

Saudi Banks DEFY

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Global Credit Crisis

By
Irfan Iqbal Khan

The ongoing credit crisis has prompted ratings agencies to forecast bleak future for Gulf Arab banks but experts believe the outlook will remain stable. The banks are set to face slower growth and lower profitability but there is certainly no emergency situation. To thwart dangers of frozen world credit markets, the Gulf central banks are actively intervening and easing tensions in the region. In this global financial crisis will Saudi banks get caught up?



SAUDI investors are keeping their fingers crossed. Some fear the financial turmoil could drag on if the \$700 billion bailout package fails. Amidst worries

that the banking sector could feel the heat, Moody's rule out any emergency situation developing in the region. The ratings agency believes that liquidity will be tighter, but it can be managed and it can be replaced.

To lessen the psychological impact of global turmoil, six Saudi banks initiated a concerted effort to restore confidence, saying they had no direct exposure to toxic mortgages.

Riyad Bank dismissed any impact from toxic mortgage products. "There is no impact whatsoever of the mortgage crisis on the bank's financial situation", it said.

Al-Rajhi Bank, the Gulf's largest lender, said it had no exposure to the global mortgage market.

Samba Financial Group, the Kingdom's second-largest lender by market value, and Arab National Bank said in similar statements the mortgage crisis has "no tangible impact" on the two banks' financial situation.

Banque Saudi Fransi said it had no exposure to the global mortgage market.

Alinma Bank, the latest lender to have been listed after a \$2.8 billion initial public offering in April, said its investments were not impacted by the global turmoil because they were all in Shariah-compliant products in Saudi Arabia.

Reacting to the global situation Mr. Fadi Al Ajaji, economist at the Saudi Arabian Monetary Agency

(SAMA), told a news agency that the global crisis will hit banks' profitability with delayed effect.

"Maybe it will not show in the current financial year but it may show in the coming years," he said.

"But it will not impact deposits. Deposits are safe ... and the crisis will not lead to the collapse or bankruptcy of banks," he added.

SAMA Governor Mr. Hamad Saud Al Sayyari said that Saudi banks are in good position to weather a global downturn. He explained that SAMA followed a conservative policy and did not invest in high-risk assets abroad.

Even SAMA's Vice Governor Mr. Muhammed Al Jasser opined that the central bank had the means to deal with any liquidity issues and was ready to provide sufficient liquidity if needed. Bank deposits were safe and economic growth healthy, he said, adding that Saudi Arabia had no exposure to troubled Western banks and had yet to use several instruments at its disposal including repurchase rate moves.

Meanwhile, Saudi banks are announcing soaring profits.

Al-Rajhi Bank, considered the largest Gulf Arab bank by market value, made SR1.76 billion (\$468.5 million) in the three months to Sept. 30 up 3.7 percent from SR1.69 billion in the preceding year. The bank posted a third-quarter profit rise on higher income from lending and investment banking services.

The National Commercial Bank (NCB) has recorded a significant increase in its income. The bank's net special commission income increased by SR581 million (18.1 percent), and fees from banking services increased by SR237 million (23.9 percent).

The Saudi British Bank (SABB) posted net profit of SR1,552 million (\$414million) for the first six months this year – up SR301 million (\$80 million), or 24.0 percent, compared with SR1,251 million (\$334 million) for the same period last year.



Riyad Bank's profit grew by 6 percent achieving SR1,600 million for the first half of 2008. The profit of the 2nd quarter this year increased by 6.9 percent reaching SR906 million against SR848 million last year.

The Arab National Bank (ANB) announced a net profit of \$547



Al Rajhi Bank مصرف الراجحي



Last year total assets of commercial banks rose to 24.9 percent, customer deposits increased by 21.4 percent; credit facility provided to the private sector rose by 21.4 percent and to public enterprises by 7.1 percent



million for the first nine months this year compared to \$527 million for the same period last year.

The Saudi commercial banks are recording good financial growth. This expansion is stimulated by escalating domestic economic activity with greater private sector participation.

Last year (2007) total assets of commercial banks rose to 24.9 percent, customer deposits increased by 21.4 percent; credit facility provided to the private sector rose by 21.4 percent and to public enterprises by 7.1 percent.

This year, the total bank deposits went up by 2.8 percent (SR21.5 billion) to SR783.1 billion during the second quarter of 2008 compared to an increase of 6.1 percent (SR44.1 billion) during the preceding quarter.

High Gains

SAMA said the profits of Saudi commercial banks increased to SR9.1 billion at the end of the second quarter of 2008 compared to

SR8.3 billion in the preceding quarter, recording a rise of 9.6 percent to SR0.8 billion and an annual growth rate of 1.2 percent to SR0.4 billion.

The capital and reserves went up by 6.9 percent to SR8.9 billion. The ratio of commercial banks' capital and reserves to total bank deposits at the end of the second quarter of 2008 stood at 17.6 percent compared to 16.5 percent in the preceding year. Their annual growth rate rose by 29.9 percent amounting to SR31.8 billion.

If we closely see the performance of individual banks, Al Rajhi's banking services income rose 28 percent to SR568 million. Earnings per share at the end of the first nine months of this year were SR3.4, up from SR3.25 a year earlier.

Al Rajhi also raised its paid-up capital by 11.1 percent earlier this year through a bonus share issue.

"The bank has succeeded in diversifying sources of revenues and in developing investment and corporate banking sectors hand in hand with expanding retail banking activities," Chief Executive Mr. Abdullah Sulaiman Al-Rajhi said in the statement.

Mr. Rajhi said gross operating income in the nine months to Sept. 30 rose 14 percent to SR7.91 billion and net profit for the same period rose 5 percent to SR5.1 billion.

The Chairman of the National Commercial Bank, Sheikh Abdullah Salim Bahamdan, said, "The bank maintained high profitability ratios as return on average assets (ROA) was 3.4 percent and return on average equity (ROE) for shareholders' equity attributable to equity holders of the parent was 24.6 percent and earnings per

share reached SR2.44."

NCB's total assets increased by 23.2 percent to reach SR226,745 million at the end of June 30 this year compared to the end of June 30 last year. Net loans and advances reached SR110,807 million, an increase of SR27,923 million (33.7 percent); and customers' deposits have increased to SR155,537 million, an increase of 18.1 percent.

Mr. Rashed Abdul-Aziz Al-Rashed, chairman of Riyadh Bank, said, "The significant growth is achieved by the core banking activities this year. Total assets, at the end of the first half this year, grew significantly at a very high rate of 46 percent compared to the same period last year as a result of the high and consistent increase in the Loan portfolio, which reached to SR82,299 million growing by 44 percent compared to last year. The Bank's investments and customer deposits also grew substantially at 48 percent, 23 percent respectively as compared to the same period last year. The growth in these activities has reflected positively on other results reported by the Bank as Net Special Commission Income and Fee Income from banking services continued to increase achieving high growth rates of 23 percent and 21 percent respectively as compared to the same period last year."

Total Operating Income for the first half of 2008 also rose and reached to SR2,658 million compared to SR2,581 million growing by 3 percent over the same period last year.

SABB's operating income rose to SR2,522 million (\$673 million) up SR467 million (\$125 million), or

“The profits of Saudi commercial banks increased to SR9.1 billion at the end of the second quarter of 2008, recording a rise of 9.6 percent and an annual growth rate of 1.2 percent”



SABB ساب





بنك الرياض riyad bank

“Despite turbulent international markets, NCB achieved net income of SR6,038 million for the year ending 2007. The Bank's net income without capital gains/losses reached SR6,053 million”

22.7 percent, compared with SR2,055 million (\$548 million) for the same period in 2007. Its customer deposits of SR89.1 billion (\$23.8 billion) at June 30, 2008 – up SR23.9 billion (\$6.4 billion), or 36.7 percent, compared with SR65.2 billion (\$17.4 billion) last year.

Mr. John Coverdale, Managing Director of SABB, said: “The strength of our balance sheet has allowed us to respond to the increasing demand for funding within the Kingdom as reflected by the 59.5 percent growth in our loans and advances book over the last 12 months. This asset growth has more than offset the impact of falling rates. In addition, strong performance from our Cards, Trade, Mutual Fund, Treasury and IPO related businesses, together with a modest increase in brokerage income, has delivered well balanced income streams from our funds and non-funds activities.

“Our costs have has increased by SR151 million (\$40 mil-

lion) or 23.4 percent over the first half of 2007 mainly due to an increase in headcount and performance related compensation. Provisions for bad debts in the first half of 2008 have reduced by SR4 million (\$1 million) or 1.8 percent from the same period in 2007 with increased recoveries offsetting higher volume driven general impairment charges.

Mr. Robert Eid, Managing Director of ANB, said his bank maintained a steady growth levels as loans portfolio rose by 29 percent to reach \$19.9 billion, while customer deposits grew by 34 percent to \$23.6 billion and shareholders equity reached \$3.2 billion.

According to NCB's Board of Director's report, despite turbulent international markets, NCB achieved net income of SR6,038 million for the year ending 2007, compared to SR6,273 million for the previous year, a decline of 3.8 percent. The Bank's net income without capital gains/losses reached SR6,053 million compared to SR5,641 million in 2006, an increase of SR412 million (7.3 percent). Operating income also increased 6.4 percent to reach SR9,882 million. As a result, the Bank continued to maintain high

profitability ratios: Return on average shareholders' equity (excluding final proposed dividend) reached 23.1 percent, along with a 3.3 percent return on average assets.

In 2007 Commercial banks net profit stood at SR 30.3 billion, which is a decline of SR 4.3 billion or 12.7 percent from the preceding year profits of SR 34.6 billion. In 2006, banks' profits increased by SR 9.0 billion or 35.5 percent. Experts feel the year 2006 was good for Saudi banking sector.

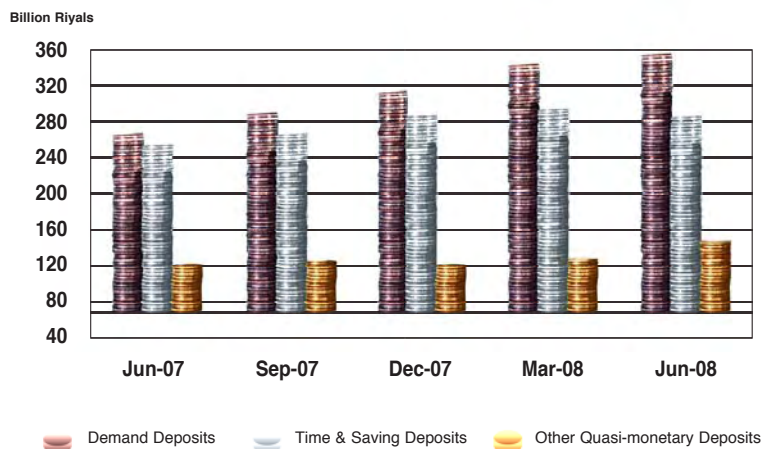
In an interview to Saudi Commerce Mr. John Sfakianakis, chief economist of SABB, said, “The year 2006 was a very good year for banks as brokerage fees carried many banks forward. The year 2007 was a year that pushed banks to revisit their core business activities in light of the stock market collapse of 2006 and its slower than expected growth, albeit it fast rise in Q4 2007”

Credit & Investment

SAMA in its second quarter economic development report says total claims of commercial banks on the private and government sectors (bank credit and invest-



Bank deposits distributed by type



ment) rose by 7.2 percent (SR61.3 billion) to SR909.5 billion during the second quarter of 2008 compared to an increase of 11.5 percent (SR87.2 billion) in the preceding quarter. At the end of the second quarter of 2008, they recorded an annual rise of 35.0 percent (SR235.9 billion) to constitute 116.1 percent of total bank deposits compared with 104.9 percent at the end of the same quarter in the preceding year.

Total claims of commercial banks on the private sector during the second quarter of 2008 went up by 10.3 percent (SR64.3 billion) to SR690.3 billion compared to an increase of 8.3 percent (SR48.1 billion) during the preceding quarter, recording an annual rise of 34.9 percent (SR178.7 billion) at the end of the second quarter of 2008. The ratio of commercial banks' claims on the private sector to total bank deposits was 88.1 percent at the end of the second quarter of 2008 compared to 79.7 percent at the end of the same quarter of the previous year.

Total claims of commercial banks on the government and quasi-government sectors declined by 1.3 percent (SR2.8

billion) to SR218.0 billion during the second quarter of 2008 compared to a rise of 21.6 percent (SR39.2 billion) during the preceding quarter. At the end of the second quarter of 2008, they registered an annual increase of 35.7 percent (SR57.3 billion). Their ratio to total bank deposits amounted to 27.8 percent at the end of the second quarter of 2008 compared with 25.0 percent at the end of the same quarter of the

preceding year.

An analysis of bank credit by maturity (private and government sectors) shows that short-term credit increased by 13.8 percent (SR52.3 billion) to SR431.7 billion compared to an increase of 9.2 percent (SR31.9 billion) during the preceding quarter.

Medium-term credit rose by 6.6 percent (SR6.1 billion) to SR98.0 billion during the second quarter of 2008 compared to a rise of 10.5 percent (SR8.7 billion) during the preceding quarter. Long-term credit also went up by 3.1 percent (SR5.2 billion) to SR174.5 billion compared to a rise of 3.2 percent (SR5.3 billion) during the preceding quarter.

Total bank credit by economic activity rose by 9.9 percent (SR63.6 billion) to SR704.3 billion during the second quarter of 2008 compared to an increase of 7.7 percent (SR45.8 billion) during the preceding quarter, recording an annual rise of 32.4 percent (SR172.2 billion) at the end of the second quarter of 2008.

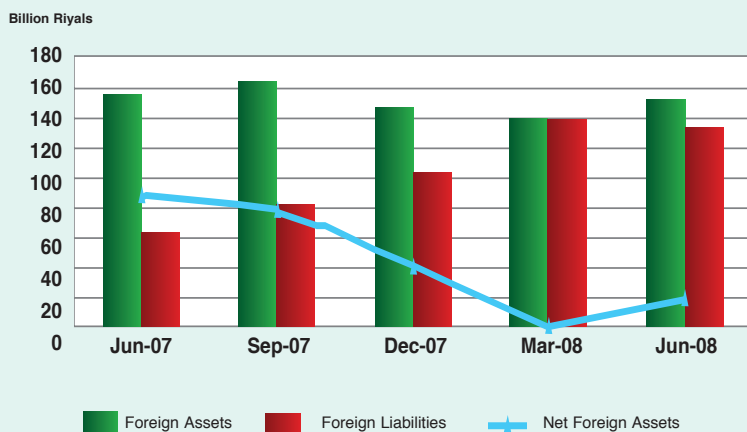
“The global crisis will hit banks' profitability with delayed effect ... Maybe it will not show in the current financial year but it may show in the coming years ... But it will not impact deposits. Deposits are safe ... and the crisis will not lead to the collapse or bankruptcy of banks”

Bank Deposits

(Million Riyals)

Description	2003	2004	2005	2006	2007	2008*
First By Type						
Demand Deposits	167,577	211,170	219,251	243,418	311,365	339,308
Time and savings deposits	113,382	136,673	165,266	226,027	283,059	294,133
Other quasi-monetary deposits	81,061	88,122	104,869	121,815	123,140	128,202
Foreign currency deposits	64,185	65,275	77,735	102,580	100,631	102,849
For L/cs	2,837	6,365	8,183	7,665	9,683	12,711
Repo Transactions	8,256	9,076	11,269	3,964	3,910	2,678
Outstanding Remittances	5,784	7,406	7,682	7,606	8,915	9,964
Second: By Sector						
Private Sector	303,161	360,514	408,595	474,894	573,606	608,835
Public Sector	58,859	75,451	80,792	116,365	143,958	152,807
Third: By Currency						
Domestic currency deposits	297,835	370,690	411,652	488,680	616,932	658,794
Foreign currency deposits	64,185	65,275	77,735	102,580	100,631	102,849
Total bank deposits	362,020	435,965	489,387	591,259	717,564	761,642

Foreign Assets and Liabilities of Banks



“Shares of Al-Rajhi are down more than 32 percent so far this year, but better than a 36.4 percent fall of the banking and financial benchmark index”

A breakdown of bank credit by different economic activities during the second quarter of 2008 indicates that bank credit extended to miscellaneous services went up by 34.9 percent (SR74.0 billion), transport and communications by 24.7 percent (SR7.7 billion), industry and production by 18.5 percent (SR10.5 billion), water, electricity and other services by 16.9 percent (SR1.3 billion), services by 16.5 percent (SR4.7 billion), building and construction by 10.6 percent (SR5.1 billion), commerce by 6.4 percent (SR9.1 billion), agriculture and fishing by 6.2 percent (SR0.6 billion), government and quasi-government sector by 4.8 percent

(SR1.6 billion), mineral and mining by 2.3 percent (SR0.1 billion). In contrast, bank credit extended to finance dropped by 77.0 percent (SR51.1 billion).

No Market Dependence

Most of the Saudi banks have moved away from relying on income related to stock market activities since the 2006 crash.

In 2007, the NCB separated its investment and capital market activities into NCB Capital, which now provides a comprehensive range of services. NCB Capital also signed a Memorandum of

Commercial Bank Reserves

(End of period)

(Million Riyals)

Description	2003	2004	2005	2006	2007	2008*
Cash in vault	4,257	4,474	7,201	12,218	10,019	10,103
Deposits with SAMA:						
Current deposits	847	3,415	2,238	1,012	3,143	1,929
Statutory deposits	15,465	19,090	21,039	23,759	36,142	42,806
Other deposits	6,094	5,056	2,167	15,072	59,310	57,657
Bank reserves	26,663	32,035	32,646	52,061	108,614	112,495
Ratios (%) to bank deposits						
Cash in vault	1.2	1.0	1.5	2.1	1.4	13
Deposits with SAMA:						
Current deposits	0.2	0.8	0.5	0.2	0.4	0.3
Statutory deposits	4.3	4.4	4.3	4.0	5.0	5.6
Other deposits	1.7	1.2	0.4	2.5	8.3	7.6
Bank reserves	7.4	7.3	6.7	8.8	15.1	14.8

* End of March



Understanding for strategic partnership with Goldman Sachs International. NCB Capital and Goldman Sachs intend to cooperate across a broad range of business areas including investment management, securities, investment banking, and principal investing relating to Saudi Arabia.

AlAhli Takaful was listed on the Saudi Stock Market after successfully completing its initial public offering in May last year. NCB retained 30 percent of the company's shares. AlAhli Takaful issued



Capital and Reserves of Commercial Banks

(End of period) (Million Riyals)

Description	2003	2004	2005	2006	2007	2008*
Capital and reserves	47,023	52,238	66,608	79,947	106,026	128,909
Capital and reserves as a ratio of:						
Bank deposits	13.0	12.0	13.6	13.5	14.8	16.9
Total deposits	8.6	8.0	8.8	9.3	9.9	11.1
Risk-weighted assets to capital						
ratio (Basel Standard)	19.4	17.8	17.8	21.9	20.6	20.6

* End of March

2.65 million shares and was 11 times over-subscribed, with more than 530,000 applicants.

Shares of Al-Rajhi are down more than 32 percent so far this year, but better than a 36.4 percent fall of the banking and financial benchmark index.

Customer Deposits

Since Saudi banks, like other banks in the Gulf, rely little on the market to obtain funds, there will be negligible impact of global credit crisis on them. These banks, as earlier discussed, have fairly good customer deposit funding.

Bank deposits recorded an annual rise of 21.9 percent (SR140.8 billion) at the end of the

second quarter of 2008. The ratio of total bank deposits to total broad money supply (M3) stood at 91.0 percent at the end of the second quarter of 2008 compared to 90.6 percent at the end of same period of the preceding year.

SAMA is of the view that the components of deposits by type during the second quarter of 2008 indicates that other quasi-monetary deposits rose by 16.0 percent (SR20.6 billion) to SR148.8 billion compared to a rise of 4.1 percent (SR5.1 billion) during the preceding quarter. Demand deposits rose by 3.6 percent (SR12.2 billion) to SR351.6 billion compared to a rise of 9.0 percent (SR27.9 billion) during the preceding quarter, while time and savings deposits went



SAMA had the means to deal with any liquidity issues and was ready to provide sufficient liquidity if needed. Bank deposits were safe and economic growth healthy, ... Saudi Arabia had no exposure to troubled Western banks and had yet to use several instruments at its disposal including repurchase rate moves

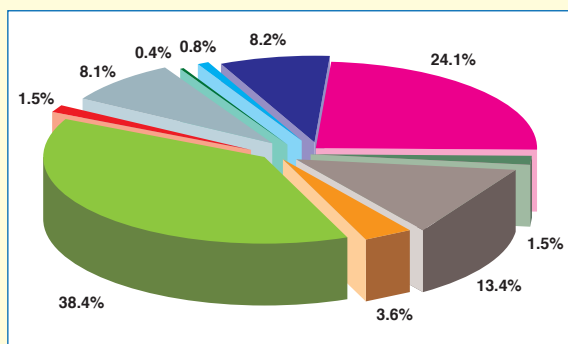
down by 3.9 percent (SR11.4 billion) to SR282.8 billion against a rise of 3.9 percent (SR11.1 billion) during the preceding quarter. Demand deposits, time and savings deposits, and other quasi-monetary deposits recorded annual rises of 32.1 percent (SR85.4 billion), 11.1 percent (SR28.2 billion), and 22.3 percent (SR27.1 billion) respectively.

Bank Reserves

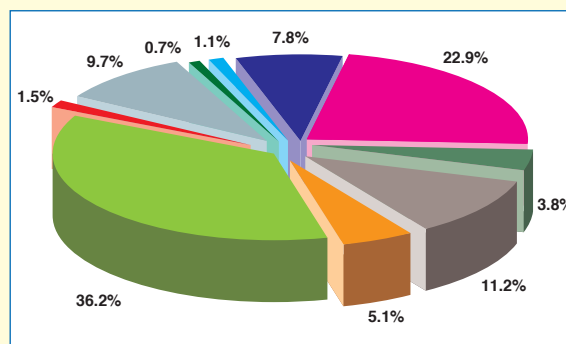
Commercial bank reserves (cash in vault and deposits with SAMA) increased by SR56.5 billion or 108.6 percent to SR108.6 billion in 2007 as compared to a rise of SR19.4 billion or 59.5 percent in the preceding year. The bulk of the increase was accounted for by

Bank Credit to the Private Sector By Economic Activity

2006



2007



■ Agriculture and Fishing ■ Manufacturing and Processing ■ Mining & Quarrying ■ Transport and Communication ■ Finance
■ Electricity, Water & Other Utilities ■ Building and Construction ■ Commerce ■ Miscellaneous ■ Services

other deposits with SAMA, increasing from SR15.1 billion in 2006 to SR59.3 billion in 2007. The rise in other deposits was due to increased return on reverse repo operations. Statutory deposits with SAMA grew by SR12.4 billion to SR36.1 billion.

Commercial banks' deposits with SAMA went up by SR2.1 billion to SR3.1 billion. In contrast, cash in bank vaults went down by SR2.2 billion to SR10.0 billion.

Capital and Reserves

Capital and reserves of banks increased by SR26.1 billion or 32.6 percent to SR106.0 billion in 2007 as compared to a rise of SR13.3 billion or 20.0 percent in the preceding year. Their ratio to total deposits went up from 13.5 percent in 2006 to 14.8 percent in 2007.

The figures provided by SAMA suggest their ratio to total assets rose to 9.9 percent against 9.3 percent in the preceding year. Capital ratio to risk-weighted assets (Basel Standard) stood at 20.6 percent at

Regional Distribution of Commercial Bank Branches Operating in the Kingdom (2004-07)

(End of period) (Million Riyals)

	Central Region	Western Region	Eastern Region	Southern Region	Northern Region	TOTAL
2004	425	343	221	139	88	1,216
% share	35.0	28.2	18.2	11.4	7.2	100.0
2005*	445	347	227	141	88	1,248
% share	35.6	27.8	18.2	11.3	7.1	100.0
2006	429	348	226	154	132	1,289
% share	33.3	27.0	17.5	11.9	10.2	100.0
2007	460	361	242	160	130	1,353
% share	34.0	26.7	17.9	11.8	9.6	100.0
2008**	469	367	245	160	130	1,371

* Bank branches' data were reclassified in November 2005.

** End of March.

the end of 2007, much more than the internationally prescribed standard.

Studying the half yearly, Q3 results announced by different Saudi banks, the outlook seems to be stable. We believe Saudi banks are safe from the ongoing global turmoil. "This year (2008) will be a good year for banks in spite of the global financial turmoil that is currently unfolding. The Saudi banking system is sound, very healthy

and backed by a regulator that is second to none. There has never been any bank failure in the Kingdom which should offer tremendous security to depositors," said Mr. Sfakianakis.

So, what are the challenges faced by Saudi banking Sector?

Experts believe the retail banking in the Kingdom is not matured. According to Mr. Sfakianakis, "On the retail side banks have to become more service oriented. Much has been done to improve service but more needs to be done in this field. Saudi banks have to think strategically 30 years forward and see where global growth will be generated in order to limit their exposure to cyclical downturns of the Saudi economy. Asia is an important strategic link for Saudi banks going forward. Opening a branch or two in the wider Middle East region is certainly an option but limiting. However, the biggest challenge for the banking system is human resources. The talent pool is constraining banks and it's compounded by the regional banking boom, the expansion of the private sector and the liberation of the financial sector in the Kingdom which adds to the pressure for talent and wages."

Consolidated Balance Sheet of Commercial Banks

(End of period) (Million Riyals)

Description	2003	2004	2005	2006	2007	2008*
Assets						
Reserves	26,663	32,035	32,646	52,061	108,614	112,495
Foreign assets	81,082	92,798	91,430	129,796	147,712	140,652
Claims on Government and non-financial public sector enterprises	176,566	175,794	159,478	158,218	181,613	220,819
Claims on the private sector	228,486	313,928	435,926	476,020	577,882	625,966
Claims on non-monetary financial institutions	449	469	538	837	1,429	1,354
Other assets	31,962	40,358	39,058	44,158	57,971	72,100
Total Assets/Liabilities	545,208	655,382	759,075	861,088	1,075,221	1,173,387
Liabilities						
Banking deposits	362,020	435,965	489,387	591,259	717,564	761,642
Foreign liabilities	40,063	45,748	65,040	59,199	105,213	138,024
Capital and reserves	47,023	52,238	66,608	79,947	106,026	128,909
Profits	12,158	16,574	15,611	34,665	30,264	8,290
Other liabilities	83,943	104,858	112,429	96,019	116,154	136,122

* End of March

Commercial bank reserves (cash in vault and deposits with SAMA) increased by SR56.5 billion or 108.6 percent to SR108.6 billion in 2007



Unaffected

The strong banking sector and the ongoing efforts to improve the investment environment made Saudi Finance Minister Dr. Ibrahim Al Assaf optimistic about the performance of the Saudi economy next year even when the global stocks were going into freefall.



Dr. Ibrahim Al Assaf

"The Kingdom has preserved its economic performance and attained growth and surplus at the level of general finance and current account in addition to reduction of the general debt and registered an increase in the non-petroleum exports," he said.

The Shoura Council also endorsed Dr. Al Assaf's views and said the Kingdom would not require any emergency measures to confront the present global crisis. The Council said Saudi Arabia was making continuous economic growth, adding that it had been able to achieve a 3.4 percent increase in its gross domestic product.

"The council has been following the global financial crisis with deep concern. It is also following the government's efforts to protect the Kingdom from its impact," a statement issued by the Council said.

The Shoura quoting the authorities stated that the Kingdom has no investments in the affected Western banks and that Saudi bank deposits are safe as they are invested locally. It referred to a statement made by Finance

Minister Dr. Ibrahim Al Assaf that the Kingdom's development projects would not be affected by the crisis and would be funded by its reserves and oil receipts. "The International Monetary Fund (IMF) has also stated that the impact of global depression, which will appear next year, will be minimal on Gulf economies," the Shoura statement added.

Middle East Spared

According to Mr. Brad Bourland, chief economist, Jadwa Investment, the international financial system is in such a poor condition that it can not be repaired quickly, even if the optimum rescue plan is enacted. "There are still huge amounts of troubled assets that need to be dealt with and further bank failures can not be avoided. It is unclear how the global financial system will look once it emerges from this crisis," he said. The emerging markets will be hit by reduced trade and investment and have their access to external funding impaired.

However, Middle East region is safe and the crisis will not affect Saudi Arabia.

"The Middle East will be the part of the world least affected by the global financial turmoil and recession because of the strong domestically driven growth momentum that is coming from economic reform and the investment boom. Growth in Asia will slowdown, but most countries are relatively well positioned to weather the poor external conditions. With the Chinese economy expected to growth at around 8 percent, Asia and the Middle East will be the main driving force for the global economy over the next year or so," Mr. Bourland said.

Meanwhile, managing director of Saudi-based private equity firm Mr. Amwal AlKhaliej said private

equity activity in the Middle East and North Africa will slow in the next year but oil revenue will help mitigate the credit crunch.

"In the next six to 12 months, we will see a significant drop in the number and size of transactions; we may see one or two deals. This is for no other reason than price volatility; it's rather difficult today to put your finger on how much these companies are worth," Mr. Ammar Al Khudairy said in Dubai recently. According to him the region is less exposed to the credit crunch due to its strong fundamentals, driven by high oil prices.

In another development, the UAE government has issued a decision guaranteeing all assets to calm local markets and protect them from the implications of world financial crisis. The government will also pump more liquidity into local banks whenever the need arises.

The Dubai Financial Market authority also approved lowering the loss limit to 10 percent instead of 15 percent as a temporary solution to stop continuous losses, while the SAMA announced the lowering of the interest rate following a similar step by the UAE, Kuwait and Bahrain. SAMA has also decided to lower the compulsory assets for banks from 13 percent to 10 percent.

A study released by Global Insight, leading economic forecasting and financial analysis company, said the banking sector in Saudi Arabia is the most stable in emerging economies, offering the lowest risk. The report noted that Saudi Arabia topped the list of "Lowest Risk Countries", followed by Taiwan, UAE and Malaysia. In these countries, capital levels are high, liquidity is sufficient, bank management is adequate, and the regulatory environment is prudent, the report said. ■

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