that covers all material risks faced by the banks on regular basis. They are required to design, develop and implement their own stress testing programs in line with the nature, size and complexity of their businesses and risk profile. In addition, banks should use a range of scenarios for stress testing and the level and severity of scenarios may be varied to identify potential risks and their interactions.</p> <p>Annexure 1 of the ILAAP guidance requires banks to conduct liquidity stress tests at least annually. The Annexure contains examples of stress scenarios to be used. These cover a variety of different types of scenarios (such as name-specific, lack of access to FX markets) over short and longer-term horizons. The Annexure also contains detailed process requirements for liquidity stress tests.</p> <p>SAMA assess the effectiveness of the banks' stress testing programs as part of its supervisory review process and during ILAAP meetings. As needed under the risk-based approach, SAMA also reviews the stress testing frameworks of banks during their on-site examination. The review process will assess banks efforts to embedding the relevant SAMA's requirements into their risk management framework.</p> <p>SAMA meets with banks on an annual basis to discuss the ILAAP document and liquidity risk framework including diversification of sources of funds and CFP as well as stress testing. The discussion also covers the results of stress testing, assumptions applied and how the results are utilized within the bank.</p> |
| EC8 | <p>The supervisor identifies those banks carrying out significant foreign currency liquidity transformation. Where a bank's foreign currency business is significant, or-the bank has significant exposure in a given currency, the supervisor requires the bank to undertake</p> |

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| | separate analysis of its strategy and monitor its liquidity needs separately for each such significant currency. This includes the use of stress testing to determine the appropriateness of mismatches in that currency and, where appropriate, the setting and regular review of limits on the size of its cash flow mismatches for foreign currencies in aggregate and for each significant currency individually. In such cases, the supervisor also monitors the bank's liquidity needs in each significant currency, and evaluates the bank's ability to transfer liquidity from one currency to another across jurisdictions and legal entities. |
| Description and findings regarding EC8 | SAMA require banks to report their LCR by currency where it is more than 5 percent of the total. This is then monitored for compliance with the regulatory minimum. In practice, the US Dollar is the only foreign currency that crosses the 5 percent threshold for any bank. |
| Additional Criteria | |
| AC1 | The supervisor determines that banks' levels of encumbered balance-sheet assets are managed within acceptable limits to mitigate the risks posed by excessive levels of encumbrance in terms of the impact on the banks' cost of funding and the implications for the sustainability of their long-term liquidity position. The supervisor requires banks to commit to adequate disclosure and to set appropriate limits to mitigate identified risks. |
| Description and findings regarding AC1 | SAMA's NSFR circular of September 2014 put forward four metrics for banks and SAMA to monitor, including "available unencumbered assets." While this has some bearing on the risks caused by too much encumbrance, it does not provide a complete answer to the question about banks' levels of encumbrance. The LCR disclosure template (line 9) requires reporting of "secured wholesale funding" on the liability side. In practice encumbrance levels are low. |
| Assessment of Principle 24 | Largely compliant. |
| Comments | SAMA have implemented both the LCR and NSFR requirements in a way that is fully compliant with Basel III. The ILAAP process and stress tests ensure detailed supervisory attention to liquidity risks, including contingency plans. The rules and monitoring apply at the consolidated level. It is recommended that SAMA introduce formal requirements at the solo level and meanwhile start to monitor bank entity-level liquidity (EC1). This is a particular case of the finding in CP8 that solo supervision should be accorded more attention. It is also included as a finding under this CP given the importance of a complete and robust liquidity framework covering a bank's solo position. Encumbrance levels are low in Saudi banks, but as a future-focused initiative, it will be appropriate for SAMA to put in place encumbrance limits and to monitor these via offsite and onsite work (AC1). |
| Principle 25 | Operational risk. The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to |

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| | identify, assess, evaluate, monitor, report and control or mitigate operational risk ⁷¹ on a timely basis. |
| Essential Criteria | |
| EC1 | Law, regulations or the supervisor require banks to have appropriate operational risk management strategies, policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk. The supervisor determines that the bank's strategy, policies and processes are consistent with the bank's risk profile, systemic importance, risk appetite and capital strength, take into account market and macroeconomic conditions, and address all major aspects of operational risk prevalent in the businesses of the bank on a bank-wide basis (including periods when operational risk could increase). |
| Description and findings regarding EC1 | <p>SAMA issued two Circulars devoted explicitly to operational risk management. Circular no. 321000028412 dated November 20, 2011, encouraged Saudi banks to follow and benefit from the Operational Risk Supervisory Guidelines for Advanced Risk and Measurement Approach issued by Basel in June 2011. SAMA circular no. 361000005759 dated November 4, 2014, attached the Basel document of October 2014 covering the Principles for Sound Management of Operational Risk. SAMA stated that this was for information purposes and for banks to use for self-assessment. Although these documents are the basis for operational risk analysis by both banks and SAMA, they do not set any actual requirements.</p> <p>Whilst those are the only Circulars covering Operational Risk Management holistically, SAMA has issued Circulars covering important aspects of operational risk (such as Cyber Risk, Business Continuity Management, Shariah risk, and IT Governance)—these are discussed in more detail in the respective ECs.</p> <p>The Key Principles of Governance in Financial Institutions set general requirements, that are not specific to operational risk. Para 37 states bank Boards should: "Develop and monitor the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the financial institution's activities, and review same on an annual basis, taking into account to link the level of risks that the financial institution desires to bear in a specific period of time with its strategy and capital plan."</p> <p>As part of the Supervisory Review Visit and consideration of the ICAAP, SAMA reviews the operational risk management framework and whether it is consistent with the bank's strategy and market conditions. The ICAAP guidance document of 2008 is light on operational risk. The relevant part notes the need to capture "additional operational risks" (over those captured by Pillar 1). Nonetheless, the assessors' review of banks' ICAAP documents demonstrate a thorough approach to capturing operational risk and assigning Pillar 2 capital to risks that have not been fully captured in Pillar 1.</p> <p>SAMA updated the Minimum Capital Requirements for Operational Risk in December 2022. The requirements apply to all domestic banks both on a consolidated basis, which</p> |

⁷¹ The Committee has defined operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

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| | <p>include all branches and subsidiaries, and on a standalone basis. The requirements determine broad methodologies for calculating Operational Risk Capital Charge. SAMA assesses operational risk in the banks with KRIs and related controls on a quarterly basis. There are 14 of the 115 KRIs that relate to operational risk.</p> <p>SAMA have completed 6 targeted onsite inspections on operational risk in the last three years. They assess the overall risk management and control framework, bank-wide policies and processes, and compliance with risk management requirements. They have also undertaken targeted inspections around cyber and fraud risks (see later ECs).</p> |
| EC2 | <p>The supervisor requires banks' strategies, policies and processes for the management of operational risk (including the banks' risk appetite for operational risk) to be approved and regularly reviewed by the banks' Boards. The supervisor also requires that the Board oversees management in ensuring that these policies and processes are implemented effectively.</p> |
| Description and findings regarding EC2 | <p>At a high level, SAMA's Key Principles of Governance in Financial Institutions issued in June 2021, Principle 3, section 37, stipulates that Banks' boards shall develop and monitor the implementation of a comprehensive risk management strategy and policies in proportion to the nature and size of the bank's activities, and review this strategy on an annual basis, linking the level of risks that the bank desires to bear in a specific period of time with its strategy and capital plan.</p> <p>Specific reference to operational risk management sits in the Principles of Sound Management of Operational Risk. As noted above, these do not appear to carry the legal force of a regulation—they were explicitly stated to be "for information purposes" in the covering SAMA Circular.</p> <p>That said, the two sets of principles are comprehensive in their coverage of the matters to be considered under this EC. They state that the banks' strategies, policies, and processes for the management of operational risk (including the banks' risk appetite for operational risk) should be approved by the Board of Directors. Further, these policies and related procedures should be reviewed at least every three years by the banks' Boards. Also, under the Principles, the bank's management is responsible to ensure that the operational risk management policies and related procedures are implemented, and the Board is updated regarding the compliance of operational risk management policies and related procedures on a periodical basis. Further, the Risk Management Committee of the Board should establish a framework for effective oversight and to ensure compliance of the policies and related procedures approved by the Board.</p> |
| EC3 | <p>The supervisor determines that the approved strategy and significant policies and processes for the management of operational risk are implemented effectively by management and fully integrated into the bank's overall risk management process.</p> |
| Description and findings regarding EC3 | <p>On an annual basis, banks are required to submit their ICAAP document in line with the SAMA Guidelines on the Internal Capital Adequacy Assessment Plan (ICAAP) issued 2008, The ICAAP contains qualitative and quantitative information around management of operational risk, including the description of the systems, processes, and methodology to measure and manage all risks. Following that the supervisors conduct ICAAP discussion sessions and during the sessions, they cover these aspects.</p> |

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| | <p>As per the Risk Based Supervision (RBS) Framework, on an annual basis supervisors assess banks' risk rating including the operational risk based on a set of KRIs. Supervisors also receive self-assessed Control Assessment Questionnaires completed by Banks on an annual basis (rated qualitatively through a set of questions for each control). Supervisors use these to assess three types of controls:</p> <ul style="list-style-type: none"> • Governance and risk appetite. • Risk management and internal controls. • Internal audit. <p>Assessors reviewed a sample of files and noted that during the onsite inspection of banks' operational risk management framework, the inspection teams assess the bank's adherence to the approved strategies and policies on operational risk, and their integration into the overall risk management process. These areas are included in the inspection work programs on operational risk.</p> |
| EC4 | <p>The supervisor reviews the quality and comprehensiveness of the bank's disaster recovery and business continuity plans to assess their feasibility in scenarios of severe business disruption which might plausibly affect the bank. In so doing, the supervisor determines that the bank is able to operate as a going concern and minimize losses, including those that may arise from disturbances to payment and settlement systems, in the event of severe business disruption.</p> |
| Description and findings regarding EC4 | <p>SAMA's Business Continuity Management (BCM) framework (https://www.sama.gov.sa/en-US/Laws/BankingRules/BCM%20framework.pdf), issued in February 2017, requires banks to define, approve and implement a Business Continuity Plan (BCP) for their critical activities based on the business impact analysis outcome to ensure that the banks continues to operate as a going concern and minimize losses. Banks are required to report compliance against the mandatory controls in SAMA's BCM framework. This self-assessment serves as a checkpoint, augmented by the validation conducted by the banks' Internal Audit teams. The results are assessed by SAMA as part of the offsite and onsite inspections.</p> <p>The BCM framework is a thorough document in that it covers the governance required and the processes to be followed by banks. It requires banks to identify the key risks they face, and requires banks to set a Recovery Time Objective for Payment Systems (Section 2.4.9).</p> <p>It allows the Board of Directors to delegate responsibility to a member of the executive team: "Board of directors or a delegated executive member should have the ultimate responsibility for the BCM program" (para 2.1.1).</p> <p>The assessors note that delegation is not appropriate, especially for such a critical area: Boards can delegate work, but not responsibility.</p> <p>As part of their onsite inspections, SAMA performs reviews of the disaster recovery plans established by the banks in line with BCM framework. These cover the ability of the bank to operate as a going concern with minimal losses.</p> <p>SAMA has required banks to conduct Disaster Recovery (DR) live testing and test the capability to operate its critical and mission critical banking systems (including payment and settlement systems) from DR site without relying on main data center resources in</p> |

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| | the event of disaster. SAMA has also required banks to operate from the DR site during business days. |
| EC5 | The supervisor determines that banks have established appropriate information technology policies and processes to identify, assess, monitor and manage technology risks. The supervisor also determines that banks have appropriate and sound information technology infrastructure to meet their current and projected business requirements (under normal circumstances and in periods of stress), which ensures data and system integrity, security and availability and supports integrated and comprehensive risk management. |
| Description and findings regarding EC5 | <p>SAMA has issued two regulatory frameworks to address cyber and technology risk management:</p> <ul style="list-style-type: none"> • Cyber Security framework: Chapter 3.1 (https://www.sama.gov.sa/en-US/RulesInstructions/CyberSecurity/Cyber%20Security%20Framework.pdf). • IT Governance framework: Chapter 3.1.4 (https://www.sama.gov.sa/en-US/RulesInstructions/CyberSecurity/SAMA-IT Governance Framework.pdf). • BCM framework: Chapter 2.3 (https://www.sama.gov.sa/en-US/Laws/BankingRules/BCM%20framework.pdf). <p>The referenced sections in these documents require banks to establish governance arrangements for managing cyber and IT risk and to have in place appropriate policies and procedures to address cyber, business continuity and technology risks.</p> <p>Overall, these frameworks establish mandatory baseline requirements including IT and Cyber Risk Management requirements for banks to mitigate cyber, IT, business continuity risks and maintain data and system integrity, security and availability of the banks' infrastructure and supports integrated and comprehensive risk management for the banks' information assets. In accordance with these requirements, banks are required to report their maturity (as indicated in Cyber Security and IT Governance Frameworks) against the mandatory controls to SAMA on a quarterly basis. Supervisors see this self-assessment as a significant checkpoint, with validation by the banks' Internal Audit teams. The results are assessed by SAMA against the Cyber Risk Management Governance Framework—Compliance and Supervision process.</p> <p>SAMA also conducts onsite inspections, assessing the overall risk governance and the controls against criteria in the policies.</p> <p>The SAMA publication Financial Entities Ethical Red-Teaming Framework (https://www.sama.gov.sa/en-US/RulesInstructions/CyberSecurity/Financial%20Entities%20Ethical%20Red%20teaming%20Framework.pdf) enables SAMA, in coordination with banks, to perform red-teaming activities. These activities involve testing the detection and response capabilities of banks against real and sophisticated cyber-attacks. Through this framework, the aim is to improve the overall resilience and preparedness of the banks in the face of evolving cyber threats. Likewise, SAMA also created Cyber Threat Intelligence (CTI) Principles (https://www.sama.gov.sa/en-US/RulesInstructions/CyberSecurity/Financial%20Sector%20Cyber%20Threat%20Intelligence%20Principles%20V1.0.pdf) with the aim of scaling up the CTI practices within the financial sector regulated by SAMA.</p> |

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| | <p>Please refer to EC4 for requirements on the banks in respect of operational readiness and business continuity plans. Banks are required to comply with SAMA's Business Continuity Management framework to ensure continuity of their operations and services in the period of stress and disruptions.</p> <p>The regulatory frameworks, coupled with the advance technical testing requirements along with more than 30 onsite inspections for the period from July 2022–June 2023, covering Information Technology, Cyber Security, and Business Continuity risks add up to a framework that allows the supervisor to determine the adequacy of banks' IT risk management framework.</p> |
| EC6 | <p>The supervisor determines that banks have appropriate and effective information systems to:</p> <ul style="list-style-type: none"> (a) monitor operational risk; (b) compile and analyze operational risk data; and (c) facilitate appropriate reporting mechanisms at the banks' Boards, senior management and business line levels that support proactive management of operational risk. |
| Description and findings regarding EC6 | <p>SAMA uses both off-site and on-site activities to evaluate the banks' adherence to relevant regulations. This evaluation encompasses an assessment of the mechanisms in place, including risk registers, systems, tools, and other components, used for monitoring, analyzing, and reporting operational risks.</p> <p>Off-site monitoring tools comprise the prudential returns, which provide 15 KRIs to monitor operational risk, the Self-Assessment Control Questionnaire, which requires banks to assess their compliance with various operational risk management processes, and the ICAAP review. The ICAAP document contains detailed information from the banks about their operational risk profile and operational risk metrics. Together these tools enable supervisors to build a picture of operational risk management systems and the reporting framework in place.</p> <p>SAMA have completed 6 targeted onsite inspections on operational risk in the last three years. They assess the overall risk management and control framework, bank-wide policies and processes, and compliance with risk management requirements. They have also undertaken over 30 targeted inspections around cyber and fraud risks. These inspections include a review of the information systems and reporting framework for the relevant risks, including banks' usage of the data and its timeliness.</p> <p>The assessors consider this to be an adequate coverage of information systems for both operational risk generally and cyber/fraud risk specifically.</p> |
| EC7 | <p>The supervisor requires that banks have appropriate reporting mechanisms to keep the supervisor apprised of developments affecting operational risk at banks in their jurisdictions.</p> |
| Description and findings regarding EC7 | <p>The individual documents relating to cyber risk and business continuity management require that banks report to SAMA developments affecting those risks. See for example Section 3.3.15.7 of the Cyber Security and Section 3.3.8 of the IT Governance Framework.</p> |

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| | There is no specific requirement in respect of operational risk generally, but banks are required to report any significant developments to SAMA promptly. |
| EC8 | <p>The supervisor determines that banks have established appropriate policies and processes to assess, manage and monitor outsourced activities. The outsourcing risk management program covers:</p> <ul style="list-style-type: none"> (a) conducting appropriate due diligence for selecting potential service providers; (b) structuring the outsourcing arrangement; (c) managing and monitoring the risks associated with the outsourcing arrangement; (d) ensuring an effective control environment; and (e) establishing viable contingency planning. <p>Outsourcing policies and processes require the bank to have comprehensive contracts and/or service level agreements with a clear allocation of responsibilities between the outsourcing provider and the bank.</p> |
| Description and findings regarding EC8 | <p>SAMA's Rules on Outsourcing, issued under circular no. 410270170000 dated December 15, 2019, set out requirements for banks that have entered or are planning to enter into outsourcing activities. According to these Rules, banks are explicitly required to obtain a written "no objection" from SAMA for Material outsourcing to Third Party Service Providers (para 10).</p> <p>The rules are applicable to all outsourcing arrangements with domestic as well as foreign third parties and related parties. Under these Rules, banks are required to develop and implement appropriate policies within the proper risk management framework for outsourcing arrangements' This includes setting out the bank's approach to outsourcing of material business activities, including a detailed framework for managing all outsourcing arrangements.</p> <p>Para 16 of the rules lays down requirements that the Bank must adhere to when assessing outsourcing options. These include that the bank must:</p> <ul style="list-style-type: none"> • Prepare and analyze a business case for outsourcing the Material business function or activity. • Analyze the impact of the outsourcing on the overall risk profile and its impact on systems and controls within the bank. • Undertake a tender or other selection process for third-party service providers. • Undertake a due diligence review of the chosen third-party service providers, and its financial, technical and ethical capabilities. • Consider the risk arising from outsourcing multiple activities to the same third-party service provider. • Involve the Board or its delegated authority or a Board committee, in approving the agreement. • Put in place a comprehensive outsourcing agreement. • Establish procedures for monitoring performance under the outsourcing agreement on a continuing basis. |

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| | <ul style="list-style-type: none"> • Develop contingency plans that would enable the outsourced business function or activity to be provided by an alternative third party service provider or brought in-house, if required. <p>Banks should document all their outsourcing arrangements through a written and legally binding agreement (para 18). The contracts, at a minimum, should include, but are not limited to, the scope of the contract, the regulatory status (legal entity and registered) of the third party service provider, service levels and performance requirements, audit and monitoring procedures and business continuity plans.</p> <p>Further, a separate set of Outsourcing Guidelines for branches of foreign banks operating in the Kingdom have been issued to address the risks related to outsourcing in FBBs. These guidelines also requires that the outsourcing risk management program cover:</p> <ul style="list-style-type: none"> • Conducting appropriate due diligence for selecting potential service providers. • Structuring the outsourcing arrangement. • Managing and monitoring the risks associated with the outsourcing arrangement. • Ensuring an effective control environment. • Establishing viable contingency planning. <p>SAMA conducts annual Supervisory Review Visits (SRV) for all banks (foreign and local banks) meeting banks' senior management, covering high-level topics including, but not limited to, the banks' strategy, organizational structure, risk management framework, business forecasts, etc. where outsourcing risk and its control framework may be discussed.</p> <p>The Banking Supervision and IT Supervision departments conduct onsite supervisory visits to the banks. A key part of these visits is to verify all aspects of compliance with the outsourcing policy. They have conducted six such visits over the last four years.</p> |
| Additional Criteria | |
| AC1 | The supervisor regularly identifies any common points of exposure to operational risk or potential vulnerability (e.g., outsourcing of key operations by many banks to a common service provider or disruption to outsourcing providers of payment and settlement activities). |
| Description and findings regarding AC1 | As part of supervisory activity SAMA performs periodic exercise to understand the current state of the banking sector through collecting responses from the banks with a focus on the identification of common service providers providing critical services such as outsource of security operations center. Additionally, in line with SAMA's rules on outsourcing, banks are required to perform assessment of outsourcing options where the bank must be able to demonstrate to SAMA that, in assessing the options for outsourcing a material business function or activity to a third party, it has considered the risk arising from outsourcing multiple activities to the same third-party service provider. The department in SAMA responsible for fraud and cyber risk monitoring proactively collates information around emerging risks and runs training sessions for bank staff to alert them to emerging issues and typologies. |
| Assessment of Principle 25 | Compliant. |

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| Comments | <p>SAMA has in place comprehensive and useful policies around key areas of operational risk, such as cyber, IT governance, fraud prevention, and outsourcing.</p> <p>Their review of all aspects of operational risk management, via offsite and onsite analysis and verification, appears effective.</p> <p>The absence of a holistic, enforceable regulation around operational risk management is a gap. The only such documents date back to 2014 and earlier and are explicit in being “for information purposes.” This gap is largely filled and essentially mitigated by the existence of policies relating to individual operational risks (as noted above); and the supervisory efforts also cover all material areas of outsourcing risk management. But an overarching enforceable operational risk management regulation would ensure complete coverage (EC1).</p> <p>It is also recommended that Boards not be allowed to delegate responsibility for aspects of risk management such as BCM (EC4).</p> |
| Principle 26 | <p>Internal control and audit. The supervisor determines that banks have adequate internal control frameworks to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank’s assets; and appropriate independent⁷² internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.</p> |
| Essential Criteria | |
| EC1 | <p>Laws, regulations or the supervisor require banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business, taking into account their risk profile. These controls are the responsibility of the bank’s Board and/or senior management and deal with organizational structure, accounting policies and processes, checks and balances, and the safeguarding of assets and investments (including measures for the prevention and early detection and reporting of misuse such as fraud, embezzlement, unauthorized trading and computer intrusion). More specifically, these controls address:</p> <ul style="list-style-type: none"> (a) organizational structure: definitions of duties and responsibilities, including clear delegation of authority (e.g., clear loan approval limits), decision-making policies and processes, separation of critical functions (e.g., business origination, payments, reconciliation, risk management, accounting, audit and compliance); (b) accounting policies and processes: reconciliation of accounts, control lists, information for management; (c) checks and balances (or “four eyes principle”): segregation of duties, cross-checking, dual control of assets, double signatures; and |

⁷² In assessing independence, supervisors give due regard to the control systems designed to avoid conflicts of interest in the performance measurement of staff in the compliance, control and internal audit functions. For example, the remuneration of such staff should be determined independently of the business lines that they oversee.

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| | (d) safeguarding assets and investments: including physical control and computer access. |
| Description and findings regarding EC1 | <p>SAMA requires banks to have internal control frameworks that are adequate to establish a properly controlled operating environment for the conduct of their business. The relevant regulations are:</p> <ul style="list-style-type: none"> • Key Principles in Financial Institutions under the Control and Supervision of the Saudi Central Bank, June 2021. These principles aim to set the minimum requirements for the effective management of financial institutions, direct their financial and non-financial resources towards achieving their strategic objectives, maintain their stability, and preserve the rights of stakeholders. It states the responsibility of the Board and Executive Management, and requires “an internal audit department, and a compliance department, as well as internal control systems” (Section 2b). The responsibilities of the Board include to: “Ensure the existence and development of effective units for compliance, internal auditing and risk management, make sure that such departments are independent from business departments, ensure the availability of the adequate powers and resources therein, and train their staff and develop their capabilities in the field” (para 36). • Principles of Internal Auditing for Local Banks Operating in Saudi Arabia, January 2021. The general purpose of these principles is to set the minimum requirements for the Internal Audit Committee to perform its activities efficiently and optimally under a unified, broad, and solid framework as a tool to enhance self-control, to lay the foundations for the performance of internal audit, and to improve the operations and business of the bank. Taking into account that the methods by which these principles are implemented depend on many factors, including the size of the bank and the nature of the complexity of the business carried out by it. These principles are also aimed at protecting the bank’s assets and constantly ensuring the safety, adequacy, and effectiveness of operations. • Code of Conduct and Work Ethics in Financial Institutions, August 2019. These principals aim to promote ethical principles that will help achieving the vision and mission of banks, protecting its reputation, ensuring staff compliance with the principles of prudent behavior, achieving the concept of good governance, enhancing staff performance and professional behavior, dealing with good and poor performance of employees, and improving the image of banks in general. • The Internal Controls Guidance issued in 2011. The Control Principles in Section 2 set requirements for a wide range of internal control areas, including segregation of duties, custodial and security arrangements, and reconciliation of accounts. <p>These regulations are written at a high level and are principles-based and between them address all the specific areas in this EC.</p> |
| EC2 | The supervisor determines that there is an appropriate balance in the skills and resources of the back office, control functions and operational management relative to the business origination units. The supervisor also determines that the staff of the back office and control functions have sufficient expertise and authority within the organization (and, |

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| | where appropriate, in the case of control functions, sufficient access to the bank's Board) to be an effective check and balance to the business origination units. |
| Description and findings regarding EC2 | <p>SAMA's Key Principles of Governance in Financial Institution requires banks to "Ensure the existence and development of effective units for compliance, internal auditing and risk management, make sure that such departments are independent from business departments, ensure the availability of the adequate powers and resources therein, and train their staff and develop their capabilities in the field."</p> <p>SAMA assesses whether banks' back office and control functions are adequately staffed and effectively performing through its supervisory review visits, regular meetings, and on-site visits).</p> <p>Supervisors hold meetings with the banks' back office and control functions throughout the year (risk management department, head of operations, compliance department, internal audit department, etc.) to discuss different topics. These may include organizational structure, vacant positions, business plan, challenges, and any noted observations. These meetings, together with information analyzed from the banks' annual Control Questionnaire self-assessments, feed into the risk-based analysis of the bank. The frequency of supervisors' meetings with these functions varies based on the size and nature of the bank as well as the risk profile.</p> <p>On-site inspection teams review compliance with SAMA's requirements and the bank's compliance with their own internal policies and procedures. The assessors noted that the inspection files examined did include checking that processes were followed to ensure reports from internal audit, compliance and other internal control functions were tabled at Board and Board Committee level.</p> |
| EC3 | The supervisor determines that banks have an adequately staffed, permanent and independent compliance function ⁷³ that assists senior management in managing effectively the compliance risks faced by the bank. The supervisor determines that staff within the compliance function is suitably trained, have relevant experience and have sufficient authority within the bank to perform their role effectively. The supervisor determines that the bank's Board exercises oversight of the management of the compliance function. |
| Description and findings regarding EC3 | <p>SAMA issued Principles of Compliance in banks in September 2020. Under these principles, the Board of Directors has the responsibility for the overall compliance policy. Senior management is required to implement the policy and to create a compliance function. The unit shall be independent of the business, and headed by a senior executive who reports to the CEO or equivalent.</p> <p>Specifically, Principle 4 of the Principles of Compliance indicates that, as a basic requirement of compliance, senior management in local banks must, in accordance with the compliance policy approved by the Board, establish, support, and develop an independent, permanent and effective compliance unit that undertakes the</p> |

⁷³ The term "compliance function" does not necessarily denote an organizational unit. Compliance staff may reside in operating business units or local subsidiaries and report up to operating business line management or local management, provided such staff also have a reporting line through to the head of compliance who should be independent from business lines.

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| | <p>implementation of compliance tasks and has sufficient powers and responsibilities to follow up on compliance.</p> <p>SAMA determines the quality of the compliance function during onsite inspections of banks. The inspection teams have conducted targeted inspections of compliance functions, on a risk-based approach. As part of these reviews, they assess compliance with SAMA's regulations, the adequacy of resources and organizational structure of the compliance function, training imparted to the compliance staff, independence of the compliance function. They verify that the Board's oversight on the compliance related activities is in accordance with SAMA rules and the Bank's internal policies. Offsite supervisors also assess the adequacy of staffing and independence of compliance function through their regular meetings with the compliance function and the annual risk assessment and supervisory review visit.</p> |
| EC4 | <p>The supervisor determines that banks have an independent, permanent and effective internal audit function⁷⁴ charged with:</p> <p>(a) assessing whether existing policies, processes and internal controls (including risk management, compliance and corporate governance processes) are effective, appropriate and remain sufficient for the bank's business; and</p> <p>(b) ensuring that policies and processes are complied with.</p> |
| Description and findings regarding EC4 | <p>SAMA issued the Circular "Principles of Internal Auditing for operating local banks in KSA" in December 2021. Principle 4 "Independency and objectivity", para 11, states that the internal audit unit must be administratively independent from all business units that are subject to internal audit review, and independent from the first and second lines of defense. It is required to have sufficient organizational status within the bank's units to enable it to perform its tasks objectively. The head of the unit and its employees must not assume or be assigned any other tasks in the bank that might conflict with their core roles (internal audit activities and reviewing and evaluating the effectiveness and efficiency of the internal control system).</p> <p>The Internal Auditor attends the annual Supervisory Review Visits (SRV) that supervisors hold with banks. On occasion, a separate session is held with the internal auditor. Issues discussed may include reporting lines, training, the audit plan, adequacy of staff, and any issues related to banks' compliance with internal policies and procedures.</p> <p>In addition, throughout the year, SAMA conducts regular meetings with banks' internal auditors. The frequency varies depending on the size and nature of the bank as well as the risk profile.</p> <p>Also, the qualitative part of the assessment, using the Control Assessment Questionnaire, which is submitted on an annual basis by the banks, reviews banks' controls and management oversight functions over multiple risks, including the internal audit function. Based on the answers to the questionnaire and the supervisory team's view through</p> |

⁷⁴ The term "internal audit function" does not necessarily denote an organizational unit. Some countries allow small banks to implement a system of independent reviews, e.g., conducted by external experts, of key internal controls as an alternative.

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| | <p>continuous monitoring, a control rating is assigned to the internal audit function within the banks' risk profiles.</p> <p>Finally, the role, independence and effectiveness of internal audit functions may be assessed during the onsite inspections. SAMA has reviewed the internal audit function in seven banks in the last four years. The inspectors check compliance with SAMA's requirements and the bank's own policies. This entails reviewing the Audit Charter, reporting lines, minutes of the Board Audit Committee meetings, audit coverage, status of the rectification of the audit findings, adherence to the audit plans, adequacy of resources and expertise, etc.</p> <p>Supervisors do not routinely meet with the Head of the Audit Committee, either as part of onsite work or through supervisory meetings. It is recommended that they do so, to test the tone from the top, to assess that the Chair is across the role, and to provide an opportunity for a frank discussion about the audit function and controls in the bank.</p> |
| EC5 | <p>The supervisor determines that the internal audit function:</p> <ol style="list-style-type: none"> (a) has sufficient resources, and staff that are suitably trained and have relevant experience to understand and evaluate the business they are auditing; (b) has appropriate independence with reporting lines to the bank's Board or to an audit committee of the Board, and has status within the bank to ensure that senior management reacts to and acts upon its recommendations; (c) is kept informed in a timely manner of any material changes made to the bank's risk management strategy, policies or processes; (d) has full access to and communication with any member of staff as well as full access to records, files or data of the bank and its affiliates, whenever relevant to the performance of its duties; (e) employs a methodology that identifies the material risks run by the bank; (f) prepares an audit plan, which is reviewed regularly, based on its own risk assessment and allocates its resources accordingly; and (g) has the authority to assess any outsourced functions. |
| Description and findings regarding EC5 | <p>Supervisors use the Principles of Internal Auditing for Local Banks Operating in Saudi Arabia to assess the strength and soundness of banks' internal audit functions:</p> <ul style="list-style-type: none"> • Paragraphs 33-1) There is a specific requirement for the head of internal audit to have sufficient experience and leadership skills. • Paragraphs 30+31) The internal audit department must submit the audit reports it carries out to the audit committee and to the CEO. The internal auditor must report to the Audit Committee. The internal audit must notify the executive management of all the important findings it makes regarding implementation of an appropriate and effective internal control system and procedures; so that executive management can take corrective measures in a timely and appropriate manner. The internal audit must follow up the results of those corrective measures with executive management. |

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| | <p>Paragraphs 25-5+ 25-7+25-8) These identify the essential requirements for the internal audit policy, which include:</p> <ul style="list-style-type: none"> • The right to communicate with any staff member directly and examine the activities of any unit in the bank or its affiliated entity. • The right to acquire copies of records and documents that support internal audit work and activities. • The right to perform its role and fulfill its responsibilities by reviewing all activities of the Bank's units and affiliated entities, both internally and externally. <p>Paragraph 45) defines risk assessment methodology.</p> <p>Paragraph 46) The Head of Internal Audit is responsible for developing the annual internal audit plan and timetables for its implementation and it's approved by the Audit Committee. When developing the plan, the plan must be based on a risk assessment.</p> <p>Paragraph 62) The internal audit assessment covers all of the bank's units, including operations, products, services, and any outsourced functions.</p> <p>SAMA has conducted targeted reviews of the internal audit function in seven banks in the last four years. The inspectors check compliance with SAMA's requirements and the bank's own policies. This entails reviewing the Audit Charter, reporting lines, minutes of the Board Audit Committee meetings, audit coverage, status of the rectification of the audit findings, adherence to the audit plans, adequacy of resources and expertise, etc.</p> |
| Assessment of Principle 26 | Compliant. |
| Comments | <p>SAMA has issued comprehensive requirements for the internal audit function. These require the function to operate in a manner that in substance meets the criteria (such as independence, adequate resourcing) in this CP.</p> <p>The Key Principles for Corporate Governance and the Guidelines on Internal Controls set requirements for internal control functions.</p> <p>Supervisory monitoring and onsite inspections enable supervisors to assess banks' compliance with these requirements in practice.</p> <p>It is recommended that regular meetings are set up with the Chair of the Audit Committee to enable an open dialogue and to test the tone from the top of the audit function (EC4).</p> |
| Principle 27 | <p>Financial reporting and external audit. The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.</p> |
| Essential Criteria | |

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| EC1 | The supervisor ⁷⁵ holds the bank's Board and management responsible for ensuring that financial statements are prepared in accordance with accounting policies and practices that are widely accepted internationally and that these are supported by recordkeeping systems in order to produce adequate and reliable data. |
| Description and findings regarding EC1 | <p>The Banking Control Law Article (14) requires banks to appoint auditors registered with the Ministry of Commerce. Auditors in Saudi Arabia follow the standards and regulation issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA) which is chaired by the Minister of Commerce. This agency is a professional body promulgating and overseeing the accounting and auditing profession in the Kingdom of Saudi Arabia. SOCPA regulates the accounting and auditing profession and issues compulsory standards.</p> <p>Bank financial statements, under the auspices of SOCPA's standards, are fully compliant with IFRS and IAS international standards.</p> <p>The Companies Law issued by Royal Decree No. M/132, on June 30, 2022, states in Article 16 that a company shall maintain accounting records and supporting documents relating to its activities, contracts, and financial statements at the company's headquarters or at any other location designated by the company's manager or board of directors.</p> <p>SAMA's Key Principles of Governance in Financial Institutions issued in 2021 requires the establishment of an Audit Committee which, inter alia, should be responsible for the production of the audited accounts, the appointment of external auditors and for the availability of internal control systems.</p> |
| EC2 | The supervisor holds the bank's Board and management responsible for ensuring that the financial statements issued annually to the public bear an independent external auditor's opinion as a result of an audit conducted in accordance with internationally accepted auditing practices and standards. |
| Description and findings regarding EC2 | <p>SAMA's Key Principles of Governance in Financial Institutions issued in 2021 requires the establishment of an Audit Committee which, inter alia, should be responsible for the production of the audited accounts. SOCPA is responsible for the issuance of auditing standards, and these are in accordance with internationally accepted practices and standards.</p> <p>The Capital Markets Authority also imposes obligations on listed firms to have an independent external audit, compliant with SOCPA's standards.</p> |
| EC3 | The supervisor determines that banks use valuation practices consistent with accounting standards widely accepted internationally. The supervisor also determines that the framework, structure and processes for fair value estimation are subject to independent verification and validation, and that banks document any significant differences between the valuations used for financial reporting purposes and for regulatory purposes. |
| Description and findings regarding EC3 | Saudi Arabia uses accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA) which are fully compliant with IFRS. |

⁷⁵ In this Essential Criterion, the supervisor is not necessarily limited to the banking supervisor. The responsibility for ensuring that financial statements are prepared in accordance with accounting policies and practices may also be vested with securities and market supervisors.

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| | <p>SAMA has the power to require banks to publish data and information in addition to those required under IAS and IFRS. For example, disclosure of Statutory reserve, Tier 1 Sukuk, etc. Differences must be disclosed within the Basel III disclosure templates (Circular of December 2022). There are disclosures which are directed by SAMA in addition to those required by IASs and IFRSs, however, there are no instances where SAMA's requirements override the accounting standards.</p> |
| EC4 | <p>Laws or regulations set, or the supervisor has the power to establish the scope of external audits of banks and the standards to be followed in performing such audits. These require the use of a risk and materiality based approach in planning and performing the external audit.</p> |
| Description and findings regarding EC4 | <p>The Companies Act determines the scope of external audits. SOCPA is the body that issues accounting standards.</p> <p>The Banking Control Law dated 11/06/1966. Article (18) states that "SAMA may, upon the approval of the Minister of Finance and National Economy, inspect the records and accounts of any bank, whether by its own staff or by auditors it assigns. Such records and accounts shall be examined on site, and the bank's staff shall make accessible to the inspectors the required records, accounts, and other documents in their possession or under their control, as well as provide them with any bank-related information they are aware of." Under this provision of the law, SAMA concludes it has the power to set the scope of the external audits of banks and audit performing standards as needed. Because the law is not explicit in this regard, there would be merit in putting this beyond doubt. Article 14 of the BCL requires every bank annually to appoint two auditors from amongst the approved list of auditors registered with the Ministry of Commerce. If SAMA deems it appropriate to set the working scope of the auditors, SAMA could use provisions in the Charter which SAMA believes gives it all necessary powers to achieve its objectives. As KSA audit requirements are based closely on international standards, they include the use of a risk and materiality-based approach.</p> |
| EC5 | <p>Supervisory guidelines or local auditing standards determine that audits cover areas such as the loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, asset securitizations, consolidation of and other involvement with off-balance sheet vehicles and the adequacy of internal controls over financial reporting.</p> |
| Description and findings regarding EC5 | <p>External auditors adopt The International Standards on Auditing (ISA) which are endorsed by SOCPA. Loan portfolio, loan loss provisions, non-performing assets, asset valuations, trading and other securities activities, derivatives, securitizations, consolidation of and other involvement with off-balance sheet vehicles are all covered.</p> <p>The standards also require auditors to assess the adequacy of internal controls over financial reporting.</p> <p>SAMA issued The Rules and guidance for banks in Saudi Arabia to organize their audit committee (1996). Page 34 states that, as part the audit plans submitted by the external auditors prior to the commencement of the external audit should touch on major problems anticipated by the external auditors, in relation to accounting treatment, valuation of loans and investments, derivatives such as options, swaps, futures, forward</p> |

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| | transactions, etc. It also emphasizes the importance of assessing the organizational controls, internal accounting controls, management control systems such as limit structure, risk quantification methods related to credit risk, market risk, credit and investment policies, etc. |
| EC6 | The supervisor has the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards. |
| Description and findings regarding EC6 | <p>The Rules and guidance for banks in Saudi Arabia to organize their audit committee require banks to consult SAMA before appointing an auditor, and in the case of foreign subsidiaries, also to consult other appropriate regulatory authorities. This applies prior to selection, appointment, and termination of external auditors.</p> <p>The Saudi Central Bank Law Article 4 gives SAMA the necessary powers, including issuing regulations and directives related to banks and their operations, to achieve its objectives. This is a broad “catch-all” provision that SAMA believes can be used to rescind an auditor’s appointment. For a fuller analysis, see the discussion under CP1, EC3, which concludes that Article 4 is not explicit in providing SAMA with a range of necessary powers. That CP carries a recommendation to make these powers more explicit.</p> |
| EC7 | The supervisor determines that banks rotate their external auditors (either the firm or individuals within the firm) from time to time. |
| Description and findings regarding EC7 | The Rules and guidance for banks in Saudi Arabia to organize their audit committee require that the engagement partners of the external audit firms are rotated every three years. |
| EC8 | The supervisor meets periodically with external audit firms to discuss issues of common interest relating to bank operations. |
| Description and findings regarding EC8 | <p>SAMA meets with external auditors as a group on a quarterly basis.</p> <p>The agenda usually includes the following:</p> <ul style="list-style-type: none"> • Any regulatory or other updates for banking sector. • Disclosures. • Credit update. • Investments held by Banks. • Banking Control Law. • Any other emerging business. <p>The Law (Banking Control Law Article 14) requires banks to appoint two audit firms. They do the work, and sign off the accounts, jointly. This provision does not appear to cause any issues with quality of the audits. There are enough qualified and competent auditors in the major accounting firms in the region to fulfil this criterion, even with the three-year rotation rule.</p> |
| EC9 | The supervisor requires the external auditor, directly or through the bank, to report to the supervisor matters of material significance, for example failure to comply with the licensing criteria or breaches of banking or other laws, significant deficiencies and control weaknesses in the bank’s financial reporting process or other matters that they believe are likely to be of material significance to the functions of the supervisor. Laws or |

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| | regulations provide that auditors who make any such reports in good faith cannot be held liable for breach of a duty of confidentiality. |
| Description and findings regarding EC9 | <p>Circular no. 311000026897 dated 18/12/1431AH (November 2010) requires banks to include in their contracts with external auditors a provision that includes the commitment of the external auditor to coordinate directly with SAMA as the supervisory and regulatory authority for banks, and to provide SAMA with any information about the audited banks, any breaches or non-compliance with regulations, or any relevant regulatory observations. The circular also states the external auditor will be responsible if they failed to be transparent and did not disclose any important information to SAMA. The Law of the Profession of Accounting and Auditing, issued by Royal Decree No. M/59 dated on 3/11/2021, states in Article 8 that the accountant is prohibited from disclosing any information related to his/her clients, in this case banks, which he/she became aware of because of his/her job except with express consent of the client or upon request from relevant authority. The contractual obligation between the bank and the external auditor which includes the points mentioned in the above paragraph is considered as a consent, which means the auditor will not be held liable when disclosing information. Supervisors conduct quarterly meetings with external auditors as a group to discuss issues related to banks including inquiring them about the banks and discussing significant matters and issues that external auditors observed during the review process to ensure the soundness of the banking sector.</p> <p>It is recommended that the requirement for auditors to report issues directly to SAMA is tightened and clarified. The current framing—by way of a circular to banks that cannot of itself place obligations on auditors—and a contract between banks and their auditor, is an indirect mechanism. This could initially be done by SAMA communicating expectations on the audit profession, and subsequently through legislative change. There are no regular bilateral meetings between supervisors and bank auditors. Establishing these would help supervisors with their surveillance of the banks and more direct relations with the relevant auditors.</p> |
| Additional Criteria | |
| AC1 | The supervisor has the power to access external auditors' working papers, where necessary. |
| Description and findings regarding AC1 | <p>Article 3 (2) of the Implementation Rules for Banking Control Law issued by the Ministerial Resolution No. (3/2149) on 14/10/1406H, states that every bank shall instruct the external auditors to directly provide SAMA with the data, clarification, and any information it requests about the bank's activity within their scope of responsibilities. As per SAMA circular dated 18/12/1431 H (1996) banks are required to include in their contracts with the external auditor a clause requiring external auditors to coordinate directly with SAMA and provide SAMA with the audit outcomes and any violation, noncompliance or observations that may impact the bank's performance on a regular basis (quarterly).</p> |

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| Assessment of Principle 27 | Largely compliant. |
| Comments | <p>KSA's accounting standards are compliant with internationally recognized standards. Auditors are subject to the standards of SOCPA, their professional and regulating body. These standards are aligned with international expectations. SAMA imposes further requirements that support compliance with the ECs, such as rotation of audit partners every three years.</p> <p>It is recommended that the requirement for auditors to report issues directly to SAMA is tightened and clarified, rather than relying on the contractual obligation between the bank and its auditor. This could initially be done by SAMA communicating expectations on the audit profession, and subsequently through legislative change (EC9 and AC1). Though there are meetings between auditors as a group and SAMA, supervisors do not meet with bank auditors bilaterally as a matter of routine.</p> <p>It is recommended to introduce routine meetings between SAMA supervisors and external auditors as part of the supervisory process (EC9).</p> |
| Principle 28 | Disclosure and transparency. The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes. |
| Essential Criteria | |
| EC1 | Laws, regulations or the supervisor require periodic public disclosures ⁷⁶ of information by banks on a consolidated and, where appropriate, solo basis that adequately reflect the bank's true financial condition and performance, and adhere to standards promoting comparability, relevance, reliability and timeliness of the information disclosed. |
| Description and findings regarding EC1 | <p>Circular no. 440471440000 dated December 28, 2022, includes Pillar 3 Disclosure Requirements that require banks to make full Pillar 3 disclosures. These disclosures are principally and appropriately on a consolidated basis. There are limited requirements for publication of solo information under Pillar 3 (for example features of capital instruments must be disclosed at the solo level). However, there would be merit in publication of key solo prudential metrics.</p> <p>Banks are required by the Banking Control Law, Article 14, to appoint auditors to prepare an annual audited report, and this must be published.</p> <p>All listed banks in Saudi Arabia are required to comply with the Listing Rules issued by the Saudi Stock Exchange (Tadawul), and disclosure requirements issued by the Capital Markets Authority CMA. These include a requirement to publish quarterly financial reports.</p> <p>These disclosures are also principally at a consolidated level with limited solo disclosures.</p> |
| EC2 | The supervisor determines that the required disclosures include both qualitative and quantitative information on a bank's financial performance, financial position, risk management strategies and practices, risk exposures, aggregate exposures to related |

⁷⁶ For the purposes of this Essential Criterion, the disclosure requirement may be found in applicable accounting, stock exchange listing, or other similar rules, instead of or in addition to directives issued by the supervisor.

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| | parties, transactions with related parties, accounting policies, and basic business, management, governance, and remuneration. The scope and content of information provided, and the level of disaggregation and detail is commensurate with the risk profile and systemic importance of the bank. |
| Description and findings regarding EC2 | <p>The minimum Accounting and Pillar 3 disclosures include both qualitative and quantitative information on accounting policies, governance and remuneration, aggregate related party exposures, related party transactions, risk exposures, restructured loans, provisioning, and risk management practices.</p> <p>Unusually, SAMA reviews and not object to the Quarterly Financial Statements for each bank before publication. This is required under Article 14 of the Banking Control Law. Whilst the legal position is that the bank is primarily responsible for these disclosures, and the auditors provide an opinion, SAMA's involvement does bring the risk of a perception of their endorsement of the content of the statements. It blurs boundaries between the supervisor and auditors/banks, which affects accountability. See CP2. It is recommended that the benefits and risks of this provision should be assessed as part of the review of the Banking Control Law.</p> <p>Related party transactions or exposures are required to be publicly disclosed under the "Key Principles of Governance in Financial Institutions under the Control and Supervision of the Saudi Central Bank (3rd Edition—Dhul Qidah 1442H/June 2021)" if the amount exceeds 1 percent of the total revenue of the bank.</p> <p>In practice, also, audited statements include information on related party transactions. Some banks include line-by-line details; other banks include a very high-level summary, using accounting, not Basel, definition. This does not fulfil the substance of this EC. There is no requirement to report analysis of restructured transactions.</p> |
| EC3 | Laws, regulations or the supervisor require banks to disclose all material entities in the group structure. |
| Description and findings regarding EC3 | <p>SAMA circular no. 44047144 of December 2022 regarding Basel III Final Reforms, requires banks to provide information about the entities in their banking group. Including subsidiaries, associates, and significant investments.</p> <p>In addition, the Corporate Governance Guidelines issued in 2021 (para102h) stipulate that the board shall draft an annual report that contains the following: name of each affiliate company or its group, its capital, the financial institution's ownership percentage therein, its main business activity, its principal country of operation, and its country of incorporation.</p> |
| EC4 | The supervisor or another government agency effectively reviews and enforces compliance with disclosure standards. |
| Description and findings regarding EC4 | The CMA is responsible for enforcing compliance with all financial disclosures and SAMA with Basel III disclosures. Both agencies review the timeliness of the disclosures and their compliance with the requirements. SAMA have required some minor changes to disclosures where the rules were not followed accurately. |
| EC5 | The supervisor or other relevant bodies regularly publishes information on the banking system in aggregate to facilitate public understanding of the banking system and the |

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| | exercise of market discipline. Such information includes aggregate data on balance sheet indicators and statistical parameters that reflect the principal aspects of banks' operations (balance sheet structure, capital ratios, income earning capacity, and risk profiles). |
| Description and findings regarding EC5 | SAMA regularly publishes aggregate information on the banking system and a more detailed presentation in its Annual Report. This report provides a comprehensive overview of the key developments in the banking system including updates on regulatory changes, significant events impacting the banking system, and information about banks' financial performance covering elements such as assets and liabilities, income and profitability, capital adequacy, key financial ratios and market share and interbank activity. SAMA also produce an annual Financial Stability Report which includes select aggregate information on the banking system and SAMA's analysis. On SAMA's website there is an open data portal on banking statistics, monthly and yearly statistical reports as well as an annual financial stability report. These include aggregate data on balance sheet indicators. |
| Additional Criteria | |
| AC1 | The disclosure requirements imposed promote disclosure of information that will help in understanding a bank's risk exposures during a financial reporting period, for example on average exposures or turnover during the reporting period. |
| Description and findings regarding AC1 | There are no disclosures that provide information about a bank's risk exposures during the reporting period. |
| Assessment of Principle 28 | Largely compliant. |
| Comments | Legal and regulatory requirements mandate the publication of audited annual accounts, quarterly financial statements, and Basel III Pillar 3 disclosures. These are in line with BCP expectations in almost all respects. There are requirements to publish information in respect of related party transactions or exposures if they exceed 1 percent of the bank's revenue. This is helpful and will cover material transactions, but the scope of reporting is limited than expected under EC2 (both by amount and on account of the definition being narrower than under Basel). There is no requirement to disclose details of restructured loans (EC2). Nor is there any significant information on intra-period positions (AC1). It is recommended that the legal requirement for SAMA to review and not object to the quarterly financial statement be removed as part of the review of the Banking Control Law (EC2). |
| Principle 29 | Abuse of financial services. The supervisor determines that banks have adequate policies and processes, including strict customer due diligence (CDD) rules to promote |

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| | high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities. ⁷⁷ |
| Essential Criteria | |
| EC1 | Laws or regulations establish the duties, responsibilities and powers of the supervisor related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities. |
| Description and findings regarding EC1 | <p>The Anti-Money Laundering Law (AMLL) issued by Royal Decree number M/20 in October 2017 defined the Supervisory Authority as "The authority with responsibility to monitor the compliance of financial institutions, designated non-financial businesses and professions, and non-profit organizations with the requirements stipulated in this Law and its Regulations or any relevant decisions or instructions."</p> <p>The Implementing Regulations for the Anti-Money Laundering Law (IRMLL) of November 2017 Article 1/4 established SAMA as a Supervisory Authority, among others.</p> <p>The AMLL imposes requirements on banks inter alia to "have in place and effectively implement internal policies, procedures and controls against money laundering..." (Article 13 (1)).</p> <p>Article 24 of the AMLL grants the Supervisory Authority various powers and duties including: issuing guidance and rules to banks; conducting on-site inspections; compelling banks to provide relevant information; and undertaking verification. Article 82 of the CFTL provides similar powers with respect to Terrorist Financing.</p> <p>Article 25 provides a range of sanctions that the Supervisory Authority may impose on banks. The full list is:</p> <ul style="list-style-type: none"> • Issue a written warning. • Issue an order to comply with a specific instruction. • Issue an order to provide regular reports on the measures taken to address the identified violation. • Impose a monetary fine of up to 5.000.000 riyals per violation. • Ban individuals from employment within the sectors for which the supervisory authority has competences for a period to be determined by the supervisory authority. • Restrict the powers of directors, board members, executive or supervisory management members, and controlling owners, including appointing one or more temporary controllers. • Dismiss or replace the directors, members of the Board of Directors or of executive or supervisory management. • Suspend, restrict or prohibit the continuation of the activity, business or profession or of certain business activities or products. |

⁷⁷ The Committee is aware that, in some jurisdictions, other authorities, such as a financial intelligence unit (FIU), rather than a banking supervisor, may have primary responsibility for assessing compliance with laws and regulations regarding criminal activities in banks, such as fraud, money laundering and the financing of terrorism. Thus, in the context of this Principle, "the supervisor" might refer to such other authorities, in particular in Essential Criteria 7, 8, and 10. In such jurisdictions, the banking supervisor cooperates with such authorities to achieve adherence with the criteria mentioned in this Principle.

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| | <ul style="list-style-type: none"> • Suspend, restrict, or revoke the license. <p>The Law of Combating Crimes of Terrorism and its Financing Royal Decree No. M/21 November 1, 2017 (CTFTL) also establishes the duties, responsibilities, and powers of the supervisor (SAMA) related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.</p> <p>In sum, the suite of AML/CFT Laws and regulations grant SAMA the power to supervise and enforce the banking sector's compliance with the AML/CFT legal framework.</p> |
| EC2 | <p>The supervisor determines that banks have adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.</p> |
| Description and findings regarding EC2 | <p>Banks are required to have internal policies, procedures, and controls to prevent ML/TF. These measures must be appropriate for the size and nature of the bank's business and must be approved by senior management. Banks must also regularly review and enhance these measures as needed. At a minimum, the AML/CFT policies and internal controls should cover customer due diligence (CDD), transaction monitoring, AML/CFT management, employee screening, employee training, and independent audits.</p> <p>See Article (14) of the AMLL, Article (67) of the CTFTL, Article (14/1) of the IRMLL and Article (18) of the Implementing Regulations for Countering the Financing of Terrorism (IRCFT).</p> <p>SAMA's supervisory process comprises two stages. First, it assesses the bank's internal controls as part of their ML/TF risk assessment of the banking sector. SAMA staff assess the mitigating measures based on a number of control questions related to:</p> <ul style="list-style-type: none"> • Governance—Board and Management Control. • Policy and Procedures. • Evaluating and documenting the ML/TF risks. • Applying a risk-based approach to AML/CFT. • The role and resources of the AML/CFT officer. • Customer due diligence. • Monitoring operations and detecting suspicious activities. • Reporting suspicious transactions reports (STRs) to the General Directorate of Financial Intelligence (SAFIU). • Record keeping. • Training and human resources. • Independent testing process and internal references. <p>In the second stage, SAMA assesses the adequacy and effectiveness of the policies through on-site visits. During these visits, the SAMA team reviews the policies to ensure that they are up-to-date and that banks are actually applying them in their day-to-day operations.</p> <p>In terms of suspicious activity, banks must report suspicious transactions on the same day they are detected. The report must include all available data and information about the transaction, including the parties involved. Banks must also promptly and fully respond to</p> |

| | <p>any requests from the Saudi Arabian Financial Intelligence Unit (SAFIU) for additional information. See Article 15 of the AMLL and Article 70 of the CTFTL.</p> <p>During on-site inspection, SAMA assesses whether the banks maintain effective procedures to submit reports of any suspicious activity to the SAFIU and to respond promptly to any follow-up requests for additional information, with a focus on:</p> <ul style="list-style-type: none"> • The quality of the bank's internal control to investigate suspicious activities. • The volume of STRs submitted. • The independence of the AML/CFT officer. • The bank's responsiveness to SAFIU requests. <p>The table below shows the number of inspections carried out in each of the last five years.</p> <table border="1" data-bbox="457 627 1377 905"> <caption>Table 6. No. of AML-CFT inspections</caption> <thead> <tr> <th>Year</th> <th>Domestic Banks</th> <th>Foreign Banks</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>11</td> <td>7</td> </tr> <tr> <td>2020</td> <td>4</td> <td>0</td> </tr> <tr> <td>2021</td> <td>9</td> <td>10</td> </tr> <tr> <td>2022</td> <td>8</td> <td>10</td> </tr> <tr> <td>Q1 2023</td> <td>6</td> <td>1</td> </tr> </tbody> </table> <p>The assessors were satisfied that the scope and quality of SAMA's onsite verification of these matters met the expectations of this EC, based on files sampled.</p> <p>In order to address banks' exposure to criminal activities more generally, in October 2022 SAMA established a Counter-Fraud Framework to enable organizations it regulates to effectively identify and address risks related to fraud. This includes guidance on fraud prevention processes and fraud detection.</p> | Year | Domestic Banks | Foreign Banks | 2019 | 11 | 7 | 2020 | 4 | 0 | 2021 | 9 | 10 | 2022 | 8 | 10 | Q1 2023 | 6 | 1 |
|--|---|---------------|----------------|---------------|------|----|---|------|---|---|------|---|----|------|---|----|---------|---|---|
| Year | Domestic Banks | Foreign Banks | | | | | | | | | | | | | | | | | |
| 2019 | 11 | 7 | | | | | | | | | | | | | | | | | |
| 2020 | 4 | 0 | | | | | | | | | | | | | | | | | |
| 2021 | 9 | 10 | | | | | | | | | | | | | | | | | |
| 2022 | 8 | 10 | | | | | | | | | | | | | | | | | |
| Q1 2023 | 6 | 1 | | | | | | | | | | | | | | | | | |
| EC3 | <p>In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when such activities/incidents are material to the safety, soundness or reputation of the bank.⁷⁸</p> | | | | | | | | | | | | | | | | | | |
| Description and findings regarding EC3 | <p>SAMA issued a Counter Fraud Framework in October 2022. It is principles-based and covers governance, prevention, detection, and response. Section 3.7 states "[Banks] should immediately notify SAMA of new fraud typologies and significant fraud incidents to mitigate the risk of the fraud impacting additional customers, other organizations, or the financial sector in the KSA." The report should include basic transaction data (amount, volume, client, dates, etc.) and an analysis of root cause for each suspicious fraud case.</p> <p>The framework is relatively new. SAMA have analyzed all such reports and, if they identify a fraud that is significant because of its size systemic impact on the reputation and trust of the Financial Sector, they will communicate with the relevant regulated entities to discuss and agree on subsequent actions. They have also run training sessions for bank staff.</p> | | | | | | | | | | | | | | | | | | |

⁷⁸ Consistent with international standards, banks are to report suspicious activities involving cases of potential money laundering and the financing of terrorism to the relevant national centre, established either as an independent governmental authority or within an existing authority or authorities that serves as an FIU.

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| EC4 | If the supervisor becomes aware of any additional suspicious transactions, it informs the financial intelligence unit and, if applicable, other designated authority of such transactions. In addition, the supervisor, directly or indirectly, shares information related to suspected or actual criminal activities with relevant authorities. |
| Description and findings regarding EC4 | <p>The Saudi Arabian FIU (SAFIU, also known as the General Department of Financial Investigation—GDFI) has reciprocal information-sharing arrangement with SAMA. The AMLL (Articles 18(2) and 24e) and CTFTL (Article 27) provide legal authority for sharing of relevant information.</p> <p>AML/CFT Law grants SAMA the power to investigate any suspicious transaction and examine its related documents, information, and data. This includes conducting an inspection (onsite/offsite). When a suspicious transaction is identified, SAMA has the power (under the AMLL and CTFTL laws) to order the bank to report the case to the SAFIU.</p> <p>SAMA has not in practice had information about individual transactions that it should share with SAFIU. It shares trend data and risk analysis, gleaned from its offsite and onsite monitoring.</p> |
| EC5 | <p>The supervisor determines that banks establish CDD policies and processes that are well documented and communicated to all relevant staff. The supervisor also determines that such policies and processes are integrated into the bank's overall risk management and there are appropriate steps to identify, assess, monitor, manage and mitigate risks of money laundering and the financing of terrorism with respect to customers, countries and regions, as well as to products, services, transactions and delivery channels on an ongoing basis. The CDD management program, on a group-wide basis, has as its essential elements:</p> <ul style="list-style-type: none"> (a) a customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks; (b) a customer identification, verification and due diligence programme on an ongoing basis; this encompasses verification of beneficial ownership, understanding the purpose and nature of the business relationship, and risk-based reviews to ensure that records are updated and relevant; (c) policies and processes to monitor and recognize unusual or potentially suspicious transactions; (d) enhanced due diligence on high-risk accounts (e.g., escalation to the bank's senior management level of decisions on entering into business relationships with these accounts or maintaining such relationships when an existing relationship becomes high-risk); (e) enhanced due diligence on politically exposed persons (including, among other things, escalation to the bank's senior management level of decisions on entering into business relationships with these persons); and (f) clear rules on what records must be kept on CDD and individual transactions and their retention period. Such records have at least a five year retention period. |
| Description and findings regarding EC5 | The AMLL (Article 14) requires banks to have in place and effectively implement internal policies, procedures and controls against money laundering aimed at managing and mitigating any risks identified under Article 5 of the AMLL (which covers the requirement |

for an entity to identify its risks). The policies, procedures and controls shall be proportionate to the nature and size of the entity's business and shall be approved by senior management. Banks shall review and enhance them as needed.

Article 7/1 of the AMLL and Article 7/1 of the AMLLIR require banks to have in place a CDD framework. Further, banks must continuously identify, assess, and document their ML/TF risks, taking into account a wide range of risk factors, including those related to their customers, countries or geographic areas, products, services, transactions, and delivery channels. They must also provide risk assessment reports to SAMA upon request. The risk assessment should include an assessment of the risks associated with new products, business practices, the nature of the business, and technologies, prior to their use. See Article 5 of the AMLL and Articles 63 and 67 of the CTFTL. On a group-wide basis, banks must implement a comprehensive AML/CFT program across their entire organization. The program must be applied to all branches and majority-owned subsidiaries, and the group must ensure that it is effectively implemented by all entities. See Article 14/2 of IRMLL and Article 92 of CTFTL. The AML/CFT program should include the following, among other things:

| Measures | Details |
|---------------------------------------|---|
| Customer Due Diligence (CDD) measures | <p>A. Banks must conduct CDD measures to mitigate ML/TF risks before establishing a new business relationship or opening a new account. See Article (7) of AMLL and Article (64) of CTFTL.</p> <p>B. Banks must identify the customer or any person purporting to act on behalf of the customer and verify their identity and authorization, using reliable, independent source documents, data, or information. See Article (7/2) of IRML and Article (17) of CTFTL.</p> <p>C. When conducting a risk assessment, banks must consider the following factors, among others:</p> <ul style="list-style-type: none"> ○ The risks identified at the national level. ○ Any factors that may increase or decrease the ML/TF risk in a specific situation, such as: the purpose of the account or relationship, the size of deposits or transactions undertaken by a customer, the frequency of transactions or duration of the relationship. See Article (5/3) of IRML and Article 2(17) of IRCTCF. <p>D. Banks must conduct CDD on all business relationships to mitigate ML/TF risks, verify customer information, and keep records up-to-date. See Article (7/6) of IRML and Article 5(17) of IRCTCF.</p> <p>E. If a bank cannot comply with due diligence, it cannot open an account, establish a relationship, or process a transaction. It must terminate existing relationships and consider submitting a suspicious activity report to the SAFIU. See Article (7/8) of IRML and Article 6(17) of IRCTCF.</p> <p>F. A customer acceptance policy that identifies business relationships that the bank will not accept based on identified risks</p> |

| Table 7. AML-CFT Program (Continued) | |
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| Measures | Details |
| Identify and verify the beneficial ownership information | <p>G. Banks must identify the beneficial ownership information during the customer onboarding stage and throughout the relationship. If the customer is a legal person, banks must identify and verify the identity of the natural person who ultimately owns or controls 25 percent or more of the legal entity's shares. If there is no controlling ownership interest, or if there is doubt, banks identify and verify the identity of the natural person who exercises control of the legal person through other means. As a last resort, banks identify and verify the identity of the natural person who holds the position of senior managing official. During the business relationship, banks identify and verify the origin of funds and wealth of the customer, as well as if the economic activities of the customer are consistent with the beneficial ownership information provided at the onboarding stage, and monitor the customer activities on an ongoing basis. See Article c(7/2) of IRML and Article 3(17) of IRCTCF.</p> |
| Monitor and recognize unusual or potentially suspicious transactions | <p>H. Banks must continuously monitor and scrutinize transactions, documents, and data to ensure that they are consistent with the bank's knowledge of the customer, their commercial activities and risk profile, and where necessary, the customer's source of funds. The monitoring should include:</p> <ul style="list-style-type: none"> ○ Examining any complex and unusual large transactions, and any unusual patterns of transactions that do not have a clear economic or legal objective. ○ Performing enhanced due diligence where the ML/TF risks are higher, and increasing the level and nature of monitoring of the relevant business relationship to determine whether the transaction is unusual or suspicious. See Article (13) of AMLL and Article (69) of CTFTL. <p>I. In addition to (G) above, if a bank suspects or has reasonable grounds to suspect that funds or parts of it, regardless of their amounts, are proceeds of crime or are related to ML or TF, or that such funds will be used in acts of ML or TF, including attempts to initiate such a transaction, the bank must:</p> <ul style="list-style-type: none"> ○ Promptly and directly report the transaction to the SAFIU. ○ Provide a detailed report to the SAFIU, including all available data and information on the transaction and relevant parties. ○ Promptly and fully respond to any requests for additional information from the SAFIU. See Article (15) of AMLL and Article (70) of CTFTL. |
| Enhanced due diligence (EDD) on high-risk accounts | <p>J. Banks must apply due diligence measures that are proportionate to the ML/TF risks posed by a specific customer or business relationship. This includes EDD measures for customers or business relationships that pose a higher risk of ML/TF. See Article (7/14) of IRML and Article (66) of CTFTL.</p> <p>K. If a bank identifies a high-risk customer, either before or after establishing a business relationship, it must obtain approval from senior management before dealing with or continuing the</p> |

| Table 7. AML-CFT Program (Concluded) | |
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| Measures | Details |
| | relationship with the customer. See (4.3) of the AML/CFT guidance [CP29_EC5_1]. |
| Enhanced due diligence on politically exposed persons (PEPs) | <p>L. Requirements on PEPs (as customers or as beneficial owners) are contained in AMLL and implementing regulations. When a bank identifies the customer to be a foreign PEP, it implements the following measures:</p> <ul style="list-style-type: none"> ○ Obtain senior management approval before establishing or continuing a business relationship. ○ Take reasonable measures to establish the source of wealth and the source of funds of the PEP. ○ Conduct enhanced ongoing monitoring of the business relationship. <p>The same measures apply in relation to PEPs from the Kingdom, in case of a higher risk of money laundering. See Article (8) of the AMLL and Article (8/5) of the IRML.</p> |
| Record keeping | For all domestic or international financial transactions, and for all commercial and monetary transactions, banks must keep all records and documents for a period of no less than ten years from the date of concluding the transaction or closure of account. In particular, banks must keep all records obtained through due diligence measures, account files and business correspondences and copies of personal identification documents, including the results of any analysis undertaken, for at least ten years after the business relationship has ended or a transaction was carried out for a customer who is not in an established business relationship. See Article (12) of the AMLL and Article (65) of the CTFTL. |
| | <p>Banks' compliance with the above framework is assessed via SAMA's onsite inspections. Assessors reviewed a sample and concluded that these take a thorough approach to coverage of all compliance matters, and SAMA have a well-embedded process for following up on deficiencies. There is a six-month cycle and over time inspections cover all key risk areas. All the local banks can expect to be inspected at least once a year.</p> |
| EC6 | <p>The supervisor determines that banks have in addition to normal due diligence, specific policies and processes regarding correspondent banking. Such policies and processes include:</p> <p>(a) gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and</p> <p>(b) not establishing or continuing correspondent relationships with those that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to be shell banks.</p> |
| Description and findings regarding EC6 | Section 13 of The Anti-Money Laundering and Counterterrorism Financing (AML/CTF) Guide issued in 2019 contains detailed guidance (legally enforceable) around the establishment and maintenance of correspondent banking accounts. These regulations cover both the establishment and continuation of correspondent relationships. |

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| | <p>These elaborate on requirements in the AMLLIR (Article 9/1) and CTFTL (Article 68) which require banks to understand fully the nature of the respondent's business and their AML controls. These require banks to take the following steps:</p> <ul style="list-style-type: none"> • Gather information about the respondent institution's business, reputation, and supervision, and whether it has been subject to an ML/TF investigation or regulatory action. • Assess the respondent institution's AML/CFT controls. • Obtain senior management approval for new correspondent relationships. • Clearly understands the respective AML/CFT responsibilities of each institution. • Obtain a satisfactory assurance that the respondent financial institution does not allow shell banks to use its accounts. <p>The AML/CFT guidance also requires banks to gather sufficient information about the correspondent institution to understand its business, the risks it faces, and its reputation. This information may include:</p> <ul style="list-style-type: none"> • The geographical areas in which the correspondent institution provides its services. • The ownership structure of the correspondent financial institution. • Services and products provided by the correspondent institution. • Customers of the correspondent institution. • The regulatory oversight of the correspondent institution (e.g., supervised by a central bank or similar regulatory body? The level of compliance with the FATF Recommendations). • Evaluating the internal policies, controls, and procedures to mitigate risks that are adopted by the correspondent institution to combat ML/TF by preparing a questionnaire that covers AML/CTF requirements and assesses the effectiveness of measures. <p>Compliance with these requirements is tested via the offsite and onsite processes as explained in EC2, with follow-up if deficiencies are identified. Assessors were comfortable with the thoroughness of these processes and that areas relevant for this EC are covered.</p> |
| EC7 | <p>The supervisor determines that banks have sufficient controls and systems to prevent, identify and report potential abuses of financial services, including money laundering and the financing of terrorism.</p> |
| Description and findings regarding EC7 | <p>SAMA's AML/CFT guidance requires banks to implement and document measures and procedures to monitor transactions and identify unusual transactions and activities, based on the results of their ML/TF risk assessment. These measures and procedures must be approved by senior management. The 2019 AML/CFT guidance sets out in sections 7 and 8 a full suite of risk-based requirements that financial institutions need to comply with. Banks must:</p> <ul style="list-style-type: none"> • Have adequate human resources to monitor transactions and activities. • Develop risk-based indicators and patterns that are commensurate with the risks identified, the complexity of the bank's business activities, and modern technologies. • Set up and document procedures for reporting suspicious transactions, implementing them effectively. |

| | <ul style="list-style-type: none"> • Implement appropriate technological tools to monitor transactions, activities, and integrate these tools with the bank's systems. • Periodically test the monitoring tools to ensure their effectiveness. • Train employees to carry out the monitoring process, and not rely solely on technological systems and programs. • Continuously update ML/TF indicators. <p>Compliance with these requirements is tested via the offsite and onsite processes as explained in EC2, with follow-up if deficiencies are identified—a process the assessors judge to work in line with the expectations under this EC.</p> | | | | | | | | | | | | | | | | | | | | | |
|--|---|-------------------|---------------------|-------------------|------|----|-----------|------|----|-----------|------|----|-----------|------|----|-----------|------|----|-----------|---------|---|---|
| EC8 | The supervisor has adequate powers to take action against a bank that does not comply with its obligations related to relevant laws and regulations regarding criminal activities. | | | | | | | | | | | | | | | | | | | | | |
| Description and findings regarding EC8 | <p>Under the AML/CFT legislation, SAMA may impose financial or administrative penalties to deter future violations from the bank, directors, board members, executive or supervisory management members. SAMA may impose one or more of the following measures:</p> <ul style="list-style-type: none"> • Issue a written warning. • Issue an order to comply with a specific instruction. • Issue an order to provide regular reports on the measures taken to address the identified violation. • Impose a monetary fine of up to 5.000.000 riyals per violation. • Ban individuals from employment within the banking sector. • Restrict the powers of directors, board members, executive or supervisory management members, and controlling owners, including appointing one or more temporary controllers. • Dismiss or replace the directors, members of the Board of Directors or of executive or supervisory management. • Suspend, restrict, or prohibit the continuation of the activity, business or profession or of certain business activities or products. • Suspend, restrict or revoke the license. See Article (25) of the AMLL and Article (83) of the CTFTL. The following table summarizes the sanctions that have been imposed on banks for non-compliance with AMLL and CTFTL from 2018 to 2023: <p>SAMA also has general powers to sanction banks for control failings (see BCP 11).</p> <table border="1"> <caption>Table 8. AML-CFT Related Sanctions</caption> <thead> <tr> <th>Year</th> <th>Number of Sanctions</th> <th>Amount of Fine(s)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>14</td> <td>6,747,900</td> </tr> <tr> <td>2019</td> <td>11</td> <td>2,337,500</td> </tr> <tr> <td>2020</td> <td>14</td> <td>2,015,000</td> </tr> <tr> <td>2021</td> <td>33</td> <td>8,001,000</td> </tr> <tr> <td>2022</td> <td>15</td> <td>2,789,000</td> </tr> <tr> <td>Q1 2023</td> <td>0</td> <td>0</td> </tr> </tbody> </table> | Year | Number of Sanctions | Amount of Fine(s) | 2018 | 14 | 6,747,900 | 2019 | 11 | 2,337,500 | 2020 | 14 | 2,015,000 | 2021 | 33 | 8,001,000 | 2022 | 15 | 2,789,000 | Q1 2023 | 0 | 0 |
| Year | Number of Sanctions | Amount of Fine(s) | | | | | | | | | | | | | | | | | | | | |
| 2018 | 14 | 6,747,900 | | | | | | | | | | | | | | | | | | | | |
| 2019 | 11 | 2,337,500 | | | | | | | | | | | | | | | | | | | | |
| 2020 | 14 | 2,015,000 | | | | | | | | | | | | | | | | | | | | |
| 2021 | 33 | 8,001,000 | | | | | | | | | | | | | | | | | | | | |
| 2022 | 15 | 2,789,000 | | | | | | | | | | | | | | | | | | | | |
| Q1 2023 | 0 | 0 | | | | | | | | | | | | | | | | | | | | |
| EC9 | The supervisor determines that banks have: | | | | | | | | | | | | | | | | | | | | | |

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| | <p>(a) requirements for internal audit and/or external experts⁷⁹ to independently evaluate the relevant risk management policies, processes and controls. The supervisor has access to their reports;</p> <p>(b) established policies and processes to designate compliance officers at the banks' management level, and appoint a relevant dedicated officer to whom potential abuses of the banks' financial services (including suspicious transactions) are reported;</p> <p>(c) adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; or when entering into an agency or outsourcing relationship; and</p> <p>(d) ongoing training programs for their staff, including on CDD and methods to monitor and detect criminal and suspicious activities.</p> |
| Description and findings regarding EC9 | <p>The legislation and AML/CFT Guide of November 2019 require banks to have internal policies, procedures, and controls to prevent ML/TF. These measures must be appropriate for the size and nature of the bank's business and must be approved by senior management. Banks must also regularly review and enhance these measures as needed. At a minimum, the AML/CFT policies and internal controls should cover CDD, transaction monitoring, AML/CFT management, employee screening, employee training, and independent audits. See Article 14 of the AMLL, Article 67 of the CTFTL, Article (14/1) of the IRMLL and Article 18 of the IRCTCF.</p> <p>In addition, the 2019 guidance (the Guide) also requires banks to adopt the following measures:</p> <ul style="list-style-type: none"> • The Internal Audit function must be sufficiently resourced and independent. It is required to test compliance with all AML/CTF requirements. See Section 10.1 to 10.7 of the Guide (https://www.aml.gov.sa/en-us/Rules%20and%20Instructions/The%20Anti-Money%20Laundering%20and%20Counter-Terrorism%20Financing%20AML-CTF%20Guide%20(2019).pdf). SAMA has the right to access all the internal audit reports. • Sections 9.1 to 9.4 of the Guide sets out the requirement for banks to establish an AML/CTF function and a designated officer at senior level and to provide it with adequate resources. Their duties are to include the monitoring of suspicious activity, receive suspicious transactions reports and report suspicions to the FIU. • Sections 12.1 to 12.6 of the Guide set out requirements for hiring of staff. Whilst it imposes a compliance requirement on banks, it does not refer to high ethical standards nor encourage banks to go beyond "background checks to ensure high efficiency standards" (Section 12.1). Material outsourcing arrangements require SAMA's non-objection. • Sections 11.1 to 11.5 of the Guide requires banks to allocate sufficient budget for ongoing training programs in AML/CFT for all employees. CDD and the monitoring of suspicious activity must be covered. There is also a requirement for banks to test employees' knowledge of the subject at least annually. |

⁷⁹ These could be external auditors or other qualified parties, commissioned with an appropriate mandate, and subject to appropriate confidentiality restrictions.

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| | Compliance with these matters is tested during the onsite visits, including review of the Internal Audit files. The assessors were comfortable with the scope and quality of these onsite inspections, based on the sample of files reviewed. |
| EC10 | The supervisor determines that banks have and follow clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also determines that banks have and utilize adequate management information systems to provide the banks' Boards, management and the dedicated officers with timely and appropriate information on such activities. |
| Description and findings regarding EC10 | <p>SAMA's AML/CFT guidance of November 2019 (the Guide) requires banks to set up and document procedures for reporting suspicious transactions or activities (Section 8.1). The Guide states that the procedures may include the following:</p> <ul style="list-style-type: none"> • Internal procedures for bank staff to follow if they suspect ML/TF. • A mechanism for staff to communicate with the officer responsible for reporting suspicious transactions. • Internal investigation procedures for suspected cases, including the stages of the investigation. • Approvals and reviews required for suspected cases, and whether reports are approved or closed. • Identifying the employee or officer responsible for reporting suspicious transactions to SAFIU. • Adequate measures to keep reports confidential. <p>It should be noted that the Guide is principles-based.</p> <p>Section 8.13 of the Guide sets requirements to ensure that bank staff, including the board of directors, are aware of the reporting requirements, banks must educate and inform all staff, including the board of directors and senior management, about:</p> <ul style="list-style-type: none"> • Requirements for identifying and reporting suspicious activities or transactions. • Regulatory requirements for civil and criminal liability and other liabilities related to violations of required confidentiality obligations. • Regulatory requirements for reporting suspicious transactions without alerting customers or disclosing any related incidents, reports, or information. <p>In addition, banks must provide AML/CFT officer with systems and resources in place to effectively identify and report suspicious activity, manage investigations, and assess and manage their ML/TF risks. <i>See (9.1) of the AML/CFT guidance [CP29_EC10_11].</i></p> <p>Senior management must also be involved in the AML/CFT program by approving and reviewing policies and procedures and monitoring the program's effectiveness. <i>See Article (14) of the AMLL [CP29_EC10_14].</i></p> <p>These requirements are adequately verified via the onsite supervision program.</p> <p>The Counter Fraud Framework Domain 3 'Governance' subdomain 3.6 'Management Information' indicates that Member Organizations should define, approve, and implement a process for the reporting of Management Information to enable Senior Management to monitor Counter-Fraud risks and performance.</p> <p>SAMA's Whistleblowing Policy of 2019 protects staff when reporting suspicions internally.</p> |

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| | SAMA verifies these matters via the onsite work program, which the assessors deem to be effective. |
| EC11 | Laws provide that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable. |
| Description and findings regarding EC11 | <p>The AMLL and CTFTL states that banks as well as their Members of Board of Directors, directors, members of its executive or supervisory management, and employees shall be protected from any liability toward the reported if they report their suspicions to the SAFIU in good faith. See Article 16 of the AMLL and Article 71 of the CTFTL.</p> <p>The protection under Article 16 of the AMLL and Article 71 of the CTFTL include protection from any criminal, civil, contractual, disciplinary, or administrative liability and applies also in situations where the bank or its employees or directors did not know precisely what the underlying criminal activity of the reported transaction was and regardless of whether illegal activity actually occurred. See Article 16/1 of the IRMLL and Article 92 of the CTFTL.</p> <p>Also, SAMA has issued a whistleblowing policy for financial institutions in 2019, imposing a requirement that whistleblowers shall be protected by banks when reporting internally (Whistle Blowing Policy for Financial Institutions-AR.pdf (sama.gov.sa)).</p> <p>The Counter Fraud Framework Domain 5 'Detection' subdomain 5.4 'Whistle blowing' states that banks should take no action against whistle blowers for any disclosures of potential fraud violations reported in good faith.</p> |
| EC12 | The supervisor, directly or indirectly, cooperates with the relevant domestic and foreign financial sector supervisory authorities or shares with them information related to suspected or actual criminal activities where this information is for supervisory purposes. |
| Description and findings regarding EC12 | <p>Assessors noted examples of SAMA cooperation with CMA in respect of common AML/CFT issues. As noted under CP3, the Insurance Authority is newly created and there is not an MoU in place.</p> <p>Article 24 of the AMLL and Article 82 of the CTFTL imposes powers and duties on SAMA to cooperate and coordinate with any foreign counterpart (in relation to AML/CFT supervisory information), to carry out inquiries on behalf of any foreign counterpart, and to request any such information or cooperation from a foreign counterpart.</p> <p>There are recent cases where SAMA has cooperated with overseas authorities, including for onsite inspections. There is established coordination with GCC countries.</p> |
| EC13 | Unless done by another authority, the supervisor has in-house resources with specialist expertise for addressing criminal activities. In this case, the supervisor regularly provides information on risks of money laundering and the financing of terrorism to the banks. |
| Description and findings regarding EC13 | In early 2016, a dedicated AML/CFT department was set up to oversee AML/CFT compliance for financial institutions operating in the Kingdom, including banks. It currently has 34 staff. The department has two sections: the supervision section and the policy section. The supervision section is responsible for conducting offsite and onsite supervision of banks to ensure that they are complying with AML/CFT regulations. The staff in this section use a variety of tools and techniques to assess the AML/CFT risks of each bank. The policy section is responsible for developing and implementing AML/CFT |

policies and procedures. The staff in this section also provide guidance and support to banks on AML/CFT matters.

The AML/CFT department staff is trained on the latest methods of criminal activity by attending regular training courses and workshops.

SAMA provides banks with regular information on ML/TF risks through different means such as circulars, committees, and conferences. Through these routes, SAMA can help ensure that banks are aware of the latest AML/CFT risks and have the tools and resources they need to prevent ML/TF crime.

The following table shows the rules and circulars issued by SAMA since 2018:

| # | Rules and Circulars | Date of Issue or Updated |
|---|---|--------------------------|
| 1 | Updating the lists of high- risk countries on the website of the AMLPC | 2018 |
| 2 | Obtain copies of customers' ID | 2018 |
| 3 | Guidance to implement UN Security Council Resolutions related to Proliferation of Arms of Mass Destruction and their Financing | 2018 |
| 4 | AML/CFT guidance | 2019 |
| 5 | Update the guidance to implement UN Security Council Resolutions related to Proliferation of Arms of Mass Destruction and their Financing | 2019 |
| 6 | Guidance to implement UN Security Council Resolutions related to fight against terrorism and its financing | 2020 |
| 7 | Rules for Bank Accounts | 2023 |

SAMA organizes an annual seminar to discuss the latest developments in the field of AML. The seminars are attended by officials from financial institutions, government agencies, and law enforcement. The topics discussed at the seminars include the latest AML regulations, best practices, and case studies. The seminars also provide an opportunity for networking and collaboration between the participants. The seminars are an important part of SAMA's efforts to combat money laundering in the Kingdom. See <https://camlevent.com/>.

Assessment of Principle 29

Compliant.

Comments

AML/CFT legislation is in place and covers all material requirements within the ECs. This conclusion is supported by the 2018 Mutual Evaluation. AML/CFT Guidance complements the legislation and sets out detailed requirements.

SAMA appears to be adequately resourced for the tasks. The inspection program is comprehensive, compliance with the requirements is adequately verified and sanctions are applied in cases of non-compliance. SAMA is empowered to cooperate and share information with domestic and overseas authorities and there is evidence of this working in practice.

SAMA issued a Counter Fraud Framework with Circular in 2022 which lays down principles and control requirements around counter-fraud controls.

SUMMARY COMPLIANCE WITH THE BASEL CORE PRINCIPLES

| Core Principle | Grade | Comments |
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| 1. Responsibilities, objectives and powers | MNC | <p>SAMA's responsibilities and objectives as the banking supervisor are defined in laws that are publicly disclosed. The SCBL sets SAMA's objectives that includes supporting the stability of the financial sector and promoting trust therein and mentions that it shall oversee and supervise financial institutions in accordance with relevant laws. The BCL, which is the relevant law for banking supervision, lays down the powers and responsibilities of SAMA as a banking supervisor which include, among others: (i) receipt and processing of applications for banking license; (ii) allowing banks to engage in certain activities and establishing limits for such activities; (iii) approving the appointment of directors and senior management in banks; and (iv) requiring and receiving data, information, and reports. The BCL also lays down SAMA's powers to undertake certain banking regulation and supervision activities with the prior approval of the Minister or the Council of Ministers. These include, among others, issuing general rules on bank lending, modifying the minimum or maximum limits for statutory deposits to be maintained by banks with SAMA, conducting inspections in banks, and imposing certain types of sanctions, penalties, and corrective actions.</p> <p>Laws or regulations have not established a clear link between the different objectives in the SCBL and the functions of SAMA and have not introduced elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. They do not specify that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system, and the secondary objectives would be acceptable only insofar as they are subordinate to the primary objective and do not conflict with it. SAMA is yet to establish policies and processes to address the conflicts of interest that arise while conducting banking supervision.</p> <p>The authorities are currently in the process of revising the BCL. The draft BCL aims to address some of the gaps identified in this assessment and can further benefit from several recommendations in this assessment. Several regulations are dated, and some are just endorsements of Basel standards or requirements, without adapting</p> |

| Core Principle | Grade | Comments |
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| | | <p>and customizing these, where appropriate, to the KSA banking system. SAMA established a Banking Policy Development Framework in 2021, and they have begun the process of reviewing all regulations. Many have not yet been reviewed and updated or withdrawn despite significant changes in the operating environment, accounting standards, Basel standards and guidance, and supervisory practices.</p> <p>While laws and their implementing regulations allow SAMA to perform several functions relevant for banking supervision, they do not adequately empower SAMA to undertake several specific tasks referred to in the ECs. For example, For example: (i) cooperate and collaborate with relevant authorities to achieve an orderly resolution of banks, including triggering resolution, where appropriate; (ii) vary all types of prudential requirements (including capital requirements) by risk profile and systemic relevance; (iii) have full access to and engage with the banks' boards and the banking group's boards, management, and staff, and records to review compliance with internal rules and limits, as well as external laws and regulations; (iv) take timely corrective action, impose a range of sanctions, and revoke the bank's license, based on supervisory judgment before a bank breaches laws or regulations and while it is or is likely to be engaging in unsafe or unsound practices or actions that have the potential to jeopardize the bank or the banking system; and (v) review the activities of parent companies and of companies affiliated with parent companies to determine their impact on the safety and soundness of the bank and the banking group.</p> <p>In addition to the above, SAMA does not have the power to reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence, or is not subject to or does not adhere to established professional standards (CP 27),</p> |
| 2. Independence, accountability, resourcing and legal protection for supervisors | MNC | <p>The SCBL includes provisions on SAMA's independence, accountability, and governance. The main decision-making levels in SAMA with reference to banking supervision matters are the Governor, the Vice Governor of Supervision and Technology, and the Supervision Deputy Governor. The nature of banking supervision related decisions that each level can take is documented in SAMA's Authority Matrix. The delegation of powers indicates that decisions on supervision matters, and regulatory approvals (or no objection) are taken at levels appropriate to the significance of the issue involved. SAMA's recruitment policies and capacity building initiatives have helped SAMA in recruiting and grooming dedicated staff who are well</p> |

| Core Principle | Grade | Comments |
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| | | <p>qualified and experienced in their respective areas of engagement. The industry holds SAMA staff in high esteem and view them as credible stakeholders based on their professionalism and integrity. The SCBL provides protection to SAMA staff against liability or claim for carrying out their duties in accordance with this law.</p> <p>Following provisions in the SCBL and the BCL do not assure transparent processes, effectively erode SAMA's operational independence as a banking supervisor, and do not assure adequate legal protection for supervisors. These can collectively hinder or obstruct its ability to perform effective supervision.</p> <ul style="list-style-type: none"> • The SCBL is silent about the qualifying criteria for Governor and Vice Governors, the process for the appointment and removal of the Governor and the Vice Governors, and the grounds for their removal during their term as Governor or Vice Governors. The SCBL does not require the reasons for their removal to be disclosed. • Remuneration and benefits of SAMA board members shall be determined pursuant to a royal order upon the recommendation of the Minister in coordination with the Governor. • Nomination of the five non-government-employee members on SAMA board is jointly made by the Governor and the Minister (Article 8(2) of SCBL). • SAMA must seek the prior approval of the Minister or the Council of Ministers or CEDA at several stages of banking supervision including, among others, issuing general rules, conducting inspections, taking specific corrective actions based on supervisory judgment or in anticipation of legal or prudential breaches, imposing certain sanctions and approving resolution plans. • Article 21 of the BCL allows the Minister to exempt banks from certain provisions of the BCL or from the regulations issued in execution thereof for a limited period with the approval of the Council of Ministers. • Article 25 of the BCL empowers the Minister to appoint a committee of three persons from outside SAMA and specify the conditions and measures to be observed in adjudging contraventions punishable under this Law at the request of SAMA. |

| Core Principle | Grade | Comments |
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| | | <ul style="list-style-type: none"> • Process for the appointment and removal of the Governor and the Vice Governors and other members of its governing body is not transparent. • The brief section on supervision and control of the banking sector in SAMA's annual report does not go far enough to satisfy the need for SAMA to be transparent and accountable for the discharge of its banking supervision mandate. Besides, the delay in publishing the annual report does not meet the transparency intent. • Article 16 of SCBL does not fully address conflict of interest at SAMA board level. SAMA's Code of Ethics does not set the discipline to be followed when a staff employed in the banking sector joins SAMA to effectively address potential real or perceived conflict of interest situations while performing supervision activities. SAMA's Authority matrix does not provide for timely decision-making in the case of an emergency. • Legal protection for SAMA top management, and staff against omissions is not available and against costs of defending their actions or omissions is not assured. Legal protection is not available to former staff of SAMA for their actions and omissions during their service in SAMA and to SAMA's agents engaged for undertaking supervisory functions. |
| 3. Cooperation and collaboration | LC | <p>SAMA's cooperation and collaboration with the other key stakeholders in KSA for regulation and supervision of the financial sector occurs mainly through the NFSC framework, and the bilateral MoUs with the CMA and the Ministry of Finance. KSA has established a framework for sharing confidential information, which is designed to ensure that confidential information remains protected and is exclusively used for bank-specific or system-wide supervisory purposes.</p> <p>The frameworks for coordination and collaboration arrangements amongst domestic supervisory authorities and for assuring confidentiality of information exchanged with the other stakeholders are partly in place, and not fully operational. SAMA is yet to establish an operating recovery and resolution framework and does not have cooperation and collaboration arrangements with the relevant domestic stakeholders. There is no systematic ongoing and proactive sharing of information between SAMA and CMA on the material risks and risk management practices, and supervisors' assessments of the</p> |

| Core Principle | Grade | Comments |
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| | | <p>safety and soundness of the relevant entity under their respective supervision. The MOU with CMA must be amended to provide for proactive periodic sharing and exchange of data and information on banks or banking groups supervised by SAMA in the context of ongoing micro prudential supervision instead of being reactive, as it is currently. The arrangements for cooperation and collaboration amongst domestic authorities can be made more comprehensive through full MoUs (covering supervision) with the recently established Insurance Authority and the local stakeholders that are relevant for resolution in KSA. Operationalizing these new MoUs can help SAMA in improving its micro prudential supervision and undertaking recovery and resolution planning, and actions.</p> <p>Of the eight host and sixteen home jurisdictions, SAMA has executed MoU with only one host supervisor. Arrangements for coordination and collaboration must be established with the remaining relevant home and host supervisory authorities, including the resolution authorities in those jurisdictions. The current and proposed arrangements should promote systematic, ongoing, and proactive periodic sharing and exchange of data and information, and not remain reactive, as it is currently.</p> |
| 4. Permissible activities | LC | <p>The BCL includes definition of the term “bank”, a list of activities that banks are not permitted to undertake, and a list of activities that banks can undertake subject to specified limits and/or with SAMA’s prior approval. SAMA publishes and updates the list of banks licensed by it on its official website, including branches of foreign banks operating in KSA.</p> <p>The terms “bank” and “banking activities” are defined in BCL, but these are not adequately clear and controlled. Reference to: (i) “any of the banking business” in the definition of a bank; and (ii) the broad definition of banking business, which mentions “other banking business” without defining clearly what those are. This seems to suggest that: (i) an entity that is not a deposit-taking entity can be determined to be a bank; and (ii) any natural or juristic person practicing an undefined banking business is a bank. SAMA considers that this broad definition allows it to extend the regulatory perimeter to entities that are not licensed as banks, if needed. At the same time, from a consumer perspective, a consumer who is not financially literate might transact with an entity that meets the above broad definition on the belief that the entity is supervised by SAMA. Taking of deposits is not confined to banks. Finance companies can accept</p> |

| Core Principle | Grade | Comments |
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| | | <p>savings and time deposits from non-individual customers and juristic persons with SAMA's prior approval. The Social Development Bank that is not a licensed commercial bank and is not regulated and supervised as a bank by SAMA is offering deposit products to its customers. The laws have currently allowed other financial entities to use the word "bank" in their names and offer deposit products without receiving a banking license, and without being regulated and supervised as a bank.</p> |
| 5. Licensing criteria | MNC | <p>The BCL designates the Minister as the licensing authority for new banks and empowers the Council of Ministers to decide on cancellation or revocation of license. While the law is silent on who can set the licensing criteria, SAMA has established these criteria through regulations. These criteria are broadly aligned with those applied in ongoing supervision, except for the digital banks where the supervisory framework is under development.</p> <p>Basic powers and processes for receipt and scrutiny of new bank license applications and issue of new banking licenses are available and functioning, but these must be reviewed and revised significantly to make these more comprehensive to include all specific elements required in this Principle, including the following.</p> <p>Laws must be revised to empower SAMA or the Minister or the Council of Ministers to: (i) set licensing criteria; (ii) reject an application if the criteria are not fulfilled or if the information provided is inadequate; and (iii) revoke the license if the license was based on false information. SAMA should also be empowered to impose any special or additional prudential conditions or limitations on the newly licensed banks, where required. In the absence of explicit powers in this regard, the legal validity of the licensing criteria is unclear and untested. The BCL should also be revised to establish a much higher minimum (absolute) initial capital amount that also reflects the infrastructure and technological investment needs for establishing a new bank and its business model.</p> <p>The licensing process should be formalized through a licensing policy or license processing guidelines to streamline and standardize the processing, establish processing timelines, supplement the criteria in the regulations with additional guidance and sub-processes, and make the scrutiny, verification, and analyses more comprehensive. The processing must be revised to explicitly include and document each of these: verification of source of funds for initial capital, assessment and quantification of shareholders' financial strength and their ability to provide additional financial support, where relevant identification and due diligence of UBOs, assessment of the likely hindrance to be posed by ownership and governance structures of the wider group to</p> |

| Core Principle | Grade | Comments |
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| | | <p>effective supervision and effective implementation of corrective measures on both a solo and a consolidated basis, and assessment of the collective knowledge of board members, and individual board member's and senior management personnel's background, skills and experience, in relevant financial operations commensurate with the intended activities of the bank.</p> <p>In the absence of binding time limits for commencing operations after obtaining a license approval, and when there are long/indefinite delays in commencing operations, there are high chances of material changes, among others, to the proposed bank's business model viability, shareholders' financial position and their fit and proper status, availability of the identified board members and senior management personnel and their fit and proper status. Such developments could also lead to non-fulfillment of licensing criteria which the applicants once met. Hence, laws, regulations, and internal guidelines should be strengthened to avoid or appropriately respond in such situations.</p> <p>Instead, of relying on the applicant bank, SAMA should contact home supervisor of foreign banks that apply for branch license in KSA and undertake due diligence on their supervisory frameworks and their consolidated supervision capabilities and practices to inform the licensing process.</p> <p>SAMA should establish policies and processes to monitor the progress of new entrants in meeting their business and strategic goals, and to determine that prudential conditions or limitations in the license approval are being met. It should, therefore, subject the new bank to more rigorous offsite and onsite supervision in the initial years after licensing.</p> |
| 6. Transfer of significant ownership | MNC | <p>In the absence of definitions of significant ownership and controlling interest in laws, SAMA is relying on the definition of significant shareholder as used for identifying related parties, for controlling transfer of significant ownership in banks. It has established an arrangement with the CMA to exercise control over transfer of significant ownership in banks that partly addresses the situations envisioned in the core principle.</p> <p>Powers and processes for reviewing, rejecting, and imposing prudential conditions on proposals to transfer significant ownership and controlling interest in existing banks need significant improvement. The current arrangement through a combination of MoU and exchange of letter between SAMA and CMA does not adequately meet the main requirements in this Principle to effectively</p> |

| Core Principle | Grade | Comments |
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| | | <p>control change in ownership in existing banks. Laws, regulations and supervisory processes must be revised along the lines indicated below to achieve the intended outcomes.</p> <p>Laws should be strengthened to empower SAMA to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests, including beneficial interests, in existing banks to other parties. Laws and/or regulations should:</p> <ul style="list-style-type: none"> • Explicitly define the terms ‘significant ownership’ and ‘controlling interest’ for the purposes of controlling transfer of ownership in banks. • Establish requirements on existing and potential shareholders and UBOs in banks and the banks, to obtain SAMA approval for proposed changes to ownership, including beneficial ownership, or the exercise of voting rights over a particular threshold or change in controlling interest. • Empower SAMA to restrict the voting rights of shareholders; and to reject, modify or reverse the change in significant ownership when it determines that the change in significant ownership was based on false information. • Require banks to notify SAMA as soon as they become aware of any material information which may negatively affect the suitability of a shareholder that has significant ownership or a controlling interest. <p>SAMA should obtain from banks, through periodic reporting or on-site examinations, details of all shareholders with beneficial interest that: (i) can exert controlling influence; (ii) that can exert significant influence; and (iii) just below the threshold to determine significant influence to strengthen its supervisory oversight framework.</p> <p>SAMA should perform periodic fit and proper assessments of existing beneficial owners at or above a certain threshold. SAMA should undertake additional due diligence or more intensive fit and proper assessment on controlling shareholders.</p> |
| 7. Major acquisitions | LC | <p>The BCL lists the types of investments and acquisitions banks are precluded from making, those that they are allowed to make without obtaining SAMA’s no-objection, and those that require its no-objection. Powers and processes are largely established and applied for approving banks’ proposals for major acquisitions, but there is scope for improvement to meet the requirements established in this</p> |

| Core Principle | Grade | Comments |
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| | | <p>Principle. SAMA has not established internal guidelines for processing proposals from banks to undertake major acquisitions. Currently the processing is guided by the high-level criteria established in regulations issued in 2011. The following criteria must be considered while processing proposals for major acquisitions:</p> <p>(i) SAMA's ability to require or undertake effective implementation of corrective measure in the bank and across the banking group;</p> <p>(ii) effectiveness of supervision in the host country and SAMA's ability to exercise supervision on a consolidated basis, and</p> <p>(iii) assessment of risks from the activities of the entity being acquired/taken over by the bank and the banking group and the bank's ability to mitigate or manage these. In practice, SAMA does not: (i) undertake systematic assessment of the effectiveness of supervision in the host country; and (ii) assessment of risks from the activities of the entity being acquired/taken over to the bank and the banking group and their ability to mitigate or manage it. This considerably weakens the scrutiny of cross border acquisitions.</p> <p>Laws or regulations do not articulate SAMA's powers to prohibit banks from making major acquisitions/investments (including the establishment of cross-border banking operations) in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision.</p> |
| 8. Supervisory approach | MNC | <p>SAMA is adopting a risk-based approach to banking supervision that includes risk profiling of banking groups, updates these at least annually, uses systemic importance in combination with risk profile to determine supervisory stance, and adopts a forward-looking approach that informs supervisory intensity and helps determine allocation of resources. The supervisory approach includes interaction between offsite and onsite functions, at all stages of the supervisory cycle, and is informed by system-level analyses of risks and vulnerabilities, including from macroeconomic risks. The supervisory framework includes a corrective action and sanctions component.</p> <p>At the same time, there are several areas where the risk assessment methodology and supervisory approach fall short of the requirements in this CP. Among others, these include the following:</p> <ul style="list-style-type: none"> • The methodology used to risk profile licensed banks does not: (i) generate the risk profile of the bank or the banking group, it focuses on the bank's domestic consolidation (excludes business and exposures in foreign branches and foreign entities); (ii) consider reputation risk and contagion risk, and cross-sectoral |

| Core Principle | Grade | Comments |
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| | | <p>developments; and (iii) establish a forward-looking view of the risk profile.</p> <ul style="list-style-type: none"> • Supervision is not focused adequately on the solo bank having regard to the materiality of the group entities. Prudential requirements are not established, monitored, and enforced for the solo banks. Periodic reporting by banks at the level of solo bank is not adequate to determine risk profiles, monitor and enforce prudential requirements, and to facilitate resolution planning. • Resolvability assessments have not been undertaken and barriers to resolution, if any, are not identified and do not feed into risk profile assessments and corrective actions. • Crisis preparedness, crisis management, recovery, and resolution plans are yet to be established in partnership with other relevant authorities to be able to resolve banks and banking crisis in an orderly manner, where this becomes necessary. • While adopting a risk-based approach to supervision, full scope inspections are not considered even for banks that have been placed on high supervisory stance for several years. • Supervisors do not engage formally with the banks' board of directors, the non-executive or independent board members in the context of individual bank's supervisory examinations, external audits, and to challenge them on board strategy and business models, • SAMA's onsite inspections are mainly compliance focused and need to migrate to a broader and more qualitative assessment of the bank. • Quality control framework is not applied to apply to all components of the RAM and to the supervisory outputs. |
| 9. Supervisory techniques and tools | LC | <p>SAMA uses a range of supervisory techniques and tools to implement its supervisory approach, which helps it in deploying supervisory resources in proportion to the risk profile and systemic relevance of individual banking groups. The RAM and risk profile tool is the basic supervisory tool which is used extensively by the supervisors for determining the supervisory focus. This is supplemented by the series of meetings that the supervisors hold with the senior management in banks (SRV, ICAAP, and ILAAP), and a mix of targeted and thematic onsite inspections. SAMA's follow-up on inspection findings and</p> |

| Core Principle | Grade | Comments |
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| | | <p>implementation of action plans by banks, and the returns management systems ably support banking supervision. There are a few areas or elements where these can be improved to meet the requirements articulated in this Principle. Among others, these include need for: (i) periodic formal assessment of the quality, effectiveness, and integration of SAMA's on-site and off-site functions, including the integration of the inputs and outputs of the specialist departments (like the ones regulating and supervising AML-CFT and cybersecurity risks); (ii) undertaking full-scope inspections in all banks at least once in a certain number of years to ensure there are no supervisory blind spots; (iii) re-orienting onsite inspections towards more substantive and qualitative assessments and away from the currently predominant compliance orientation; (iv) engaging formally with the banks' board of directors, the non-executive or independent board members in the context of individual bank's supervisory examinations, external audits, and to challenge them on board strategy and business models; (v) explicitly requiring banks to notify it in advance of any substantive changes in their activities, structure and overall condition; and (vi) periodic independent review of the adequacy and effectiveness of the range of its available supervisory tools and their use, to adapt to the changing business models and operating environment in banks.</p> |
| 10. Supervisory reporting | LC | <p>SAMA obtains a large set of prudential, statistical, and financial returns from banks for use in the prudential supervision of banks and banking groups. These are obtained at different frequency from weekly to annual, and at the level of global consolidation and domestic consolidation. The quality and integrity of reporting is verified through automated checks on the returns management system, through verification of supervisory reporting pertaining to the area covered by targeted onsite inspections and through thematic inspections on data quality. Areas where the structured supervisory reporting can improve include: (i) lack of adequate and clear powers to require banks to submit any relevant data and information, including internal management information, on a solo and consolidated basis, about individual entities in the banking group, the parent (or controlling entity) and its affiliated entities to support assessment of their risks, financial strength, or weakness; (ii) reporting requirements (contents, frequency) do not reflect risk profile, risk rating and systemic relevance; (iii) lack of adequate reporting on solo bank, and lack of reporting to assess contagion risk and to facilitate resolution planning; (iv) reporting on large and related party exposures not comprehensive; (v) reporting does not</p> |

| Core Principle | Grade | Comments |
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| | | include flow data such as turnover, related party transactions and intragroup transactions; and (vi) effectiveness of the system of periodic review of returns and information collected from banks to determine that it satisfies a supervisory need. |
| 11. Corrective and sanctioning powers of supervisors | MNC | <p>Supervisors engage bilaterally with the supervised banks at the senior management level during the SRV, ICAAP and ILAAP discussions. Following these meetings supervisors require banks to undertake some corrective actions that are improvements required in banks' ICAAP and ILAAP documents or adjustments to their strategies and risk appetite statements. SAMA inspection reports are shared with the bank, and they are required to submit progress about actions taken on the inspection findings as per the given timelines on quarterly basis. Further, follow up visits are carried out to assess correctness of the actions taken/reported by the banks. The issues are escalated to the higher levels in SAMA and to the bank's senior management in case banks fail to implement the inspection recommendations in a timely manner.</p> <p>SAMA takes corrective actions when a bank breaches any requirement set in law or regulations. Though it has powers to take corrective action (with the approval of the Minister, where required), when a bank adopts a policy that could threaten its solvency or liquidity, SAMA has not used this power. The powers do not extend to taking corrective actions ahead of a regulatory or legal breach or in response to unsound or unsafe practices.</p> <p>Supervisors do not engage directly with bank boards at an early stage to require its concerns to be addressed in a timely manner. They also do not meet with the board when there is a need for taking significant corrective actions or when the banks' corrective actions are not adequate or are ineffective.</p> <p>The provisions in the laws (and implementing regulations) are not fully clear if SAMA can take material corrective actions or impose significant sanctions without the prior approval of the Minister. In either case, during the past five years SAMA has not taken any material corrective actions, and has not imposed sanction against banks' senior management or board, or the individuals therein for their negligence or ineffectiveness or mismanagement though one local bank was placed on "high" supervisory stance over the past three years and one other local bank was placed on similar supervisory stance for two of the past three years,</p> |

| Core Principle | Grade | Comments |
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| | | <p>On sanctions or penalties, SAMA largely relies on monetary penalties, drawing the banks' attention to the breach or violation, requiring the bank to warn the concerned employee. It needs the prior approval of the Minister to apply other types of sanctions.</p> <p>The other areas where the powers available to SAMA are inadequate or not available for taking corrective actions or imposing sanctions are: for ring-fencing the bank, restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, and replacing or restricting the powers of managers, board members or controlling owners.</p> <p>SAMA is yet to establish cooperation and collaboration arrangements with relevant authorities in deciding when and how to effect orderly resolution of a problem bank situation. The framework for resolving banks, and recovery and resolution plans for SIFIs are yet to be established. Currently, SAMA does not inform the other supervisors (other domestic regulators, home, and host) of its corrective actions or sanctions or coordinate its actions with them. The laws do not have requirements or provisions that can avoid undue delay in taking appropriate corrective actions.</p> |
| 12. Consolidated supervision | MNC | <p>SAMA's RBS framework for consolidated supervision is based on the RAM that captures both quantitative and qualitative factors to measure risks and related controls in line with banks' business model and strategy. The RAM provides a standardized methodology to assess the inherent risks and level of controls. The RAM also evaluates the oversight framework that include board of directors, senior management, operational management, financial control, risk management, internal audit, and compliance. Besides the RAM and related processes, SAMA obtains and analyzes periodic regulatory returns. The annual SRV exercise covers high-level topics including but not limited to the group strategy, risk management framework and business forecasts. The annual supervisory engagements include review of ICAAP, ILAAP, and banks' stress testing.</p> <p>All eleven local banks in the Saudi banking system are part of banking groups and several are part of a wider group that include corporate owners, including foreign banks, and their subsidiaries. Two banks have banking subsidiaries within the group. Local banks have 69 subsidiaries (51 domestic and 18 foreign), and 24 associates (20</p> |

| Core Principle | Grade | Comments |
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| | | <p>domestic and 4 foreign). These banking groups have amongst them 3 banking entities, 10 insurance entities, 8 securities market or other financial entities, and 72 non-financial entities, of which 14 are outside Saudi Arabia. Based on the data available with SAMA, these collectively account for 3 to 22 percent of the net profits, 1 to 7 percent of total assets and 3 to 18 percent of capital of the respective consolidated banks. In nine of the eleven banks at least one of these three parameters is about 10 percent or more and in two it is 5 to 10 percent. This shows that the contribution of the group entities in each of the eleven banks is not immaterial.</p> <p>Of the eleven local banks, at least six have controlling shareholders/ parent entities that have investment in several other entities. These banks have a significant market share in the Saudi banking system.</p> <p>Some of the main gaps or areas for improvement include the following: (i) the RAM and the related supervisory processes do not include the material activities conducted by entities in the wider group, understanding and assessment of how group-wide risks are managed, assessment of risks arising from the banking group and other entities in the wider group, in particular contagion and reputation risks, the complexity of the group structure, the group-wide board and senior management oversight, compliance and internal audit frameworks, and the resolvability of banks and the banking group; (ii) the KRIs used for assessing the risk profile of banking groups is compiled for the domestic consolidated group instead of the global consolidated group; (iii) some prudential requirements (for example, large exposures and related party transactions) are not required at the level of the global consolidation and some others (for example, liquidity requirements) are monitored and enforced at the level of domestic consolidation; (iv) offsite and onsite supervision of the three foreign banking subsidiaries is minimal, hence, assessment of risks in and from these subsidiaries is absent; (v) scope, depth, and frequency of SAMA supervisors' review of the bank management's oversight of the bank's foreign branches or subsidiaries are not adequate; onsite inspection of foreign branches of local banks has not been undertaken, exception being the recent first onsite inspection of foreign branches of Saudi banks; (vi) effectiveness of host supervision not assessed and does not feed into the risk profile or inform supervisory approach; (vii) the powers available to SAMA are unclear and untested with regards to taking pre-emptive action for addressing any adverse impact from a bank's parent company or the companies affiliated to the parent</p> |

| Core Principle | Grade | Comments |
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| | | <p>company, and with regards to limiting the range of activities the consolidated group may conduct and the locations in which activities can be conducted; (viii) resolvability assessments of the banking group have not been undertaken and barriers to resolution, if any, are not identified and do not feed into risk profile assessments and corrective actions; and (ix) recovery and resolution plans for banking groups, including the cross-border elements, are yet to be developed.</p> |
| 13. Home-host relationships | MNC | <p>SAMA was invited to participate in the supervisory colleges of four foreign banks that are operating branches in KSA. Of the eight host jurisdictions, where Saudi banks are operating branches or subsidiaries, SAMA has MoUs with one jurisdiction and a split of responsibilities agreement with another. Under the lone MoU with a host supervisor, SAMA shares information when requested. SAMA recently conducted its first onsite inspections of foreign branches of local banks between August 2023 and January 2024 (reports were under finalization during the assessment mission).</p> <p>Given the significance of the cross-border presence/operations of Saudi banks and the three Saudi banks where foreign banks have controlling interest (please see description and finding under EC1 of this CP and CP12 for details), robust and effective home-host relationship is required for sharing information and cooperating to ensure effective supervision of the group and group entities, and effective handling of crisis situations.</p> <p>The cross-border cooperation and coordination arrangements between SAMA and the relevant home and host supervisors for sharing information and cooperating for effective supervision of the banking group and group entities, and effective handling of crisis situations is largely yet to be established and functional.</p> <p>SAMA has established MoUs and information sharing arrangements with only one of the possibly 24 relevant home and host jurisdictions. Even in this instance where SAMA has MoU, there is no systematic, ongoing, and proactive sharing of information between the supervisors on the material risks and risk management practices of the bank and the banking group, and supervisors' assessments of the safety and soundness of the relevant entity under their supervision. Information sharing, if any, is generally initiated by a request from one of the supervisors. SAMA and the host/home authorities do not undertake collaborative supervisory exercises, as a practice. They generally undertake these independently but keep each other informed ahead of the exercise. Since these exercises have been few</p> |

| Core Principle | Grade | Comments |
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| | | <p>and far between, SAMA has not felt the need to coordinate or plan the supervisory activities. Though SAMA has participated in a couple of supervisory colleges hosted by home supervisors, they have not yet established joint communication strategy. SAMA does not have such communication strategies with any of the host supervisors and with the supervisors from the three jurisdictions whose banks have controlling interests in three Saudi Banks. In light of the nascent stage of inter-institutional crisis management and resolution arrangements in KSA, SAMA has not yet established cross-border crisis management or resolution arrangements with the relevant home or host supervisors.</p> <p>The regulatory and supervisory frameworks applied by SAMA to the foreign bank branches (FBB) operating in KSA, is different and less onerous than the framework applied to domestic banks. FBBs are subject to a different set of prudential, inspection and regulatory reporting requirements compared to other domestic banks.</p> |
| 14. Corporate governance | LC | <p>SAMA has established the regulatory requirements on key elements relevant for corporate governance arrangements in banks. These encourage the banks to establish healthy corporate governance polices and processes that include strategy, organizational structures, control environment, responsible remuneration frameworks, and board and senior management oversight. Banks' compliance with these requirements and implementation of the established policies and procedures are topics of supervisory assessments both during offsite and onsite engagements. While offsite assessments are at a higher-level (that is institution-wide), the onsite engagements are largely in the context of the governance arrangements as relevant for the area of focus during the onsite visit.</p> <p>SAMA has not undertaken comprehensive assessment of banks' corporate governance policies and practices since 2017–2018. The annual supervisory review of banks' self-assessment of their corporate governance arrangements attempts to fill the gap, but these reviews do not include a detailed review of banks' corporate governance policies and practices, and their implementation, and do not clearly address the proportionality element. The supervisors lack detailed guidance on undertaking such assessments.</p> <p>There are a few other areas where changes in laws, regulations and supervision can focus a bit more closely on certain specific areas to better assess the adequacy and effectiveness of the corporate governance arrangements in banks. For example: (i) supervisors do</p> |

| Core Principle | Grade | Comments |
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| | | <p>not meet with the boards, board committees and board members in a systematic manner to assess their collective and individual performance, effectiveness and knowledge of the bank's and banking group's operational structure and risks; (ii) supervisors do not assess performance of individual board members with reference to duty of care and duty of loyalty; and (iii) SAMA does not have the power to require changes in the composition of the bank's board if it believes that any individuals are not fulfilling their duties or are not exercising their duty of care or duty of loyalty adequately or effectively.</p> |
| 15. Risk management process | LC | <p>SAMA's framework around risk management requirements is largely complete. The Corporate Governance Principles require a Board Risk Committee, a separate risk function and a risk appetite statement supported by reporting and monitoring systems.</p> <p>There are three key gaps:</p> <ul style="list-style-type: none"> • There are Circulars covering individual risks such as credit risk (currently one of the largest risks for the Saudi banking system), cyber risk, business continuity management. But there are no detailed requirements for an overall risk management framework. • Some important areas of risk (market risk and operational risk) lack a single enforceable document. • The regulations do not require a bank to publicly disclose the dismissal or replacement of a bank's CEO, CRO, Chief Compliance Officer and Internal Audit Executives and the reasons. <p>SAMA supervisors meet Board members rarely and have no structured framework for doing so. We recommend that they put a framework in place to ensure the supervisor understands whether Board members are fully across risk management issues. Relatedly, it is recommended that on-site inspections afford more relative emphasis on testing and assessing the risk culture in a bank. This would involve a tilt away from a mainly compliance focus to a broader and more qualitative assessment of the bank and its approach to risk.</p> <p>There are no requirements to publicly disclose the dismissal or replacement of a bank's CEO, CRO, Chief Compliance Officer and Internal Audit Executives and the reasons.</p> <p>The SIFI law was passed in 2022 and will enable SAMA to build a full resolution and recovery framework for SIFIs. We encourage continued attention to full implementation.</p> |

| Core Principle | Grade | Comments |
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| 16. Capital adequacy | LC | <p>SAMA has a comprehensive framework whose requirements on capital instrument eligibility, capital deductions and risk weightings are consistent with Basel III. They use supervisory add-ons under Pillar 2 to reflect risk differentials.</p> <p>The key gap is that SAMA do not routinely monitor capital adequacy of the bank on a solo basis. The risk is not immaterial for some Saudi banks: group entities account for 3 to 18 percent of capital of the respective consolidated banks. Furthermore, many banks are looking to grow their overseas and non-banking operations.</p> <p>It is also recommended that supervisors carry out a sense check on key risk weighting numbers on receipt of the relevant returns, as this is not done automatically and the returns themselves may present a misleading picture if not analyzed thoroughly.</p> <p>It is recommended that the minimum capital requirement in legislation, currently set at SAR 2.5mn be updated to reflect current reality.</p> <p>SAMA are encouraged to develop a fuller set of indicators and market guidance on criteria for changing the level of the CCyB.</p> |
| 17. Credit risk | LC | <p>The 2013 Circular 'Rules on Credit Risk Management' sets requirements for banks to have a full credit risk management framework, including risk appetite, processes, lending authorities and systems. Credit exposures, policies and practices are monitored effectively via offsite and onsite supervisory activities.</p> <p>While the Rules set out valid principles and cover most of the necessary requirements, the following areas could be tightened to align more fully with the Basel Core Principles. The assessors note that there is no explicit requirement for banks to require large, risky, or unusual exposures to be subject to a particular level of approval at Board or senior management level (EC6). There is no specific mention of foreign exchange risk (EC4). And the requirement to identify a customer's total indebtedness sits in the Responsible Lending Guidelines, which only applies to lending to individuals.</p> <p>The assessors also note that the rules on credit risk management do not require loan officers to be free of conflicts for decisions in which they participate. This should be added when the relevant requirements are revised.</p> |
| 18. Problem assets, provisions, and reserves | C | SAMA has in place requirements around Loan Classification, Provisioning and Credit Review (2004) and Rules on Management of |

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| | | <p>Problem Loans (2020). Saudi Arabia follows the international IFRS 9 Standard for loan classification and provisioning. Compliance is assessed through offsite and onsite supervision; problem assets are an important focus.</p> <p>SAMA should consider adopting the definition of forbearance (rescheduled loans) in the Basel 2017 document 'Prudential treatment of problem assets—definitions of non-performing exposures and forbearance.'</p> <p>It is recommended that SAMA should build on the existing FSC framework to embed a more systematic process for taking account of macro indicators and trends across the system, and using specific triggers to advise banks whether a risk build-up should flow through to provisioning levels.</p> |
| 19. Concentration risk and large exposure limits | LC | <p>The Large Exposures Rules set appropriate limits on exposures to single counterparties or groups of connected counterparties. Requirements to manage credit concentration risk are contained in the Credit Risk Management Circular of 2013. Verification of compliance and of processes is undertaken as part of an effective onsite inspection program.</p> <p>It should be explicit in the rules that any excesses permitted by SAMA over the large exposures limit must be on a strictly temporary basis.</p> <p>SAMA's reporting requirements are confined to the "domestic" business of the bank. This is defined as the bank's Saudi branches and subsidiaries. Exposures incurred by a bank's overseas branches or subsidiaries are not included, with the risk that breaches and risky concentrations are missed, by the bank and the supervisor. It is recommended Large Exposures be reported at the level of the bank entity (solo) and consolidated group.</p> <p>SAMA are encouraged to increase their system-wide monitoring of exposures to government and government-owned commercial companies from a concentration risk perspective, in part because of their expected growth as part of Vision 2030.</p> |
| 20. Transactions with related parties | MNC | <p>SAMA has defined related parties in its circular of June 2022. This definition is broader than the BCP definition to the extent that it includes banks' Shariah Committee members, their interests, and their relatives (Article 2.vi of the circular). SAMA regulations require that exposures/transactions to related parties shall only be considered on arm's length basis and without any preferential treatment. SAMA's Related Party Rules for Banks issued in June 2022 set limits on</p> |

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| | | <p>exposures to related parties; require banks to put in place processes to limit the risk from related party transactions; and require these to be at arm's length. As part of supervisory reporting, SAMA is obtaining details of banks' exposures to their related parties at the level of domestic consolidation.</p> <p>At the same time, there are significant gaps in compliance with this core principle's requirements. These include material gaps in definition of related parties, the limits set for aggregate related party exposures are quite liberal and banks are allowed to exceed the liberal limits, the limits are not applied to related party banks, exposures to related parties from foreign branches and foreign subsidiaries are not considered while measuring exposures to related parties and monitoring compliance with prudential limits, and write-off of related party exposures are permitted below board level.</p> <p>As with Large Exposures, reporting is on a "domestic" basis and should be on a solo and consolidated basis.</p> <p>The definition of Scope and Application does not extend to the full consolidated group, omitting subsidiaries of a parent and non-banks.</p> <p>There are five gaps in the Rules:</p> <ul style="list-style-type: none"> • The definition of related party does not include all affiliates, nor potentially key staff who do not hold executive positions (EC1). • There is no limit for related parties that are banks (EC5). • The rules for write-off of related party exposures permit this to be approved by a delegate, not by the Board (EC3). • There is no requirement for directors to absent themselves from a meeting which is considering a transaction in which the director has a related party interest (EC3). • The aggregate exposure to related parties currently (set at 50 percent of Tier 1 capital) should be no higher than that for single counterparties (set at 25 percent of Tier 1 capital). <p>SAMA should extend individual reporting to all related parties (EC7).</p> |
| 21. Country and transfer risks | MNC | <p>SAMA's regulatory framework for country and transfer risk is embedded in its regulations on credit risk management where it requires banks' credit policies to include broad parameters for taking credit exposures to geographic areas/countries. Implementation Rules for the Banking Control Law requires banks to obtain SAMA's pre-approval for overseas exposures from its domestic branches. SAMA's</p> |

| Core Principle | Grade | Comments |
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| | | <p>regulation and supervision are oriented towards direct exposures to country and transfer risk.</p> <p>SAMA have not put in place specific requirements around country and transfer risk, because of low levels of direct country risk. The more general requirements around credit risk management and governance are intended to capture country and transfer risk as part of the risk-based approach.</p> <p>Article 16.6 of the Banking Control Law requires banks to obtain SAMA's pre-approval of all overseas exposures and this acts as a regulatory backstop to control direct country exposures.</p> <p>Three matters should be addressed:</p> <ul style="list-style-type: none"> • SAMA should monitor indirect as well as direct country risks – for example, the risk that counterparties may be exposed to events in a foreign country. • Transfer risk is not fully recognized as a risk for banks. SAMA should consider how to incorporate it within the regulations and supervisory monitoring. • Introduce provisioning requirements for country risk (EC4). <p>It is recommended that SAMA include country and transfer risk in regulations, either via a stand-alone circular or within a risk management circular. In particular, the lack of consideration of indirect country risk is a significant gap.</p> <p>Country and transfer risk should also be introduced explicitly into the offsite monitoring, SAMA's bank risk assessment framework and the stress testing framework. Where material, and on a risk basis, onsite inspections could focus more on these risk categories.</p> |
| 22. Market risk | LC | <p>SAMA follows the Basel III market risk framework in setting capital requirements. SAMA undertakes supervisory assessment of a bank's market risk management notably through the ICAAP and the onsite inspection program. Market risk is covered in the Treasury inspections, which are detailed and cover all aspects of the risk management process, including risk appetite, governance, reporting, systems, and internal controls. SAMA requirement for biannual stress tests incorporates market risk elements as appropriate. The severe scenarios take account of the risk of a significant deterioration in market liquidity.</p> |

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| | | <p>Market risk exposures for banks in the Kingdom are not currently significant (reported in capital returns at an average about 3 percent of a bank's RWAs, with a range of up to 6 percent), and their engagement in complex products is said to be minimal, but some data suggests significant trading activity. It seems that this information is neither fully understood nor assessed critically by supervisors. More attention needs to be paid to these numbers given the risk that high transaction levels can give rise to high risks during a crisis.</p> <p>It is recommended SAMA issue a market risk management guidance document.</p> <p>SAMA's KRIs only include one indicator and that is for FX risk. It is recommended that SAMA review their market risk KRIs and at a minimum include one for interest rate risk (EC2).</p> <p>SAMA should introduce specific guidance to onsite supervisors for inspection of market risk management systems while building capability.</p> |
| 23. Interest rate risk in the banking book | LC | <p>SAMA require banks to measure IRRBB, to have in place a risk appetite and control framework, and to include detailed analysis of IRRBB as part of the ICAAP.</p> <p>The assessors recommend a more accessible single policy document for IRRBB risk management.</p> <p>It is recommended SAMA review the inclusion of KRI measures that are based off measures other than a 200bp parallel shift.</p> |
| 24. Liquidity risk | LC | <p>SAMA have implemented both the LCR and NSFR requirements in a way that is fully compliant with Basel III. The ILAAP process and stress tests ensure detailed supervisory attention to liquidity risks, including contingency plans.</p> <p>The rules and monitoring apply at the consolidated level. It is recommended that SAMA introduce formal requirements at the solo level and meanwhile start to monitor bank entity-level liquidity.</p> <p>Encumbrance levels are low in Saudi banks, but it would still be appropriate for SAMA to put in place encumbrance limits and to monitor these via offsite and onsite work.</p> |
| 25. Operational risk | C | <p>SAMA has in place comprehensive and useful policies around some key areas of operational risk, such as cyber, IT governance and</p> |

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| | | <p>outsourcing. Their review of all aspects of operational risk management, via offsite and onsite verification, appears effective.</p> <p>The absence of a holistic, enforceable regulation around operational risk management is a gap. The only such documents date back to 2014 and earlier and are explicit in being “for information purposes.” An overarching enforceable operational risk management regulation would ensure complete coverage.</p> |
| 26. Internal control and audit | C | <p>SAMA has issued comprehensive requirements for the internal audit function. The Key Principles for Corporate Governance set requirements for internal control functions.</p> <p>Supervisory monitoring and onsite inspections enable supervisors to assess banks’ compliance with these requirements in practice.</p> <p>It is recommended that regular meetings are set up with the Chair of the Audit Committee to enable an open dialogue and to test the tone from the top.</p> |
| 27. Financial reporting and external audit | LC | <p>KSA has accounting standards that are internationally recognized. Auditors are subject to standards of SOCPA, their professional and regulating body. These standards are aligned with international expectations. SAMA imposes further requirements, such as rotation of audit partners every three years.</p> <p>It is recommended that a requirement for auditors to report issues directly to SAMA is tightened and clarified.</p> <p>It is recommended that routine meetings between SAMA supervisors and external auditors be introduced as part of the supervisory process.</p> |
| 28. Disclosure and transparency | LC | <p>Legal and regulatory requirements mandate the publication of audited annual accounts, quarterly financial statements, and Basel III Pillar 3 disclosures. These are in line with BCP expectations in almost all respects.</p> <p>There are requirements to publish information in respect of related party transactions or exposures if they exceed 1 percent of the bank’s revenue. This is helpful and will cover material transactions, but the scope of reporting is limited than expected under EC2 (both by amount and on account of the definition being narrower than under Basel). There is no requirement to disclose details of restructured loans (EC2). Nor is there any significant information on intra-period positions (AC1).</p> |

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| | | The legal requirement for SAMA to review and not object to the quarterly financial statement should be removed as part of the review of the Banking Control Law as it can give rise to moral hazard. |
| 29. Abuse of financial services | C | <p>AML/CFT legislation is in place and covers all material requirements within the ECs. SAMA appears to be adequately resourced for the tasks. The inspection program is comprehensive, and sanctions are applied in cases of non-compliance. SAMA is empowered to cooperate and share information with domestic and overseas authorities and there is evidence of this working in practice.</p> <p>SAMA issued a Counter Fraud Circular in 2022 which lays down principles and control requirements around counter-fraud controls.</p> |

RECOMMENDED ACTIONS AND AUTHORITIES' COMMENTS

A. Recommended Actions

| Recommended Actions to Improve Compliance with the Basel Core Principles and the Effectiveness of Regulatory and Supervisory Frameworks | |
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| Reference Principle | Recommended Action |
| Principle 1 | <ul style="list-style-type: none"> • Establish a clear link between the different objectives in the SCBL and the functions of SAMA and introduce elements of organizational separation between the banking supervision function and other functions to avoid conflicts of interests and to ensure that each function is exercised in accordance with the relevant objectives. • Specify in the SCBL that the primary objective of banking supervision is to promote the safety and soundness of banks and the banking system and that any other objectives shall be pursued only in a subordinate fashion. • Equip SAMA with all missing powers to conduct effective banking supervision and resolution. • Ensure periodic review and update of relevant laws, regulations, and prudential standards to ensure that they remain effective and relevant to changing industry and regulatory practices. |
| Principle 2 | <ul style="list-style-type: none"> • Modify laws to: <ul style="list-style-type: none"> ○ Establish and make fully transparent the procedure for the appointment and removal of the Governor, Vice Governors, and board members. ○ Define the appointment and removal criteria of the Governor and the Vice Governors, specify grounds for removal of Governor and Vice Governors during their term, and require public disclosure of reasons for removal during their term. ○ Make SAMA operationally independent; eliminate need for Minister and Council of Ministers' approvals for conducting ongoing supervision. ○ Establish and make fully transparent SAMA's accountability with regards to fulfilment of its mandate. ○ Fully address conflict of interest at SAMA board and in the Code of Ethics. |

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| | <ul style="list-style-type: none"> ○ Revise internal governance and communication processes to enable taking of timely supervisory decisions in the case of an emergency. ○ Assure protection against lawsuits and costs of defending for: <ul style="list-style-type: none"> ○ SAMA, its former staff, and its agents. ○ Staff (for omissions and costs). ● Undertake assessment of manpower and skill needs in banking supervision over the medium term (in addition to the current 12-month horizon). |
| Principle 3 | <ul style="list-style-type: none"> ● Establish cooperation and coordination arrangements (covering supervision) with the Insurance Authority. ● Make exchange of information with all relevant local authorities systematic, ongoing, and proactive, and undertake collaborative work. ● Establish arrangements and processes for enlisting and assuring support of relevant authorities in KSA and other relevant jurisdictions to undertake recovery and resolution planning and actions. |
| Principle 4 | <ul style="list-style-type: none"> ● Modify laws and regulations to: <ul style="list-style-type: none"> ○ Revise definitions of the terms ‘bank’ and ‘banking business’ more clearly. ○ Fix the ambiguity in Article 2(a) of the BCL to restrict deposit taking activities to licensed banks. ○ Tighten use of the word “bank” and any derivations such as “banking” in names of entities that are not licensed as banks under the BCL. ● Reconsider licensing of deposit taking finance companies as they are very similar to banks. ● Establish clear public disclosures about entities using the word “bank” in their names but are not a licensed commercial bank and are not regulated and supervised as a bank by SAMA, as the public might otherwise be misled. |
| Principle 5 | <ul style="list-style-type: none"> ● Empower SAMA or the Minister or the Council of Ministers to; (i) set licensing criteria; (ii) reject an application if the criteria are not fulfilled or if the information provided is inadequate; and (iii) revoke the license if the license was based on false information. ● Include criteria to assess whether ownership and governance structures of the wider group are hindering effective supervision, and implementation of corrective actions. Review and revise the licensing criteria for digital banks |

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| | <p>to align with those applied for ongoing supervision of such banks, when approved.</p> <ul style="list-style-type: none"> • Establish internal guidelines for ensuring timely and comprehensive processing of license applications, including documentation, explicit assessment of board's collective knowledge, relevance of individual board member and senior management skills and experience in relevant financial operations commensurate with the intended activities of the bank, shareholder financial strength, identification of UBOs and their fit and proper compliance. • Strengthen laws, regulations, and internal guidelines to avoid or appropriately respond to long delays in commencing operations after obtaining license approval. • Assessment of home supervisory practices (consolidated supervision, quality of supervision) should be mandatory. • Place newly licensed banks on enhanced onsite and offsite supervision initially. |
| Principle 6 | <ul style="list-style-type: none"> • Obtain powers in laws to: <ul style="list-style-type: none"> ○ Review, reject and impose conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in banks or prevent exercise of voting rights. ○ Reject or reverse change in ownership or prevent exercise of voting rights when such change was based on false information. • Define "significant ownership" and "controlling interest" in laws or regulations, for controlling ownership changes in banks. • Establish explicit requirements on banks and shareholders to obtain prior approval for change in significant ownership and controlling interest, including beneficial ownership. Require periodic reporting by banks on shareholders with beneficial interest beyond a threshold. • Require banks to notify SAMA as soon as they become aware of any material information which may negatively affect the suitability of a shareholder that has significant ownership or a controlling interest. • Identify and perform due diligence on UBOs; conduct enhanced due diligence on shareholders with controlling interest; review fit and proper status periodically. • Establish and publish criteria to assess approvals for transfer of significant ownership or controlling interest, to improve transparency. |

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| Principle 7 | <ul style="list-style-type: none"> • Enhance legal powers to: <ul style="list-style-type: none"> ○ Require entities in the banking group to obtain SAMA’s no-objection before making major acquisitions. ○ Prohibit banks from making major acquisitions/investments in countries with laws or regulations prohibiting information flows deemed necessary for adequate consolidated supervision. • Develop internal guidelines for processing proposals for major acquisitions. Include the following criteria for processing bank proposals for major acquisitions: (i) SAMA’s ability to require or undertake effective implementation of corrective measure in the bank and across the banking group; (ii) effectiveness of supervision in the host country and SAMA’s ability to exercise supervision on a consolidated basis; and (iii) assessment of risks from the activities of the entity being acquired/taken over by the bank and the banking group and the bank’s ability to mitigate or manage these. |
| Principle 8 | <ul style="list-style-type: none"> • Review and revise supervisory approach and methodology to include: <ul style="list-style-type: none"> ○ Assessment of the risk profile of the solo bank distinctly on an on-going basis. ○ Contagion risk and reputation risk in the supervisory rating/ risk profile methodology. ○ Establish a forward-looking view of bank risk profiles by including macroeconomic environment and cross sectoral developments in determining risk profile of banks, rather than in determining supervisory intensity. ○ Resolvability assessment of banks barriers to resolution, if any. ○ Full-scope inspection of all banks at least once in a certain number of years (for example, three to five years) to avoid supervisory blind spots. • Engage with banks’ board of directors and separately with the non-executive or independent board members on strategies, business models, supervisory findings, recurring and outstanding action points, and external audits. • Modify onsite inspections methodology to migrate to a broader and more qualitative assessment of the bank, and away from a compliance focus. • Establish, monitor, assess and enforce prudential requirements for solo bank distinctly. • Address periodic reporting gaps for solo banks. |

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| | <ul style="list-style-type: none"> • Establish, in partnership with other relevant authorities, the framework and process for handling banks in times of stress, including timely recovery or resolution actions. • Strengthen the quality control framework to apply to all components of the RAM and to the supervisory outputs. |
| Principle 9 | <ul style="list-style-type: none"> • Undertake regular assessment of the quality, effectiveness, and integration of on-site and off-site functions to inform supervisory approach. • Explicitly require banks to notify SAMA in advance of any substantive changes in their activities, structure, and overall condition. • Institute periodic independent review of the adequacy and effectiveness of the range of supervisory tools and their use. |
| Principle 10 | <ul style="list-style-type: none"> • Enhance offsite returns package to: <ul style="list-style-type: none"> ○ Obtain data and information on a solo and consolidated basis on banks' financial condition, performance, and risks. ○ Make contents and frequency of reporting sensitive to the risk profile and systemic relevance of banks and banking groups. ○ Obtain data or information on individual entities in the banking group, the parent (or controlling entity) and its affiliated entities to support assessment of their risks, financial strength, or weakness. ○ Enhance scope of reporting on related party and large exposures. ○ Obtain KRIs both for solo bank and banking group. ○ Obtain flow data (related party transactions, intragroup transactions, turnover or average over reporting period—where relevant). ○ Obtain data and information relevant for assessing banks' recovery plans and for preparing SAMA's resolution plans for each SIFI. • Ensure specific powers in law to request and receive any relevant information, including internal management information, from banks, as well as any entities in the banking group and in the wider group. • Strengthen the process to periodically review the data and information collected to determine that it satisfies a supervisory need. |
| Principle 11 | <ul style="list-style-type: none"> • Obtain explicit powers under law to: <ul style="list-style-type: none"> ○ Take corrective actions and impose sanctions without having to seek the Minister's prior approval. |

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| | <ul style="list-style-type: none"> ○ Enhance engagement with board: raise supervisory concerns with them, write to bank's board as needed. ○ Take corrective actions, based on supervisory judgment, when bank is engaging in unsafe or unsound practices or in activities that could pose risks to the bank or the banking system, or when the interests of depositors are otherwise threatened. ○ Intervene at an early stage, based on supervisory judgment, to require a bank to take action to prevent it from breaching its legal or regulatory threshold requirements. ○ Take corrective actions, including ring-fencing of the bank from the actions of parent companies, subsidiaries, and other entities in the banking group and wider group. ○ Include additional corrective actions in supervisory toolkit such as restricting the current activities of the bank, imposing more stringent prudential limits and requirements, withholding approval of new activities or acquisitions, suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from the banking sector, replacing or restricting the powers of managers, board members or controlling owners. ○ Guard against undue delay in taking appropriate corrective actions. ● Develop internal guidelines for exercising the corrective actions and sanctioning powers based on supervisory judgment (ahead of legal or regulatory breaches) and in a manner that is consistent across banks and across time. ● Establish arrangements with resolution authorities in and outside KSA in deciding when and how to effect orderly resolution of banks. ● Inform supervisors of non-bank related financial entities of actions and, where appropriate, coordinate with them. |
| Principle 12 | <ul style="list-style-type: none"> ● Obtain powers in the laws to: <ul style="list-style-type: none"> ○ Limit the range of activities of the consolidated group, and the locations in which activities can be conducted (including closure of foreign offices). ○ Establish and enforce fit and proper standards for owners and senior management of parent companies. ● Revise the RAM and related supervisory processes, including reporting by banks, to fully address the gaps in the assessment and supervision of banking groups. |

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| | <ul style="list-style-type: none"> • Review and revise, as appropriate, the prudential requirements framework and related reporting by banks, to facilitate monitoring and enforcement at the level of global consolidation. • Include explicit assessment of risks from entities in the banking group, the controlling entity, and entities in the wider group (for example reputation, and contagion risks (including financial, technology and other interdependencies), incorporate these in the risk profile and RAM, modify offsite reporting to support such assessment. • Assess effectiveness of supervision conducted in the host countries, to inform risk profile and supervisory approach. • Establish policy on scope and frequency of offsite and on-site examinations of local bank's foreign operations, and/or require additional reporting on them. • Establish, in partnership with other relevant domestic and foreign authorities, the framework and process for handling banking groups in times of stress, including timely recovery or resolution actions. |
| Principle 13 | <ul style="list-style-type: none"> • Establish cooperation and collaboration arrangements (MoUs) with remaining host and home supervisors, including the relevant foreign resolution authorities. • Make exchange of information with host and home supervisors systematic, ongoing, and proactive; consider sharing financial and prudential indicators, risk assessments, supervisory finding, corrective actions, and sanctions. • Plan and undertake collaborative supervisory exercises with foreign supervisors, as relevant. • Establish communication strategy with relevant home/host supervisors and resolution authorities. • While developing crisis management arrangements and resolution framework in KSA, consider cross-border dimension as relevant, • While developing the resolution plans for local banks, SAMA should also develop group resolution plans, in coordination with the relevant home and host supervisory authorities and resolution authorities. |
| Principle 14 | <ul style="list-style-type: none"> • Obtain explicit power to require changes in the composition of the bank's board if the board or any individuals are not fulfilling their duties and responsibilities or are not exercising their duty of care or duty of loyalty adequately or effectively. • Undertake periodic systematic assessment of: |

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| | <ul style="list-style-type: none"> ○ Effectiveness of board and board committees ○ Performance of individual board members, and their exercise of duty of care and duty of loyalty ○ Adequacy and effectiveness of board and senior management knowledge and understanding of the bank's and banking group's operational structure and its risks, including those arising from the use of complex or opaque structures. ● Formalize internal guidance for supervisors to undertake assessments of corporate governance policies and processes, board member effectiveness, and their fulfilment of duty of care and duty of loyalty. |
| Principle 15 | <ul style="list-style-type: none"> ● Introduce a more comprehensive regulatory framework for risk management. ● Establish regular meetings with Board members to ensure they are fully across risk management issues. ● On-site inspections to include more relative emphasis on testing and assessing the risk culture in a bank, with a broader and more qualitative review. ● Introduce a requirement to publicly disclose the dismissal or replacement of a bank's CEO, CRO, Chief Compliance Officer and Internal Audit Executives and the reasons. ● Fully implement operational arrangements around the SIFIL. |
| Principle 16 | <ul style="list-style-type: none"> ● Establish a full monitoring framework for capital adequacy on a solo basis. ● Supervisors should perform a sense check on risk weights to assess the accuracy of reporting, especially on mortgages. ● The minimum capital requirement in legislation, currently set at SAR 2.5mn, be updated to reflect current reality. ● A fuller set of indicators and market guidance on criteria for changing the level of the CCyB be developed. |
| Principle 17 | <ul style="list-style-type: none"> ● Require banks to ensure large, risky or unusual exposures are subject to a particular level of approval at Board or senior management level. ● Include foreign exchange risk in the credit risk management guidelines. ● Broaden the requirement to identify a customer's total indebtedness to non-individual borrowers. |

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| | <ul style="list-style-type: none"> Require loan officers to be free of conflicts for decisions in which they participate. |
| Principle 18 | <ul style="list-style-type: none"> Establish a more systematic process for taking account of macro indicators and trends across the system, and assessing whether a risk build-up should flow through to provisioning levels. Adopt the full definition of forbearance (rescheduled loans) in the Basel 2017 document 'Prudential treatment of problem assets—definitions of non-performing exposures and forbearance.' |
| Principle 19 | <ul style="list-style-type: none"> Report Large Exposures at the level of the bank entity (solo) and consolidated group, rather than domestic exposures as at present. Make the rules explicit that any excesses permitted by SAMA over the large exposures limit must be on a strictly temporary basis. Increase system-wide monitoring of exposures to government and government-owned commercial companies from a concentration risk perspective, in part because of their expected growth as part of Vision 2030. |
| Principle 20 | <ul style="list-style-type: none"> Update the rules to broaden the definition of related parties in line with Basel. Extend the definition of Scope and Application in the Rules to the full consolidated group. Require write-off of related party exposures to be subject to prior approval by the bank's Board. Require directors to absent themselves from a meeting which is considering a transaction in which the director has a related party interest. Reporting should be on a solo legal entity and consolidated basis to ensure full capture, rather than domestic exposures as at present. Introduce a limit for related parties that are banks (EC5). The aggregate exposure to related parties (currently set at 50 percent of Tier 1 capital) should be no higher than that for single counterparties (set at 25 percent of Tier 1 capital). Extend individual reporting to all related parties (EC7). |
| Principle 21 | <ul style="list-style-type: none"> Incorporate transfer risk within the regulations and supervisory monitoring. Cover indirect as well as direct country risks—e.g., the risk that counterparties may be exposed to events in a foreign country. |

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| | <ul style="list-style-type: none"> • Include country and transfer risk in regulations, either via a stand-alone circular or within a risk management circular. • Introduce provisioning requirements for country risk (EC4). • Country and transfer risk should also be introduced explicitly into the offsite monitoring, SAMA's bank risk assessment framework and the stress testing framework. Where material, and on a risk basis, onsite inspections could focus more on these risk categories. |
| Principle 22 | <ul style="list-style-type: none"> • Issue a market risk management guidance document. • Increase attention to transaction flows in derivatives. This is a material gap in supervision of market risk. • Establish specific requirements around valuation adjustments for less liquid positions. • SAMA review their market risk KRIs and include some measures on trading activity, risk exposures between reporting dates, and at a minimum one for interest rate risk (EC2). Currently there is just one indicator, which is for FX risk. • Introduce specific guidance to onsite supervisors for inspection of market risk management systems while building capability. |
| Principle 23 | <p>Issue a single policy document for IRRBB risk management and ensure this is accessible on the website.</p> <ul style="list-style-type: none"> • Review the KRIs to include some that are based off measures other than a 200bp parallel shift. |
| Principle 24 | <ul style="list-style-type: none"> • Introduce formal requirements at the bank solo level and meanwhile start to monitor bank entity-level liquidity. • Put in place encumbrance limits and monitor these via offsite and onsite work. |
| Principle 25 | <ul style="list-style-type: none"> • Introduce an overarching enforceable operational risk management regulation would ensure complete coverage. • Introduce a requirement that Boards may delegate activities but not responsibility for aspects of risk management (such as BCM). |
| Principle 26 | <ul style="list-style-type: none"> • Set up regular meetings with the Chair of the Audit Committee to enable an open dialogue and to test the tone from the top. |

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| Principle 27 | <ul style="list-style-type: none"> • Clarify the requirement for auditors to report issues directly to SAMA. This could initially be done by SAMA communicating expectations on the audit profession, and subsequently through legislative change. • Introduce routine meetings between SAMA supervisors and external auditors as part of the supervisory process. |
| Principle 28 | <ul style="list-style-type: none"> • Put in place requirements to publish detailed information in respect of all related party transactions or exposures, and restructured loans, as well as richer information on intra-period positions. • The legal requirement for SAMA to review and not object to the quarterly financial statement should be removed as part of the review of the Banking Control Law as it can give rise to moral hazard. |

B. Authorities' Response to the Assessment⁸⁰

- The authorities are strong supporters of the Financial Sector Assessment Program (FSAP) and appreciate the diligent work of the IMF and World Bank teams. This program plays a crucial role in enhancing the soundness of financial systems and contributes significantly to the improvement of supervisory practices globally.
- **Saudi authorities embraced the BCP assessment as an opportunity to reassess the effectiveness of Saudi Arabia's banking regulation and supervision frameworks and identify areas for improvement.** The discussions held during the mission were informative and provided valuable and useful input. Given that the new BCP methodology and criteria have significantly changed since the previous revision, the authorities reiterate the caution noted by the mission that this assessment is not appropriate for comparison with either previous assessments or other countries' assessments.
- **Nevertheless, the authorities have strong reservations about the conclusions of the assessment in a number of Core Principles (CPs) and consider that, in contrast to other areas of the FSAP, there are notable aspects of the assessment that could be viewed from different perspective and significantly improved.** The authorities note that in some cases, existing deficiencies are exaggerated, mitigating factors are ignored, the materiality of some identified shortcomings is not taken into account as the assessment methodology requires and, for some CPs, the grades assigned by the assessors do not reflect the strength and effectiveness of Saudi banking regulation and supervision. The authorities have communicated these points to the FSAP team in their detailed comments to the draft Detailed Assessment Report. In order to provide a more

⁸⁰ This section includes the verbatim comments received from the authorities. As noted in paragraphs 1 and 11 of this report, the BCP assessment took place from January 16 to February 5, 2024, and is based on information and documents made available to the assessment team at that time.

balanced perspective to the mission's assessment, this section summarizes some of the most salient points for a number of CPs.

Core Principles 1 and 2 (Responsibilities, Objectives, Powers, Independence)

- The authorities disagree with the assessment of SAMA's powers, objectives, and independence.** As stated in Article (2) of the SCBL (2020), SAMA is a financially and administratively independent legal person which reports to the King. The Governor of SAMA has the rank of Minister and his appointment and benefits shall be determined pursuant to a royal order. The key point on which this assessment rests, is the requirement for MoF approval for a few supervisory actions in the BCL (1966). However, the scope of actions requiring authorization is very limited, since most of the powers have subsequently been delegated to SAMA (Implementing Rules delegate powers from Articles 12, 16, 17, 18, 22, 25 of BCL). Moreover, the authorities want to point out there have been no instances where SAMA faced challenges in exercising any of these powers. It should also be noted that the absence of explicit powers does not limit supervision, because there are broad powers in the KSA legal framework (e.g., SAMA can increase prudential requirements and reject and rescind the appointment of an external auditor who is deemed to have inadequate expertise or independence based on Article 4 of SCBL). This is in line with specifics of KSA legislative approach, aiming to make laws broad and stable over time. It should also be noted that the new draft Banking Law will remove the requirement for MoF authorization completely. The need for MoF approval is a recurring theme across multiple other CPs. Finally, the assertion that the last SAMA's Annual Report available on the website pertains to SAMA's accounting year which ended on June 30, 2020, does not correspond to reality. Annual Reports for the accounting years ended on June 30, 2021, and June 30, 2022, were also published on SAMA's website.
- Regarding objectives, criticism that SAMA's mandate does not include the safety and soundness of the banking system is not valid. The primary objective of SAMA as a supervisor is "supporting the stability of the financial sector and promoting trust therein," which is nearly equivalent to "preserving the safety and soundness of the banking system."** Potential challenges that might hypothetically arise in the context of SAMA objectives are not evidenced in practice and are mitigated by SAMA's organizational structure. The segregation of functions is a typical challenge in central banks that have both monetary policy and supervisory functions, and SAMA has adopted a very clear organization, with dedicated departments that house different individual functions, serving the objective of avoiding potential conflicts between mandates. Additionally, recent organizational changes that separated prudential supervision from conduct functions serve the same objective to further reduce the potential conflict between the corresponding mandates. Moreover, SAMA has policies that enhance system of checks and balances. For example, Macropprudential Framework further clarifies responsibilities and interaction model between Financial Stability and Supervision functions.
- In the context of resolution powers, SAMA as the resolution authority designated by the SIFI Law, has made significant progress since the previous FSAP.** The SIFI Law introduced in 2020 is in line with best practices and compliant with FSB recommendations. The work on

operationalization of the developed legal framework is one of the key strategic priorities for SAMA. It should also be stressed that CEDA approval of resolution plans does not affect SAMA's independence as a resolution authority in any way because SAMA has the power to deviate from resolution plans approved by CEDA based on Article 14 (3) of the SIFI Law. It should also be noted that the Authorities disagree with the conclusion that there is a lack of powers to cooperate and collaborate with relevant authorities to achieve an orderly resolution of banks. These powers are stated in the SCBL and SIFI Law.

- **Regarding SAMA staff protection, there are inaccuracies in the assessment.** SAMA staff is protected against omissions as both the SCBL and CTL's protection articles generally cover omissions and actions taken, as the SCBL states "carrying out their duties... ." It is also important to note that judiciary costs do not pose an issue, as based on Article (2) of the Judicial Fees Law and Article (13) of the Board of Grievances Law, litigation in the administrative courts in KSA is free of charge and a compensation from the plaintiff/claimant on any other costs endured can be requested.
- **Moreover, SAMA has a requirement to review past policies once every three years to ensure relevance and effectiveness of banking regulatory policies.** The statement that some regulations are outdated is not supported by specific examples of outdated provisions and sufficiently comprehensive analysis.

Core Principle 3 (Cooperation and Collaboration)

- **The authorities agree with the recommendation to further develop cooperation agreements for resolution.** It is worth noting that one important resolution agreement between SAMA and the CMA has already been established. SAMA is actively working on resolution framework development which implies commitment to further work on relevant cooperation agreements. It should also be recognized that the initial agreement with the Insurance Authority is already in effect. Future additional arrangements with the Insurance Authority will be aligned with the significance, materiality, or relevance of the interconnectedness between the insurance sector and banks.

Core Principle 4 (Permissible Activities)

- **The authorities do not agree with several concerns raised in the assessment of CP4.** The assessors seem to believe that the inclusion of the terms "any" and "other" in the definition of banking business creates the risk that a non-bank entity conducting banking businesses could be wrongly perceived as a bank and thus mislead the public. This belief is ungrounded, as the existing definition does not create any confusion. The Law states explicitly that only entities licensed as a bank can use the word "bank." The inclusion of the term "other banking business" in fact makes SAMA's definition even more conservative and enables SAMA to apply its licensing powers to entities that may not explicitly engage in the activities listed in the definition but whose activities, in SAMA's opinion, should be regulated and supervised in the same manner as a bank.
- **Additionally, the finding that "taking of deposits is not confined to banks" does not contradict CP4 requirements.** In KSA this area is regulated by the Deposit Taking Finance

Companies Regulation 2020 and no risks are left unaddressed. All deposit-taking entities are subject to regulation and supervision that is appropriate for the type and size of their business, and there are currently no finance companies authorized by SAMA to engage in deposit-taking activities.

Core Principle 5 (Licensing Criteria)

- **The authorities appreciate the assessment of CP 5 and the recommendations made by the assessors and would like to stress that several of these recommendations are addressed in the draft Banking Law.** These include the formalization of powers to set licensing criteria and the power to reject an application if the criteria are not met or if the information provided is inadequate and revoke a license if it was granted based on false information.
- **However, it is important to emphasize that, in practice, SAMA has already established licensing criteria and there have been no instances where the legal validity and enforceability of these criteria have been contested.** Furthermore, it is important to note that Article 4 of the SCBL and Article 3 of the BCL empower SAMA to set the criteria to fulfill its objectives. Additionally, the Authorities note that out of the 10 foreign bank branch (FBB) licensing applications received during the past five years and mentioned in the assessment, all 10 have been approved, and none of them are pending on SAMA's side. Moreover, the statement that there has been no instance where SAMA or MoF has rejected an application in the past several years is inaccurate—a recent documented example of a license application rejection was provided to the assessors.
- **The authorities also disagree with the assessors' comment regarding the lack of due diligence on board members' and senior management's skills and experience.** This observation is not accurate, as the relevant assessment is conducted through a separate study before the issuance of the license and complements the licensing process.

Core Principle 6 (Transfer of Significant Ownership)

- **The authorities appreciate the recommendations for further development of regulatory framework and practice for significant ownership transfer.** It should be noted that some of the recommendations will be addressed when the updated Banking Law comes into force (e.g., SAMA will have explicit powers to review and reject proposals for transfer of significant ownership). Moreover, even under current arrangements, practice shows that SAMA manages to cover significant ownership transfer proposals under the agreement with the CMA, and this is supported by evidence provided to the assessors during the mission.

Core Principle 7 (Major Acquisitions)

- **The authorities appreciate the recognition that SAMA has “largely established powers and processes” for major acquisitions but would like to stress that certain identified gaps in processing banks' proposals for major acquisition are already covered.** The assessment notes that SAMA does not consider the capacity to implement corrective measures within the bank and throughout the banking group. However, SAMA's Circular on major acquisitions explicitly mandates

the consideration of “group structure and corporate governance; risk management systems; risks to the institution; and the impact on supervision” when reviewing banks’ requests for non-objection. This requirement effectively addresses the issue identified by the assessors.

Core Principles 8, 12 (Supervisory Approach, Consolidated Supervision)

- The assessment acknowledges that SAMA demonstrates adherence to numerous elements of the supervisory approach as mandated by the ECs for these principles but takes issue with the fact that the supervisory process is largely focused on the consolidated bank.** According to the assessment, the risk rating and risk profile of the standalone banks are not performed, the data used for compiling the risk indicators do not cover the whole banking group, but only the group’s operations in KSA, and the risk assessments do not reflect the complexity of the group structure, and the risks associated with entities in the wider group. However, these issues reflect the structure of banking groups in Saudi Arabia, where local banks tend to function as parent companies, and there are no banking subsidiaries under SAMA’s home supervision. Moreover, the numerous non-bank subsidiaries are of negligible significance. Therefore, given the lack of materiality, the principle of proportionality would require the assessment to frame these observations not as deficiencies but as appropriate responses by SAMA aligned with the sector’s structural characteristics. The issue of insufficient supervision of standalone banks, which SAMA disputes, is a recurring theme across multiple other CPs.
- The authorities wish to address the concerns raised in the assessment regarding the lack of quality assurance for certain supervisory functions, such as on-site inspections and cyber-security.** The authorities are convinced that these concerns are unfounded, as all outputs undergo appropriate review within the relevant functions, ensuring the quality of outputs and their consistency.
- Regarding Core Principle 12, in addition to the information provided above, the indication of a lack of review of the bank management’s oversight of the bank’s foreign branches is not accurate.** An in-depth assessment of these policies occurs during inspections. For instance, as explained to the assessors during the mission, an inspection team conducted a comprehensive evaluation of how bank management oversees international operations as part of the Thematic Inspection of Home Supervision for Foreign Branches. Also, SAMA has already carried out a thematic inspection on Home Supervision, which will be a regular feature going forward. Banking subsidiaries will also be covered by the inspections and the policy for the inspection of foreign operations will be formalized, as recommended by the assessors.

Core Principle 9 (Supervisory Techniques and Tools)

- The authorities cannot agree with the certain gaps outlined in the assessment of CP9.** Specifically, SAMA conducts periodic formal assessment of the quality, effectiveness, and integration of on-site and off-site functions and periodic independent review of the adequacy and effectiveness of the range of its available supervisory tools, performed by the Internal Audit Department. Moreover, there is a requirement for banks to notify SAMA in advance of any substantive changes in

their activities, structure, and overall condition. It should also be noted that SAMA assesses the business model of each bank on a yearly basis as part of the Supervisory Review Visit (SRV).

Core Principle 10 (Supervisory Reporting)

- **The authorities appreciate the recommendations provided for CP10 and note that some of the recommendations have already been implemented and the rest will be considered for future enhancements of supervisory practices.** For example, regarding the assessors' recommendation to enhance the scope of reporting on related party and large exposures, the authorities note, that the Related Parties Rules regulation explicitly states that "banks are required to submit to the Authority all exposures/transactions to related parties that exceeded 5 percent of the bank's eligible capital base on the reporting date." This requirement is also stipulated in Article 43 of Key Principles of Governance in Financial Institutions under the Control and Supervision of the Saudi Central Bank (3rd Edition—Dhul Qidah 1442H/June 2021). Moreover, SAMA conducts regular monitoring of related party transactions and large exposures, including for overseas transactions.

Core Principle 11 (Corrective and Sanctioning Powers of Supervisors)

- **Regarding CP 11, the authorities consider that several findings and the corresponding recommendations are not justified.** Specifically, the assessment states that "provisions in the laws (and implementing regulations) are not fully clear if SAMA can take material corrective actions or impose significant sanctions without the prior approval of the Minister." As already mentioned, many corrective powers have been delegated to SAMA by the Implementation Rules for Banking Control Law (Article 5), including the power to "require the bank to take any corrective measures deemed necessary by SAMA." It is also worth noting that SAMA has a wide range of powers to take corrective actions based on SCBL (e.g., Article 4) and other laws such as the Anti-Money Laundering Law (Article 25). When the current draft Banking Law is implemented, it will eliminate all remaining requirements for MoF approval.
- **Secondly, the statement that SAMA is not empowered to take corrective actions before a breach is incorrect.** Several instances in the Banking Control Law, the SCBL, and other laws stipulate that SAMA can act before a breach occurs in certain circumstances. Moreover, the draft Banking Law, when implemented, will grant the Authority explicit power to take corrective actions in response to unsafe practices.
- **Thirdly, claim that SAMA can be challenged in executing its legal power under the Banking Control Law to "require the bank to take such other steps, as it may consider necessary" is ungrounded.** There have been no cases of SAMA being challenged by the entities under its supervision while taking corrective actions. Furthermore, there is evidence that SAMA has recently exercised the powers deemed missing in the assessment.
- **The assertion that SAMA does not "engage directly with bank boards at an early stage and meet with the board when there is a need for taking significant corrective actions or when the banks' corrective actions are not adequate or are ineffective" does not reflect reality.**

SAMA has the necessary legal powers for such an interaction stipulated in Implementation Rules for Banking Control Law. There is also practical evidence of interaction with the board when it is required. Additionally, the statement that SAMA has not imposed any sanctions against individuals is factually inaccurate and several documented examples of sanctions on individuals were provided to the assessors.

Core Principle 13 (Home-Host Relationships)

- **The authorities value the assessment of CP13 and some recommendations are already in the process of implementation.** For example, certain MoUs with host supervisors now include proactive information-sharing arrangements that do not require prior requests from the other party in specific cases.

Core Principle 14 (Corporate Governance)

- **The finding that a comprehensive assessment of banks' corporate governance policies and practices has not been conducted since 2017–18 overlooks several important facts.** Specifically: (1) The assessment of any particular area is driven by a comprehensive risk assessment, conducted annually by supervisors, which has resulted in corporate governance assessments in some individual cases. (2) Corporate governance is evaluated as part of each targeted, thematic, and ad-hoc inspection. These inspections specifically review the role of the board of directors, its committees, the existence and comprehensiveness of policies, procedures, organizational structure, and other related areas. (3) Each inspection report contains a separate section with observations related to governance. These observations are shared with the relevant bank and followed up until implementation.

Core Principle 19 (Concentration Risk and Large Exposure Limits)

- **The authorities appreciate the assessment of CP19 but would like to clarify that any exceptions to the large exposure limits can only be made on an exceptional and temporary basis as the assessment might otherwise create the wrong impression that this is not the case.** It is also worth noting that overseas large exposures are reported and monitored, in contrast to what is incorrectly presented as a gap in the assessment.
- **The assessment also overlooks the fact that monitoring of common exposures to government and government-owned commercial companies from a concentration risk perspective is already conducted on a quarterly basis.** This includes tracking the exposures to government-owned commercial companies and their respective percentages relative to banks' eligible capital.

Core Principle 20 (Transactions with Related Parties)

- Saudi Arabia has made a significant progress in developing the regulatory framework for related parties' transactions since the last BCP assessment, but this was not fully reflected in the current assessment.**
- The assessment does not take into account actual regulation and supervisory practices regarding different aspects of related parties' transactions,** for instance the inclusion of subsidiaries of the bank's controlling shareholder in the Related Party definition. The statement that banks are allowed to exceed limit on aggregate related party exposures is factually incorrect. Banks are not allowed to exceed the limits and any breaches of the exposure limits, which must remain exceptions, must be communicated immediately to SAMA (Article 5 of RPRs). The communication to SAMA must also include the bank's action plan to bring the exposure to within the breached limit. Furthermore, any such breaches may be subject to supervisory sanctions depending upon their materiality.
- The view that cumulative limits are liberal and should not exceed those for single counterparties does not consider the fact that SAMA has established limits on each counterparty (single and connected) in accordance with Basel Core Principles.** Importantly, some of these limits are more conservative than the Basel limit of 25 percent. Furthermore, in addition to these specific exposure limits, SAMA applies an aggregate limit for non-bank related parties to ensure prudent supervision of both governance and concentration risks. Regarding the assessors' remark on the purported absence of limits for related parties that are banks, the RPRs, in section 5.1, specify that exposures/transactions with related parties are subject to measurement requirements as prescribed in the Rules on Large Exposures of Banks (LEX). Accordingly, LEX Rules, in section 4.1, establish a limit of 25 percent for exposure values with other banks. Furthermore, a more conservative limit of 15 percent is imposed for counterparty banks classified as Domestically Systemically Important Banks or Globally Systemically Important Banks. It should also be noted that government-owned commercial entities are not exempt from large exposure limits, as stated in the assessment. They are subject to 25 percent limit as per Basel standards, according to section 4.1 in LEX rules.
- The finding that there is no requirement for directors to absent themselves from a meeting which is considering a transaction in which the director has a related party interest is incorrect.** SAMA requires that these board members "...neither participate in the discussion nor influence such a decision." These are nearly identical ways of requiring the same outcome.
- RPRs' exemption of "exposures to the Saudi Government and exposures to entities that are related to the Bank only due to sovereign ownership in both" has been misinterpreted.** According to the regulation, any exemptions in the RPRs are only applicable to the limit (exposure), not to the governance requirements and the representatives themselves (i.e., joint board member), which makes the assessors' concern regarding potential conflict of interest

unjustified. It should also be stressed that, in contrast to the finding reported in the assessment, overseas related party exposures are reported and monitored.

- **The authorities appreciate several recommendations to further enhance regulation (e.g., extending the definition of related parties) and may consider these as potential improvements.** However, the authorities believe that the existing framework is already advanced and aligned with Basel requirements.

Core Principle 24 (Liquidity Risk)

- **The authorities appreciate the recognition of its full compliance with LCR and NSFR requirements.** However, the recommendation to “introduce formal requirements at the solo level and meanwhile start to monitor bank entity-level liquidity” has already been addressed. The regulatory requirements are applied on both consolidated and standalone basis, as a general rule, and existing exemptions in reporting and monitoring are aligned with Basel standards and closely monitored by SAMA. Given the structure of Banking groups in KSA (please refer to the authorities’ position on CP8 and CP12) this current approach is appropriate.

Other Important Remarks

- **On reported gap regarding SAMA’s engagement with banks’ boards, the authorities would like to emphasize that the practice of direct engagement between SAMA and board members is firmly established.** SAMA representatives meet board members, for example, during Corporate Governance inspections (CP9, CP15). SAMA also has established procedures to assess board members with reference to duty of care and duty of loyalty and to evaluate effectiveness of board and board committees (CP14). SAMA also has the authority to require changes in the composition of the bank’s board if it believes that any individuals are not fulfilling their duties adequately or effectively (CP14). It should be also noted that there is practical evidence when enforcement decisions are addressed directly to the board members and require signatures from the board chairmen (CP11).