



**Financial Sector
Development Program**

Financial Sector Development Program

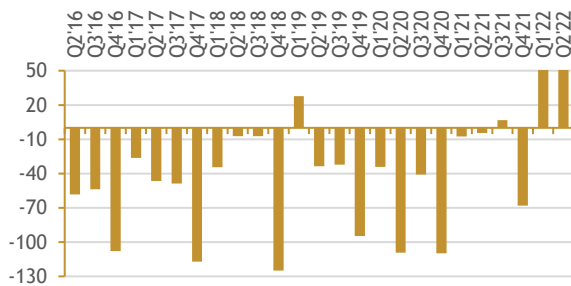
Quarterly Newsletter Q2 2022

Key Highlights: Budget Surplus in Q2 2022, GDP rose 9.9% in Q1 2022

Q2 2022 Budget Highlights

- Saudi Arabia recorded a budget surplus of SAR 77.9bn in Q2 2022, compared to a deficit of SAR 4.6bn in the same period last year.
- Total revenue increased 49% YoY to SAR 370.37bn in Q2 2022, from SAR 248.11bn in the same period a year ago.
- Oil revenues increased 89% YoY to SAR 250.4bn, while non-oil revenues rose 3% YoY to SAR 120bn in Q2 2022. Revenues from 'Taxes on Goods and Services' witnessed a 6% YoY decrease to SAR 64.2bn in Q2 2022.
- Total expenditure rose by 16% YoY to SAR 292.5bn in Q2 2022, from SAR 252.7bn in the same period last year.
- Public debt increased to SAR 966.5bn by the end of Q2 2022 from SAR 938bn by the end of FY 2021.

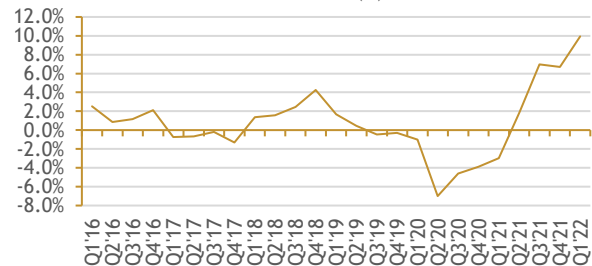
Budget Deficit/Surplus (SAR bn)



Q1 2022 GDP Growth (%)

- Real GDP (at 2010 constant prices) rose 9.9% YoY in Q1 2022.
- The rise was largely driven by 20.3% increase in the oil activities, while the non-oil activities increased by 3.7% during the quarter.
- The non-oil sector accounted for 57% of total GDP in Q1 2022.

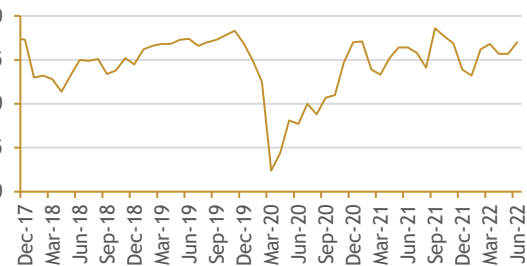
Real GDP YoY (%)



PMI Index

The Saudi Arabia Purchasing Managers' Index (PMI) rose to 57 in June from 55.7 in May, which is the sharpest rate of growth since October 2021.

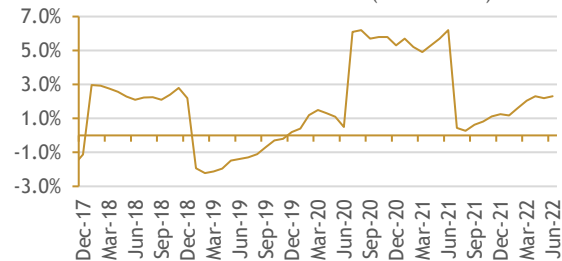
PMI



Consumer Price Index (CPI)

The CPI increased by 2.3% YoY in June 2022. Education, Restaurants and Hotels segment prices witnessed an increase of 6.2% and 4.9%, respectively. Food and beverage prices rose by 4.4%, while Clothing and Footwear segment prices declined the most, down by 1.3% YoY in June 2022.

Consumer Price Index (CPI - YoY %)



SAMA Governor And CMA Chairman Express Gratitude to Saudi Leadership for Approving Fintech Strategy

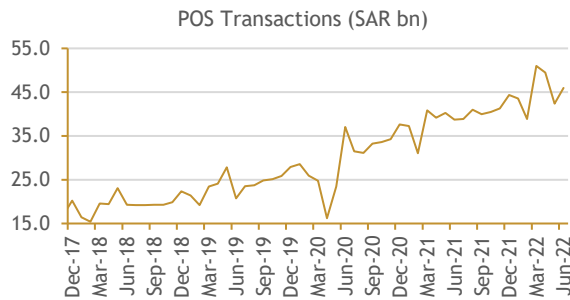
His Excellency Fahad Almubarak, governor of Saudi Central Bank (SAMA), and His Excellency Mohammed Elkuwaiz, chairman of Capital Market Authority (CMA), expressed their gratitude and appreciation to the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz AL-Saud and His Royal Highness Mohammad bin Salman, the Crown Prince, Deputy Prime Minister and Minister of Defense (May Allah protect them), for approving the FinTech Strategy by the Council of Ministers' decision. This is in line with the supreme directive for the Kingdom of Saudi Arabia to be among the leading countries in the field of fintech, with Riyadh becoming a global tech hub. This strategy is included as a new pillar within the Saudi Vision 2030's Financial Sector Development Program (FSDP), which is aimed at developing the national economy, diversifying sources of income and enabling financial institutions to support private sector growth by giving new companies the opportunity to provide financial services.

Macroeconomic and Financial Market

Macroeconomic Review

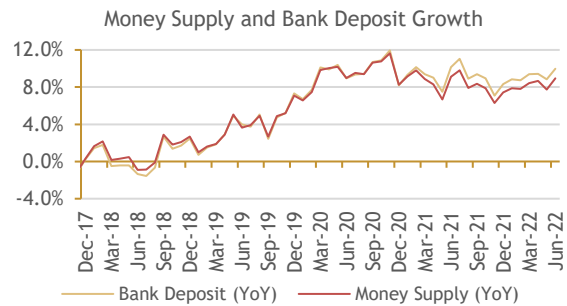
Points of Sale Transactions

POS transactions rose 18.8% YoY to SAR 46bn in June 2022 from SAR 38.70bn in June 2021. In Q2 2022, the total amount of POS transactions reached SAR 137.8bn (up 16.6% YoY and 3.3% QoQ).



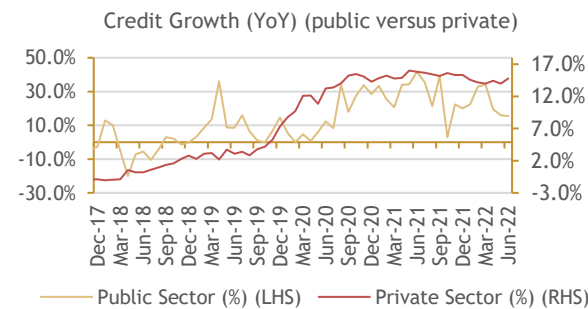
Money Supply (M3) and Bank Deposit Growth (%)

Money supply (M3) increased 8.9% YoY in June 2022 and was up 2.8% on QoQ basis. M1 grew 3.6% YoY, while Time and Savings deposits rose by 22% on YoY basis. Total bank deposits grew 10% YoY and 3% on QoQ basis in June 2022.



Credit Growth (%) *

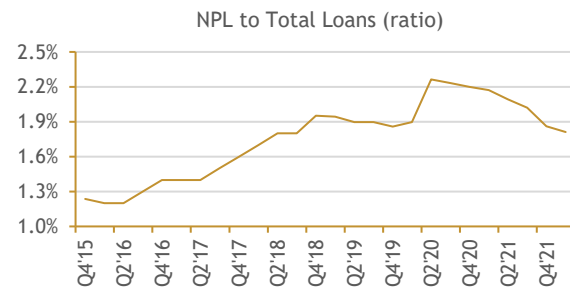
Bank credit (public and private) grew 14.8% YoY in June 2022 and 3.9% on QoQ basis. Public sector credit increased 15.6% YoY and 6.1% on QoQ basis. Bank credit to the private sector rose 14.8% YoY and 3.9% on QoQ basis in June 2022.



*Credit to public sector does not include Gov't & Quasi-Gov't bonds

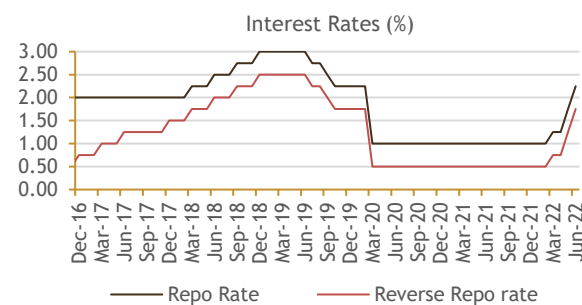
Non-performing Loans as portion of Total Loans

NPL ratio fell to 1.8% in Q1 2022 (latest data available) from 1.9% in Q4 2021.



Interest Rates

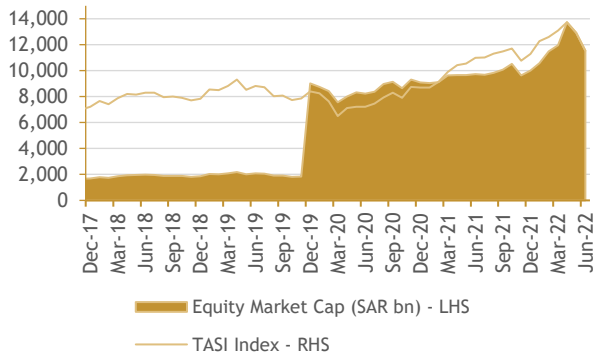
SAMA increased the repo rate and the reverse repo rate by 50 basis points during Q2 2022. Policy rate adjustments are consistent with maintaining monetary stability.



Financial Market Overview

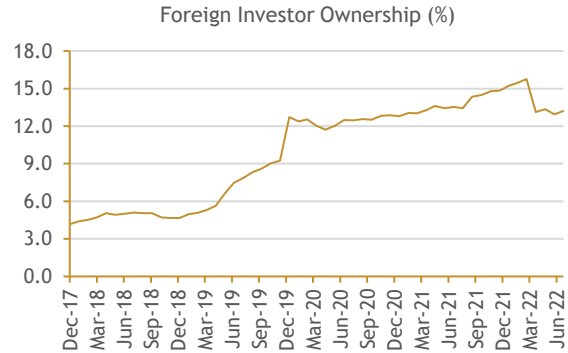
Tadawul and Equity Market Capitalization

The Tadawul Index (TASI) lost 10.8% MoM in June and 6.1% on YTD basis. TASI's equity market capitalization stood at SAR 11,523bn in June 2022, down 3.7% from SAR 11,963bn in March 2022.



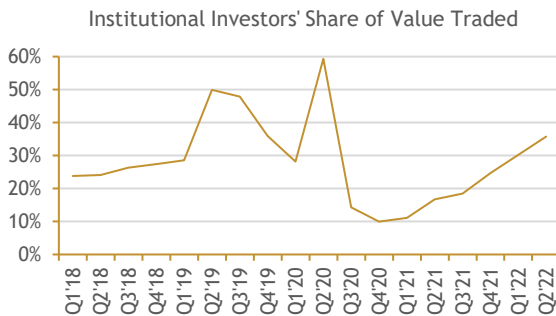
Foreign Investor Ownership

Foreign investor ownership in Saudi stocks increased to 13.2% (free float) in June 2022 from 13.1% recorded in March 2022. Foreign investors holding value stood at SAR 353.7bn in June 2022.



Institutional Investors' Share in Value Traded

Institutional investors' share in the total value traded increased in Q2 2022 to a quarterly average of 35.7%, compared to 30.8% in Q1 2021.



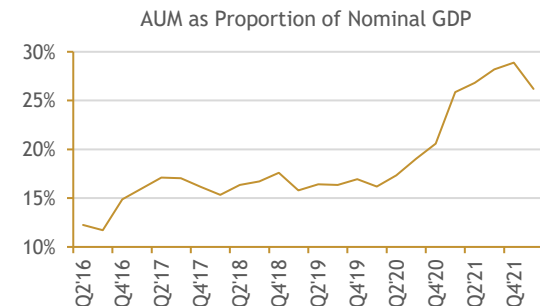
Market Concentration of Top 10 Companies

The market capitalization of the top 10 Tadawul companies reached 89% by the end of June 2022.



Assets Under Management (% of GDP)

Assets under management (AUM) as a percentage of nominal GDP reduced to 26.2% in Q1 2022 from 28.9% in Q4 2021. AUM reached SAR 816.7bn in June 2022.



Financial Sector Development Highlights

The Minister of Finance Announces Linkage With Euroclear As One of the Enablers to Develop Local Debt Markets

The Saudi Minister of Finance, Chairman of the Financial Sector Development Program, H.E. Mohammed Al-Jadaan, announced during the meetings accompanying the World Economic Forum held in Davos during May 22-26 2022, that a linkage was established with Euroclear, the provider of post-trade services in the Saudi Stock Exchange through Securities Depository Center Company (Edaa).

H.E. Al-Jadaan indicated that this linkage displays the trend towards achieving the goals of Saudi Vision 2030, which seeks to support the development of the financial sector by endeavoring to expand the investor base to meet KSA local debt financing requirements and to achieve objectives of the Financial Sector Development Program Strategy in supporting the secondary market development by increasing the liquidity of local government debt instruments through attraction of more foreign capital.

The linkage is intended to enable international investors to settle domestically issued debt instruments through direct nominee account in Edaa using their current accounts in Euroclear and to achieve greater interoperability within the market.

Saudi Central Bank Opens Public Consultation On Implementing Regulation of Payments And Payment Services Law

The Saudi Central Bank (SAMA) announces opening a public consultation on the draft implementing regulation of payments and payment services law. In the interest of transparency and wider participation, SAMA invites stakeholders and public to provide suggestions and observations on the draft by visiting the Public Consultation Platform affiliated to the National Competitiveness Center.

This regulatory function is part of SAMA's oversight role in accordance with the authority vested in SAMA, as mentioned in the Articles 7 and 18 of the payments and payment services law.

The Implementing regulation aims at reinforcing commitment to relevant international principles and standards, enabling SAMA to exercise its powers. In addition, the regulation would help contribute to the growth of the sector, attract new investors for achieving one of Saudi Vision 2030 objectives of the Financial Sector Development program (FSDP).

Moody's affirms Saudi Arabia's Credit Rating at "A1" With a Stable Outlook

The credit rating agency "Moody's" updated its credit report for Saudi Arabia affirming its "A1" rating for the Kingdom with a stable outlook.

The rating affirmation is based on Moody's assessment of the government's improving track record of fiscal policy effectiveness, evidenced by policy responses to both periods of low and high oil prices, which demonstrate a commitment to fiscal consolidation and longer-term fiscal sustainability.

Moody's assessment of Saudi Arabia's financial institutions highlights the positive impact of the structural measures and reforms taken by the Kingdom during the past five years. In Addition to the government's tangible progress in improving its domestic business environment, they illustrate the fiscal policy effectiveness and increased government efficiency.

Saudi Central Bank: 8.4% Growth In the Insurance Sector In 2021

The Saudi Central Bank (SAMA) issued the 15th annual report on the insurance market in the Kingdom of Saudi Arabia. The report highlights the performance of the insurance sector, financial results and its contribution to the Kingdom's gross domestic product for the year 2021.

According to the report, the insurance sector grew by 8.4% in 2021, with total Written Premium SAR 42 billion, whereas Protection and Saving and Property insurance classes achieved notable increases in written premiums.

Furthermore, the report indicated that the contribution of insurance sector to non-oil GDP decreased slightly by -0.01% to reach 1.91%, and the overall loss ratio increased to reach 83.4% in 2021 compared to 76.7% in 2020.

The Net Loss (after zakat & tax) for the insurance sector reached SAR 47 million in 2021 compared to a Net Profit of SAR 1.38 billion in the previous year. The increase in investment income helped offset the impact of operational losses.

Additionally, the report discussed regulatory developments in the insurance sector, including the amendments of certain articles of the Cooperative Insurance Company Control Law, the issuance of a number of regulations and the development of several insurance products. The report noted a 2% increase in Saudization in 2021 to reach 77%.

Listing and Trading Government Debt Instruments in the Saudi Stock Exchange

Tadawul has approved through Q2 2022 the listing request of the debt instruments, issued by the government of the Kingdom of Saudi Arabia submitted by the Ministry of Finance as per the Listing Rules with a total value of SAR (5,442,400,000) and listing of the debt instruments from a class already listed with a total value of SAR (24,935,909,000).

Saudi Arabia Advances in IMD's Global Capital Market Index

Saudi Arabia has made remarkable progress in the capital market indicators according to the Global Competitiveness Report 2022 issued by the International Institute for Management Development (IMD), with the Kingdom's ranking jumping in nine indicators out of 12 indicators related to capital markets, while three indicators maintained the same ranking of 2021.

According to the report, the Kingdom ranked first in the stock market capitalization index and the shareholders' equity index, while it ranked second in the capital markets and venture capital indices, and ranked third in the initial public offering and boards of directors' index within the G-20.

This progression is a reflection of the various efforts and measures that have been taken to develop the capital markets and apply the best international practices.

The Capital Market Authority Publishes the Draft Amendments Related to the Development of the Regulations and Rules Regulating the Capital Market for Public Consultation

As part of the Capital Market Authority's ("CMA") strategic objectives to develop the capital market, the CMA Board issued several resolutions during the second quarter of the year 2022, which included the publication of the following drafts for Public Consultation:

- the Draft Regulatory Framework for Equity Crowdfunding.
- the Rules on the Offer of Securities and Continuing Obligations.

These drafts aim to enhance the regulatory environment and stability in the capital market, and to develop everything that would enhance the participants' confidence in the capital market in support of its growth and prosperity.

Saudi Central Bank Licenses Consumer Microfinance New Company

Saudi Central Bank (SAMA), following the successful pilot in the Regulatory Sandbox, announced licensing Sulhah Financing Company; a closed joint-stock company with a capital of SAR 10 million was given a license to conduct consumer microfinance activity using financial technology.

SAMA clarified that it will continue to provide microfinancing licenses to companies specialized in this type of activity. SAMA stated that these types of licenses shall greatly support and empower the Kingdom's finance sector as they broaden its scope of activities, draw more investors and encourage medium capital companies while still operating efficiently and effectively through compliance with the SAMA's regulatory instructions and requirements related to risk management, compliance and clients' protection.

On a related note, SAMA indicated that licensing consumer-targeting microfinancing activities counts as a step forward towards its goal of promoting the Kingdom's financial stability and supporting economic growth and development, in line with the objectives of Saudi Vision 2030.

Muqassa Launches Repurchase Agreement Clearing Service

The Securities Clearing Center Company (Muqassa) launches Repurchase Agreement Clearing (REPO) Service on 24/04/2022. Repurchase Agreement Clearing service provided by The Securities Clearing Center Company (Muqassa) come as part of our ongoing efforts to accommodate the needs of the investors and clearing members. The Group, alongside its subsidiaries, continues to evolve to support the development of a technologically advanced, diverse and integrated capital market. Muqassa's REPO Clearing service, a form of short-term borrowing, will be available to General Clearing Members and investors. and will be settled by the Securities Depository Center Company ("Edaa"). The service will increase transparency, shift liquidity from unsecured to secured lending markets at lower costs and facilitate access to liquidity for market participants with improved operational efficiencies while reducing overall market risk. This service also contributes to enhancing the depth of the Sukuk and bond markets in Saudi Arabia.

The "National Debt Management Center" Completes the Funding Activities for 2022 Debt Repayments

The National Debt Management Center announced the completion of arranging local Sukuk issuances under the Saudi Arabian Government SAR-denominated Sukuk Program for the debt principal repayments as per the financing needs for the year 2022, with a funding amount of approximately SAR 43 bn. NDMC stated that it may, in accordance with the Annual Borrowing Plan, continue to consider additional funding activities subject to market conditions and through available funding channels locally or internationally through debt markets and government alternative financing. This is to ensure Kingdom's continuous presence in debt markets and manage the debt repayments for the coming years, in addition to, facilitating the financing of capital expenditures and infrastructure projects which will contribute to promote economic growth while taking into account market movements and the debt portfolio risk management.

The National Debt Management Center Wins the Middle East's Sovereign Treasury & Funding Team Award

The National Debt Management Center (NDMC) was awarded the "Sovereign Treasury & Funding Team of the Year" award at the annual Bonds, Loans & Sukuk Middle East awards ceremony held in Dubai on the 8th June 2022.

NDMC winning of this award is a testament to Saudi Arabia's ability to meet investors' expectations while accessing debt markets to secure the Kingdom's needs in the short, medium and long term at fair costs.

Saudi Central Bank Deputy Governor For Research And International Affairs: Combined Islamic Finance Assets in the Kingdom Amounted to 3 Trillion Riyals

Dr. Fahad Aldossari, deputy governor of the Saudi Central Bank (SAMA) for Research and International Affairs, confirmed that the Islamic finance industry in the Kingdom occupies a position of prominence on a global scale. The total sum of its assets within all of the banking sector, sukuk sector, insurance sector and the investment funds sector approaches the total of three trillion riyals, representing around 28% of the industry's global assets. According to the 2021 report of the Islamic Financial Services Board (IFSB), these numbers put the Kingdom in the first place; as the industry's global leader with a chart-topping share of its assets.

The Council of Ministers Approved the New Saudi Companies Law

The Saudi Council of Ministers approved the new company's law, which reflects the combined efforts of the Ministry of Commerce and Capital market Authority. The newly amended law contributes to the stimulation and development of the business and commercial ecosystem of the Kingdom. It has been developed in the light of international best practices to address all challenges facing the business sector.

The new companies' law aims to enhance corporate sustainability, support investment in small and medium enterprises by facilitating formal procedures and requirements, and develop an efficient governance framework that ensures fair treatment among the stakeholders which will be resulting in attracting local and foreign investments and maintaining the momentum of expansion and growth.

The Capital Market Authority Continues to Work on Developing Regulations and Rules

As part of the Capital Market Authority's ("CMA") strategic objectives to regulate and develop the capital market and enhancing the confidence of its participants. The CMA Board issued several resolutions regarding the adoption of regulations and regulatory rules, which included the following:

- The Amendments to the Regulatory Requirements for the Capital Market Institutions Authorized to Conduct Advisory Activity or New Applicants for such an Activity.
- Amendments to the Rules for Registering Auditors of Entities Subject to the Authority's Supervision.

These amendments approved by the Authority come to regulate and develop the capital market, and to regulate the aspects necessary to enhance institutional investment and raise the level of services provided to investors.

The Capital Market Authority Announces the Approval on the Registration and Offering Shares of Several Companies in the Capital Market

The Capital Market Authority announced the issuance of several resolutions by the Authority's Board in the second quarter of the year 2022 AD, regarding the approval of requests for registration and offering of shares for public subscription in the main market of "Naqi Water Company", "Arabian Drilling Company", and "Alamar Foods Company."

The Board also issued approval for the registration and offering of the following companies in the parallel market:

Abdulaziz & Mansour Ibrahim Albabtin Company.

Arabian Plastic Industrial Company.

international Human Resources Company.

Naba Alsaha Medical Services Company.

Saudi Networkers Services Company.

As well as approving the registration of the shares of " Care Trading Company", "Keir International Company ", " Sure International Technology Company ", " Rawasi Albina Investment Company", and "Academy of Learning Company" for the purpose of direct listing in the parallel market (Nomu).

As for investment funds, the Capital Market Authority has issued its resolution approving Al Rajhi Capital to offer the units of the Health Endowment Fund for a public offering.

Financial Sector Development Program KPI's

Program KPIs	Baseline	Status	2025 Target
Value of investments in private equity and venture capital, M SAR	9,304	19,229	11,404
Debt as % of GDP	14%	25%	24.1%
Total GWP to GDP non-oil, %***	1.9%	2.58%	2.4%
Total market capitalization (shares) as % of GDP*	66.52%	94%	80.8%
Share of investment accounts opened through eKYC	82%	94%	=>70%
Share of non-cash transactions, %	36%	57%	70%
Banking sector assets, B SAR	2,631	3,529	3,515
Life GWP per capita, SAR***	33.16	14.7	45
Coverage ratio of Health insurance schemes, %***	33%	29.8%	45%
Coverage ratio of Motor insurance schemes, %**	39.6%	47.52%	77%
# Of Fintech players	-	23	30
SME loans as % of bank loans***	5.7%	8.1%	11%
Credit to private sector, Bn SAR***	1,510	2,085.6	2,053.2
Number of listings in Capital Market	6	25	26
Assets under Management, as % of GDP***	16.94%	26.1%	31%
Institutional investors' share of value traded %	35.96%	35.7%	44%
Foreign Investor Ownership of the equity market cap (free float), in %	13.3%	13.2%	17.5%

*Excluding Aramco

**As per SAMA's data

***Q1 2022 Data



Financial Sector Development Program

Financial Sector Development Program

The Financial Sector Development Program is one of the executive programs launched by the Council of Economic and Development Affairs (CEDA) to achieve the objectives of Vision 2030. The role of the program is to create a diversified and effective financial sector to support the development of the national economy, diversify its sources of income and stimulate savings, finance, and investment. The program will achieve its ambition by enabling financial institutions to support private sector growth, promoting, and enabling financial planning, and ensuring the formation of an advanced capital market, without impeding the strategic objectives intended to maintain the financial services sector's stability.

Sources: Ministry of Finance, Saudi Arabian Monetary Authority (SAMA), Capital Market Authority (CMA), General Authority of Statistics, Tadawul, Bloomberg, Reuters Eikon

*The data of foreign bank branches operating in Saudi Arabia have been amended and updated as per international best practices and the Monetary and Financial Statistics Manual in SAMA monthly bulletin.

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