



شعبة الترجمة الرسمية
Official Translation Department

Banking Control Law

Royal Decree No. M/5
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Translation of Saudi Laws



NOTE:

The translation of Saudi laws takes the following into consideration:

- Words used in the singular form include the plural and vice versa.
- Words used in the masculine form include the feminine.
- Words used in the present tense include the present as well as the future.
- The word “person” or “persons” and their related pronouns (he, his, him, they, their, them) refer to a natural and legal person.



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Banking Control Law

Article 1

In this Law, the following terms shall have the meanings assigned thereto:

- a) **Bank:** Any natural or legal person who primarily engages in any banking business in the Kingdom.
- b) **Banking Business:** The business of receiving money as current or fixed deposits; opening current accounts and letters of credit; issuing letters of guarantee; paying and collecting checks, payment orders, promissory notes, and other papers of value; discounting bills, bills of exchange, and other commercial papers; executing foreign exchange transactions; and other banking business.
- c) **National Bank:** A bank whose head office and branches are located in the Kingdom.
- d) **Foreign Bank:** A bank whose head office is located outside the Kingdom and whose branches are located in the Kingdom.
- e) **SAMA:** The Saudi Arabian Monetary Authority.
- f) **Invested Capital:** The capital allocated by a foreign bank for the use of its branches in the Kingdom.

Article 2

Any natural or legal person not licensed under this Law may not primarily engage in any banking business in the Kingdom; however:

- a) legal persons licensed under another law or special decree to engage in banking business may do so within the scope of their intended purposes; and
- b) licensed money changers may primarily engage in the currency exchange business, whether in the form of notes or coins, and may not engage in any other banking business.

Article 3

An application for a license to engage in banking business in the Kingdom shall be submitted to SAMA. Upon obtaining all necessary information, SAMA shall review the application and submit its recommendations to the Minister of Finance and National Economy. A national bank applying for a license must meet the following requirements:

1. It must be a Saudi joint stock company.
2. Its paid-up capital must not be less than 2.5 million riyals and all capital subscriptions must be paid in cash.
3. Its founders and members of its board of directors must be of sound reputation.
4. Its articles of incorporation and articles of association must be approved by the Minister of Finance and National Economy. A Foreign Bank applying for a license to set up one or more branches in the Kingdom shall satisfy the conditions specified by the Council of Ministers upon the recommendation of



the Minister of Finance and National Economy. In all cases, the license shall be issued by the Minister of Finance and National Economy upon the approval of the Council of Ministers.

Article 4

Notwithstanding the provisions of Article 3, valid licenses and permits which were issued prior to this Law's entry into force to persons who engage in banking business in the Kingdom on a primary basis shall remain in effect. SAMA may, however, request such persons to provide any information or documents it deems necessary and may, upon the approval of the Council of Ministers, require them to comply in whole or in part with the provisions of Article 3 of this Law within the period it specifies.

Article 5

A person not licensed to primarily engage in banking business in the Kingdom may not use the word "bank," its synonyms, or any equivalent term in any language in his papers, publications, business address, name, or marketing materials.

Article 6

Bank deposit liabilities shall not exceed 15 times the total of its reserves and paid-up or invested capital. If the deposit liabilities exceed such amount, the bank must, within one month of the statement submission date referred to in Article 15, either increase its capital and reserves to the prescribed limit or deposit 50% of the excess amount with SAMA.

Article 7

Each bank shall, at all times, maintain with SAMA a statutory deposit of at least 15% of its deposit liabilities. SAMA may amend such percentage as public interest dictates, provided that it does not fall below 10% nor exceed 17.5%. SAMA may, however, exceed said limits upon the approval of the Minister of Finance and National Economy.

Each bank shall, in addition to the statutory deposit referred to in the preceding paragraph, maintain a liquidity reserve that does not fall below 15% of its deposit liabilities. Such reserves shall be in cash or gold, or short term assets which can be converted into cash within a period not exceeding 30 days. SAMA may, when necessary, raise such percentage up to 20%.

Article 8

No bank may, for the benefit of any natural or legal person, extend a loan, grant credit facilities, provide securities or guarantees, or undertake any other financial obligations the aggregate amount of which exceeds 25% of the bank's total reserves and its paid-up or invested capital. SAMA may, as public interest dictates and subject to conditions it specifies, raise the percentage up to 50%.

The provisions of the preceding paragraph shall not apply to transactions



between banks, between a bank's head office and its branches, or between branches.

Article 9

A bank may not:

1. use its stocks as security to extend a loan, grant a credit facility, provide a security or guarantee, or undertake any other financial obligation;
2. extend, without security, a loan, grant a credit facility, provide a security or guarantee, or undertake any other financial obligation for the benefit of:
 - a) members of its board of directors or its auditors;
 - b) an entity that is not a joint stock company if any of its board members or auditors is a partner, manager, or has a direct financial interest therein; and
 - c) a person or an entity that is not a joint stock company if any of the bank's board members or auditors is a guarantor thereof.
3. extend, without security, a loan, grant a credit facility, provide a security or guarantee, or undertake any other financial obligation for the benefit of any of its officers or staff for an amount not exceeding four-months' salary.

Any member of the board of directors, auditor, or manager of a bank who violates paragraphs (2) and (3) of this Article shall be deemed to have resigned from his post.

Article 10

A bank may not:

1. engage in wholesale or retail, including import or export, for its benefit or for a commission;
2. have a direct interest, as a shareholder, partner, owner, or in any other capacity, in any commercial, industrial, agricultural enterprise, or any other enterprise, except within the limits specified in paragraph (4) of this Article. Interest which results from the satisfaction of debts due to the bank by a third party shall be excluded from this provision, provided that the bank disposes of such interest within a period of two years or within a longer period determined in agreement with SAMA;
3. purchase the stocks and shares of any bank operating in the Kingdom without SAMA's approval;
4. own the stocks of any other joint stock company incorporated in the Kingdom whose value exceeds 10% of its paid up capital, provided that the nominal value of such stocks does not exceed 20% of the bank's paid-up capital and reserves; SAMA may raise such percentages when necessary; and
5. own or lease a real property, unless it is required for its banking business, staff's housing or recreation, or the satisfaction of a debt due to the bank by a third party.

If the bank acquires real property in satisfaction of debts due thereto by a third party and such property is not necessary for its banking business or for the housing or recreation of its staff, the bank shall liquidate such property within three years from the date of acquisition or, in exceptional circumstances, within



the period(s) approved by SAMA and under its conditions. If, prior to the effective date of this Law, a bank acquired real property in a manner contrary to the provision of this paragraph, it shall gradually liquidate such property within seven years or, in exceptional circumstances, within the period(s) approved by SAMA and under its conditions.

Notwithstanding the provisions of paragraph (5) of this Article, the bank may, in special circumstances and with the approval of SAMA, acquire real property whose value does not exceed 20% of its paid-up capital and reserves.

Article 11

Prior to obtaining SAMA's written approval and meeting the conditions set thereby, a bank may not:

- a) amend its paid-up or invested capital;
- b) engage in negotiations with another bank or any other entity engaging in banking business to merge therewith or participate in the business activity thereof;
- c) acquire shares in a company incorporated outside the Kingdom;
- d) cease to engage in banking business; in such case SAMA shall, prior to approving said cessation, ensure that the bank has made the necessary arrangements to protect the rights of the depositors; and
- e) open branches or offices in the Kingdom, or branches or offices of national banks outside the Kingdom. SAMA shall, prior to granting written authorization for the cases provided for in this paragraph, obtain the approval of the Minister of Finance and National Economy.

Article 12

A person may not be a member of the board of directors of more than one bank. The following persons may not be selected as board members or appointed as managers in any bank without the prior written approval of SAMA:

- a) A person who served in a similar position or job at a liquidated banking institution, even if such liquidation took place prior to this Law's entry into force. In such case, SAMA shall only grant its approval if it is established that such person was not responsible for the liquidation.
- b) A person who was dismissed from a similar position or job in a banking institution, even if such dismissal took place prior to this Law's entry into force. In such case, SAMA's approval must be based on reasonable grounds.

A member of the board of directors of a bank or a manager thereof who has been declared bankrupt pursuant to a judicial ruling or has been convicted in an offense impinging on honor or integrity shall be deemed to have resigned from his post.

Article 13

A bank shall, prior to announcing the distribution of dividends, transfer an amount of not less than 25% of its net annual profits to its statutory reserve until such reserve becomes at least equal to the bank's paid-up capital. A bank may



not pay dividends or transfer abroad any part of its profits except after its incorporation expenditures are paid and incurred losses are covered, and after deducting at least 10% of the amount of its capital expenditures until such expenditures are paid.

Article 14

A bank must annually appoint two auditors from among the auditors registered with the Ministry of Commerce and Industry. The auditors shall prepare a report on the bank's annual budget and profit and loss statement, which shall include their opinion on whether the budget duly represents the bank's financial position and whether the clarifications or information provided by the bank managers or staff are satisfactory.

As for banks taking the form of a company, said report shall be announced together with the bank management's annual report at the partners' meeting, which shall be held within the six months following the end of the bank's fiscal year. The bank management must provide SAMA with a copy of said reports.

Paragraph (1) of this Article shall apply to foreign banks with respect to their branches operating in the Kingdom. Such banks must provide SAMA with a copy of the auditors' report.

Article 15

A bank must provide SAMA, at the end of the subsequent month and in the manner prescribed thereby, with a correct and true monthly consolidated statement that reflects its financial position. It shall also provide SAMA, within six months of the end of its fiscal year and in the manner prescribed thereby, with a copy of its annual budget and profit and loss statement certified by its auditors.

Article 16

SAMA may, upon the approval of the Minister of Finance and National Economy, set general rules to regulate the following:

1. The maximum limit of total loans that a bank or banks may extend.
2. The prohibition or limiting of certain types of loans or other transactions.
3. The terms and conditions that a bank must observe when carrying out certain types of transactions with its clients.
4. Cash margins that a bank must retain against certain types of credits or guarantees.
5. The minimum ratio between loan amounts and assets provided as security that must be observed with regard to certain types of loans.
6. The assets a bank must retain in the Kingdom. The value of such assets shall not fall below a certain percentage of the deposit liabilities determined by SAMA. SAMA may issue decisions regarding:
 1. the definition of the term "deposit liabilities" in this Law; and
 2. the determination of bank holidays and business hours.



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.

Article 19

A person may not disclose or benefit from any information he becomes privy to during the performance of any duty relating to the application of this Law.

Article 20

SAMA shall periodically publish consolidated statements regarding the main information contained in the statements referred to in Article 15.

Article 21

The Minister of Finance and National Economy may, in exceptional circumstances and upon the approval of the Council of Ministers, exempt any bank from some of this Law's provisions or the rules and resolutions issued for its implementation for a limited period; exemption conditions shall be determined on a case by case basis.

Article 22

SAMA may, if it is established that a bank has violated any of this Law's provisions or the rules and resolutions issued for its implementation or has adopted a policy that might undermine its solvency or liquidity, take one or more of the following measures upon the approval of the Minister of Finance and National Economy:

- a) Appoint one consultant, or more, to advise the bank regarding the management of its business.
- b) Suspend or dismiss any of the bank's board members or staff.
- c) Prohibit the bank from extending loans or receiving deposits or limit the same.
- d) Require the bank to take any other measures it deems necessary.

If it is established that a bank continues to violate this Law's provisions or the rules and resolutions issued for its implementation, SAMA may 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 and National Economy may, upon approval of the Council of Ministers, revoke the bank's license.

Article 23

1. A person who violates the provisions of Article 2(1), Article 5, Article 11(1)(a, b, and c), Article 12, and Article 18 of this Law shall be punished by imprisonment for a term not exceeding two years and a fine not exceeding five thousand riyals for each day the violation continues, or by either penalty.
2. A person who violates the provisions of Article 19 of this Law shall be punished by imprisonment for a term not exceeding two years and a fine not exceeding twenty thousand riyals, or by either penalty.
3. A person who violates the provisions of Articles 8, 9, and 10 of this Law shall be punished by imprisonment for a term not exceeding six months and a fine not exceeding ten thousand riyals, or by either penalty.
4. A person who violates the provisions of Articles 7, 14, and 15 of this Law shall be punished by a fine not exceeding five hundred riyals for each day the violation continues.
5. A person who violates any of the other provisions of this Law or the rules and resolutions issued for its implementation shall be punished by a fine not exceeding five thousand riyals.
6. In applying paragraphs (2, 3, and 5) of this Article, the acts committed by a violator which share a single purpose and are interrelated in terms of intent and timing shall be deemed a single offense and shall be punished by a single penalty.

In applying the provisions of this Article, the harshest penalty shall be imposed if the committed act is punishable by more than one penalty.

Article 24

The chairman of the board of directors, managing director, board members, head office manager, and branch manager shall be held accountable, each within his powers, for any act the bank commits in violation of this Law or the rules and resolutions issued for its implementation.

Article 25

The Minister of Finance and National Economy shall, upon SAMA's request, appoint a committee of three members not affiliated with SAMA to decide on violations punishable under this Law, and shall determine its work procedures.

Article 26

The Vice-President of the Council of Ministers and the Minister of Finance and National Economy shall implement this Law and it shall enter into force on the date of its publication.