



Economic Developments

Third Quarter, 2010

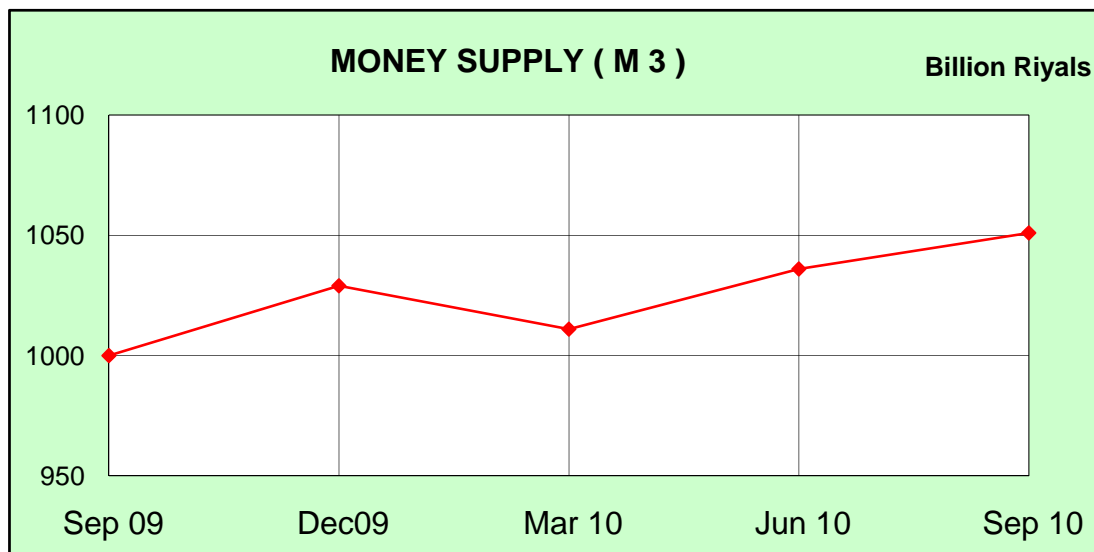
Research and Statistics Department
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First: Monetary Developments

Broad money (M3) rose by 1.5 percent (Rls 15.4 billion) to Rls 1,050.9 billion during the third quarter of 2010 compared to an increase of 2.5 percent (Rls 25.1 billion) during the preceding quarter. It registered an annual growth rate of 5.1 percent (Rls 51.0 billion).



An analysis of the components of money supply (M3) indicates that (M1) rose by 2.5 percent (Rls 14.4 billion) to Rls 591.3 billion, or 56.3 percent of total money supply (M3) during the third quarter of 2010 compared to a rise of 6.4 percent (Rls 34.9 billion) during the preceding quarter. Money supply (M1) registered an annual rise of 20.0 percent (Rls 98.6 billion) at the end of the third quarter of 2010. Money supply (M2) also went up by 1.0 percent (Rls 8.5 billion) to Rls 889.5 billion, or 84.6 percent of total money supply (M3) during the third quarter of 2010 against a rise of 3.0 percent (Rls 25.3 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 8.0 percent (Rls 66.1 billion) at the end of the third quarter of 2010.

Second: Monetary Policy:

During the third quarter of 2010, SAMA continued to pursue a monetary policy aimed at achieving financial and price stability by monitoring domestic and international economic developments, liquidity change rates and taking

necessary measures towards them. SAMA continued its efforts aimed at providing necessary liquidity to meet domestic demand for credit in order to ensure that banks continue their financing role in the Kingdom.

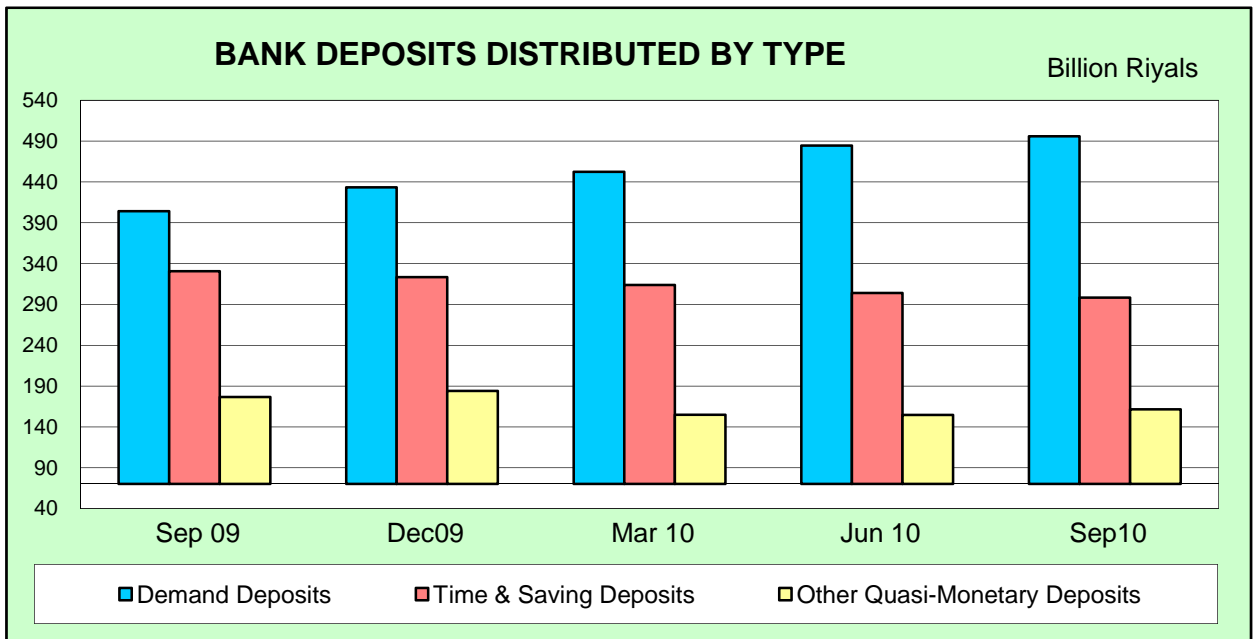
SAMA's daily average Repo transactions stood at Rls 1,637 million in the third quarter of 2010 against Rls 1,063 million in the second quarter of 2010. Daily average Reverse Repo transactions was Rls 55,419 million during the same period compared to Rls 75,657 million in the second quarter of 2010. The decline in liquidity in the daily average Reverse Repo transactions may be ascribed to improved credit activity of domestic banks during the third quarter of 2010 compared to the preceding quarter.

Domestic inter-bank interest rates on deposits (three-month inter-bank interest rate (SIBOR) was stable at 0.72 percent at the end of the third quarter of 2010. The differential between the Riyal and the Dollar deposits for a three-month period continued to be in favor of the Riyal, standing at 43 basis points at the end of the third quarter of 2010 compared with 19 basis points at the end of the second quarter of the same year. The Saudi Riyal exchange rate against the Dollar maintained its stability at its official rate of Rls 3.75 at the end of the second quarter of 2010.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits recorded a rise of 1.3 percent (Rls 12.3 billion) to Rls 955.5 billion during the third quarter of 2010 compared to a rise of 2.4 percent (Rls 22.5 billion) during the preceding quarter, recording an annual rise of 4.8 percent (Rls 44.1 billion) at the end of the third quarter of 2010. The ratio of total bank deposits to total broad money supply (M3) at the end of the third quarter of 2010 stood at 94.7 percent compared to 91.1 percent as at the end of the preceding quarter.



A review of the components of deposits by type during the third quarter of 2010 indicates that demand deposits rose by 2.3 percent (Rls 11.3 billion) to Rls 495.8 billion compared to a rise of 7.1 percent (Rls 32.3 billion) during the preceding quarter. In contrast, time and savings deposits went down by 1.9 percent (Rls 5.9 billion) to Rls 298.2 billion against a larger decline of 3.1 percent (Rls 9.7 billion) during the preceding quarter. Other quasi-monetary deposits rose by 4.4 percent (Rls 6.9 billion) to Rls 161.5 billion compared to a decline of 0.1 percent (Rls 0.2 billion) during the preceding quarter. Demand deposits recorded an annual rise of 22.7 percent (Rls 91.7 billion), time and savings deposits recorded an annual decline of 9.8 percent (Rls 32.5 billion) and other quasi-monetary deposits recorded an annual decrease of 8.6 percent (Rls 15.1 billion) at the end of the third quarter of 2010.

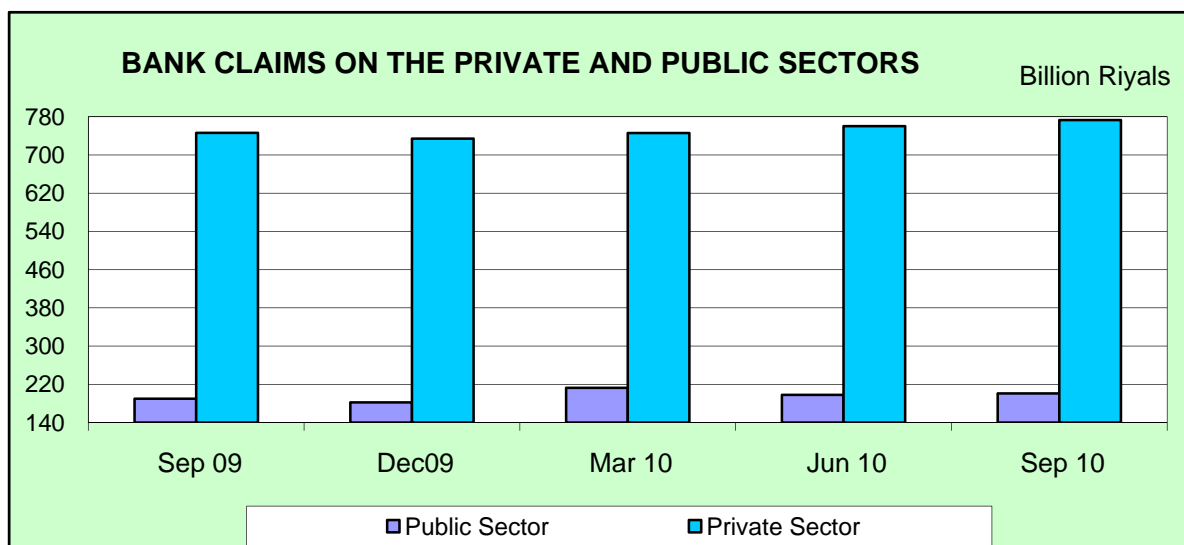
3.2 Credit and Investment Activity of Commercial Banks

Total claims of commercial banks on the private and government sectors (bank credit and investments) rose by 1.6 percent (Rls 15.7 billion) to Rls 974.1 billion during the third quarter of 2010, compared to its stability at Rls 958.4 in the preceding two quarters. At the end of the third quarter of 2010, they recorded an annual rise of

4.1 percent (Rls 37.9 billion) to constitute 102.0 percent of total bank deposits, compared to 101.6 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the third quarter of 2010 went up by 1.7 percent (Rls 12.8 billion) to Rls 773.2 billion, compared to a rise of 2.0 percent (Rls 14.6 billion) during the preceding quarter, recording an annual rise of 3.6 percent (Rls 26.8 billion) at the end of the third quarter of 2010. The ratio of commercial banks' claims on the private sector to total bank deposits was 80.9 percent at the end of the third quarter of 2010, compared to 80.6 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sectors went up by 1.0 percent (Rls 2.9 billion) to Rls 201.0 billion during the third quarter of 2010 compared to a decline of 6.9 percent (Rls 14.6 billion) during the preceding quarter. At the end of the third quarter of 2010, they registered an annual rise of 5.8 percent (Rls 11.0 billion). Their ratio to total bank deposits remained unchanged at 21.0 percent at the end of the third quarter of 2010 compared to the previous quarter.



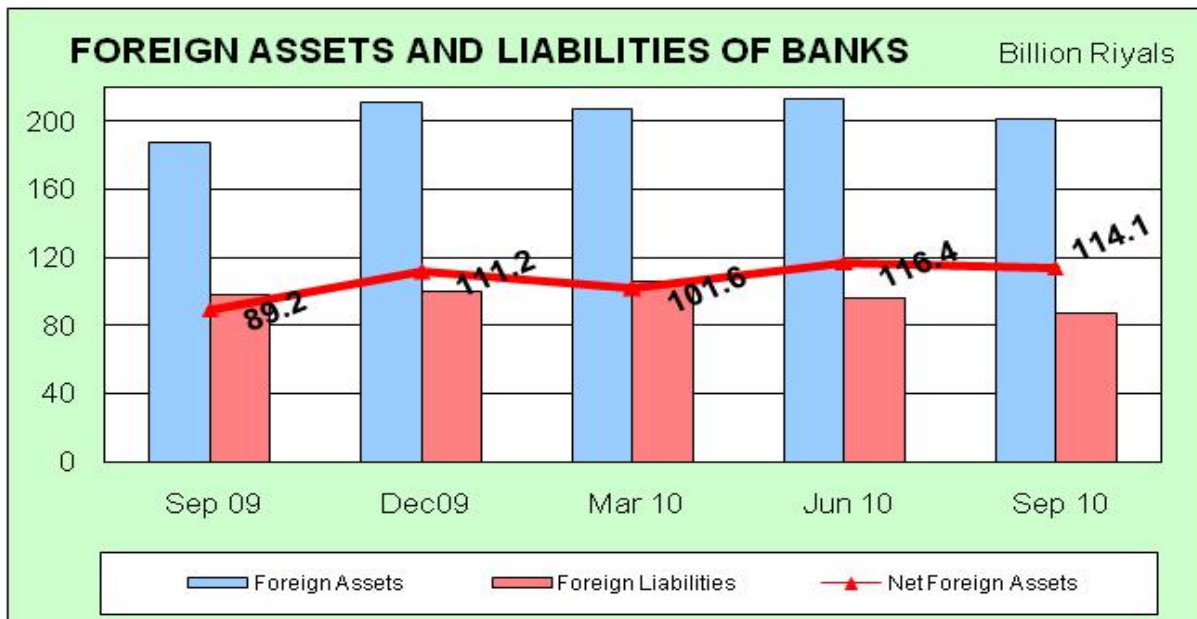
An analysis of bank credit by maturity (private and government sectors) during the third quarter of 2010 shows that short-term credit went up by 4.0 percent (Rls 18.9 billion) to Rls 470.4 billion, compared to its stability level during the preceding two

quarters at Rls 451.6 billion. Medium-term credit increased by 1.7 percent (Rls 2.0 billion) to Rls 122.0 billion, compared to a rise of 1.7 percent (Rls 2.0 billion) during the preceding quarter. However, long-term credit went down by 3.4 percent (Rls 6.3 billion) to Rls 181.8 billion compared to a rise of 6.0 percent (Rls 10.7 billion) during the preceding quarter.

Total extended bank credit by economic activity increased by 1.9 percent (Rls 14.6 billion) to Rls 774.2 billion during the third quarter of 2010, compared to a rise of 1.7 percent (Rls 12.7 billion) during the preceding quarter, recording an annual increase of 3.0 percent (Rls 23.8 billion) at the end of the third quarter of 2010. A breakdown of bank credit extended to different economic activities during the third quarter of 2010 indicates that bank credit extended to “agriculture and fishing” decreased by 13.3 percent (Rls 1.5 billion), to “building and construction” by 1.1 percent (Rls 0.6 billion), to “water, electricity and other services” by 1.2 percent (Rls 0.2 billion), to “industry and production” by 5.0 percent (Rls 3.9 billion), to “other miscellaneous services” by 2.6 percent (Rls 0.9 billion), to “mineral and mining” by 28.2 percent (Rls 1.8 billion), and to “transport and communications” by 10.7 percent (Rls 4.4 billion). In contrast, bank credit extended during the third quarter of 2010 to “finance” increased by 28.4 percent (Rls 3.9 billion), to “government and quasi-government sector” by 8.6 percent (Rls 2.7 billion), to “commerce” by 0.8 percent (Rls 1.5 billion), and to “other sectors” by 6.8 percent (Rls 19.8 billion).

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks during the third quarter of 2010 decreased by 5.4 percent (Rls 11.4 billion) to Rls 201.2 billion compared to an increase of 2.7 percent (Rls 5.7 billion) during the preceding quarter, recording an annual growth rate of 7.3 percent (Rls 13.7 billion) and constituting 14.6 percent of total commercial banks' assets compared to 15.4 percent at the end of the preceding quarter.



Commercial banks' total foreign liabilities went down by 9.4 percent (Rls 9.0 billion) to Rls 87.1 billion during the third quarter of 2010 against a decline of 8.8 percent (Rls 9.2 billion) in the preceding quarter. The annual growth rate of total foreign liabilities decreased by 11.3 percent (Rls 11.1 billion), constituting 6.3 percent of commercial banks' total liabilities against 7.0 percent at the end of the preceding quarter. Net foreign assets decreased by Rls 2.0 billion to Rls 114.1 billion at the end of the third quarter of 2010 compared to an increase of Rls 14.9 billion during the preceding quarter.

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks declined by 1.0 percent (Rls 1.8 billion) to Rls 180.9 billion during the third quarter of 2010 compared to a decrease of 0.2 percent (Rls 180.9 billion) in the previous quarter. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the third quarter of 2010 stood at 18.9 percent compared to 19.4 percent in the previous quarter. Their annual growth rate rose by 10.6 percent (Rls 17.3 billion).

Commercial banks' profits stood at Rls 5.7 billion during the third quarter of 2010 compared to Rls 7.0 billion in the preceding quarter, declining by 17.9 percent (Rls 1.3 billion) and recording an annual decline rate of 19.1 percent (Rls 1.3 billion).

During the third quarter of 2010, the number of commercial banks' branches operating in the kingdom increased to 1,569 compared to 1,561 at the end of the preceding quarter, recording a growth rate of 0.5 percent (8 branches).

3.5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,376.1 billion at the end of the third quarter of 2010, declining by 0.4 percent (Rls 5.6 billion), compared to a rise of 0.3 percent (Rls 4.3 billion) in the preceding quarter, recording an annual growth rate of 2.0 percent (Rls 25.2 billion) at the end of the third quarter of 2010.

Fourth: Banking Technology Developments

Statistics of the Saudi Riyal Inter-bank Express System (SARIE) show that the value of transactions in the third quarter of 2010 totaled Rls 10,757.3 billion (nearly \$2,869 billion) through 1,0 thousand messages containing a total of 8.5 million transactions carried out through SARIE. The value of single payments transactions totaled Rls 10,536.9 billion, whereas the total value of gross payments stood at Rls 216.7 billion. Customers' payments stood at Rls 674.6 billion, decreasing by 4.1 percent from the third quarter of 2009. The total value of inter-bank payments transactions stood at Rls 10,078.9 billion.

As for the developments of the Saudi Payments Network (SPAN), the number of transactions executed via ATMs in the third quarter of 2010 stood at about 271 million, including bank transactions and SPAN transactions of Rls 121.1 billion. Total transactions executed through POS terminals stood at 38 million with a total value of Rls 18.8 billion during the third quarter of 2010. The number of ATMs totaled 10,659 and the number of cards issued by domestic banks stood at about 11.7 million at the

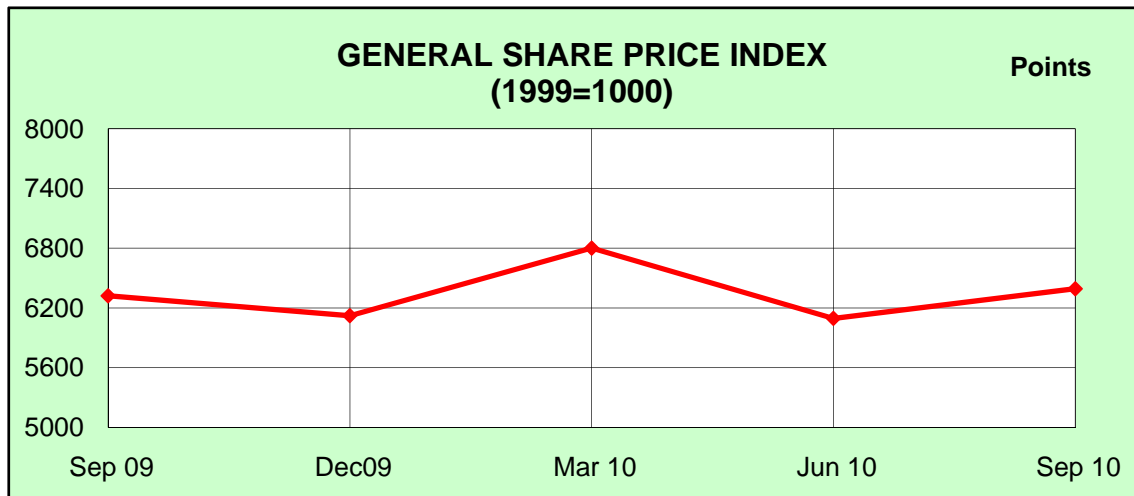
end of the third quarter of 2010. The number of POS terminals was 74.8 thousand at the end of the third quarter of 2010.

As for clearing houses statistics for the third quarter of 2010, the number of bank checks (outgoing and incoming) cleared at clearing houses totaled 1.6 million with a total value of Rls 156.5 billion. The number of household and business checks was 1.4 million with a total value of Rls 120.6 billion during the period. The number of banks' checks (certified) totaled 228.7 thousand with a total value of Rls 35.9 billion.

Fifth: Domestic Share Market Developments

The general share price index went up during the third quarter of 2010 by 4.9 percent to 6,392.4 compared to a decline of 10.4 percent in the preceding quarter, recording an annual rise of 1.1 percent. During the third quarter of 2010, the number of traded shares went down by 45.2 percent to about 6.2 billion compared to a rise of 33.4 percent in the preceding quarter. The annual growth rate of traded shares went down by 28.8 percent. Total value of traded shares decreased by 49.9 percent to Rls 133.0 billion compared to a rise of 39.8 percent in the preceding quarter, with its annual growth rate falling by 44.5 percent.

At the end of the third quarter of 2010, the market capitalization of issued shares went up by 5.3 percent to Rls 1,262 billion against a decline of 10.9 percent at the end of the preceding quarter, recording a rise of 2.5 percent in its annual growth rate. Total number of transactions executed in the third quarter of 2010 recorded a decline of 36.9 percent to 4.0 million compared to a rise of 18.1 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 47.6 percent.



Sixth: Investment Funds

Total assets of investment funds managed by investment companies recorded a decline of 0.7 percent (Rls 658 billion) to Rls 98.3 billion in the third quarter of 2010 compared to a rise of 6.2 percent (Rls 5.8 billion) in the preceding quarter. Their annual growth rate increased by 4.7 percent (Rls 4.4 billion).

A breakdown of the funds' total assets indicates a decline in domestic assets by 1.4 percent (Rls 1.1 billion) to Rls 78.4 billion in the third quarter of 2010, compared to a rise of 2.6 percent (Rls 2.0 billion) in the preceding quarter. Domestic assets recorded a rise in their annual growth rate of 0.8 percent (Rls 600 million). Foreign assets registered a rise of 2.2 percent (Rls 430 million) to Rls 19.9 billion during the third quarter of 2010 against an increase of 24.2 percent (Rls 3.8 billion) in the preceding quarter, recording an annual increase rate of 23.8 percent (Rls 3.8 billion).

The number of subscribers to investment funds dropped by 2.7 percent (9,230) to 331.3 thousand in the third quarter of 2010 compared to a decline of 2.6 percent (8,959) in the preceding quarter. The number of subscribers recorded a negative annual growth of 9.1 percent (33,021). The number of operating funds increased by 1.2

percent to 244 during the third quarter of 2010 compared to its stability at 241 during the preceding two quarters.

Seventh: Supervisory and Legislative Banking Developments during the third Quarter of 2010:

A number of circulars were issued during the third quarter of 2010 as follows:

- SAMA Circular No. 41148/BCS/19208 dated 13/8/1431H (25/7/2010) concerning Basel Committee's Consultative Document: Countercyclical Capital Buffer Proposal.
- SAMA Circular No. 45726/M A SH/21432 dated 14/9/1431H (24/8/2010) concerning the revised list of the names of money exchange companies authorized to deal with in Syria.
- SAMA Circular No. 21588/BCS dated 18/9/1431H (28/8/2010) concerning Basel Committee Proposal to Ensure the Loss Absorbency of Regulatory Capital at the Point of Non-viability.
- SAMA Circular No. M A SH/22893 dated 20/10/1431H (29/9/2010) concerning compliance with accepting and cashing the new issue of travellers' cheques in Saudi Riyal.

Eighth: Most Prominent Regulatory Developments in the Saudi Economy during the Third Quarter of 2010

- The Council of Ministers issued a resolution on 28/8/1431H (9/8/2010) approving the general objectives of the Ninth Development Plan (1431/1432H-1435-1436H).