Economic Developments

Second Quarter, 2010

Research and Statistics Department
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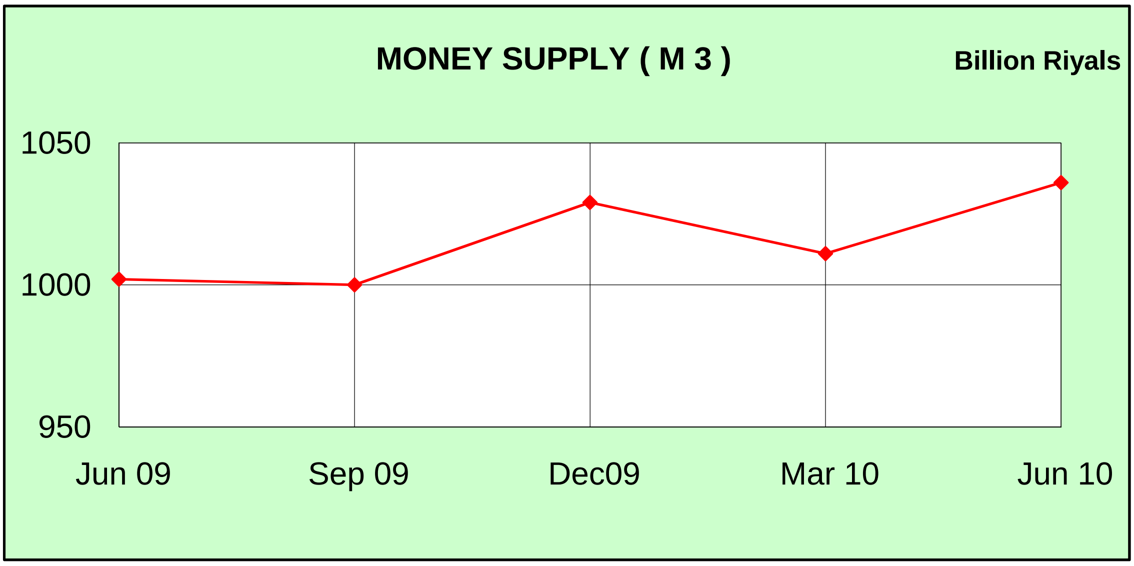
First: Monetary Developments

Broad money (M3) increased by 2.5 percent (Rls 25.1 billion) to Rls 1,035.6 billion during the second quarter of 2010 compared to a decline of 1.8 percent (Rls 18.4 billion) during the preceding quarter. It registered an annual growth rate of 3.4 percent (Rls 33.7 billion).



An analysis of the components of money supply (M3) indicates that (M1) increased by 6.4 percent (Rls 34.9 billion) to Rls 576.9 billion, or 55.7 percent of total money supply (M3) during the second quarter of 2010, compared to a rise of 3.9 percent (Rls 20.5 billion) in the preceding quarter. Money supply (M1) registered an annual rise of 21.2 percent (Rls 100.9 billion) at the end of the second quarter of 2010. Money supply (M2) registered an increase of 3.0 percent (Rls 25.3 billion) to Rls 881.0 billion, or 85.1 percent of total money supply (M3) during the second quarter of 2010, against an increase of 1.3 percent (Rls 10.8 billion) in the preceding quarter. Money supply (M2) recorded an annual increase of 6.9 percent (Rls 56.8 billion) at the end of the second quarter of 2010.

Second: Monetary Policy:

During the second 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 1,063 million in the second quarter of 2010 against Rls 2,292 million in the first quarter of 2010. Daily average Reverse Repo transactions was Rls 75,657 million during the same period compared to Rls 94,925 million in the first quarter of 2010. The decline in liquidity in the daily average Reverse Repo transactions was ascribed to improved credit activity of domestic banks during the second quarter of 2010 compared to the preceding quarter.

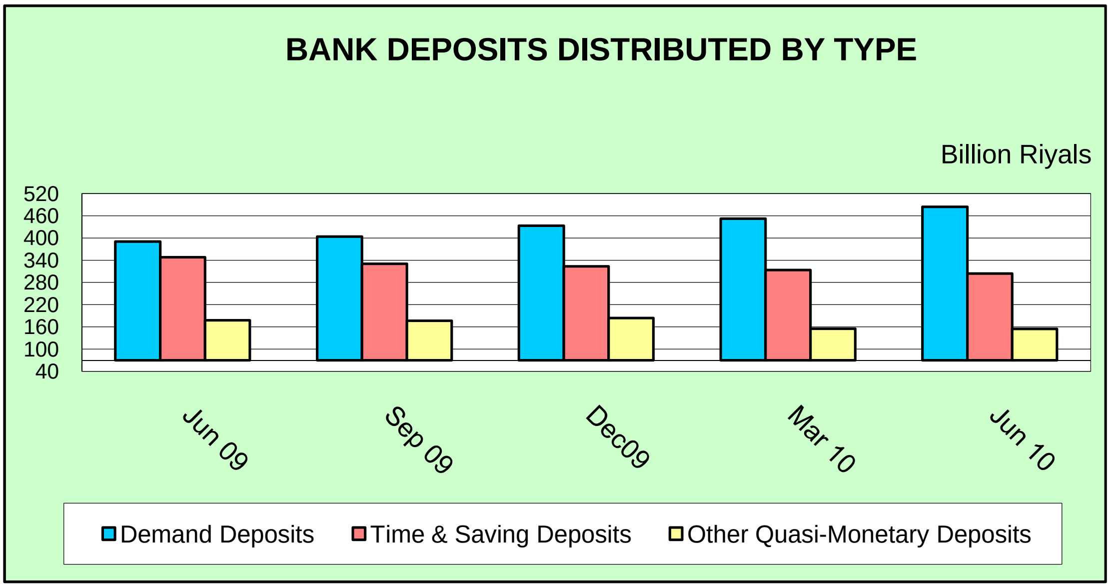
Domestic inter-bank interest rates on deposits (three-month inter-bank interest rate (SIBOR) was stable at 0.73 percent at the end of the second quarter of 2010. The differential between the Riyal and the Dollar deposits for a three-month period continued to be in favor of the Riyal, standing at 19 basis points at the end of the second quarter of 2010 compared with 43 basis points at the end of the first 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, 2010.

As for Foreign Exchange Swaps, SAMA entered into foreign exchange swaps with Saudi banks by an amount of $533 million during the second quarter of 2010.

Third: Banking Developments

3.1 Bank Deposits

Total bank deposits recorded a rise of 2.4 percent (Rls 22.5 billion) to Rls 943.2 billion during the second quarter of 2010 compared to a decline of 2.1 percent (Rls 19.9 billion) during the preceding quarter, recording an annual rise of 2.9 percent (Rls 26.7 billion) at the end of the second quarter of 2010. The ratio of total bank deposits to total broad money supply (M3) at the end of the second quarter of 2010 remained unchanged at 91.1 percent as at the end of the preceding quarter.



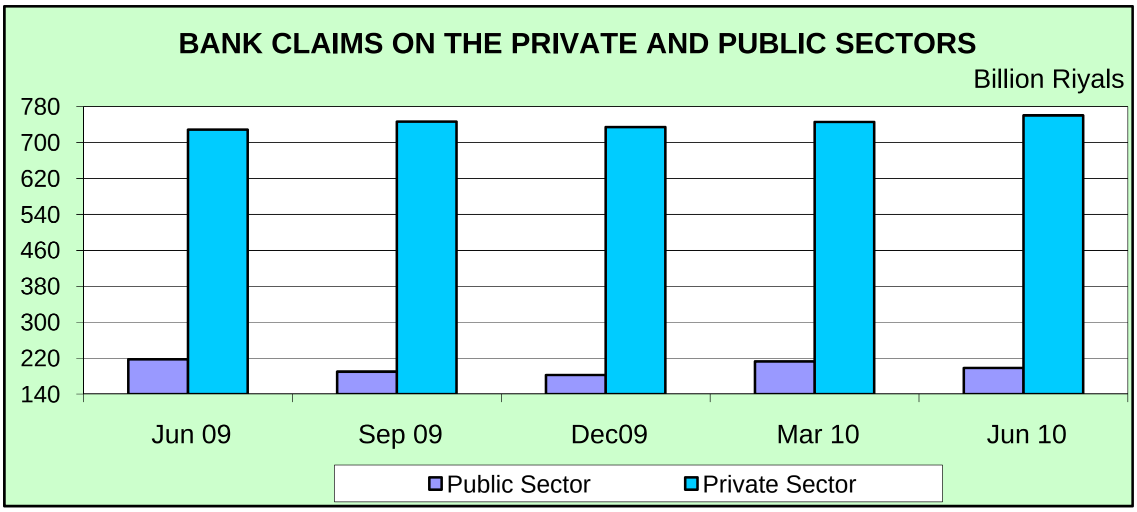
A review of the components of deposits by type during the second quarter of 2010 indicates that demand deposits rose by 7.1 percent (Rls 32.3 billion) to Rls 484.5 billion compared to a rise of 4.4 percent (Rls 19.0 billion) during the preceding quarter. In contrast, time and savings deposits went down by 3.1 percent (Rls 9.7 billion) to Rls 304.0 billion against a decline of 3.0 percent (Rls 9.7 billion) during the preceding quarter. Other quasi-monetary deposits recorded a slight decrease of 0.1 percent (Rls 0.2 billion) to Rls 154.6 billion compared to a decline of 15.9 percent (Rls 29.2 billion) during the preceding quarter. Demand deposits recorded an annual rise of 24.0 percent (Rls 93.9 billion), time and savings deposits recorded an annual decline of 12.7 percent (Rls 44.1 billion) and other quasi-monetary deposits recorded an annual decrease of 13.0 percent (Rls 23.1 billion) at the end of the second 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) remained stable at Rls 958.4 billion during the second quarter of 2010, compared to a rise of 4.6 percent (Rls 41.9 billion) in the preceding quarter. At the end of the second quarter of 2010, they recorded an annual growth of 1.3 percent (Rls 12.5 billion) to constitute 101.6 percent of total bank deposits, compared to 104.3 percent at the end of the preceding quarter.

Total claims of commercial banks on the private sector during the second quarter of 2010 went up by 2.0 percent (Rls 14.6 billion) to Rls 760.4 billion, compared to a rise of 1.6 percent (Rls 11.5 billion) during the preceding quarter, recording an annual rise of 4.4 percent (Rls 31.7 billion) at the end of the second quarter of 2010. The ratio of commercial banks' claims on the private sector to total bank deposits was 80.6 percent at the end of the second quarter of 2010, compared to 81.0 percent at the end of the previous quarter.

Total claims of commercial banks on the government and quasi-government sectors went down by 6.9 percent (Rls 14.6 billion) to Rls 198.1 billion during the second quarter of 2010 compared to a rise of 16.6 percent (Rls 30.4 billion) during the preceding quarter. At the end of the second quarter of 2010, they registered an annual decline of 8.8 percent (Rls 19.2 billion). Their ratio to total bank deposits amounted to 21.0 percent at the end of the second quarter of 2010, compared to 23.1 percent at the end of the previous quarter.

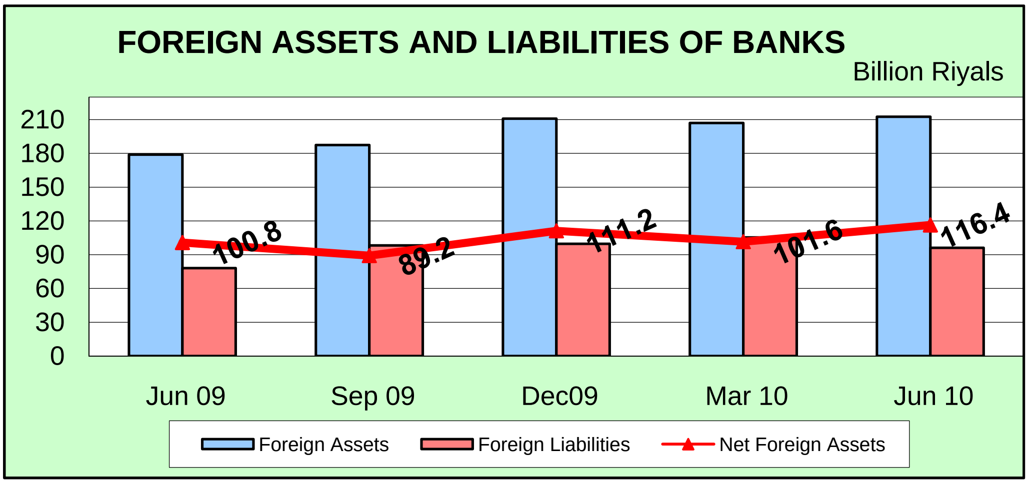


An analysis of bank credit by maturity (private and government sectors) during the second quarter of 2010 shows that short-term credit remained stable at Rls 451.6 billion compared to a rise of 0.4 percent (Rls 1.9 billion) during the preceding quarter. Medium-term credit increased by 1.7 percent (Rls 2.0 billion) to Rls 119.9 billion during the second quarter of 2010 compared to a rise of 0.7 percent (Rls 782 million) during the preceding quarter. Long-term credit went up by 6.0 percent (Rls 10.7 billion) to Rls 188.1 billion compared to a rise of 4.3 percent (Rls 7.3 billion) during the preceding quarter.

Total extended bank credit by economic activity increased by 1.7 percent (Rls 12.7 billion) to Rls 759.6 billion during the second quarter of 2010, compared to a rise of 1.4 percent (Rls 10.0 billion) during the preceding quarter, recording an annual rise of 2.4 percent (Rls 18.0 billion) at the end of the second quarter of 2010. A breakdown of bank credit extended to different economic activities during the second quarter of 2010 indicates that bank credit extended to “commerce” increased by 1.1 percent (Rls 1.9 billion), “agriculture and fishing” by 31.7 percent (Rls 2.8 billion), “building and construction” by 8.4 percent (Rls 4.0 billion), “water, electricity and other services” by 5.6 percent (Rls 868 million), "industry and production" by 3.7 percent (Rls 2.8 billion), "government and quasi-government sector" by 4.6 percent (Rls 1.4 billion), “other miscellaneous services” by 6.3 percent (Rls 2.0 billion), “mineral and mining” by 32.7 percent (Rls 1.5 billion), and “transport and communications” by 9.5 percent (Rls 3.6 billion). In contrast, bank credit extended during the second quarter of 2010 to "finance" decreased by 35.0 percent (7.3 billion), and "other sectors" by 0.3 percent to reach Rls 289.8 billion.

3.3 Commercial Banks' Foreign Assets and Liabilities

Total foreign assets of commercial banks during the second quarter of 2010 increased by 2.7 percent (Rls 5.7 billion) to Rls 212.6 billion compared to a fall of 1.9 percent (Rls 3.9 billion) during the preceding quarter, recording an annual growth rate of 18.9 percent (Rls 33.8 billion) and constituting 15.4 percent of total commercial banks' assets compared to 15.0 percent at the end of the preceding quarter.



Commercial banks' total foreign liabilities went down by 8.8 percent (Rls 9.2 billion) to Rls 96.2 billion during the second quarter of 2010 against a rise of 5.8 percent (Rls 5.8 billion) in the preceding quarter. The annual growth rate of total foreign liabilities increased by 23.1 percent (Rls 18.1 billion), constituting 7.0 percent of commercial banks' total liabilities against 7.7 percent at the end of the preceding quarter. Net foreign assets increased by Rls 14.9 billion to Rls 116.5 billion at the end of the second quarter of 2010 compared to a fall of Rls 9.7 billion during the preceding quarter.

3.4 Commercial Banks' Capital and Reserves, Profits and Branches

The capital and reserves of commercial banks remained unchanged at 182.6 billion during the second quarter of 2010. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2010 stood at 19.4 percent compared to 19.9 percent in the previous quarter. Their annual growth rate rose by 10.3 percent (Rls 17.1 billion).

Commercial banks' profits stood at Rls 7.0 billion during the second quarter of 2010 compared to Rls 6.9 billion in the preceding quarter, recording an annual decline rate of 12.2 percent (Rls 966.2 million).

During the second quarter of 2010, the number of commercial banks' branches operating in the Kingdom increased to 1,561 compared to 1,540 at the end of the preceding quarter, recording a growth rate of 1.4 percent (21 branches).

3.5 Commercial Banks' Assets and Liabilities

Total assets and liabilities of commercial banks stood at Rls 1,381.7 billion at the end of the second quarter of 2010, rising by 0.3 percent (Rls 4.3 billion) over a rise of 0.5 percent (Rls 7.2 billion) during the preceding quarter, recording an increase of 3.3 percent (Rls 44.0 billion) in their annual growth rate at the end of the second 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 second quarter of 2010 totaled Rls 14,548 billion (nearly $3,879 billion) through 1,106.2 thousand messages containing a total of 10.3 million transactions carried out through SARIE. The value of single payments transactions totaled Rls 14,316 billion, whereas the total value of gross payments stood at Rls 231 billion. Customers' payments amounted to Rls 740 billion, increasing by 5.6 percent over the second quarter of 2009. The total value of inter-bank payments transactions amounted to Rls 13,807 billion. It is expected that the use of SARIE will continue to grow at a faster pace in the upcoming years, especially in e-commerce transactions and individuals' transfers. Using of SARIE system for payment of salaries of employees in the government and private sectors will also continue to increase.

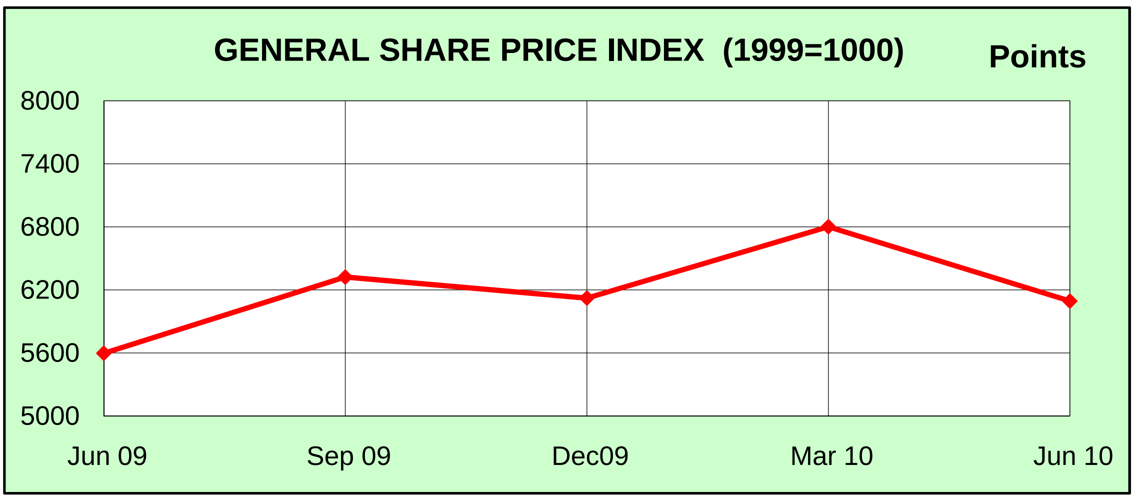
As for the developments of the Saudi Payments Network (SPAN), the number of transactions executed via ATMs in the second quarter of 2010 amounted to about 267 million, including bank transactions and SPAN transactions of R1s 117.8 billion.

Total transactions executed through POS terminals stood at 37.0 million with a total value of Rls 18.5 billion during the second quarter of 2010. The number of ATMs amounted to 10,462 and the number of cards issued by domestic banks stood at about 11.6 million at the end of the second quarter of 2010. The number of POS terminals amounted to more than 65.8 thousand at the end of the second quarter of 2010.

As for clearing houses statistics for the second quarter of 2010, the number of bank checks (outgoing and incoming) cleared at clearing houses totaled 1.8 million with a total value of Rls 186.3 billion. The number of household and business checks was 1.6 million with a total value of Rls 137.2 billion during the period. The number of banks' checks (certified) totaled 222.6 thousand with a total value of Rls 49.1 billion.

Fifth: Domestic Share Market Developments

The general share price index went down during the second quarter of 2010 by 10.4 percent to 6,093.8 compared to a rise of 11.1 percent in the preceding quarter, recording an annual rise of 8.9 percent. During the second quarter of 2010, the number of traded shares went up by 33.4 percent to 11.4 billion compared to a decline of 14.6 percent in the preceding quarter. The annual growth rate of traded shares went down by 46.7 percent. Total value of traded shares increased by 39.8 percent to Rls 265.7 billion compared to a decline of 22.2 percent in the preceding quarter, with its annual growth rate falling by 44.1 percent.



At the end of the second quarter of 2010, the market capitalization of issued shares went down by 10.9 percent to Rls 1,198 billion against a rise of 12.5 percent at the end of the preceding quarter, recording a rise of 11.6 percent in its annual growth rate. Total number of transactions executed in the second quarter of 2010 recorded a rise of 18.1 percent to 6.3 million compared to a decline of 14.1 percent in the preceding quarter. The annual growth rate of the total number of executed transactions went down by 49.8 percent.

Sixth: Investment Funds

Total assets of investment funds managed by investment companies recorded a rise of 6.2 percent (Rls 5.8 billion) to Rls 98.9 billion in the second quarter of 2010 compared to a rise of 4.0 percent (Rls 3.6 billion) in the preceding quarter. Their annual growth rate increased by 11.7 percent (Rls 10.4 billion).

A breakdown of the funds' total assets indicates a rise in domestic assets by 2.6 percent (Rls 2.0 billion) to Rls 79.5 billion in the second quarter of 2010, compared to a rise of 4.5 percent (Rls 3.3 billion) in the preceding quarter. Domestic assets recorded a rise in their annual growth rate by 5.7 percent (Rls 4.3 billion). Foreign assets registered a rise of 24.2 percent (Rls 3.8 million) to Rls 19.4 billion during the second quarter of 2010 against an increase of 1.6 percent (Rls 240 million) in the preceding quarter, recording an annual increase rate of 45.5 percent (Rls 6.1 billion).

The number of subscribers to investment funds dropped by 2.6 percent (8,959) to 340.5 thousand in the second quarter of 2010 compared to a decline of 1.9 percent (6,857) in the preceding quarter. The number of subscribers recorded a negative annual growth of 7.8 percent (28,730). The number of operating funds remained unchanged at 241 during the second quarter, 2010.

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

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

- SAMA Circular No. 20909/BCS/9879 dated 20/4/1431H (5/4/2010) concerning Basel Committee Guidance: Report and Recommendations of the Cross-border Bank Resolution Group.
- SAMA Circular No. 26194/BCS/12580 dated 19/5/1431H (3/5/2010) concerning Rules on compensation practices.
- SAMA Circular No. 27777/BCS/13134 dated 27/5/1431H (11/5/2010) concerning Enhancements to SAMA's Bank Disclosure Requirements under the Basel II Framework pillar 3 component.
- SAMA Circular No. 32077/BCS/15261 dated 23/6/1431H (6/6/2010) concerning Details of Proprietary Investments in Structured Products.

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

- The Council of Ministers issued a resolution on 20/4/1431H (5/4/2010) approving the general objectives of the Ninth Development Plan (1431/1432H-1435-1436H).
- The Council of Ministers issued a resolution on 27/4/1431H (12/4/2010) approving the license for establishing a joint-stock company under the name of (Al-Jazira Cooperative Takaful Co.)