

# BANKING CONTROL LAW

ISSUED BY ROYAL DECREE

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## Article 1

In this Law the following expressions shall have the definitions specified in this Article:

a. Bank means any natural or juristic person practicing basically any of the banking business in the Kingdom.

b. 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.

c. National bank means a bank the head office and branches of which are situated in the Kingdom.

d. Foreign Bank means a bank with branches in the Kingdom and its head office outside it.

e. Agency means the Saudi Arabian Monetary Agency.

f. Invested Capital,” means the capital assigned by a foreign bank for the capital use of its branches in the Kingdom.

## Article 2

No person, natural or juristic, unlicensed in accordance with the provisions of this Law, shall carry on basically any of the banking business. However,

- a. Juristic persons licensed in accordance with another law or special decree to carry on banking business may practice such business within the limits of their intended purposes.
- b. Licensed moneychangers may practice basically exchange of currency in the form of notes and coins, but no other banking business.

## Article 3

All applications, for the grant of licenses to carry on banking business in the Kingdom, shall be addressed to the Agency which will study the applications after obtaining all the

necessary information and submit its recommendations to the Minister of Finance and National Economy.

The license for a National Bank shall stipulate the following:

1. It shall be a Saudi Joint Stock Company.
2. The paid-up capital shall not be less than Rls. 2.5 million and all subscriptions towards share capital shall be payable in cash.
3. The founders and members of the board of directors shall be persons of good reputation.
4. The memorandum and articles of association shall be acceptable to the Minister of Finance and National Economy.

In the case of a Foreign Bank wishing to set up a branch or branches in the Kingdom, the grant of a license shall be subject to such conditions as the Council of Ministers may

stipulate upon the recommendation of the Minister of Finance and National Economy. The license shall in all cases be issued by the Minister of Finance and National Economy

after the approval of the Council of Ministers.

#### Article 4

As an exception to the provisions of the previous Article, the licenses or authorizations previously issued to the persons carrying on banking business in the Kingdom and effective at the time of promulgation of this Law shall continue to be recognized.

The Agency may, however, call such documents and information from these persons, as it may deem necessary.

The Agency with the approval of the Council of Ministers may call upon them to comply with all or any of the provisions of Article 3 of this Law within such period as it may fix.

#### Article 5

Any person not authorized basically to carry on banking business in the Kingdom is not allowed to use the word Bank, or its synonyms, or any similar expression in any language on his papers or printed matter, or in his commercial address, or his name or in his advertisements.

#### Article 6

The deposit liabilities of a bank 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 date of submission of the statement referred to in paragraph 1 of Article 15, either increase its capital and reserves to the prescribed limit or deposit fifty percent of the excess with the Agency.

#### Article 7

Every bank shall maintain with the Agency at all times a statutory deposit of a sum not less than fifteen percent of its deposit liabilities. The Agency may, if it deems it to be in the public interest, vary the aforesaid percentage provided that it shall not be reduced below 10 percent nor increased to more than 17.5 percent. The Agency may, however, vary these two

limits with the approval of the Minister of Finance and National Economy.

In addition to the statutory deposit provided for in the previous paragraph, every bank shall 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. The Agency may, if deemed necessary, increase the aforesaid percentage up to twenty percent.

### Article 8

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 the Bank's reserves and paid-up or invested capital. The Agency may, in the public interest, and subject to such conditions as it may impose, increase this percentage up to 50 percent.

The provisions of the above paragraph do not apply to transactions between banks or between head offices and their branches or between these branches.

### Article 9

No bank shall undertake the following transactions:

1. Granting a loan or extending credit facilities, or issuing a guarantee or incurring any other financial liability on the security of its own shares.

2. Granting, without security, a loan or credit facilities, or issuing a guarantee or incurring any other financial liability in respect of:

a. Member of its Board of Directors or its Auditors.

b. 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.

c. 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.

3. 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 paras 2 and 3 of this Article, shall be considered as having resigned his position.

## Article 10

No bank shall undertake any of the following activities:

1. To engage, whether for its own account or on a commission basis, in the wholesale or retail trade including the import or export trade.
2. 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.
3. To purchase, without the approval of the Agency, stocks and shares of any bank conducting its business in the Kingdom.
4. 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 the Agency.
5. 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.

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 of it within three years of its acquisition or, in exceptional and justifiable circumstances, within such period or periods as may be approved by the Agency and subject to such conditions as it may deem fit to prescribe.

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 11

Banks are precluded from undertaking any of the following operations except after the written approval of the Agency and according to the conditions it prescribes:

- a. Altering the composition of their paid-up or invested capital.
- b. Entering into any scheme of amalgamation or participation in the business of another bank or another establishment carrying on banking business.
- c. Acquiring shares in a company established outside the Kingdom.
- d. Ceasing to carry on banking business. In such a case, the Agency must, before agreeing to this cessation, ascertain that the Bank has made necessary arrangements to safeguard the rights of the depositors.
- e. 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, the Agency should get the approval of the Minister of Finance and National Economy.

## Article 12

No person shall be a director of more than one bank.

No person in the following cases shall be elected as a director or shall become a manager of any bank without prior written approval of the Agency:

- a. If he occupied a similar position in a banking concern that was wound up, even if the liquidation had been made before the promulgation of this Law.

Such approval shall not be given by the Agency until it becomes clear that the person concerned was not responsible for that liquidation.

b. If he was removed from a similar post in any banking establishment, even if such removal was before the promulgation of this Law. The approval of the Agency shall in this case be based on acceptable reasons.

Any director or manager of a bank, who is adjudicated bankrupt or convicted of a moral offense, shall be considered as having resigned his post.

### Article 13

Every bank shall, before declaring distribution of any profits, transfer a sum equal to not less than 25 percent of its net profits, to the statutory reserve, until the amount of that

reserve equals as a minimum of the paid-up capital.

*(Amended Clause\*)* "No bank shall pay dividends or remit any part of its profits abroad, until its aggregate foundation expenditures and losses incurred have completely been written off, and after deducting not less than 10% of the value of capitalized expenditures until all these expenditures have been completely written off" .

*(Amended in accordance with Royal Decree No. M/2 dated 6.1.1391 AH.)*

Any action taken to declare or pay dividends in contravention to the provisions of this Article shall be considered null and void.

### Article 14

Every bank shall appoint annually two auditors from amongst the approved list of auditors registered with the Ministry of Commerce and Industry. The Auditors shall submit a report on the Balance sheet and profit and loss account. This report shall include whether in the auditor's opinion the Bank's balance sheet duly and correctly represents its financial position and the extent of their satisfaction with any explanations or information they may have requested from the bank's manager or other staff.

With regards to banks taking the form of a company, the report referred to in

the above paragraph shall be read together with the annual report of the Bank management in the General Meeting, which must be held within the six months following the end of the bank's financial year. The bank management should send copies of these two reports to the Agency.

The provisions of the first para of this Article shall apply to foreign banks in respect of their branches operating in the Kingdom. They should send a copy of the Auditor's report

to the Agency.

#### Article 15

Every bank shall furnish the Agency 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 the Agency. Every bank shall also furnish the Monetary Agency 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 the Agency.

#### Article 16

The Monetary Agency may, with the approval of the Minister of Finance and National economy, issue general rules regarding the following matters:

1. The maximum limits of total loans that can be extended by a bank or banks.
2. The prohibition or limitation of specified categories of loans or other transactions.
3. Fixing the terms and conditions, which banks, should take into consideration when carrying out certain types of transactions for their customers.
4. The cash margins to be obtained by banks against specified categories of credits or guarantees.
5. The minimum ratio to be observed between the limits for loans and the collateral for such loans.



6. 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.

The Agency may, from time to time, issue decisions concerning the following:

1. Definition of the expression deposit liabilities referred to in this Law.
2. Determination of bank holidays and bank business hours.

#### **Article 17**

The Agency 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.

#### **Article 18**

The Agency may, with the approval of the Minister of Finance and National Economy, 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.

#### **Article 19**

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.

#### **Article 20**

The Agency shall periodically publish combined statements of the principal data contained in the returns mentioned in Article 15.

### Article 21

The Minister of Finance and National Economy, in exceptional circumstances, and with the prior approval of the Council of Ministers, may exempt any bank from any provision of this Law or from the regulations issued in execution thereof for a limited period and subject to such other conditions as may be laid down in each case.

### Article 22

If the Agency 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, it may, with the approval of the Minister of Finance and National Economy, take one or more of the following measures:

- a. Appoint one or more advisers to advise the bank in the conduct of its business.
- b. Order the suspension or removal of any director or officer of the bank.
- c. Limit or suspend the granting of credits or the acceptance of deposits.
- d. Require the bank to take such other steps, as it may consider necessary.

If the Agency finds that a bank persistently contravenes the provisions of this Law 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 the Agency 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 of Finance and National Economy may, subject to the approval of the Council of Ministers, revoke the license of the said bank.

## Article 23

1. 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 Rls 5,000 for every day the offense continues or to either of these penalties.
2. Any person who contravenes the provisions of Article 19 shall be liable to imprisonment for a term not exceeding two years and to a fine not exceeding Rls 20,000 or to either of these penalties.
3. Any person who contravenes the provisions of Articles 8, 9 and 10 shall be liable to imprisonment for a term not exceeding six months and to a fine not exceeding Rls 10,000 or to either of these penalties.
4. Any person who contravenes the provisions of articles 7, 14 and 15 shall be liable to a fine not exceeding Rls 500 for every day the contravention continues.
5. 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 Rls 5,000.
6. In the event that offenses punishable according to paras 2,3 and 5 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.

In imposing the penalties contained in this Article it is to be observed that should an offense be punishable by more than one penalty, the offender shall be subjected to the severest.

## Article 24

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.

## Article 25

The Minister of Finance and National Economy shall appoint a committee of three persons from outside the Agency and specify the conditions and measures to be observed in adjudging contraventions punishable under this Law at the request of the Agency.

## Article 26

The Deputy Premier and the Minister of Finance shall put this Law into effect and it shall come into force from the date of its publication.