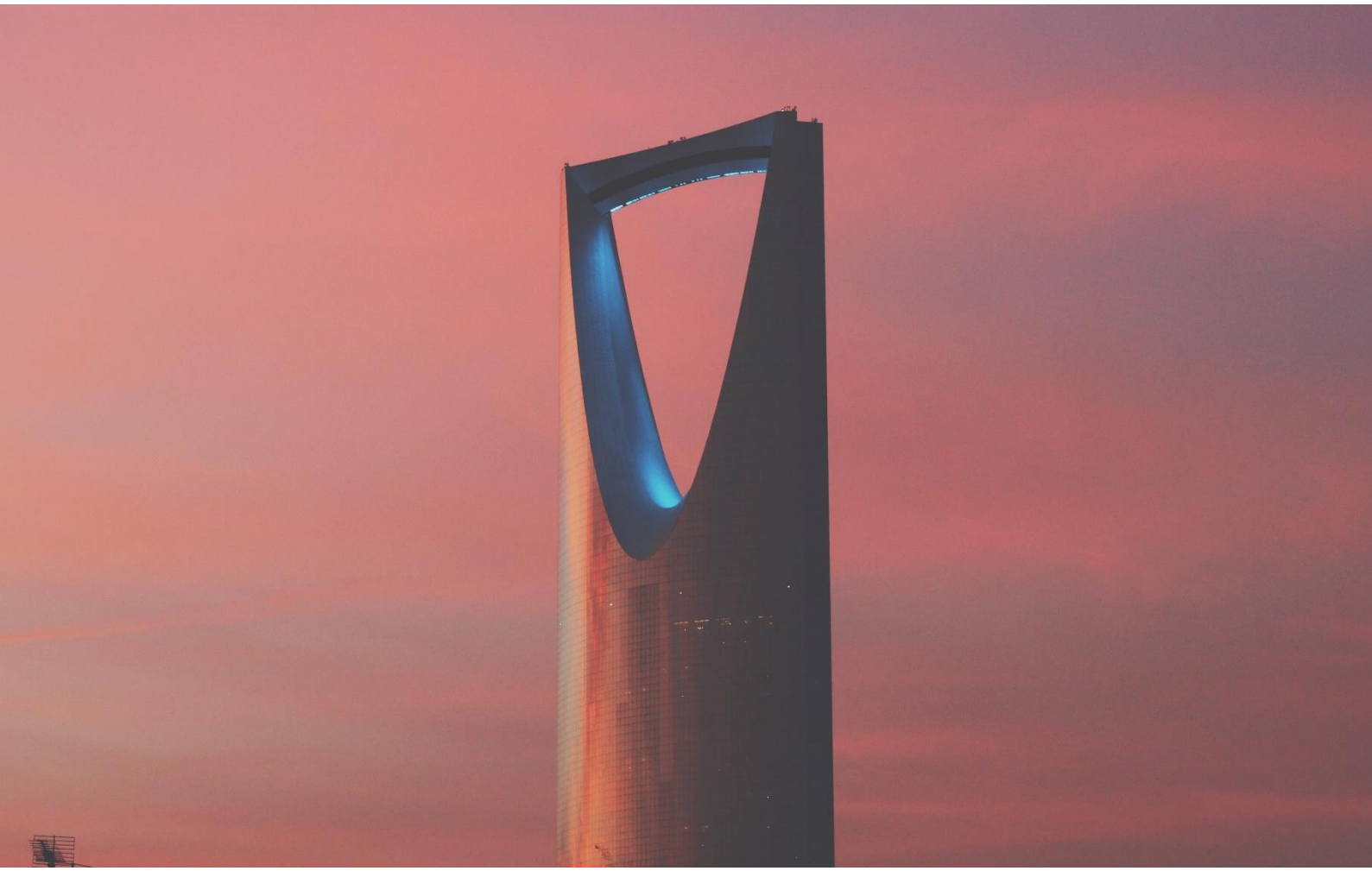


EXECUTIVE SUMMARY OF CIRCULARS

COVERAGE: **SAUDI ARABIAN MONETARY AUTHORITY**
LOCATION: **SAUDI ARABIA**
ISSUE: **SECOND QUARTER 2022**



INTRODUCTION & SUMMARY

During 1st April 2022 to 30th June 2022, Saudi Arabian Monetary Authority (SAMA) has issued a total of 2 circulars/guidelines/rules on different matters. These regulatory instructions were predominantly in the areas of Banking Rules & Regulations.

BANKING - RULES & REGULATIONS

2

TOTAL

2



DETAILS OF ISSUED/AMENDED REGULATIONS

Key instructions / regulations disseminated by SAMA during the 2nd quarter of 2022 are summarized below:

BANKING RULES & REGULATIONS

Implementing Regulation of the Real State Finance Law dated 19th April, 2022

- Only licensed real estate finance companies to engage in real estate finance activities in accordance with the provisions of the Law, Finance Companies Control Law and their regulations;
- SAMA take necessary measures for promoting fair and effective competition between real estate finance entities.
- A real estate finance entity shall not engage in any activity that is not licensed by SAMA, including real estate investment, marketing, development and valuation.
- Insurance against Real Estate Finance risks shall be in accordance with the Cooperative Insurance Companies Control Law and its Implementing Regulation and the instructions issued by SAMA.
- A real estate finance entity should disclose, in its annual report, the risks that can be hedged by insurance and manner of dealing with such risks.
- The bodies entrusted with registration of real estate ownership (courts, notaries public and real estate registration and documentation departments) shall grant real estate finance entities access to information recorded in real estate registers in accordance with the procedures mentioned in guidelines.
- A real estate finance entity may refinance real estate in accordance with Article 11 of the Law through the following:
 - Real estate refinance companies licensed by SAMA
 - Issuance of securities in accordance with the provisions of the Capital Market Law after obtaining a no objection letter from SAMA
- Real estate finance contracts and products must comply with the Law and relevant laws, regulations, rules and instructions.
- The real estate finance entity shall obtain a no objection letter from SAMA for its real estate finance products before offering such products.
- Subject to the provisions of the Implementing Regulation of Finance Companies Control Law, a written or electronic contract should be drafted between the real estate finance entity and the borrower, and must include all necessary information as motioned in guideline.
- The real estate finance contract preamble must include a summary covering the basic information of the finance product and the main provisions of the finance contract in a language clear to the borrower, in accordance with the form stipulated by SAMA. The borrower's receipt of such

summary should be documented in the finance file.

- The real estate finance entity should not extend credit on any form of finance exceeding 70% of the value of the dwelling subject of the real estate finance contract.
- The real estate finance entity should verify the validity of the dwelling title deed subject of the real estate finance contract to ensure the absence of any in rem rights affecting the rights of the real estate finance entity.
- Upon obtaining borrower's consent, the real estate finance entity must record the borrower's credit information with one or more companies licensed to collect credit information.
- The real finance contract shall stipulate the right of the real estate finance entity to transfer its rights to third parties on the secondary market without the consent of the borrower, including the right of mortgage and other guarantees.
- The Saudi Real Estate Refinance Company may, after obtaining a no objection letter from SAMA, offer its shares to investors.
- Real estate finance entities may acquire shares of the Saudi Real Estate Refinance Company at fair market value provided that their aggregate shareholding does not exceed 30 percent of the total shares of the Saudi Real Estate.
- The Real Estate Refinance Company may impose charges for its services to cover its costs and expenses and make fair profits in a way that ensures its financial independence.
- The real estate assets and the rights derived therefrom may be assigned to the Real Estate Refinance Company in refinancing transactions without the prior consent of the borrower, debtor or guarantor.
- The Real Estate Refinance Company may distribute annual profits pursuant to a decision by its board of directors, upon obtaining a no objection letter from SAMA.
- The board of directors of the Real Estate Refinance Company must determine policies and procedures of the Company concerning real estate refinance transactions with the approval of SAMA.
- The Real Estate Refinance Company must prepare and publish annual and quarterly reports on its financial standing, operations, potential risks and management thereof and provide SAMA with such reports.
- The Real Estate Refinance Company shall establish an electronic infrastructure for exchange of information and data with SAMA and real estate finance entities.
- No natural or corporate person may use the name "The Saudi Real Estate Refinance Company" or any similar name or reference thereto.

Implementing Regulation of the Finance Companies Control Law dated April 19, 2022

SAMA organize the Finance sector and supervise the business of the Finance Companies in accordance with the Law and the Regulation as mentioned in guidelines. Following are the highlights of regulations:

- Any legal person engaging in one or more of the Finance Activities specified in Article 10 of the Law, or any other Finance Activity approved by SAMA in accordance with Article 10 of the Law, shall be subject to the provisions of this Regulation.
- No one is allowed to carry out any finance activity without obtaining a license from SAMA in accordance with the Law and the Regulation or other applicable laws.

- Founding shareholders of the Finance Company, or their representatives, shall apply to SAMA for a License. The application shall specify the activities for which a License is requested.
- Feasibility study identifying target market, services to be provided, business model, and strategy of the Finance Company in addition to a five-year business plan should be prepared.
- Fit and proper requirements form for Board members signed by each candidate for Board membership.
- Fit and proper requirements form for founding shareholders signed by each founding shareholder.
- An irrevocable bank guarantee issued in favor of SAMA by one of the local banks for an amount equivalent to the required minimum capital for the Finance Activity or Activities, requested to be licensed, in accordance with the model set by the SAMA. Such bank guarantee is renewable automatically until the required capital is paid up in full.
- The minimum paid up capital of the Finance Company is as follows:
 - For finance company carrying out real estate Finance Activity: (200,000,000) two hundred million Saudi riyals.
 - For finance company carrying out one Finance Activity or more other than real estate Finance: (100,000,000) one hundred million Saudi riyals.
 - For finance company carrying out only microfinance activity: (10,000,000) ten million Saudi riyals.
- Each founding shareholder must comply with the Sharia and legal competence requirements.
- A written non-objecting letter from SAMA is required prior to the acquisition of any shares in a Finance Company.
- All Board members and Senior Management should comply with the requirements of professional eligibility and fit and proper requirements stipulated by SAMA.
- The founding shareholders of the Finance Company must provide SAMA with any additional information or documents that SAMA may require within 30 days from the date of request.
- SAMA may restrict the License to certain geographic area or specific types of Borrowers or impose other conditions.
- License shall be granted for a term of five years and may be renewed by SAMA based on a request by the Finance Company in accordance with the requirements of this Regulation.
- If the License is revoked, the Finance Company must be liquidated. SAMA may appoint a liquidator.
- SAMA may charge the following:
 - Two hundred thousand (200,000) Saudi riyals for issuing the License.
 - One hundred thousand (100,000) Saudi riyals for renewing the License.
 - Fifty thousand (50,00) Saudi riyals for amending the License.
- The Finance Company shall obtain a non-objecting letter from SAMA prior to the approval of any distribution of profits, any other distributions, the recommendations or announcements of it.

- The Finance Company may not execute any partial or total liquidation of its business or of the Finance Company itself without a non-objecting letter from SAMA.
- The Finance Company may not execute any partial or total liquidation of its business or of the Finance Company itself without a non-objecting letter from SAMA.
- The Finance Company shall develop an internal corporate governance rules and implement a specific regulation for corporate governance and provide SAMA with a copy of the regulation after its approval by the Board.
- The Finance Company must establish appropriate written organizational policies, that includes work manuals and workflow procedures.
- At least (50%) of all employees of the Finance Company must be Saudi nationals when the Finance Company starts operations. The (50%) minimum applies to all departments and organizational levels.
- The percentage of Saudi nationals of total human resources shall be annually increased by (5%) of all employees until (75%) has been reached.
- The Board must issue a written policy regulating outsourcing.
- Establish appropriate procedures to identify, assess, manage, monitor and communicate risks. These processes must be included in a comprehensive risk management framework.
- Establish a risk management function directly reporting to the risk and credit management committee. Risk and credit management committee must raise their views about risk management reporting to the Board.
- The Finance Company must prepare a quarterly risk report for discussion by the risk and credit management committee and the Board after review by Senior Management.
- The head of compliance must submit a compliance report to the audit committee and thereafter to the Board for review on quarterly basis at least.
- The compliance department must have staff and resources commensurate with the business model and size of the Finance Company.
- The head of compliance acts independently, regarding his tasks and he may not practice any other administrative responsibilities.
- The Finance Company must establish an internal audit department reporting directly to the audit committee.
- The internal audit department shall operate according to a comprehensive audit plan, approved by the audit committee and updated on an annual basis.
- The internal audit department must prepare and submit to audit committee a written report on its work at least quarterly.
- All Finance policies and all amendments to policies must be approved by the Board and submitted to SAMA by the Finance Company.
- The aggregate of Large Exposures must not exceed the paid-up capital and reserves of the Finance Company unless the Finance Company has obtained a non-objecting letter from SAMA.
- The Finance Company may not incur an Exposure to a related party of (10%) or more of its paid-up capital and reserves without obtaining a non-objecting letter from SAMA.
- In all cases, the aggregate of all Exposures to related parties must not exceed (50%) of the paid-

up capital and reserves of the Finance Company.

- All collateral must be enforceable and capable of valuation in order to be acceptable. Personal guarantees must be evaluated based on the net assets and/or net earnings of the guarantor.
- The value and legal validity of collateral must be assessed prior to the granting of the Finance.
- The total Amount of Finance received by the Borrower, without collateral does not exceed (100,000) SR based on the data of the Borrower's credit record.
- Finance risks insurance must be in accordance with the Cooperative Insurance Companies Control Law and its implementation regulation and instructions issued by SAMA.
- The Finance Company may not be financed by a foreign lender or in a currency other than Saudi Riyal unless a non-objecting letter from SAMA is obtained.
- The Finance Company must immediately notify SAMA of:
 - Any retirement of any member of the Senior Management or revocation of such authorization
 - Losses exceeding (15%) of the paid-up capital of the Finance Company
- The Finance Company must establish a website on the World Wide Web (the Internet) and publish its annual financial statements and reports.
- The Finance Company must obtain a prior non-objecting letter from SAMA before appointing an external auditor.
- All fees, commissions and administrative services charges to be recovered from the Borrower by the Finance Company shall not exceed the equivalent of (1%) of the Amount of Finance or (5,000) Five thousand Saudi riyals whichever is less.
- The Finance Company and its employees shall maintain the confidentiality of clients' data and transactions, and may not disclose or expose them to other parties, except in accordance with the related laws and instructions.
- Companies and establishments engaging in finance activities in the Kingdom of Saudi Arabia prior to the Law's entry into force must provide SAMA, within the first nine months of the period prescribed in Article (36) of the Law, with their plan to correct their situation according to the Law or a plan to exit the market.

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