الأكاديمية المالية
THE FINANCIAL ACADEMY

CREDIT ADVISOR A LEARNING CURRICULUM ISSUED BY THE FINANCIAL ACADEMY.

July 2022
Fourth Edition

This learning material includes 5 chapters and constitutes the main reference to pass “Credit Advisor” Professional Exam.

In the name of Allah,
the Most Gracious, the Most Merciful

ⓒ الاكاديمية المالية ، ١٤٤٢هـ
فهرسة مكتبة الملك فهد الوطنية أثناء النشر

الأكاديمية المالية
المستشار الائتماني – اللغة الإنجليزية. / الأكاديمية المالية . الرياض ، ١٤٤٢هـ
..ص ؛ ..سم

ردمك: ٩-٩-٢٤٣١٩-٦-٣٠٦-٨٧٩

-١ الادارة المالية – تعليم أ.العنوان
ديوي ٨،٥٦٥٨٤٦٣٨٤٣/ ١٤٤٢

رقم الإيداع: ١٤٤٢/٤٣٨٤

ردمك: ٩-٩-٢٤٣١٩-٦-٣٠٦-٨٧٩

Welcome to the learning material issued by the Financial Academy (FA). This book is designed to qualify candidates for (Credit Advisor - Fourth Edition) Professional Exam set in Financial Academy.

This book is a learning guide and FA made an enormous effort to ensure the accuracy of the content.

All rights are reserved to FA. Thus, it is prohibited to republish any part of this book, store through the information retrieval system, transmit it to any form, or any way either electronically, or photocopy, record, or otherwise without obtaining prior permission from the Financial Academy.
Curriculum mapping that is shown at the end of the book includes a detailed study plan, which can also be found on the Academy's website: www.fa.org.sa or by contacting the Academy through the phone number: +966114662688 / Fax: +966114662368.
Note that the exam is based on this plan and we advise candidates of (Credit Advisor - Fourth Edition) Professional Exam to make sure to have the latest updates on this curriculum.

The questions in this book have been designed as a tool to assist the candidate in reviewing different information of the curriculum and to promote deep learning of all chapters. Candidates should not consider these questions as "Mock Exam" questions, or view them as an indicator to questions' level that will come in the exam.

Publisher:
Financial Academy 2022.
P.O. Box: 10820, Riyadh 11434, Kingdom of Saudi Arabia.
Phone: +966114662688
Fax: 966114662368
All copyrights are reserved by the Financial Academy.

Index

Studying this book may take up to 70 hours

Chapter One

Financing Products

This Chapter includes about 40 out of 100 MCQs in the exam.

Introduction:

This Chapter explains the financing products and services provided by banks and financing companies to individual customers in the Kingdom of Saudi Arabia, including conditions and rules for obtaining financing products in the Kingdom, such as Regulations for Consumer Finance, Implementing Regulations of the Real Estate Finance Law, Standard Form for Contracts of Real Estate Finance (Ijara/ Murabaha), rights and responsibilities of the lessor and lessee under Finance Lease Law, rights and responsibilities associated with financing products, and Rules for Disclosing the Prices of Financing and Savings Products.

1.1 Financing Products and Services:

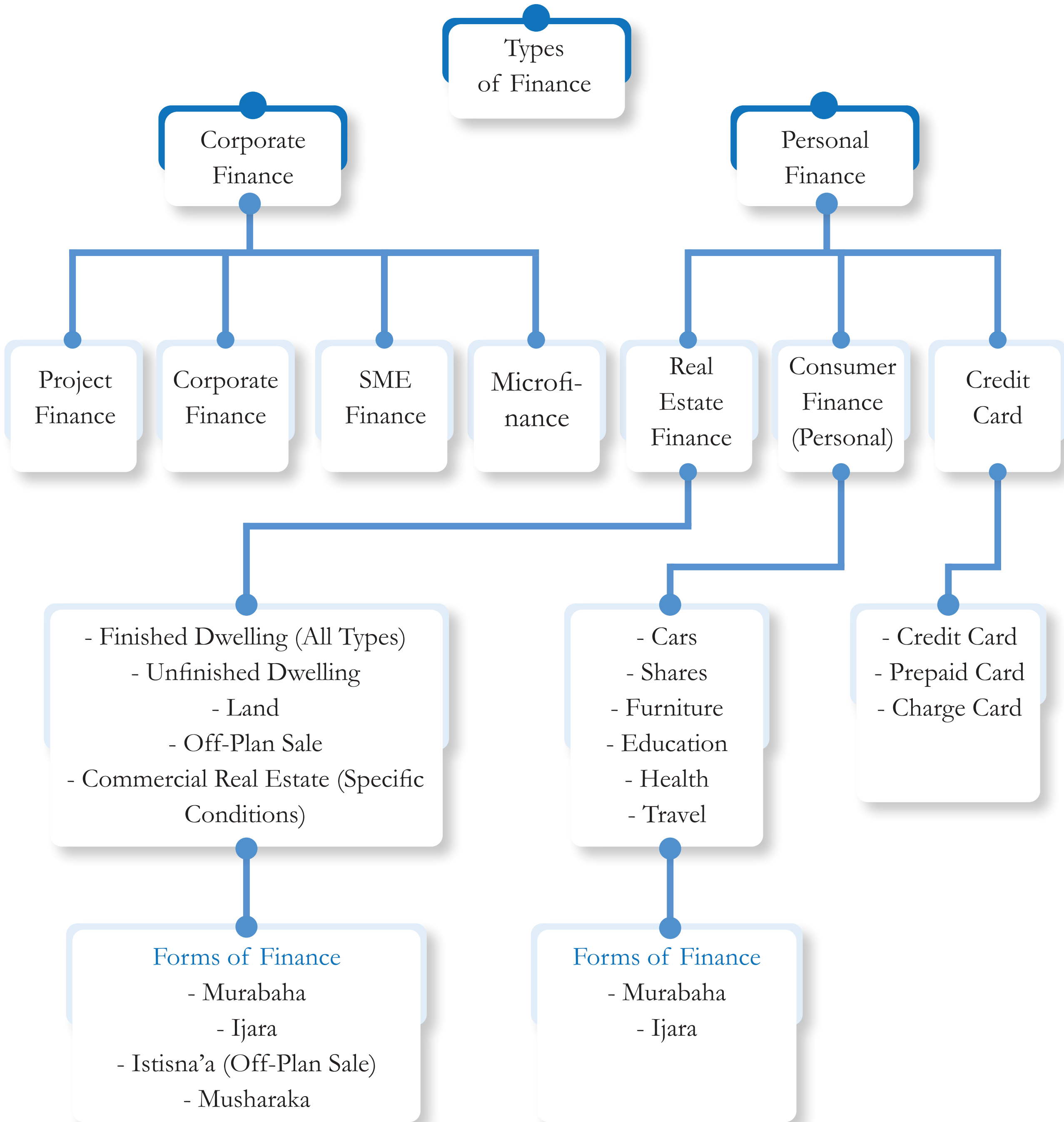
Learning Objective

1.1 To be familiar with types of financing products and services provided by banks and financing companies to individual customers in the Kingdom of Saudi Arabia.

1.1.1 Financing Products and Services Rendered by Banks and Financing Companies to Individual Customers:

Financing services and products rendered by banks and financing companies in KSA vary according to requirements and needs of customers. In response to the increasing customers' demand for banking services and products and in line with the technological evolution in the banking sector, banks competed to provide the best financial services to customers at competitive and reasonable prices, and further expanded in social services programs that significantly enhanced living standards and financial condition for many society groups. Customer's objectives behind obtaining financing services differ according to his personal purposes, as he may seek an investment (long-term) or commercial business (financing an operational activity) or consumer financing or real estate financing.

This Chapter explores the main financial products and services delivered by banks and financing companies to individual customers within KSA, inter alia:



Credit Card:

A card that enables its holder to obtain in advance money, goods, services or other benefits from businesses accepting such card domestically and internationally, and repay the relevant indebtedness thereafter or in accordance with other arrangements. This definition does not include other types of cards issued such as debit cards, ATM cards and/or prepaid cards.

Credit cards include Visa, MasterCard, American Express...etc. Proceeding of purchases and cash withdrawals shall be within a certain credit limit previously agreed-upon between the customer and the card issuer, so that the customer shall pay the required amount later (upon issuance of the billing statement) either through a single payment or by fulfilling the minimum amount, where the customer may pay the minimum amount (5%) or any sum higher than the minimum amount out of the total amount due.

Consumer Finance:

This financing is granted to individuals for satisfying customer needs, and often secured by beneficiary's salary, or personal or other in-kind guarantees.

Real Estate Finance:

Finance granted to customers for purposes such as building and purchasing residential and commercial units or buying and developing residential lands and other related activities.
Saudi Central Bank (SAMA) issued an update to the standard form for contracts of real estate finance for individuals, in the forms of Murabaha and Ijara on Jumada al-Akhirah 1441 AH. SAMA underlined that all real estate financiers must comply with and not conclude any contracts in any form other than these announced forms or make any amendment thereto after such a date. Such forms will be explained in detail later in this Chapter.

1.2 Rules for Obtaining Financing Products:

Learning Objective

To be familiar with Regulations for Issuance and Operations of Credit and Charge Cards

1.2.1 Definition of Credit and Charge Cards:

Credit Card:	As defined before, a card issued by a bank in association with credit card associations. The card issued is used by a cardholder to obtain in advance, by virtue of the issuer's credit, money, goods, services or other benefits from businesses accepting this card domestically and internationally. Examples of credit cards include VISA and MasterCard, in addition to "Prepaid Card", which is commonly used by customers, and depends on maintaining a specific amount of money in such card available for use.
Charge Card:	A card similar to a credit card but one that requires the charge cardholder to repay the full outstanding amount upon receipt of the account statement or on the due date as per the account statement. Example of charge cards include American Express.

Below are definitions of some card-related terms:

• Cardholder: A cardholder may be a natural person or a corporate entity as applicable and shall mean:

- A holder, or an applicant to become a holder, of a credit or charge card issued by the issuer; or
- A holder, or an applicant to become a holder who has agreed with the issuer to pay all obligations arising from the issuance of a supplementary credit or charge card to a designated individual. S/he is the primary cardholder.

• Card Issuer: A financial institution licensed to issue credit or charge cards.
• Card Association: Also known as "Payment Systems Operators" such as VISA, MasterCard, American Express, Union Pay and Diners Club or similar institutions.
• Card Limit: The credit line made available to a credit or charge cardholder under a credit or charge card agreement.
• Cash Advance: A transaction to withdraw cash by the cardholder against his/her credit or charge card limit though POS terminals or cash withdrawals at supermarkets (stores).
• Annual Percentage Rate (APR): Total cost of credit provided to the cardholder under a credit agreement. If the customer uses the entire credit card balance and pays the minimum due without paying the full amount, he will charge the credit card APR on the remainder of the outstanding amount.

Example:

Card Credit Limit	10,000
Purchases (Within a month)	10,000
Minimum Payment (5%)	500
Remaining Amount (The financier will charge the APR on this unpaid amount)	9,500

• Term Cost: The amount of the term cost payable by the cardholder and it may be represented as a fixed or variable percentage of the outstanding balance on the credit card account.
•Billing Cycle: The interval between the days or dates of regular periodic statements. These intervals shall be equal and no longer than a quarter of a year. An interval will be considered equal if the number of days in the cycle does not vary more than four days from the regular day or date of the periodic statement.
• Credit Bureau: An entity authorized to collect and maintain credit information on consumers, and provide respective members with such information upon request. It also offers consumer and commercial credit information services to respective members in the Kingdom of Saudi Arabia.
• Default: Any breach of the terms and conditions of the credit or charge card agreement and the nonpayment by a cardholder of his/her monthly installment for 90 calendar days from its due date.
• Default Notice A notice from a card issuer to a cardholder notifying the cardholder that he is delinquent in payments, and such notice is mandatory by the regulator.
• Fraud: A deliberate act to dishonestly obtain a benefit (e.g. money, a product or a service).
• Grace Period: The date by which, or the period within which, any credit extended for purchases may be repaid without incurring a term cost. If a grace period is not provided, that fact must be disclosed. If the length of the grace period varies, the card issuer must disclose the range of days or the minimum number of days in the grace period, if the disclosure is identified as a range or minimum.
• Initial Disclosure: The information required to be provided to the cardholder by a card issuer upon opening credit or charge card account.
• Outsourcing: An arrangement under which a third party (i.e. the service provider) undertakes

to provide to a card issuer a service previously carried out by the card issuer itself or a new service to be launched by the card issuer. Outsourcing can be made to a service provider in Saudi Arabia or overseas and the service provider may be a unit of the same card issuer (e.g. head office or an overseas branch), an affiliated company of the card issuer's group or an independent third party and is subject to the requirement to fully comply with SAMA Rules on Outsourcing.

• Satisfactorily Resolved: Resolution of the error/dispute in accordance with the procedures and timeframes for resolving disputes in accordance with instructions of SAMA, card associations, or payment systems operators.

• Unauthorized Use: The use of a card by a person, other than the cardholder, who does not have actual, implied, designated or apparent authority for such use, including card skimming.

1.2.2 Regulations for Issuance and Operations of Credit and Charge Cards:

SAMA issued the Regulations for Issuance and Operations of Credit and Charge Cards in April 2015, superseding the Regulations issued in 2008. The updated Regulations included new rules that would enhance the level of protection for credit and charge cardholders and foster principles of transparency and disclosure in so far as to make the beneficiary aware of his rights and responsibilities clearly and facilitate comparison and selection of the most suitable services provided by the licensed entities. The most prominent updated regulations include:

1. Summary of Credit or Charge Card Agreement: Card issuers must provide to the customer a summary covering the basic information and the main provisions of the credit or charge card agreement, in a language clear to the cardholder.
2. Transparency and Disclosure: The card issuer shall fulfill principles of transparency and disclosure in advertising and marketing of products without misleading and determine minimum data required for agreements. The issuer should disclose all fees and commissions associated with the card.
3. Objection Requirements: The agreement must include clear procedures for cardholder customers in case of objection to irregular operations.
4. Annual Percentage Rate: The card issuer should develop criteria for calculating the internationally recognized APR for announcing the true cost of financing.
5. Fees and Commissions: Annual charges determined according to the type of card to be paid by the cardholder to the card issuer, including the maximum cash withdrawal limit and the maximum defaulting fees.
6. Rules and Criteria for Dealing with Customer: The card issuer shall establish a set of rules for dealing with customers, including serving a notification thereto of any changes made to the agreement and obtaining his approval when necessary.
7. The cardholder shall be responsible for transactions exceeding the card credit limit and the amount of unauthorized transactions recorded on his account.

1.2.3 Issuance of Credit and Charge Cards

General Requirements:

The credit or charge card issuer shall meet the following general requirements:

1. All credit agreements, application forms, guarantee agreements, repayment schedules and other documentation related to credit and charge cards should be in Arabic. An English copy of these documents shall also be made available to the cardholder if requested. In case of conflict between the Arabic and English text of any of such documents, the Arabic text shall prevail.
2. The cardholder rights and responsibilities relating to the credit or charge card shall be recorded in the "Cardholder Agreement" that shall meet SAMA information disclosure requirements.
3. All card issuers must fully comply with the international rules and procedures agreed with the relevant card associations according to Regulations for Issuance and Operations of Credit and Charge Cards issued by SAMA.
4. A card issuer may not issue a credit or charge card without receiving a signed application from an applicant.
5. The decision to issue new credit or charge cards requires an effective risk management strategy to enable an assessment of eligibility and suitability of credit or charge cardholder.

Card Issuance Procedures:

When assessing applications, card issuers must perform the following:

1. Verify that the financial information and applicant personal details supplied on the application form are correct.
2. Consider the probability of the applicant's ability to repay any indebtedness.
3. Determine the amount that the applicant can pay.
4. The FI may not issue a credit or charge card to anyone under the age of eighteen (according to the Hijri date), unless such card is an additional one (according to certain conditions).

The minimum gross salary eligibility for new credit cardholders shall be set at SAR 24,000 per annum for bank customers and SAR 30,000 for non-bank customers.

Issuance of Replacement Cards:

A replacement credit or charge card with a new validity period may be issued by a card issuer to a cardholder in the following scenarios:

1. The card has been reported as lost, stolen or damaged.
2. The card has been invalidated on suspicion of a fraud or suspicious transaction.
3. The validity period of the card is due to expire, and the replacement card is of the same type as the credit or charge card so replaced.
4. Any other technical reasons including systems and technology enhancements.
5. The account is not delinquent.
6. A Co-branded card, affinity card or private label card has terminated and a replacement card is issued according to the provisions of the original card agreement between the card issuer and the cardholder.
7. New or updated requirements and Regulations.

The cardholder has the right to accept or reject the replacement card. The cardholder shall be

deemed to have given their consent if they do not express an objection within 2 weeks from his notification, or activate the replacement credit or charge card.
A replacement card shall be treated as being of the same kind as the credit or charge card being replaced including the type of card, terms of use, branding. Any fees and terms cost relating to the original card held by the cardholder will apply to the replacement card. The only exception will be where the cardholder has applied for and activated an upgraded card.

Issuance of Supplementary Cards:

The supplementary card may be issued at the primary cardholder's request to issue a supplementary card under their account, to their designated individual. The primary cardholder shall be liable for all liabilities incurred under the supplementary card, including any outstanding and or unpaid balances. Supplementary cards shall be issued in accordance with the Regulations for Issuance and Operations of Credit and Charge Cards.

1.2.4 Credit Limits of Cards:1

When setting initial credit limits, a card issuer needs to apply "Responsible Financing Principles": Issued by SAMA pursuant to Circular No. (99/46538) dated 15/05/2018 AD (02/09/1439 AH), as amended by Circular No. (1/40694) dated 24/05/2018 AD (09/09/1439 AH).
Responsible Lending Principles for Individual Customers defined "Monthly Credit Obligations as: Total amount payable by the consumer, which is calculated on a monthly basis, as per the credit report issued by licensed credit bureaus and the consumer's disclosure."

- Account behavior information e.g. typical value of transactions and timeliness of repayments.
- A card issuer may not issue or permanently increase the credit limit of an existing credit or charge card without seeking the cardholder's credit records from a licensed credit information bureau. Further, cardholder's approval must be obtained.
- A card issuer is required to carry out proper risk management procedures including the use of credit scoring models, delinquency behavior etc., for issuance and renewal of credit or charge cards so as to assign appropriate credit limits to the cardholder
- Where a cardholder has not made the full minimum monthly repayment on 3 consecutive occasions, the card issuer may immediately:
  - o Freeze the account and treat it as a delinquent account.
  - o Offer the credit advisory services free of charge to the cardholder.
  - o Work towards a mediated settlement before implementing collection and legal system against the cardholder.
- A card issuer must deal directly with a defaulting cardholder during this time.
- A card issuer is not allowed to lower the minimum monthly repayment required from its cardholder below 5% of the outstanding balance as on the credit card account.
- The card issuer shall close the credit or charge card account upon receipt of a request from a cardholder seeking such closure through an approved communication mean after the full and final repayment of the outstanding amount on such card.
- The finance company shall execute consumer request by issuing a clearance letter – for any purpose, including salary transfer – in case there are no outstanding financial obligations on such consumer, within a period not exceeding one (1) business day from the date of receiving the request, and seven (7) business days for consumers holding credit and/or charge card.

1.2.5 Information Disclosure

Initial Disclosure:

A card issuer that proposes to enter into a credit or charge card agreement with a cardholder must provide an initial disclosure. The disclosure must be clear and easy to understand and the card issuer must use any format specified by SAMA from time to time for that purpose. Further, the card issuer should provide the initial disclosure to the cardholder according to SAMA's instructions.

The initial disclosure must include the following information as a minimum:

• The initial credit limit, if it is known at the time the disclosure is made.

• The APR and the annual term cost.

• The nature and amounts of any recurring non-term cost charges.

• The minimum payment during each payment period and the method for determining it.

• Each period for which a statement of account is to be provided.

• The date on and after which, commissions or profits accrue and information concerning any grace period that applies.

•The particulars of all fees and charges.

• Information about any optional feature in relation to the credit or charge card agreement that the cardholder accepts in writing. In addition to fees for each optional feature, and cases where the cardholder may cancel any feature.

• The manner in which the term cost is calculated.

• The cardholder is required by the credit or charge card agreement to pay the outstanding balance in full on receiving a statement of account.

• Information on all applicable charges including reporting of default cases to a licensed credit information bureau or appropriate regulatory authorities as per SAMA's approval.

• An illustrative example of calculations depicting sample conversion of foreign currency charges into Saudi Riyal, showing the foreign exchange conversion fees used when the card issuer converts a foreign transaction back to Saudi Riyal. The calculations should include one foreign currency purchase transaction and one cash advance transaction at an ATM/POS outside of Saudi Arabia.

• An initial disclosure may be part of a credit or charge card agreement or an application for a credit or charge card or may be an annex to the foregoing documents.

• If the initial credit limit is not known when the initial disclosure is made, the card issuer must disclose it.

General Disclosures:

• Card issuers must include a summary covering the basic information regarding the credit or charge card product and the main provisions of the credit or charge card agreement, in a language clear to the cardholder and in accordance with the format stipulated by SAMA. The cardholder's receipt of such summary shall be documented in the cardholder record.

• If a credit or charge card agreement is amended, the card issuer must, at least 30 calendar days before the amendment takes effect, disclose to the cardholder, any changes to the agreement.

• The card issuer shall mail or deliver to the cardholder, the monthly account statement at least three weeks prior to due date.

• TA card issuer should include specific warning statements in all agreements indicting consequences that the cardholder shall be responsible for in the event of:

1. Failure to meet the terms of credit or charge card as agreed in the agreement.
2. Failure to pay the monthly minimum amount.

Disclosure of Fees, Commissions and Charges:

• Details of foreign currency transactions, including conversion rate, fees and all charges levied on the foreign currency transaction, must be displayed on the transaction record in the cardholder's monthly statement, in the manner stipulated by SAMA.

• If a card issuer offers to defer or skip a payment under a credit or charge card agreement, the card issuer must, with the offer, disclose in a prominent manner whether term cost will continue to accrue or if any additional charges will accrue during any period covered by the offer, if the offer is accepted.

1.2.6 Rights and Responsibilities of the Cardholder:

• Cardholders may terminate the relevant credit or charge card agreement if they do not agree to any amendment, change or modification by notifying the card issuer of their desire to terminate the credit or charge card agreement within 14 calendar days after their receipt through a guaranteed mean. and after paying the outstanding amount in the card account.

• The cardholder is required to keep the card issuer's records updated with their latest address and to immediately notify the card issuer, through any reliable mean of communication, of any change in their contact details.

• A card issuer may allow its cardholder to process a cash advance using their credit or charge cards up to a maximum of 30% of their credit limit. ATM cash withdrawals are subject to limits that pertain in the jurisdiction where the cardholder is making the cash withdrawal.

• The cardholder has the right to, within 10 days of receiving a credit or charge card, cancel it free of change and the card issuer will not claim any fee unless the cardholder has activated the card by any possible means, such as calling the free phone or internet service and requesting the activation of the card.

• Card issuers must regularly issue to cardholders regular SMS, email and other electronic communication awareness messages regarding paying the outstanding amount in time.

• A card issuer should emphasize to merchant customers that they cannot pass on or impose any additional fees or charges when cardholders use a credit or charge card in their stores.

• Card issuers must issue an SMS message to cardholders advising when a debit or credit transaction has been processed on the account of the card.

• Card issuers are prohibited from increasing the term cost on an existing outstanding balance as a result of delinquency or default.

• Late payment fees must not exceed SAR 100, provided that the amount of the late payment fee cannot exceed the outstanding amount.

• A card issuer must inform cardholders about outstanding transactions and request payment within a maximum of 90 days from the original date of the transaction. After that, the card issuers can only debit a cardholder's account for payment after obtaining documented approval from the cardholder.

• A card issuer is required to implement a clearly defined Code of Conduct for employees engaged in cards business and must obtain their acknowledgement of receipt.

•Credit and/or charge card outstanding amount must be due on the same date each month and payments received up to and including midnight on the due date must be treated as timely. Card issuers cannot charge a late payment fee unless cardholders are given at least 21 days to pay their due amount.

• Cash advance fees must not exceed:

- SAR 75 for cash advance transaction up to SAR 5000.

- 3% of transaction amount over SAR 5000, and subject to a maximum of SAR 300. VAT must be calculated on the fee amount.

• Card issuers are prohibited from imposing any fees for transfer transactions between cardholder's current account and the cardholder's credit or charge card account at the same bank.

• Card issuers must send a notification (SMS message though a guaranteed mean) to cardholders, one month before expiry of reward points, and repeat one week before expiry date, advising the cardholder of the number of points due to expire and the expiry date.

1.2.7 Resolution of Card-Related Disputes:

Card issuers must have a comprehensive dispute resolution policy and procedures (also known as complaint handling policy and procedures) and comply with SAMA Regulations for complaint handling departments. A copy of the card issuer's complaint handling policy and procedures must clearly be on display in all of their branches and on their websites and they must provide a hard copy to a cardholder if requested. Most critical dispute resolution rules include:

1. The card issuer must mail or deliver a response to the cardholder within 30 calendar days of receiving the notice of "account statement error/dispute" advising the cardholder of the likely timeframe of resolution of the error/dispute and requesting any additional available information or documentation.

2. The credit or charge card issuer shall conduct necessary investigation and comply with the appropriate dispute resolution procedures within two complete account statement cycles, but in no case shall be later than 90 calendar days as of the date of receiving the notice of account statement error/disputed transaction.

3. If the account statement error/disputed transaction has not been satisfactorily resolved, the cardholder shall not be obliged to pay the portion of the required payment that the cardholder believes is related to the disputed amount, including term cost or fees.

4. The card issuer shall not make an improper report about the cardholder's credit standing, or report that an amount or account is delinquent prior to the error/disputed being satisfactorily resolved.

5. If the credit or charge card issuer determines that an account statement error has occurred as stated by the cardholder, it shall correct the error and pay back any disputed amount and relevant term cost and fees debited on the cardholder's account.

6. If the card issuer determines that no account statement error has occurred, it shall mail or deliver an explanation of the reasons for believing that the error alleged by the cardholder is incorrect and provide the cardholder with copies of any documented evidence, if requested.

7. If the credit or charge card issuer deems that a cardholder is liable for all or part of the disputed amount and relevant term cost and fees, it must:

• Notify the cardholder of the date when payment is due and the portion of the disputed amount and relevant term cost and fees that the cardholder is liable for.

• Report to a licensed credit information bureau that an account or amount is delinquent because the amount due has remained unpaid after the due date given by the credit or charge card issuer as defined in the terms and conditions of the cardholder agreement in force

1.3 Regulations for Consumer Finance:

Learning Objective

3. To be familiar with regulations for consumer finance

1.3.1 Regulations for Consumer Finance:

Financing granted to individuals dealing with FIs for nonbusiness purposes i.e. unconnected with the borrower's commercial or professional activity, generally including personal financing, overdraft facilities car financing, credit card payment, finance lease, and other related activities. Such financing includes loans for financing the purchase of goods and services for leisure, consumption or other needs of individuals as mentioned earlier, e.g. for the purchase of furniture or cover leave or education expenses. Consumer financing includes real estate restoration financing except mortgage loans.

SAMA issued the first update of Regulations for Consumer Finance, which included prominent changes, inter alia:

1. Transparency and Disclosure:

Setting the minimum information to be indicated in consumer financing contracts including: Advertising Consumer Financing Products: Regulations of consumer financing that should be adhered to by the creditor include:

- The creditor must indicate in all product advertisements its name, logo, any identifying representation and contact details. The advertisement must disclose, in a manner that is clear to the borrower, the name and Annual Percentage Rate of the advertised product and shall not include other rates such as the term cost.
- The creditor must provide the borrower with a written disclosure statement that provides the information required be disclosed. A disclosure statement may be part of a financing contract or an application for a consumer financing or may be an annex to the foregoing documents.
- Sharing Information between creditors and borrowers: the creditor should provide the borrower with full and accurate information required for the financing agreement. The borrower and the guarantor must accurately and completely produce any information necessary in this regard.
- Non-interest based products: Documentation required for the purchase and sale of goods shall comply with requirements of the bank's Shariah Board.
- The creditor should provide customers with all documents related to the financing contracts, repayment schedules and borrower acknowledgement letters.
- The creditor must register the purpose of all personal loans, and take measures to ensure such loans are used for the intended purposes.

2. Confidentiality or Privacy of Information:

- Personal information of the borrower, guarantor or other individuals required to conclude financing contracts should be kept confidential. Such information may not be processed unless for evaluating the financial position of such individuals and their capability to fulfill the agreed-upon finance.

• Saudi Credit Bureau (SIMAH) operates a central database for the purpose of registering and recording the credit data of borrowers and guarantors. All banks must refer to the database before carrying out any commitment to the borrower or guarantor. Further, the personal data obtained may only be used for evaluating the financial position of the borrower and guarantor and their capability for payment.

3) Necessary Content of Financing Contracts or Guarantee Agreements:

• Names of the parties to the financing contract, i.e. the creditor, borrower, and guarantor.
• APR of charge and the term cost or profit calculated and specified at the time of concluding the financing contract. The actual borrowing cost and the comparability should be indicated. APR must include all mandatory charges or costs under a consumer financing as shown in the relevant advertising notices or materials.

• The financing contract must stipulate the use of the declining balance method in distributing the term cost over the maturity period, which means that the term cost is allocated pro-rata to installments based on the remaining balance of the amount of financing at the beginning of the period for which an installment is due.
• All fees, costs and administrative services charges to be recovered from the borrower by the creditor must not exceed the equivalent of (1%) of the amount of financing or SAR 5,000 (five thousand Saudi Riyals), whichever is lower, in addition to calculating VAT on the fee amount.
• Statement of account in the form of repayment schedule if the financing contract involves capital amortization, in addition to outstanding payments, timeframes and repayment-related terms.
• A statement indicating the periods and conditions for repaying the borrowing costs or profit and the recurring and non-recurring fees associated with it if there are special fees, commissions or profit to be paid without amortizing the capital.
• Early payment or partial payment procedures and provisions and fees (if any) that must be paid by the borrowers to exercise such right. The creditor must accept any payment under a financing contract before its due date as partial payment if it is equivalent to one full installment or multiples thereof. The borrower may also pay the entire remaining amount of financing if he desires to do so (and enjoy early payment discounts). (Examples of early repayment in Appendix No. 1)
• Terms, conditions and procedures to be applied and fees to be paid if the borrower exercises the right to drawdown any part of the amount of financing or has made partial, late or deferred payments. In the event of termination, the creditor may not charge or claim any term cost and or fees from the borrower unless the following conditions have been met:

1. Draw-down of any part of the amount of financing has occurred.
2. A credit card or other means of obtaining financing has been used to acquire goods or services for which financing is to be advanced under the financing contract.

• In case of secured financing, the description of the asset that guarantees financing must be indicated, and borrowers must undertake to maintain the collateral assets so as to be available to the creditor in the event of default.
• Right of Withdrawal:
Except in non-interest based transactions, the borrower may, without producing any

justifications and within 10 calendar days from the date of execution of a financing contract, terminate the financing contract. Exercising the right of withdrawal obliges the borrower to return to the creditor any cash sums obtained under the financing contract and the borrower shall pay any due charges or profits against the period in which the amount of financing was withdrawn calculated based upon the agreedupon APR of charges. The creditor may not claim any further withdrawal-related charges and should immediately return to the borrower any payment made by him in advance under the financing agreement.

4) Annual Percentage Rate (APR), Finance Charge Rate (FCR), and Profit Rate (PR):

• The APR and the Profit Rate:

Criteria have been set for calculating APR, which is an internationally recognized indicator to disclose the actual cost of financing, including all administrative costs and fees. APR of charge must reflect all mandatory expenses or unavoidable costs involved in any transaction as shown in advertisements or by other means. For non-interest based products, a similar methodology shall be utilized, i.e. for related and similar cash flows, withdrawals, payments and other fees for the purpose of calculating APR of charge. The total cost of financing for the borrower shall be determined including all mandatory costs except for fees payable by the borrower against violation of any of financing contract conditions. APR of charge shall be calculated based on the assumption that the financing contract will remain in effect for the agreed term and both the borrower and creditor will fulfill their obligations under the agreed terms and conditions.

• Finance Charge Rate:

FCR may be fixed or variable. The borrower must be notified in writing or via any other reliable means of any change in FCR. Such notification should include new APR, new total FCR set by the creditor, as well as the new schedule for debt amortization if so applied.

• Profit Rate:

PR shall apply to all types of financing under all non-interest based financing contracts. PR means the rate used so as to generate profits from the invested funds, which also represent the APR.

5) Unfair Conditions:

The consumer-finance contract or guarantee agreement is considered unfair if it aims or may cause harm to the economic or other interests of the borrower, particularly if any of the following conditions are applied:

• Changing any contractual expenses, compensation, or fees other than FCR or PR.

• Introducing conditions on the possibility of changing FCR or PR that prejudice the right of the borrower.

• Applying methods that involve FCR or variable PRs that have no connection to the net initial FCR or the proposed PR at the time of concluding the financing contract.

• Obliging the borrower to deal with the same creditor to refinance the remaining value or to finance the last installment of the financing contract for purchasing movable property or services.

• Obliging the borrower – except for trade margin – as a condition for withdrawal, to leave as collateral all or part of the amounts borrowed or granted, or use all or part of such amounts to form a deposit or purchase securities or other financial instruments, unless the borrower gets the same currency price for the deposit, purchase or collateral such as the agreed APR of charge.

• The borrower or guarantor shall not be required to sign a check guaranteeing payment of the amount due in whole or in part.

1.4 Implementing Regulations of the Real Estate Finance Law:

Learning Objective

4. To be familiar with the Implementing Regulations of the Real Estate Finance Law

Real estate finance is the finance granted to customers for purposes of building, purchasing residential and commercial units or purchasing, developing residential lands and other related activities conducted by companies authorized by SAMA. The Implementing Regulations of the Real Estate Finance Law included controls for real estate financing, but first let us have a look on the most important terms in real estate finance:

• Real Estate Finance: Extending credit to a borrower for the purpose of owning a dwelling.

• Real Estate Finance Contract: A deferred payment contract extended to a borrower to own a dwelling.

• Real Estate Finance Contractual Rights: cash flows, mortgages, collaterals and other rights arising under a real estate finance contract.

• Real Estate Finance Entity: commercial banks and real estate finance companies licensed to engage in real estate finance activity.

• Borrower: a natural person who obtains real estate finance.

• Consumer: any person targeted by real estate finance services.

• Housing Subsidy: a financial or credit subsidy provided by the government, housing societies, or the like to make housing affordable.

• Real Estate Refinance Company: a joint stock company licensed to engage in real estate refinance activities.

SAMA shall, pursuant to the Real Estate Finance Law and Implementing Regulations thereof, regulate the real estate finance sector. For this purpose, SAMA may:

1. License real estate finance companies to engage in real estate finance activities in accordance with the provisions of the Real Estate Finance Law, Finance Companies Control Law and their regulations.

2. Allow banks to engage in real estate finance activities through the ownership of dwellings for finance purposes, in accordance with the Real Estate Finance Law and Implementing Regulations thereof.

3. License a joint stock company (or more) for real estate refinance according to market needs. The Public Investment Fund may become a co-owner of such company. SAMA shall approve nominations for board membership. Licensed finance entities may also become co-owners of such company. A portion of the shares of the company shall be offered to the public in accordance with the Capital Market Law.

4. License cooperative insurance companies to cover real estate finance risks in accordance with the Cooperative Insurance Companies Control Law.
5. Issue real estate finance standards and procedures, review real estate finance contract templates issued by the real estate finance entities and ensure their compliance with such standards and procedures and their provision of required protection to consumers and borrowers.
6. Publish data related to real estate finance market and sponsor development of real estate finance technologies, including technologies to facilitate the flow of data between primary and secondary markets.
7. Determine the principles for the disclosure of finance cost and method of its calculation to enable consumers to compare prices.
8. Take the necessary measures to maintain the sector integrity and stability and fairness of transactions concluded therein.
9. Take necessary measures for promoting fair and effective competition between real estate finance entities.
10. Adopt proper means for the development of the sector, Saudization, and raising employees' competency through regulating obligations of the real estate finance entities regarding training of human resources, improving their skills and developing their knowledge.

1.5 Standard Form for Contracts of Real Estate Finance (Murabaha and Ijara):

Learning Objective

5. To be familiar with the standard form for contracts of real estate finance (Murabaha and Ijara):

KSA financing companies adopts two main forms of real estate financing in compliance with provisions of Islamic Sharia, namely "Ijara" and "Murabaha". The cost of current real estate finance contracts in the form of Ijara is variable, as their interest rate is associated with a reference index called "SIBOR", which is usually for a period of one year or 12 months. The contract is re-evaluated at the end of each lease period according to SIBOR changes due to factors related to liquidity and overall economic status.
However, the cost of current real estate finance contracts in the form of Murabaha is fixed, as their interest rate is predetermined when the contract is concluded, and remains unchanged throughout the term of the contract.
SAMA issued an update of the standard forms of the real estate contract in Murabahah for individuals, and real estate contract in Ijarah for individuals. Real estate financiers must abide by these updated forms and may not conclude any contracts in violation of these forms or make any amendments thereto after issuing these forms on Jumada al-Thani 1441 AH.

1.5.1 Key Controls and Differences between Murabaha and Ijara:

Finance Aspect	Murabaha	Ijarah
Form Mechanism	• The finance company mediates the purchase of a commodity at the request of the customer, and then sells such commodity to him on credit at a price equal to the total cost of such purchase plus a known profit agreed upon between them. Total purchase cost is the purchase price of commodity plus all expenses paid by the financing company to acquire such commodity, minus any charge (discount) obtained by the bank from the seller. Thus, the amount of Murabaha is the total cost of the purchase plus the profit of the bank. • The real estate financing contract in the form of Murabaha includes the borrower's request from the financier to finance the purchase of financed asset described in Murabaha contract at a price stated in such contract, in accordance with terms and conditions thereof.	• Each contract in which the lessor (finance company) leases fixed or movable assets, rights, services or intangible rights in the lessor's capacity as owner or owner of proceeds thereof, or a person able to own or produce such assets, provided that the lessor has obtained such assets for the purpose of leasing them, as a business, to a third party. The real estate finance contract in the form of lease includes a request from someone called "the promisor" to the finance entity that owns the property indicated in the contract promising him to lease such property under a finance lease at the price indicated in the contract and in accordance with terms and conditions thereof.
Ownership of Leased Assets:	The beneficiary undertakes to pledge the funded asset to the financier in order to ensure that the beneficiary fulfills the payable forward installments under Murabaha contract, once the funded asset is evicted, in accordance with the Registered Real Estate Mortgage Law. The beneficiary shall preserve, maintain and protect the financed asset against damage, and may not	The lessor shall be the owner of the leased asset for the term of contract and until the lessee pays all the amounts payable by him. Save for the promise to own under the contract, the lessee has no right or interest in the leased asset other than being a lessee thereof.

	make substantial modifications thereto or do anything that substantially affects its value as a mortgaged asset without obtaining the financier's approval.	
Profit Margin	Fixed throughout finance term	Variable unless both parties agree otherwise.
Use of Asset	The financier shall transfer the ownership of the financed asset, evict and hand it over to the beneficiary, and take all necessary measures to register the ownership for the benefit of beneficiary within (15) working days from the commencement date of contract, unless there is a reason beyond the financier's control that prevents handover or eviction of the financed asset on time.	The lessor shall handover the leased asset to the lessee on the date of making the leased asset available, no later than (15) working days from the date of making the leased asset available, unless there is a reason beyond the lessor's control that prevents handover of the leased asset to the lessee.
Installments	Fixed (Number & Value)	Variable (Unless both two parties agree on a fixed margin).
Insurance Fee	Incurred by finance company	Incurred by finance company
Maintenance	Incurred by customer, whether operational or basic maintenance	The customer incurs operational maintenance and finance company incurs basic maintenance.
Disposal of Asset	The customer may not dispose of the asset except after obtaining approval of the finance company.	The customer may not dispose of the asset except after obtaining approval of the finance company.
Transfer of Ownership	The financier shall release the mortgage on the financed asset once the beneficiary fulfills all obligations under the contract within a period not exceeding 15 business days from the date of last installment or final payment.	• The lessor may promise to transfer the ownership of leased asset at the end of contract to the lessee by way of sale by signing the ownership transfer certificate, provided that the lessee pays all the amounts payable by him, in addition to the last payment, if any.

Chapter One

		• The other way: the lessor promises to transfer the ownership of the leased asset at the end of contract term as a gift by signing the ownership transfer certificate, after the lessee has paid all the amounts payable by him under Ijarah.
Payment of future installments	The beneficiary shall pay to the financier the future installments (in addition to any government fees) on a regular basis. The financier may, by the authorization of beneficiary, deduct the future installments from the monthly salary of lessee when made available.	The beneficiary shall pay to the financier the future installments (in addition to any government fees) on a regular basis. The financier may, by the authorization of beneficiary, deduct the future installments from the monthly salary of lessee when made available.
Delay of Rent Payments:	The beneficiary shall be considered in violation of the contract if • failed to make three consecutive payments or delayed in making five separate payments throughout the contract term. However, the last attempt to contact the customer shall be through national address. • Five interrupted lease payments for a period of (7) working days or above for each payment as from its due date for each (5) five years of the contract term. The Financier: sends a default notice indicating that there are overdue payments have to be made. If the lessee fails to pay the due payments, the lessor may consider the lessee as delinquent	The lessee shall be considered in violation of the contract if • failed to make three consecutive payments or delayed in making five separate payments throughout the contract term. However, the last attempt to contact the customer shall be through national address. • Five interrupted lease payments for a period of (7) working days or above for each payment as from its due date for each (5) five years of the contract term. The lessor sends a default notice indicating that there are overdue payments have to be made. If the lessee fails to pay the due payments, the lessor may consider the lessee as delinquent, and may terminate the contract, requesting the lessee to vacate and return the leased asset. The lessor may then request the following from the lessee: 1. Outstanding and unpaid lease payments until the date of termination of contract.

		2. The cost of evicting the leased asset, and the value of repairing any substantial damage to the leased asset arising from the lessee's failure to maintain it. 3. The amount payable for using the leased asset from the date of termination until the date of receipt of the leased asset.
Early ownership of asset	The lessee may, at any time, request early ownership within a period not less than 10 days before the date of rent payment. In this case, the lessor may obtain from the lessee the following amounts (value of early ownership): • Payable and unpaid rental payments. • The outstanding amounts of financing. • The cost of reinvesting, not exceeding the term cost of three-month payments following the last rental payment due before the lessee submits an early ownership request. • Non-refundable expenses that the lessor pays to third parties under such process.	The lessee may, at any time, request early ownership within a period not less than 10 days before the date of rent payment. In this case, the lessor may obtain from the lessee the following amounts (value of early ownership): • Payable and unpaid rental payments. • The outstanding amounts of financing. • The cost of reinvesting, not exceeding the term cost of three-month payments following the last rental payment due before the lessee submits an early ownership request. • Non-refundable expenses that the lessor pays to third parties under such process. Notwithstanding the above, the contract may specify a period during which early ownership is prohibited, if the subject matter of contract is real estate property and this condition entails a deduction from the term cost, provided that the prohibition period does not exceed two years from the date of concluding the contract.

1.5.2 Instructions for Providing Real Estate Finance Product (Murabaha/Ijara) for Individual Customers:

To regulate finance products, SAMA clarified some instructions to set the minimum provisions that finance companies must fulfill when providing a real estate product to individual customers. Through this, SAMA helps customers take appropriate decision when requesting real estate finance, protects rights of all parties, and fosters safety of real estate finance sector. Such instructions apply to banks real estate finance companies subject to SAMA's supervision. The instructions include:

1. When a customer applies for a real estate finance product, the financier shall request and examine the information necessary to know the customer's financial conditions and develop a clear picture of the customer's ability to meet the associated finance obligations, thus enabling the financier to develop an image on suitability of such product to such customer.. The financier may not offer a real estate finance if results of such examination on customer's ability to meet associated obligations do not comply with the financier policies to extend credit.
2. The financier shall provide an explanation to the customer about the proposed real estate finance product, clarifying the terms and conditions of the finance contract to be signed, especially risks associated with the product. A responsible and specialized official shall present and discuss this explanation with the Customer and answer to all of its queries. The explanation and discussion must be in a language that the Customer understands in a simplified and clear manner. The supplier shall document the submission of this explanation. The financier may not offer a real estate finance unless after ensuring that the customer is aware of terms and conditions of the required finance and any associated risks.
3. The financier shall submit to the customer a real estate finance offer with a validity period of no less than fifteen (15) business days from the date of delivery to the customer. The offer may be in the form a printed or electronic document containing all details and documents in the same form that would be signed if the real estate finance contract is concluded. The following documents shall be included in the submitted offer:
   - The real estate finance contract and attachments thereto.
   - Disclosure form for real estate finance offer according to the form below (Appendix No. 2).
   - Acknowledgment form for accepting the credit risk of real estate finance with variable term cost, for real estate products with variable cost. (Appendix No. 2).
   - The financier must document the customer's receipt of such documents, whether they were submitted to him in paper or electronically. The financier shall enable the customer, if he prefers the printed offer, to retrieve such documents from the financier's office. The customer may present those documents to whomever he wants to request their opinion and advice. The financier may not conclude any real estate finance contract unless after submitting to and enabling the customer to retrieve such documents from the financier's premises.
   - The financier shall, in a sufficient period before the expiry of the offer, assign a qualified credit advisor who has adequate knowledge of real estate finance products for individuals to provide the customer, in person or by phone, with a clear explanation of the nature of the proposed real estate finance and associated risks, terms and conditions of contract, re-pricing mechanism (if any). Such credit advisor shall also answer all the

customer's inquiries in such regard in full transparency and clarity. The credit advisor may not be the same employee who communicated with the customer before submitting the offer or who submitted the offer to the customer. Documenting communication with the credit advisor is a prerequisite for completing the contract. Communication shall be documented using audio recording or by signing a form proving the customer's meeting with the advisor. The financier may not conclude any real estate finance contract unless the credit advisor provides the required explanation to the customer, answers and documents all his inquiries.

• There shall be a minimum waiting period of five business days from the date Customer receives the real estate financing offer, to enable Customer to review the offer, speak with the credit advisor and consult whomever he wishes. The financier shall ask the customer not to initiate any action regarding the real estate property during the five working day period, such as offering an advance payment or a deposit. The Financier shall not enter into any real estate finance contract before the expiration of the waiting period.

• Banks and real estate financiers may not conclude any mortgage contract with individuals except after fulfilling the previous instructions and documenting so in the finance file.

Real Estate Valuation Fees in Real Estate Finance Contracts for Individual Customers:

Based on its powers under the relevant regulations, as well as its regulatory and supervisory role over financial institutions, SAMA requires finance companies to:

• Not to deduct real estate valuation fees from the client until after the client obtains initial approval to extend finance.

• Inform the client that he may not ask the finance company to refund real estate valuation fees in case the procedures for extending real estate finance have not been completed for a reason attributed to the client. Further, the finance company shall obtain an acknowledgment from the client on such regard before commencing the contracting procedures.

1.5.3 Controls of the Standing Payment Order in favor of a Real Estate Financier:

A service provided by banks through which money transfers are carried out periodically from the client's account to the real estate financier's account during a specific period and for a specified amount. These controls aim to set the minimum requirements that must be adhered to in respect of the standing payment order in favor of a real estate financier, to promote and protect competition among real estate financiers, to support the availability of financing options for customers, as well as to contribute to reducing the risk of default.

A. Obligations of Banks:

When providing the standing payment order for a real estate financier, Banks shall:

1. Verify that the customer has a fixed monthly income before accepting the application for establishing a standing payment order in favor of a real estate financier.
2. Not submit a standing order in favor of a real estate financier in the event that the customer has an existing payment order in favor of a real estate financier.
3. Obtain the customer's declaration of his knowledge of the effect of establishing a standing order in favor of a real estate financier.

4. Notify the customer upon issuing the standing payment order for a real estate financier via documented means of communication, provided that such notice includes at minimum Remuneration: The amount of transfer, the effective date of payment order, the term in months, and the account number to which the amount is transferred monthly.
5. Pay against the standing payment order in favor of a real estate financier the full amount of transfer on maturity date or within (5) days from such date if it is not available on the maturity date.
6. Notify the customer when the standing payment order cannot be applied, and provide the grounds for rejection through the documented means of communication.
7. Obtain the consent of real estate financier which is the beneficiary of the standing payment order or obtain a letter of discharge from it when the customer requests to amend or cancel the standing payment order.
8. Verify that the transfer amount in the customer's account is not among the funds that SAMA has stipulated that they cannot be touched or deducted therefrom.

B. Obligations of the Beneficiary Real Estate Financier:

The real estate financier which is the beneficiary of the standing payment order shall:

1. Give the customer its consent to change the amount of standing payment order when its circumstances change resulting in rescheduling of the debt within (3) working days from the date of the customer's request.
2. Give the customer a discharge and no objection to cancel the standing order within (7) working days from the date of the customer's request in the following cases:
   - Pay the outstanding obligations.
   - Exempt the customer from payment according to SAMA's relevant instructions.
3. Notify the customer upon receipt of the payment order amount via documented means of communication.

1.6 Rights of the Lessor and Lessee under the Finance Lease Law:

Learning Objective

6. To be familiar with the rights of the lessor and lessee under the Finance Lease Law.

1.6.1 The Lease Contract:

A written or electronic contract shall be concluded between the lessor and the lessee. Such contract shall include information relating to the contracting parties, leased asset and its condition, lease amount, payment terms as well as contract terms and conditions. The contract and any amendments thereto shall be registered in the contract register in accordance with the provisions of this Finance Lease Law. Prior to concluding the contract, the lessee may determine the specifications of the asset to be leased with the supplier, producer or contractor. The lessee shall be liable for any consequences resulting from determining asset specifications. If such specifications were determined with the approval of the lessor, such specifications shall be binding to the lessor only within the limits of such approval.

If the lessor authorizes the lessee in writing to directly receive the leased asset from the supplier, producer or contractor as per the conditions and specifications set out in the contract, such receipt shall be by virtue of a record establishing the conditions of the leased asset. The lessee shall be responsible vis-à-vis the lessor for any information about the leased asset stated in said record. If the supplier, producer or contractor refuses to sign the record, the lessee may refuse receipt of such asset.

1.6.2 Finance Lease Controls:

Financial lease controls can be categorized into controls on lessee rights, and others on lessor rights.

A. A. Rights of the Lessee under the Finance Lease Law:

Lessee Rights	Lessee Responsibilities
• Right to Own: In case the lessee has the right of ownership or the promise of it, the contract shall include a payment schedule determining the principal lease value of the asset and the value of the right of ownership separately. The installment for any period of the contract term shall not be less than the lease value of the asset for such period. In case of termination or expiry of the contract during the lease term upon mutual consent of the	• Lease Payments: The lessee shall make the agreed lease payments on dates set in the contract regardless of whether the lessee benefits from the leased asset, unless the failure to benefit is caused by the lessor. • A condition to advance the maturity dates of future lease payments to be made by the lessee in case of default is permissible, provided such payments do not exceed the number of defaulted payments. • Part of the lease payments may be advanced, and the advance lease payments

parties or pursuant to the provisions of the contract or Law, the lessee may recover the right of ownership value for the period paid.	shall be refunded in case of failure to deliver the leased asset or benefit therefrom for a reason not attributed to the lessee.
• Assignment of the Contract: The lessee, upon a written consent of the lessor, may assign the contract to another lessee. The lessor, within not more than ten (10) business days of the assignment date, shall attest his consent at the Contracts Register. Refusal to give consent by the lessor shall be reasoned.	• Obtaining Asset Operational License: If the possession, operation or management of the asset subject of the contract requires obtaining a license, the lessee may apply to the competent authority to obtain such license based on the registered contract in accordance with the provisions of the Finance Lease Law. The license may be issued in the name of the lessor with an indication that the leased asset is in the possession of the lessee under the contract. Unless agreed otherwise, the lessee shall bear all statutory fees for obtaining the license and renewal thereof.
• Expiry or Revocation of Contract: The lessee shall deliver the leased asset –in the same condition agreed upon in the contract- to the lessor upon termination, revocation or expiry of the contract, unless the lessee decides ownership of the leased asset according to the contract.	• Usage of the Leased Asset: The lessee shall use the leased asset for the agreed purposes within the ordinary use and shall be responsible for performing the operational maintenance at his own expense according to the prevailing technical practices. The basic maintenance shall be performed by the lessor unless agreed to be performed by the lessee. In such case, the basic maintenance shall be limited to wear and tear rather than inherent defect or fault in the leased asset. The lessee shall be liable for any damage or loss resulting out from his usage of the leased asset.
• Usufruct: The lessee may take the necessary procedures for the protection and full usage of the leased asset at the lessor's expense, if he fails to eliminate what prevents whole or partial use of the leased asset within the period specified in the contract or as specified under the Law.	• Circumstances that Prevent the Use of the Leased Asset: The lessee shall promptly notify the lessor, in writing or electronically, of any occurrence that prevents whole or partial use of the leasedasset, or as specified under the Law. via communication means specified in the contract

	and subject to the applicable notification rules. If the lessor fails to eliminate what prevents whole or partial use of the leased asset within the period specified in the contract, the lessee may take the necessary actions for the protection and full usage of the leased asset at the lessor's expense, by deducting from the subsequent lease payments. • Alterations and Modifications to the Leased Asset: The lessee shall not make any alterations or modifications to the leased asset without a written consent by the lessor. Such consent shall determine the nature and scope of such alterations or modifications and the party responsible for the cost. The lessee shall not be liable for loss of the leased asset unless caused by deliberate act or negligence on his part. If such loss is due to deliberate act or negligence on the part of the lessee, he shall be liable to pay the value of the leased asset at the time of loss save for what is covered by insurance.
	• Loss of the Leased Asset: The lessee shall be liable to pay the value of the leased asset, if he caused such loss, save for what is covered by insurance. However, the lessee may not be liable to fulfill any liabilities arising out of the loss of the leased asset in the following cases: If such loss is caused by the lessor, circumstances beyond his control, or due to technical deficiencies that impede the use of the leased asset. If such loss is not attributed to deliberate act or negligence on the part of the lessee (e.g. Using the leased asset in non-agreed upon purposes).

B. Rights of the Lessor under the Finance Lease Law:

Lessor Rights	Lessor Responsibilities
• Differentiation of the Leased Asset: The lessor may affix any information to the leased moveable asset to protect it, including the lessor's name and the contract registration number in the contract register.	• No Objection Letter: To ensure fairness of the conditions of the finance lease products, the lessor, prior to launching such products, shall obtain 'No Objection Letter' from SAMA.
• Inspection of the Leased Asset: The lessor, or his designee, may inspect the leased asset to ascertain the continuity of possession by the lessee and examine its condition, provided this is not harmful to the lessee as provided for in the Implementing Regulations of the Finance Lease Law and the terms and condition of the contract.	• Notification of the Lessor: The lessee shall promptly notify the lessor (at his address) of any occurrence that prevents whole or partial use of the leased asset, in accordance with the Regulations.
• Securitization: In case of issuance of securities, against the lessor's rights, in accordance with regulations and rules issued by the Capital Market Authority (CMA), the lessor remains obliged to forthwith disclose to SAMA any technical, commercial, legal, or other risks in relation to the contract, the underlying leased asset, or the securitization against the lessor's rights as a whole. In case of issuance of securities, the lessor remains committed to each and every relevant supervisory requirements.	
• Assignment of the Lessor's Rights: The lessor may assign his rights under the contract without the consent of the lessee, unless the contract stipulates otherwise. Under all circumstances, the following shall be fulfilled in the event of assignment: - The assignment shall not cause detriment to the lessee. - The assignment becomes effective on the date of its registration in the Contracts Register.	

- The assignment shall not relieve the lessor from its obligations under the contract. - If the assignment results in change in the recipient of the lease payments, it shall be enforceable towards the lessee only from the date of notifying the lessee of the change.	
• Sale of the Leased Asset: If the lessor sells the leased asset to a third party, ownership of the said asset shall be transferred as encumbered by the contract.	
• Termination of the Contract: The lessor may terminate the contract and repossess the leased asset if the lessee failed to pay the due payments according to the Regulations, taking into account the interests of both parties.	

1.7 Rights and Responsibilities Associated with Financing Products:

Learning Objective

7. To be familiar with the rights and responsibilities associated with financing products.

1.7.1 Rights and Responsibilities Associated with Financing Products

The finance entity shall, before the conclusion of an agreement, disclose all information related to the requested financing product or service to consumers and provide them with the terms and conditions necessary for the financing product or service, including, for example, but not limited to, the following:

- Fees, commissions, administrative service costs and the annual percentage rate.
- Repayment period of the finance.
- Early repayment procedures. (Whole/ partial)
- Financing agreement termination procedures.
- Withdrawal right procedures, if any.
- Obligations and duties of each party under the agreement.
- Any clause that can be modified by the company after the agreement comes in force.
- Any restriction or condition that may harm the customer's interests.
- Complaint handling procedures.
- Rules for Comprehensive Insurance of Motor Vehicles Financially Leased to Individuals.

The finance company should follow the procedures below when updating the terms and conditions of finance products and services:

- The finance entity should communicate any changes in terms and conditions at least 30 business days in advance of any such changes being implemented.
- Such updated terms and conditions must be included in the product/service application form in Arabic, with an English copy provided if requested by the customer.
- Such updated terms and conditions should include clear warning statements about consequences resulting from using the product contrary to the agreed terms or violating such terms.
- Such updated terms and conditions should be made available through the available bank channels, as per the customer's preference.

1.7.2 Finance Entities and Banks' Customer Protection Principles:

Protection of finance entities' customers is a strategic objective that SAMA constantly strives to achieve by enabling the licensed financial institutions to deliver the required level of fair treatment, honesty and financial inclusiveness. The consumer protection principles apply to all activities licensed by SAMA. Such principles are binding for finance entities and complementary to the instructions and regulations issued by SAMA. It should apply to all transactions that are made with individual consumers.

First: General Principles:

The "G20 High-Level Principles on Financial Customer Protection" were developed in 2011 by FIs from all over the world, especially those regulations relevant to the protection of customers. These principles can be clarified as follows:

1. Equitable and Fair Treatment

Finance entities should deal fairly and honestly with customers at all stages of their relationship. Care should also be made and special attention should be given to the low-income, low-educated, old and special needs customers.

2. Disclosure and Transparency:

Finance entities should provide up-to-date information about products and services provided to customers. This information should be easily accessible, clear, easy-to-understand, accurate, and non-misleading. It should include the rights and responsibilities of each party, quotation and commissions of the finance entity, fines, risks, and the mechanism for either party to end the relationship and relevant consequences, as well as any information on the alternative products and services rendered by such entity.

3. Financial Education and Awareness:

Finance entities should develop appropriate programs and mechanisms to help current and potential customers promote their knowledge, skills and awareness, and enable them to understand main risks, make informed choices, as well as direct them to the right place for assistance when they need.

4. Behavior and Work Ethic:

Finance entities should work in a professional manner for the benefit of clients throughout their relationship, where a finance entity is primarily responsible for the protection of the financial interests of the client.

5. Protection against Fraud:

Finance entities should develop control systems with a high level of efficiency and effectiveness to mitigate fraud, embezzlement or misuse.

6. Information Privacy Protection:

Customers' financial and personal information should be protected by finance entities through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected and processed, in addition to compliance with requirements of SAMA's circulars.

7. Complaints Handling:

Finance entities should develop adequate mechanisms for customers to file complaints. This mechanism shall enable the finance entity to process such complaints fairly, clearly and efficiently, according to SAMA's relevant rules.

8. Competition:

Customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost.

9. Third Parties:

Finance entities should ensure that the outsourced entities are (i) complying with the requirements of these principles, (ii) working in the best interest of the clients, (iii) bearing the responsibility for any decision taken on behalf of the finance entity or its customers, as provided in the instructions issued by SAMA.

10. Conflict of Interest:

Finance entities should have a written policy on conflict of interest, and ensure the availability and enforcement of this policy to detect potential conflicts of interests. In case a conflict of interest arises between the finance entity and a third party, this should be disclosed to the customer.

11. Adequate Resources:

Finance entities should exert the necessary efforts to provide adequate human and operational resources required to conduct its business, serve its customers in all regions across KSA, and to provide suitable customer service centers as well as appropriate channels to communicate therewith.

Second: Mutual Responsibilities (Customer Responsibilities):

Finance entities shall foster a level of education and training of their employees so as to promote mutual and customer responsibilities by on-going customer education and awareness programs as well as initiatives launched by each entity for its own customers. Customers' responsibilities include the following:

1. Be honest with the information you provide:

Always give full and accurate information when you are filling in any documents of the finance entity. Do not give false details or leave out important information.

2. Carefully read all the information provided by your finance entity:

Consumers should read all details that highlight the obligations incurred in return for a financing product or service and make sure they understand such obligations and are able to commit to their conditions.

3. Ask questions:

It is important to ask questions to the finance entity's employees about anything that is unclear or a condition that you are unsure about. The staff will answer any questions in a professional manner to help you in decision-making.

4. Know how to file a complaint:

You can be proactive in using this service and knowing how to escalate your issue to higher levels, if appropriate. Your finance entity will provide you with details on how to file a complaint and the timeframe for their response.

5. Use the product or service in line with the terms and conditions:

Do not use the product or service, except in accordance with terms and conditions associated with them, and after making sure of your complete understanding.

6. Avoid risk:

Some financial products or services carry risks and your finance entity should clearly explain these to you. Therefore, the customer shall not purchase any product or service where he feels that the risks do not suit his financial situation.

7. Apply for products and/or services that meet your needs:

When making a request for a product or service, you should make sure that it suits your needs. You should disclose all financial obligations with all parties.

8. Report unauthorized transactions to your bank.

The customer should, if he detected any anonymous transactions on his account, notify the finance entity immediately.

9. Do not disclose your personal information:
Under no circumstances should you provide any personal details to any other party.
10. Update your information:
You should keep your personal information updated, including contact information, and when so requested by the finance entity.
11. Your mail addresses:
Provide your own mail address (regular mail and email) and contact details when required by the finance entity. Do not use mail addresses of others, which may expose your financial information.
12. Power of Attorney:
Be careful when dealing with Power of Attorney in your financial transactions.
13. Review all of your information:
Review all of your information you provided in the application forms to avoid any errors. The finance entity should provide you with a copy of your signed contracts and documents, and shall keep them in a safe place.
14. Repayment of Monthly Payments:
You shall, without delay, make all due payments on their maturity date. Late payment is deemed a violation of the contract, which may cause further liabilities.
15. Financed Asset Maintenance and Responsibilities before Official Authorities:
Consumers should maintain the financed asset and assume responsibility before official authorities for any misuse.

Third: Main Obligations of Finance Entities:

This section covers obligations and regulations related to financing products and services that promote general principles of customer protection:

1. **Terms and Conditions:**
   - The finance entity shall provide the customer with the updated terms and conditions of the financing product and service, either in the form of a booklet or through other channels available to finance entities. Consumers shall be encouraged to read them before beginning the relationship.
   - The finance entity shall include in the terms, conditions and application forms warning statements clearly stating the possible consequences that the consumer may be exposed to when using the financing product or service.
   - The finance entity shall inform the consumer by guaranteed means of communication of any change in the terms and conditions within at least (30 business days) before making any change.
   - The finance entity shall allow the consumer to make objection if it does not agree on the change made in the terms and conditions by notifying the finance entity of its objection within (10 business days) after receiving the notification of the aforementioned changes by guaranteed means of communication.
2. **Fees, Commissions and Pricing:**
The finance entity shall not make any change in fees and commissions consumers should pay after signing the financing agreement, including fees and commissions related to external service providers.

3. **Information Protection and Maintaining Confidentiality:**
   - Employees of finance entities should sign the customer information confidentiality form, ensure not to disclose financial and personal information and limit access thereto to authorized persons only.
   - The finance entity should apply a clear Code of Conduct for employees assigned to roles that include sales and marketing of financing products, follow up and collection of non-performing financing accounts.
4. **Advertisement and Marketing:**
   - The finance entity shall communicate with customers by using at least two preferred means of communication for example, but not limited to, e-mail, registered mail, SMS and telephone.
   - The finance entity shall ensure that advertisements or promotional materials using promotional prices or introductory prices indicate the expiry date of these prices and offers.
   - The finance entity shall ensure that advertisements which include abbreviations (e.g. Annual Percentage Rate "APR") are explicitly explained.
   - The finance entity shall not send any marketing materials on financing products that contain unsuitable risks for individuals under the age of 18.
   - The finance entity shall ensure that the advertisement is clear, professional, not misleading and in a clear font including margins. The advertisement should not harm other companies' interests or distort the reputation of the financial sector.
   - SAMA has the right to require the finance entity that does not comply with the aforementioned conditions to withdraw the advertisement within one business day from the notification of SAMA.
5. **The Finance Entity's Responsibilities Before or Upon the Conclusion of the Financing Agreement:**
   - The finance entity shall obtain consumers' necessary information to estimate their needs of financing products and services. The finance entity shall provide consumers with consultations and advice on choosing the products and services suitable for their needs.
   - The finance entity shall obtain a request from the customer by any guaranteed means of communication before granting a new finance.
   - The finance entity shall, before the conclusion of a financing agreement, disclose all information related to the requested financing product or service to consumers and provide them with the main terms and conditions (e.g. fees, commissions and APR, finance repayment period, early repayment procedures, financing agreement termination procedures, and complaint handling procedures).
   - The finance entity shall, before the conclusion of the financing agreement, disclose to its consumers any insurance coverage, the beneficiary of such coverage, and the procedures of dealing with the financing agreement in case of the death of the consumer who was granted the funding.
   - The finance entity shall inform the applicant of the reason for rejection by guaranteed communication means within a maximum period of (5 business days), in case the finance entity rejected the consumer's application for any financing product or service.
   - The finance entity shall examine the customer's credit history after its approval to

verify his solvency and it should document that in the financing file. The finance entity shall provide each contracting party with a copy of the financing agreement and all its appendices within a period not exceeding (10 business days) after the conclusion of the agreement.

6. **The Finance Entity's Responsibilities after the Conclusion of the Financing Agreement:**
   - The finance entity shall quarterly provide the customer with a free transaction statement (electronic or paper) showing the payments made and the remaining payments, if requested by the customer.
   - The finance entity shall provide the customer, upon its request, with a detailed account statement without any delay, including all fees, term cost and all additional charges, in case of default or early repayment of finance.
   - The finance company shall execute consumer request by issuing a clearance letter – for any purpose, including salary transfer – in case there are no outstanding financial obligations on such consumer, within a period not exceeding one (1) business day from the date of receiving the request.

1.8 Rules for Disclosing the Prices of Financing and Saving Products:

Learning Objective

8.To be familiar with the rules for disclosing the prices of financing and saving products.

1.8.1 Rules for Disclosing the Prices of Financing and Saving Products:

The purpose of these rules is to provide transparency to the capital market in terms of APR/AER of various products banks have on offer for retail, micro and small enterprises and finance companies have on offer for retail customers as defined by SAMA. It will further allow retail, micro and small enterprises to compare APR/AER between different financing and saving products offered by banks and finance companies.

Definitions

Annual Percentage Rate (APR)	An internationally recognized indicator for disclosing the actual cost of finance, including all charges and administrative fees.
Loan / Finance Amount	Amount of loan granted to the customer on the balance sheet
Maturity Date	Contractual maturity of the on-balance sheet loans given to the customer: the final payment date of loan products at which point the principal (and all remaining interest) is due to be paid.
Monthly Payment Amount	Installment amount the customer is obliged to pay to the bank or finance company each month until the debt is fully repaid.

Property Market Value	Price negotiated between a willing buyer and a willing seller in an arm's length transaction after fulfilling valuation criteria set by the bank. The value may not be the current listing price or the amount of the most recent offer on the property.
Loan to Value Ratio	Ratio of a loan provided by an FI to the value of a property purchased and determined as property market value.
Payment Type	Only interest/payments or, both principal and interest payments or else.
Early Payment Charge	A fee the customer will be required to pay to a lender if the customer pays off a mortgage early and before the scheduled maturity term of the credit facility, also sometimes referred to as a Redemption Penalty.

1.8.2 Disclosure Requirements

A. Finance entities are required to disclose and publish information products as specified in Section 5 of these rules in a standard format on loan application forms, websites, social media and all other marketing materials used by them.
B. Information disclosed should only be quantitative.
C. Financing limits, charges and tariffs should be subject to the relevant laws, regulations, and any other regulatory requirements.
D. Disclosure should be made for all types of products, exposure classes and tenors within the scope of these rules.
E. The process of calculation and factors that affect the pricing should be clarified for the purpose of transparency e.g. if floating rates are used, this should be clarified.
F. If one of the disclosure requirements in the disclosure forms is not applicable to a product, it should be clarified in the disclosure form as "Not Applicable – N/A" given that a reasonable justification is provided.
G. For mortgage loans, which contain multiple features, banks and finance entities should develop a mortgage calculator on their websites considering the inputs prescribed in Section 5 of these rules. For other printed materials, one example per type should be used. Banks and finance entities may add a footnote that in some cases, depending on the risk profile of the customer, pricing can change for some customers as compared to the output from the mortgage calculators.

1.8.3 Disclosure Forms:

Banks and finance entities should use the examples below as illustration with the minimum type of information the disclosure forms should include. Additional information can be added to the disclosure forms as long as the minimum requirements stated in this section are captured.

A. Loans for different types, amounts and maturities:

(Only disclose main lending – on-balance sheet products and there is no need to disclose offbalance sheet products).

Example:

Term Loan

Loan / Finance Amount	Maturity in Years	*APR	Monthly Payment Amount
100,000	5 years	5.5%	1,901

*APR may differ depending on the amount and the maturity period different from the above example and subject to credit scoring of each customer.

B. All Credit Card Types and Classes:

Example: Platinum 28-months balance-transfer card

*APR	Credit Card Purchase Rate	Minimum Repayment Amount%	Months Until Balance Repaid*
19%	19%	5%	60 Months

*If only minimum repayment is made every month then it will take almost 60 months to repay the full amount keeping in view compounded interest added each month

C. Residential Mortgages:

Example: First home buy

Property Market Value	Loan to Value Ratio	Fixed or Variable Rate**	APR	Maturity in Years	Payment Type	Monthly Payment Amount	Fixed or Variable Rate**
500,000	90%	Fixed Rate	4.5%	25 Years	Principal and Interest/ Profit	1937.8	Profit of future 3 installments

*Banks and finance companies should disclose the repayment period for off-plan and self-construction products in the mortgage calculator.
**Including initial rate (rate fixed for a few years at the start of mortgage) and follow-on rate (rate to be used once the initial rate term is over) e.g. fixed rate for a few years and thereafter using variable rate e.g. 3 months SAIBOR + 20ppt.

D. Financial Leasing Products for Each Type of Assets:

Example: automobile loan

Asset Type	Loan / Finance Amount	Maturity in Years	APR	Monthly Payment Amount	Residual Value
Car	200,000	5 years	5%	4051	20000

End of Chapter Questions

Answer the following questions and check your answer in the corresponding section:

1. Mention the main financing products and services provided by banks and financing companies in the Kingdom of Saudi Arabia to retail customers.
   Answer Reference: Section 1.1.1
2. Mention the updated Regulations for Issuance and Operations of Credit and Charge Cards issued by SAMA in 2015
   Answer Reference: Section 1.2.2
3. What are the aspects that shall be considered when setting credit limits for cards?
   Answer Reference: Section 1.2.4
4. What are the information that must be included in an initial disclosure as a minimum?
   Answer Reference: Section 1.2.5
5. Explain in brief the main rights and responsibilities of the credit and charge cardholder set by SAMA.
   Answer Reference: Section 1.2.6
6. Mention the most prominent Regulations For Consumer Finance issued by SAMA.
   Answer Reference: Section 1.3.1
7. Outline the main points of the Implementing Regulations of the Real Estate Finance issued by SAMA.
   Answer Reference: Section 1.4
8. Clarify in brief the provisions of the real estate finance contract in the form of Murabaha.
   Answer Reference: Section 1.5.2
9. Clarify in brief the rights and obligations of the lessee under the Finance Lease Law
   Answer Reference: Section 1.6.2
10. Clarify in brief the rights and obligations of the lessor under the Finance Lease Law
    Answer Reference: Section 1.6.3
11. What are the Banking Consumer Protection General Principles as stipulated by SAMA?
    Answer Reference: Section 1.7.2
12. List the rules for disclosing prices of financing and saving products
    Answer Reference: Section 1.8.2

Chapter Two

Financing Mechanism

This Chapter includes about 13 out of 100 MCQs in the exam.

Introduction:

This chapter outlines the factors affecting the decision to accept financing requests and identifies customer condition assessment according to financing criteria. The chapter also clarifies the main application procedures for obtaining a bank credit, criteria thereof as well as customer responsibilities in the financing agreement in the Kingdom of Saudi Arabia. This chapter also introduces Responsible Lending Principles for Individual Customers.

2.1 Factors Affecting the Acceptance of Applications for Financing Individual Customers:

Learning Objective

> 1. To be familiar with factors affecting acceptance of applications for financing individual customers.

2.1.1 Factors Affecting the Acceptance of Applications for Financing Individual Customers:

There are several factors influencing financing requests, some of which are related to the customer and others are related to banks and finance companies.

1. Factors Related to Individual Customers:

Credit-granting criteria comprise several models that banks consider in customer finance applications. Such models include a set of principles and guidelines that help the bank to make credit decisions. We will introduce the Debt Burden Ratio (DBR) and Customer Credit Report (CCR), as main indicators used by banks to recognize the customer's creditworthiness. In this part, we will also introduce a credit criteria model (P5), which consists of People, Payment, Purpose, Protection and Prospective. Before introducing such model, we will discuss the CRR in further detail:

- Customer Credit Report (CCR):

  CCR is a comprehensive and thorough report containing all details of the customer's credit transactions with creditors. The report includes the financial products acquired such as loans and credit cards, in addition to some private information such as the maturity date, installment amount and payment status. The first report can be obtained free of charge from the Saudi Credit Bureau (SIMAH). A detailed explanation of CCR will be provided later in this Chapter.
- Debt Burden Ratio (DBR):

  DBR reflects the customer tolerance against payment of the monthly installments based on his salary or monthly income. We will discuss the quantitative principles of responsible financing later (See 2.2.4 Quantitative Principles for Responsible

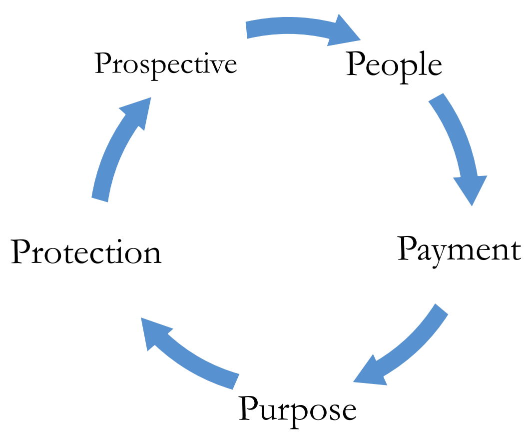
  Determination of DBR aims to:
  - Regulate the lending process and keep the financial burden of monthly payments under control.
  - Foster the protection against delinquency by sticking to such ratio.
  - Avoid wasting time and effort for a finance request that could eventually be rejected.
  - DBR is a main factor that helps lenders to determine the extent of risks associated

with the credit file, and thus to decide whether to refuse, accept or even take measures to guarantee their rights.

Below is an example on how to calculate the DBR:

Example:
If the customer's monthly salary is SAR 10,000, and the value of all monthly payments is SAR 3,000. Then the DBR shall be 30% (DBR=3.000/10.000 x "100"="30%"). (DBR= $\frac{3.000}{10.000} \times 100=30\%$)

• Credit Model (P5):
Model-5 includes the key customer-related criteria that start with 'P' letter, namely People, Payment, Purpose, Protection, and Prospective.



A. People:
Evaluating the customer's ethics and creditworthiness.

B. Payment:
This criterion assesses the customer solvency based on prior entries.

C. Purpose:
This involves the areas or activities in which the borrowed funds are invested and how far they are consistent with the financial institution (FI) policy and customer's capabilities, expertise and credit profiles as well as the extent to which the size and amount of finance are appropriate for the customer's purposes.

D. Protection:
This criterion addresses the availability of guarantees provided by the borrower to FI in terms of its market value, liquidity and risks.

E. Prospective:
This relates to future predictions and all environmental and future conditions surrounding the customer.

2. Factors Related to Banks and Financing Companies:

There are many factors related to banks and creditors that affect finance applications, such as:

A. Liquidity of the FI:

Liquidity means the ability of the FI to meet its obligations. This ability is essentially linked to the stability of deposits, as the fluctuating deposits will limit bank's ability to adopt a comprehensive lending policy. Consequently, the credit management has to achieve two opposing objectives: meeting depositors' requests on the one hand, and meeting credit applications on the other hand.

B. Objective of the FI:

The objective of a bank or FI means the type of to-be-followed strategy to take credit decisions and to operate within its framework. For example, shall the bank tend more to mortgage finance, customer finance, or companies and investment projects finance

C. Capacity of Banks and FIs:

It means the capacity of banks or FIs especially in terms of qualified and trained capabilities to perform credit functions as well as modern technology they utilize.

D. Compliance with Controls and Legislation:

The bank must comply with laws and regulations issued by SAMA, which determines the possibility of expanding or lowering loans, as well as loan limit and areas of activity allowed to be financed, so as to avoid any conflict between the bank's credit policy and legislation regarding banking activities.

E. High Risk of Lending:

Lending risks can be defined as the inability to expect the exact profits desired and expected from fund utilization. Lending risks are associated with the bank's activity.

Below are some of the main factors affecting the bank's lending policy:

1. Risk of Default: Debtor-related risks when the customer cannot repay the loan and interest thereof, for reasons related either to its business or to deterioration of economic conditions and low income.
2. Interest Rate Risk: Risks associated with the potential change in interest rates, which affects the bank's financing cost.
3. Inflation Risk: Risks associated with purchasing power of loans and interests.
4. Liquidity Risk: Risks caused as a result of the high demand for loans, which raises risks of liquidity shortage against the lending bank.
5. Exchange Rate Risk: Risks associated with the change in exchange rates.

2.2 Responsible Lending Principles for Individual Customers:

Learning Objective

2. To be familiar with the principles of responsible lending for individual customers

SAMA issued Responsible Lending Principles for Individual Customers. The principles aim to encourage responsible lending that meets the actual needs of customers, especially those related to owning housing and assets rather than customer purposes. The principles also aim to enhance financial inclusion by providing adequate financing for all segments of society, taking into account

reasonable deductible ratios that the customer can afford. In addition, the principles focus on ensuring fairness and competitiveness among creditors to make sure that their procedures and mechanisms are effective and efficient.

The principles apply to all creditors and finance activities directed at customers. These activities encompass all credit products and programs designed for individuals, including, but not limited to, personal finance, vehicle finance, credit cards and real estate finance. The creditor must set appropriate internal controls and procedures to ensure compliance with these principles, other relevant laws, regulations, and instructions. It must also pay special attention to documenting information and maintaining documents provided by customers, thereby gaining an acceptable degree of reliability.

If the creditor assigns certain related work to another party or other parties, it must ensure that those parties act in compliance with these principles and that they do not contravene the provisions hereof, other relevant laws, regulations and instructions. The creditor must take necessary measures to ensure that these principles are fully understood and adhered to by its staff and are shared with its customers. It must not only focus on the number of financing agreements or the value of finance, but it must also take into account such principles when preparing its incentive programs for its staff. It must ensure that no programs are developed in a way that may lead to irresponsible finance. The creditor must keep sufficient records that show its commitment to the principles herein, other related laws, regulations, and instructions.

2.2.1 Definitions:

Some definitions in responsible financing shall be identified before discussing qualitative and quantitative principles of financing.

Creditor: Banks and finance companies supervised by SAMA and licensed to practice one or more activities of finance.

Principles: Responsible Lending Principles for Individual Customers.

Customer: An individual who obtains or applies for a finance loan or at whom such finance is directed.

Finance Amount: The limit or the total amount made available to the customer under a finance contract.

Term Cost: The term cost due by the customer under a finance contract, which may be expressed as a fixed or changed annual percentage of the finance amount provided for the customer.

Variable Term Cost: The term cost specified according to an index or a reference rate, which must be explicitly stated in the finance contract; such a cost will change in accordance with the change in such an index.

Total Amount Payable by the Customer: Finance amount plus all due costs that the customer must pay as per provisions of finance contract, including term cost, fees, commissions, administrative costs, insurance and any expenses deemed necessary to obtain finance and excluding any expenses that the customer can avoid, such as costs and fees customer must pay upon his/her violation of any obligations mentioned in the finance contract.

Monthly Credit Obligations: Total amount payable by the customer, which is calculated on a monthly basis, as per the credit report issued by licensed credit bureaus and the customer's disclosure.

Gross Salary: The basic monthly salary (after deducting pension or GOSI contributions) plus all fixed allowances paid to the customer by the employer on a monthly basis.

Total monthly income: The monthly average income of the customer from any periodical income whether received on a monthly, annual or other periodic basis, including gross salary or any other income (allowances and compensation that are paid periodically, rental income, revenues of other investments, etc.) which can be reasonably verified and calculated, in accordance with the provisions of these principles, paragraph (17).

Total Monthly Income: The remaining amount of the customer's total monthly income for spending, investment or savings after deducting current or expected basic expenses and monthly credit obligations, calculated on a monthly basis.

Deductible Ratio: The ratio of customer's monthly credit obligations to total monthly income, calculated as per terms and conditions stated in Chapter IV on Quantitative Principles of Responsible Lending.

Deduction: The act of deducting an amount from the customer's gross salary or monthly pension.

2.2.2 Qualitative Principles of Responsible Lending:

1. The creditor must adopt a clear, transparent and documented scientific method, criteria and procedures to evaluate the creditworthiness of the customer and his/her ability to repay. Upon the customer's consent, the creditor must examine the credit record of the customer to verify his/ her solvency, ability to meet the monthly credit obligations, and his/her credit behavior. The information obtained must be documented in the finance file.
2. The creditor must ask the customer to disclose, in writing, any other credit obligations he/she has, such as loans from his/her employer, friends or relatives or any other obligations.
3. The creditor must assess the ability of its customers to meet monthly credit obligations, especially in cases where customer's deductible ratios are close to the maximum deduction limits set out herein. The assessment of the ability to meet monthly credit obligations is primarily based on the assessment of the customer's monthly disposable income that can be used to meet his/her monthly credit obligations
4. Based on paragraph (3) and based on a credit study and assessment of the customer's monthly disposable income, the creditor must use financial models and tools to measure the customer's ability to meet monthly credit obligations and to what extent such finance suits his/her

needs and circumstances. The creditor must ensure both the efficiency and effectiveness of such financial models and tools, used to measure the customer's ability to repay finance. It should benefit from its information and data, as well as legally available general statistics sources.

2.2.3 Quantitative Principles of Responsible Lending:

A. Terms for calculating the customer's monthly credit obligations must be observed as follows:

1. The monthly credit obligation of a credit card must be equal to the minimum repayment of the credit ceiling for each credit card issued to the customer.
2. Monthly credit obligations include all credit obligations to creditors and specialized government lending institutions and any other credit obligations.
3. Before granting finance with variable term cost and upon calculating the monthly credit obligations of such finance, the creditor must take into account including additional margin in the term cost.
4. Upon granting finance, the creditor must be responsible when the deductible ratio exceeds the permitted limit hereunder if it is due to a change in the term cost.
5. Monthly credit obligations of finance where all installments are not equal must be calculated based on monthly installments that are fixed at the monthly average level for all installments regardless of whether such finance is payable by equal repayments or requires a final payment.

B. Terms for calculating the total monthly income of the customer must be observed as follows:

- Gross salary, as documented by any means by the employer, must be included in such calculation.
- As for other income, half of the monthly average of the total amount earned by the customer from any periodical income, whether monthly, annual or other, must be included in such calculation. The other income must include periodically-paid allowances and compensation, rental income, revenues of investments, dividends, etc., which can be reasonably verified via, at least, a two-year bank statement or official documents proving their continuity.
- Government subsidies, such as those given through the Citizen Account Program or social security, must not be counted as part of the total monthly income of the customer.

Deductible ratios for customers whose total monthly income is SAR 15,000 and less must be subject to the following restrictions:

- The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 33.33% of the gross salary for employees and 25% for retired customers.
- Monthly credit obligations, excluding monthly credit obligations for real estate finance must not exceed 45% of the total monthly income of the customer.
- Monthly credit obligations of finance must not exceed 55% of the total monthly income of the customer However, for the customers who are benefiting from the Ministry of Housing or the Real Estate Development Fund for mortgage products, the monthly obligations of finance must not exceed 65% of the total monthly income

Deductible ratios for customers whose total monthly income is more than SAR 15,000 and less than SAR 25,000 must be subject to the following restrictions:

- The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 33.33% of the gross salary for employees and 25% for retired customers.
- Monthly credit obligations, excluding monthly credit obligations for real estate finance must not exceed 45% of the total monthly income of the customer.
- Monthly credit obligations of finance must not exceed 65% of the total monthly income of the customer.

Deductible ratios for customers whose total monthly income is SAR 25,000 and more must be subject to the following restrictions:

- The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 33.33% of the gross salary for employees and 25% for retired customers.

10. Credit obligations of finance are subject to the credit policies of the creditor. The creditor must assess the ability of its customers to meet monthly credit obligations stated herein.
11. Finance term must not exceed (5) years or (60) months from granting such finance, except for real estate finance and credit cards.

SAMA may review and amend periodically the ratios indicated in these Principles, taking into account the soundness and stability of the financial system and the forecasts for economic growth.

2.3 Key Procedures and Documents for Obtaining Finance Product:

Almost all financing companies require the same documents and procedures to provide any finance products to customers. This section explains general steps for key documents and procedures followed in extending finance products.
As mentioned earlier, finance products for individuals are credit cards, personal finance, real estate finance, and motor vehicle finance.

Procedures for Obtaining a Credit Card:

First Step: Application Submission

- Fill out the card application (may be e-application).
- A valid national ID/residency permit.
- Customer credit report.
- No account with the finance company required.
- salary statement letter from the employer.

Second Step: Document Review & Card Issuance

- Submitting all documents above.
- Reviewing information and checking the customer's credit record.
- Then, the finance company contacts the client (via a reliable means of communication) to inform the client on request acceptance or rejection, with an explanation of grounds for rejection.
- If the application accepted, the customer will be informed of the credit limit of the card.
- If the customer accepts such credit limit, the card is issued and sent to the customer.
- The card is activated by the customer upon receiving the card.

Note:
In light of the current information revolution, some finance companies provide virtual card service because all customer's information is available to them. Thus, procedures become easier, and the customer only has to agree on card issuance. The customer's approval to issue a card and documentation thereof is a prerequisite for the finance company, in accordance with the provisions of Regulations for Issuance and Operations of Credit and Charge Cards issued by SAMA.

Procedures for Obtaining a Personal Finance:

After exploring steps and requirements for obtaining credit cards, the requirements for personal finance can be clarified as follows:

First Step: Application Submission:

- Filling out an application for obtaining personal finance (may be e-application). In this step, the purpose of personal finance is determined, including: (Purchasing a car/furniture/travel/medicine...etc.).
- A valid national ID/residency permit.
- Customer credit report.
- Opening an account with the finance company is mandatory. In finance companies not licensed to open accounts for clients, such companies shall open an account with a relevant bank.

• Salary statement/transfer letter from the employer.

Note:

Salary transfer is requested for employers that do not have salary transfer agreements with the finance company. This serves as a commitment from the employer to continue transferring the client's salary to the finance company until full indebtedness is paid, and such salary will not be transferred to another entity until the client is given a clearance letter from the finance company stating that such client has paid all due amounts and have no further other obligations.

Second Step: Documentation Review and Conclusion of Personal Finance Contract:

• Submitting all documents above.

• Reviewing information and checking the customer's credit record.

• Then, the finance company contacts the client (via a reliable means of communication) to inform the client on request acceptance or rejection, with an explanation of grounds for rejection.

• If the application accepted, the customer will be informed of the credit limit granted thereto.

Third Step: Issuance of Contracts & Documents:

• After contracts are issued, the customer visits the nearest branch to sign contracts and documents.

• Contracts and documents signed by the customer are reviewed by the finance company to ensure their correctness and completeness.

• The finance amount is deposited into the customer's account.

Procedures for Obtaining a Real Estate Finance:

After exploring steps and requirements for obtaining personal finance, the requirements for real estate finance can be clarified as follows:

• Filling out an application for real estate finance (may be e-application).. Purpose of such real estate finance shall be specified, for example: (Purchasing a fully-furnished house (villa or apartment), an unfinished house or land/Off-plan sale ...etc.)

• A valid national ID/residency permit (for Premium Residency holders).

• A copy of the property title deed.

• A copy of the property owner's ID and contact numbers.

• Property location coordinates.

• Customer credit report.

• Opening an account with the finance company is mandatory. In finance companies not licensed to open accounts for clients, such companies shall open an account with a relevant bank.

• Salary statement/transfer letter from the employer.

After exploring these requirements, we can now clarify real estate finance procedures, which undergoes several steps as follows:

First Step: Initial Offer to Customer:

After examining the customer's credit and financial position to ensure his debt sustainability, the customer obtains the credit limit allowed. Then, the finance company contacts the client (via a reliable means of communication) to inform the client on request acceptance or rejection, with an explanation of grounds for rejection.

Second Step: Property Evaluation:
The property is evaluated by certified and authorized real estate appraisers. The evaluation must be based on property's logistic and technical value. This involves evaluation of structure, construction materials, and guarantees provided by the owner.

Third Step: Final Offer:
After property evaluation, the client receives a final offer, agreeing upon the following:
- Amount of advance payment.
- Profit margin ratio.
- Amount of finance needed to purchase the property.
- Total finance amount (Finance amount + term cost).
- Monthly payment amount.
- Number of installments.

Fourth Step: Contract Review:
According to SAMA instructions to financing companies issued in June 2020, the finance company shall submit to the customer a finance offer whose validity period shall not be less than fifteen (15) business days from the date of receipt by the client. The offer can be submitted to the client on paper or electronically as per client's preference, provided that such offer includes all data and documents in the same form that the client will sign in case of concluding a real estate finance contract. The submitted offer must include the following documents:
- The real estate finance contract and attachments thereto.
- Disclosure form of the real estate finance offer.
- Acknowledgment form for accepting the credit risk of real estate finance with variable term cost, in accordance with the form contained in the annex below, for real estate products with variable cost.

Further, the following must be observed:
- The financier must document the customer's receipt of such documents, . whether they were submitted to him in paper or electronically The financier shall enable the customer, if he prefers the printed offer, to retrieve such documents from the financier's office. The customer may present those documents to whomever he wants to request their opinion and advice. The financier may not conclude any real estate finance contract unless after submitting to and enabling the customer to retrieve such documents from the financier's premises.
- The financier shall, in a sufficient period before the expiry of the offer, assign a qualified credit advisor who has adequate knowledge of real estate finance products for individuals to provide the customer, in person or by phone, with a clear explanation of the nature of the proposed real estate finance and associated risks, terms and conditions

of contract, re-pricing mechanism (if any). Such credit advisor shall also answer all the customer's inquiries in such regard in full transparency and clarity. The credit advisor may not be the same employee who communicated with the customer before submitting the offer or who submitted the offer to the customer.

- Documenting communication with the credit advisor is a prerequisite for completing the contract. Communication shall be documented using audio recording or by signing a form proving the customer's meeting with the advisor. The financier may not conclude any real estate finance contract unless the credit advisor provides the required explanation to the customer, answers and documents all his inquiries.
- There shall be a waiting period of no less than five (5) business days from the date of the customer's receipt of such offer, to enable the customer to review the offer, consult with the credit advisor or whoever he wants. The financier shall ask the customer not to initiate any action regarding the property during such 5-day period, such as making a down payment or deposit. The financier may not conclude any real estate financing contract before the waiting period has expired.

Fifth Step: Contract Signing

After fulfilling all the previous requirements, and customer's acceptance to contract with the finance company for the selected product, based on mutual agreement between both parties, the contract shall be signed as follows:

- The finance company purchases the real estate from the owner with the right to cancel, which means that the buyer (finance company) may cancel such purchase when the installment sale is not completed by the customer.
- Signing sales contracts, carried out by way of Murabaha or Ijara with the customer.

Note:

In order for the financing process to comply with rules and regulations of Islamic Sharia, the property purchase contract must be signed by the owner before the sale of such property to the customer. This must also be documented by writing the time and date on both contracts, so that the time of purchase is earlier than the time of sale.

Sixth Stage: Completion of Contract and Transfer of Ownership, Mortgage of Property

The purchase and sale processes shall be documented through notary offices, and property deed shall indicate that such property is mortgaged to the finance company and such mortgage will be released after full indebtedness is paid.

Note: Promissory Note is one of the key documents that must be approved and signed by the customer, especially in personal finance and real estate finance products. The promissory note in Saudi laws is defined as a document that must be executed by courts or competent authorities, indicating the order of a certain person to pay a specified amount to another person.

2.4 Credit Bureau:

First, we shall clarify the concept of customer's credit history, together with a number of indicators on integrity of such credit history, as detailed below:

What is customer's credit history?

Customer's credit history is defined as a measure of the customer's ability to repay debts and establish his responsibility towards such repayment. It is usually recorded on the customer's credit report, which details the following:

- Number and types of the customer's credit accounts, term of each account, and amounts due.
- Amount of available credit used, whether invoices are paid on time, and last credit amount the customer received.
- A customer's credit report also contains information regarding whether s/he has had any bankruptcies, liens, collections or judgments.

It is worth noting that the customer has the right to access his credit history (via a credit report). The customer usually gets many advantages when he has a good credit history, for example low profit margin quotes on mortgage loans, car insurance, etc.

Importance of Customer's Credit History

Finance companies usually use information in a customer's credit history to decide on credit extension. Information in customer's credit history is also used to evaluate the customer's repayment commitment. When creditors review a customer's credit history, they evaluate several different aspects, including:

- Customer's recent credit activity.
- How long credit accounts have been open and active.
- Patterns and regularity of repayment over longer periods.

Good Credit History:

Basically, having a good credit history indicates that the customer pay monthly installments on time and not incurring large amounts of debt. This facilitates obtaining credit cards, gives the customer better options for finance, as well as lower profit margin rates. The perfect way to maintain a good credit report is to:

- Pay all monthly installments in full without delay against maturity dates.
- The customer should not have many credit cards, and shall keep his cards with low balance and for a long period of time.
- The customer should regularly check his credit reports and be firm about correcting any errors relating to his account.

Poor Credit History:

Conversely, customers who have a poor credit history do not repay their installments on time and have a large amount of outstanding debt. Factors that contribute to a bad credit history include:

- Late or missed payments.
- Excessive use of credit cards.

• Applying for a lot of credit in a short period of time.
• Suffering financial issues such as bankruptcy.

A poor credit history can lead to difficulty in obtaining financing and credit cards, as well as low credit limits with high profit margin rates.

Credit Companies in Saudi Arabia:

Based on Royal Decree No. M/37 dated 05/07/1429 AH, Cabinet Resolution No. 188 dated 04/07/1429 AH was issued approving the Credit Information Law. Several companies have been established, including Saudi Credit Bureau (SIMAH).

SIMAH is the first and sole licensed national credit bureau offering consumer and commercial credit information services. SIMAH was founded in 2002 and started operation in 2004 under the supervision of the Saudi Central Bank (SAMA). SIMAH credit reports help develop the national economy in general, and help banks to understand and know how to deal with credit history of individuals. SIMAH basic roles include working side by side and cooperates with SAMA to develop procedures followed across banking sector, related to credit facilities provided to individuals and companies.

SIMAH was established (at that time) by ten local commercial banks operating in KSA based on current banking laws and regulations issued by SAMA.

SIMAH reports for individuals are an effective tool for determining levels of credit risk, as they rely on unique and improved evaluation models suitable for the Saudi market.

Launched in 2004, SIMATI is the first core system in Saudi Arabia which provides detailed credit reports of individuals indicating their financial stability, including positive and negative credit information enabling members to make informed credit decisions. It should also be noted that SIMATI is the first SIMAH system concerned with preserving credit information on individuals. it was registered with the Ministry of Commerce as one of SIMAH's trademarks in December 2018. Through SIMATI's credit report, including credit information for each individual, SIMAH member creditors can reliably and accurately measure credit behavior of individuals and predict their ability to meet obligations before starting a credit relationship, which mitigates potential credit risks, as credit information is the fastest tool for measuring individuals ' credit behavior.

SIMAH Advantages:

1. **Mitigating Financial Risks**: High and low risk loans can be identified by the members based on SIMATI reports by identifying the history of individual's payments, credit card balances, defaults, latest applications for credit etc. SIMATI reports make use of detailed, accurate, comprehensive and up-to-date credit information on consumers for members to take best credit decisions & mitigate risks.

2. **Cross Selling & Up Selling**: SIMATI reports provide profound insights into the customer's credit history and risk associated with extending credit. Apart from this, SIMATI reports accurately create prospective opportunities based on the numerous data sources and SIMAH score to evaluate possibilities to upsell and cross sell products and services ensuring both portfolio diversification optimization profitability.

3. **Reducing Information Asymmetries**: Asymmetric information between lenders and borrowers is one of the most common challenges in the credit market worldwide; leading to

adversities in lending credit and causing a higher risk of default or making lenders hesitant to offer customized credit products and services. With multiple lenders having different patterns of information for same consumers, it becomes difficult to measure the financial status and creditworthiness of historical and/or potential borrowers. SIMATI reports provide standardized, deep, accurate and up to date credit information about individuals to all members so as to be able to take sound strategic decisions.

4. **Quick Credit Sanctioning**: SIMAH Scoring gives the first impression or bird's eye view to the member about the individual's creditworthiness. The first step in any credit approval process is checking the credit score of the applicant, a satisfactory score would be a "go ahead" signal and a negative score would mean reconsideration of the credit application. Scoring enables the credit granting process to become faster and streamlined with the evaluation and eventual processing taking a few minutes rather than taking weeks or even months in certain instances.

5. **Higher Profitability**: Scoring helps members make profitable yet consumer centric decisions by identifying the most profitable customers and clients, developing retention and growth strategies and improve credit portfolio management. Scoring can help create tearing models of customers based on their credit scores and help create effective pricing and promotional programs proactively targeting customers for higher profitability.

6. **Debt Management**: As lending becomes future oriented and forward looking, SIMAH Scoring helps members to be at the forefront of innovation by optimizing collection efforts, minimize defaults, maximize recoveries and reduce overall overhead costs.

SIMAH Scoring reveals other advantages such as:

- Risk mitigation
- More predictive power
- Competitive advantage
- Better policy execution
- Higher consumer satisfaction
- Upselling & cross-selling

SIMAH Report Sample:

First part of the report contains customer's personal information:

Consumer Credit Report

SIMATI
Consumer System

17/11/2015
09:25:27

ID Number 0 4 2 x x x x x

Page 1
Out of 5

SAMPLE REPORT

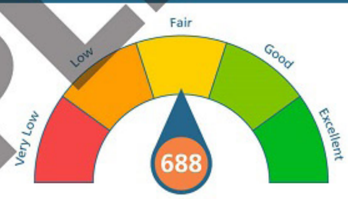
Personal Information

Customer Name	:	*******
Gender	:	*******
Marital Status	:	*******
ID Number	:	*******
ID Expiry Date	:	*******
Issuing Authority	:	*******
Nationality	:	*******
Date of Birth	:	*******
Mobile Number	:	*******
Employment Sector	:	*******
Employer Name	:	*******
Occupation	:	*******
Salary	:	*******
City	:	*******
Update Date	:	*******

Credit Report Summary

First Issue Date	:	*******
Active Credit Products	:	*******
Total Limits	:	*******
Total Outstanding Liabilities	:	*******
Total Guaranteed Limits	:	*******
Total Guaranteed Liabilities	:	*******
Default Products	:	*******
Total Outstanding Default Balance	:	*******

Credit Score



Score Contributing Factors : ******* ******* *******
******* ******* *******
******* ******* *******
******* ******* ******* *******

Active Products Summary

Product Type	Creditor	Account Number	Installment Amount	Credit Limit	Outstanding Balance	As Of Date	Payment Status
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******
******	******	******	******	******	******	******	******

Chapter Two

End of Chapter Questions

Answer the following questions and check your answer in the corresponding section:

1. Explain in brief factors affecting the acceptance of applications for individual customers financing.
   Answer Reference: Section 2.1.1
2. Mention the main factors related to customer in the (P5) credit model.
   Answer Reference: 2.1.1
3. Mention factors related to banks and creditors that influence financing applications.
   Answer Reference: Section 2.2.1
4. What are the main factors influencing bank's lending policy?
   Answer Reference: Section 2.2.1
5. Outline the general provisions stipulated by SAMA in the Responsible Lending Principles for Individual Customers.
   Answer Reference: Section 2.2
6. Explain in brief qualitative principles of responsible lending.
   Answer Reference: Section 2.2.2
7. What are the conditions that must be considered in calculating the monthly credit obligations of the customer in the quantitative principles of responsible lending?
   Answer Reference: Section 2.2.3
8. What are the conditions that must be considered in calculating the monthly income of the customer in the quantitative principles of responsible lending?
   Answer Reference: Section 2.2.3
9. What are the restrictions that apply to customers whose total monthly income is more than SAR 15,000 and less?
   Answer Reference: Section 2.2.3
10. What are the restrictions that apply to customers whose total monthly income is SAR 25,000 and more?
    Answer Reference: Section 2.2.3

Chapter Three

Introduction to Operational Risk Management

This Chapter includes about 13 out of 100 MCQs in the exam.

Introduction:

This chapter identifies unusual and suspicious transactions, in addition to the procedures followed to deal with them. The chapter provides an explanation of the applicable legal frameworks to combat money laundering and terrorist financing in the Kingdom of Saudi Arabia, and the administrative reference for dealing with unusual and suspicious transactions (Compliance Department and the role of Audit Department Officer) in addition to the regulatory procedures applied to handle unusual and suspicious transactions.

3.1 Unusual and Suspicious Transactions and Procedures of Dealing therewith:

Learning Objective

1- To be familiar with unusual and suspicious transactions and procedures of dealing therewith.

3.1.1 Definition of Unusual and Suspicious Transactions:

Unusual and suspicious transactions are defined as transactions related to potential crimes or law violations punishable by law. Money laundering activities in financial institutions (FIs) represent an example of such transactions that involve obtaining, transferring or dealing with funds generated from suspicious, anonymous or illegal transactions through FIs so as to conceal or disguise the real source of funds, thus making the funds appear as if they had come from a legitimate source. Unusual or suspicious transactions also include funds that are directly generated from illegal activities prohibited by law such as drug and weapons trade, black market trading, theft of state funds, financial corruption, tax evasion, goods smuggling, banknote counterfeiting, and other illegal operations.

3.1.2 Indicators of Unusual and Suspicious Transactions:

Many indicators can be relied upon to identify unusual and suspicious transactions. According to the MENAFATF, suspicious transactions can be identified by the following indicators:

Indicator Category	Indicator Description
1. A Customer Due Diligence Indicators:	The customer intentionally conceals important data and information such as his/her actual place of residence. The customer presents false data that is hard to verify such as refusing to submit the original documents especially those related to identity verification. The customer presents suspicious information such as an inoperative telephone number The customer abnormally inquiries about applicable laws for identifying unusual transactions, suspicion criteria, or reporting procedures of suspicious transactions. The non-matching between the value or repetition of customer operations with the information available.
2. Beneficial Owners Indicators:	The beneficial owner deals through several persons and the existence of several authorized persons to sign on one account. The beneficial owner uses bank accounts of other persons. The beneficial owner belongs to an organization known of criminal activity.
3. Account Activities Indicators:	Accounts receive cash deposits or multiple transfers, and then closed after a short period or become dormant. Large or repeated cash deposits that are not consistent with customer activity during a given period. Extremely large cash deposits made by a person or company without using other payment methods. Cash deposits in a number of open accounts with fake identity from different branches of the same bank. Large cash deposits that are transferred within a short period to another party that are not closely related to the activity of the transferring customer. Dividing large cash amounts and depositing them in smaller amounts.
4. Indicators on Information Provided by Other Entities:	There is a criminal record for the suspect. Sudden and unreasoned change in the living standard of the suspect and his family. The purchase of real estate/jewelry/cars/other assets of high value. Forgery is proved in documents or deeds.

5. Indicators on The Cross Border Transportation of Funds:	Conducting transactions from a country known for trafficking, promotion, growing, or production of drugs or suffers political unrest. Using documentary credits and other means of commercial transfer to move funds between countries where business activity is not compatible with customer's normal activity. Obtaining large sums that does not commensurate with business turnover, and then making transfers to offshore accounts. Frequently requesting travelers' checks, foreign withdrawals or any issued transferable instruments. Cashing at close intervals or conducting foreign exchange withdrawals especially if they were originated abroad.
6. Indicators on Financial Transactions:	Purchase or sale of securities under unusual circumstances or conditions such as purchase of shares in a losing company purchase securities that do not match with customer income. Large or unusual cash transfers of securities. Purchase and sale of securities without a clear purpose or at times that seem inappropriate or unusual. Customers who pay loans before the deadline especially if the payment is in cash. Customers who request loans against assets of unknown source.
7. Indicators on the Attitude of the Suspect:	Avoid direct contact with the bank employees such as constantly dealing through ATMs and avoiding the bank officials whenever they try to contact him. Signs of confusion and nervousness appear on the suspect or his representative during the execution of the transaction. The suspect owns several bank accounts without clear justification. The suspect or his representative inquires a lot about the AML details. The suspect or his representative requests the cancellation of the transaction as soon as the bank employees try to obtain missing important information.

3.2 KSA Legal Framework for AML/CTF:

Learning Objective

1.To be familiar with KSA legal framework for AML/CTF.

3.2.1 KSA Legal Framework for AML/CTF:

Over the past decade, the Kingdom of Saudi Arabia has undertaken a number of anti-money laundering initiatives and measures. It has been in the forefront amongst the active participating countries in combating money laundering and its related activities. KSA formed Anti-Money Laundering Permanent Committee, which is responsible for reviewing all issues related to anti-money laundering in the Kingdom and reporting, to His Majesty the King, the obstacles and difficulties faced by the authorities concerned in the implementation of the 40 Anti-Money Laundering Recommendations and making proposals and views to overcome them. KSA also joined the Financial Action Task Force (FATF) and become a member recently in 2019.

The Kingdom derives its attitude towards anti-money laundering from its commitment to the Islamic Sharia teachings, domestic regulations and international recommendations equally. Legal frameworks are an essential tool and enabling factor in combating money laundering and terrorism financing, particularly as FATF pays a great attention to such matter in measuring efficiency of the so-called technical compliance. KSA legal frameworks for AML/CTF include:

- The Anti-Money Laundering Law issued by Royal Decree #M/31 and its update #M/20 dated 05/02/1439 AH.
- AML-CFT Manual.
- Implementing Regulations to the AML Law.
- SAFIU AML Manual.
- Manual on Procedures of Disclosing Monetary Funds through Border Crossings issued by Saudi Customs in 1428 AH.

3.2.2 KSA AML/CTF Initiatives:

The past few years have seen rapid and far-reaching developments in the financial sector involving a comprehensive and coordinated fight against money laundering and terrorist financing. Consequently, KSA has adopted a variety of initiatives involving legislative and other measures that are responsive to international developments in this concern. Below are some of KSA's prominent initiatives in AML/CTF:

- Issuing the AML Law by virtue of Royal Decree # M/39 dated 25/06/1424 AH and Implementing Regulations thereof, then the updated AML Law issued by virtue of Royal Decree #M/31 dated 11/05/1433 AH and Implementing Regulations thereof, followed by an update to this Law in 1439AH.
- Issuing the Combating Terrorism and Financing of Terrorism Law promulgated under Royal Decree #M/16 dated 24/02/1435 AH.
- Establishing the Saudi Arabian Financial Intelligence Unit (SAFIU).
- Establishing AML Departments within SAMA, the Capital Market Authority and all local and investment banks.

- Establishing an Anti-Money Laundering Permanent Committee.
- Establishing a mechanism to implement the international resolutions issued by the Security Council relating to AML/CTF.
- Circulating the United Nations financial assets freeze lists.
- Adopting FATF 40 Anti-Money Laundering Recommendations, in addition to the 9 recommendations regarding combating terrorism, to be implemented in accordance with KSA applicable laws and regulations.
- Organizing and participating in international AML-related conferences and forums.

3.3 Administrative Reference for Unusual and Suspicious transactions (Compliance Department The Role of Audit Department Officer).

Learning Objective

3. To be familiar with administrative reference for unusual and suspicious transactions (Compliance Department – the role of Audit Department Officer).

3.3.1 Determining the Administrative Reference for Handling Unusual and Suspicious Transactions:

Banks must identify the main functions of all departments and managers responsible for handling operational risks, including those arising from unusual and suspicious transactions.

A. Compliance Department:

The compliance department function is an independent function that identifies, advises, monitors and prepares reports on the bank's non-compliance risks that may lead to legal or administrative penalties, financial losses, or may harm the bank reputation as a result of violating laws, controls, codes of conduct and sound professional practices.

FIs shall develop appropriate measures for AML/CTF Compliance Department, which shall at least include the following:

- AML/CTF Compliance Function.
- AML/ CTF Compliance Officer shall be appointed at the senior management level.
- AML/ CTF Compliance Officer shall act independently and should be technically and administratively linked to the Board of Directors and committees thereof.
- AML/ CTF Compliance Officer shall be entitled to have reasonable access to any information, including customer data under due diligence procedures, records of other relevant transactions or any information necessary to carry out his duties without exceptions.

The FI should establish an independent and specialized unit for AML/CTF with the necessary human and technical capabilities to conduct its function properly. FI shall also provide for the necessary professional competences and capabilities when appointing employees to occupy positions in the AML/CTF unit, which shall be limited to Saudi citizens only. Moreover, reports submitted to the Board on AML/CTF unit operations should not be limited to statistical data only, but should also include the identification of constraints and challenges facing FIs in applying AML/CTF requirements as well as the recommendations necessary for better performance and efficiency.

B. The Role of AML/ CTF Compliance Department Officer:

AML/ CTF Compliance Department Officer shall ensure that the bank's compliance with the Rules Governing Anti Money Laundering and Combating Terrorist Financing and KYC Principles, including the Rules for the Opening of Bank Accounts and General Rules for their Operation. AML/CTF Compliance Officer shall be responsible for the technical supervision of the bank's unit established for such purpose, including reporting suspicious ML/TF activity, so as to achieve the 7th Principle of the Basel Committee's principles for compliance departments.

C. The Role of AML Officer:

The bank's AML Officer shall be responsible for coordinating and monitoring daily compliance with the AML policy and applicable laws, regulations and rules.

D. FIs and Designated Non-Financial Businesses or Professions (DNFBP):

The AML Law stated that FIs and DNFBP shall:

1. Have in place and effectively implement internal policies, procedures and controls against money laundering aimed at managing and mitigating any risks identified as clarified in Article 5. The policies, procedures and controls shall be proportionate to the nature and size of the FI and DNFBP's business and shall be approved by senior management. FIs and DNFBP shall review and enhance them as needed.
2. Apply internal policies, procedures and controls to all of its branches and majority-owned subsidiaries. Manual on AML and CFT stipulated some guidelines that help FIs and DNFBPs develop and implement AML-CTF programs as an effective and essential tool for application of the risk-based approach, provided that such programs shall include the controls, policies and procedures adopted by the FI to mitigate ML risks. FIs have a discretion to determine the appropriate level of policies, procedures and controls to combat ML, provided they are developed based on the risk assessment process mentioned in the Manual. FIs shall develop internal policies and procedures to combat ML, which shall at least include:
    - Enhanced due diligence procedures including and simplified due diligence.
    - Record keeping.
    - Monitoring and following-up of operations and activities.
    - Reporting of Suspicious Transactions:
    - Measures of AML/ CTF Compliance Department.
    - Independent audit function.
    - AML/CTF training.
    - Criteria for employment and follow-up.
3. AML/CTF policies, procedures and controls in FIs should be clearly documented and communicated to all relevant personnel across all departments. All employees should be adequately trained to implement such policies.

3.4 Regulatory Procedures for Dealing with Unusual and Suspicious Transactions:

Learning Objective

4. To be familiar with the regulatory procedures for dealing with unusual and suspicious transactions.

3.4.1 Regulatory Procedures for Dealing with Unusual and Suspicious Transactions:

FIs, DNFBPs, and NPOs that suspects or has reasonable grounds to suspect that funds or parts thereof, regardless of their amounts, are proceeds of crime or are related to money laundering or that such funds will be used in acts of money laundering, including attempts to initiate such atransaction, shall promptly and directly take the following measures:

1. Report such transaction to the General Directorate of Financial Intelligence.
2. Provide a detailed report including all available data and information on such transaction and relevant parties to the General Directorate of Financial Intelligence.
3. Set indicators for suspicious ML transactions. Such indicators shall be regularly updated against the development and diversity of methods used in such operations, while adhering to whatever issued by the regulatory authorities in this regard.
4. Reporting to the General Directorate of Financial Intelligence shall be in accordance with the model adopted thereby, provided that such reports should at least contain the following information:
   - Perpetrators' names, addresses and phone numbers.
   - Details on the suspicious transaction, parties, detection circumstances, and status.
   - The amount subject to the suspicious transaction and associated bank accounts.
   - Grounds for suspicion that the reporting officer relied upon.

Based on the foregoing, FIs shall promptly and directly provide the Directorate with the report, which shall include:

- Six-month statements of account.
- Copies of attachments of account opening documents.
- Data on the nature of the reported transaction.
- Indicators and grounds of suspicion as well as the supporting documents.

Provisional seizure measures. In accordance with Article (44) of AML Law and the Implementing Regulations thereof, the Public Prosecution, either of its own motion or upon request by the Directorate of Financial Intelligence or the criminal investigating officer, based on a suspicion of money laundering or a predicate offence, may order the provisional seizure of related funds and properties for a period not exceeding 60 days. If it is necessary to extend the period, it shall be pursuant to a judicial order from the competent court but shall not prejudice the rights of bona fide third parties.

3.5 Risk Management

Learning Objective

5. To be familiar with the concept of risk management, types and methods of management thereof.

3.5.1 Definition of Risk Management:

Risk management refers to a process carried out by an integrated management that aims to minimize possible risks posing a real threat to organizational functions. This entails business, investments and funds, where risks are identified or anticipated, then active methods and strategies are developed to deal with such risks. Such strategies involve several forms, for example, individual investment risks are mitigated by using government securities, as an alternative to corporate bonds with high returns, or by using future contracts and financial derivatives. Insurance is also a form of risk management. It is worth noting that the first definition of risk management dates back to 1950s, under the term "Risk Management and Business Projects". In 1963, the term become widely known as "Risk Management". In another context, Enterprise Risk Management is defined as modern approach or an area derived from the overall concept of risk management. It involves the process of evaluating, monitoring and following up everything related to business of organizations, whether in short or long term. Such approach categorizes risks in organizations as follows:

- Strategic Risks.
- Financial Risks, including: Interest rates, currencies, commodities and credit risk.
- Operational Risks, including: customer satisfaction, product quality problems, fraud and administrative corruption.

3.5.2 Risk Management Objectives

Risk management approach is used in numerous industries, including institutional work and organizations, public/government sector, banking sector, as well as individuals. Key objectives of risk management include:

1. Risk Prevention: Following all enabling procedures, and maintaining safety of both material and human elements in institutions against any possible losses.
2. Risk Control: Controlling and mitigating risks against any direct impact on workflow.
3. Safety Measures: Taking all necessary measures to keep work environment healthy and safe.
4. Awareness: Raising awareness on all potential risks, and ways to deal therewith (if any), as well as taking preventive measures to avoid such risks.
5. Regulations: Developing regulations and crisis forecasting mechanisms, to discover any potential risks proactively.

3.5.3 key Risk Management Strategies

Key risk and threat prevention strategies include:

1. **Risk Avoidance:**

This strategy is to refrain from engaging in any activities or industries that pose a danger or threat, for example: Averting long-term securities investment to avoid interest rate risks.

2. **Risk Acceptance:**

This strategy is to accept and consider risks a fait accompli, and seek to mitigate their impact, to be ready for greater threats if any., such as obtaining health insurance, as an alternative plan to pay all treatment expenses in case of health issues that require paying a larger amount of insurance premium .

3. **Risk Sharing:**

This strategy is to share risks between an employee and company, which reduces costs of conflict, such as healthcare plans, where the company covers part of insurance premiums with the employee.

4. **Risk Transferring:**

This strategy is to transfer risks, such as health insurance, where a person pays premiums, and thus healthcare financial risks are transferred to insurance company.

5. **Loss Prevention and Reduction:**

This strategy is to minimize effects of risks, instead of prevention, i.e. to control risks and prevent their prevalence and spread.

As shown above, several strategies are used to enable both individuals and institutions to handle risks if any, minimize the resulting loss, and ensure business continuity, especially with the help of risk management experts and specialists who carry out all such strategies.

3.5.4 Types of Operational Risks:

First, almost all risks resulting from:

- Human mistakes.
- Occupational errors.
- Errors caused by technology, systems and procedures used, or deficiencies therein.
- Errors arising from internal incidents.
- Legal risks as a part of operational risks under Basel Convention on Banking Supervision.

Operational risks can result from internal or external factors, and can cause a direct or indirect loss for the bank.

3.5.5 Sources of Operational Risks:

1. **Financial Fraud, Embezzlement and Crimes Resulting From Employee Moral Turpitude:**

A study involved a five-year audit in some international banks, found that 60% of embezzlements were carried out by bank employees, 20% of which by managers, and 85% of bank losses caused by employees' dishonesty.

2. **Risks Caused by Employee Errors:**

Risks that may be unintended, but result from inexperience or negligence in some cases. Banks encounter such risks due to lack of competencies, expertise, and institutions concerned with training and qualifications necessary for workforce.

3. **Forgery Risks:**

Involve forgery and misuse of checks and various documents. A statistical study estimates that forgery crimes constitute 10-18% of bank losses.

4. **Banknote Counterfeiting:**

An official US authority estimated the amount of counterfeit dollar banknotes outside USA whose forgery cannot be detected by experts, to be around $1 billion. This indicates the size of such issue, having in mind the size of other counterfeit currencies, which may require less techniques than the dollar.

5. **Theft and Burglary:**

Some financial institutions may face theft and robbery due to weak procedures or failure to update control systems and procedures when trading cash.

6. **Cybercrime Risks:**

Such risks become more evident amid the extensive use of various banking transactions techs, including credit cards, point of sale cards, the internet, smart phones, and automated retail operations e.g. paying bills, as well as electronic exchange of information and ATMs.

7. **Risks arising from errors, defects, malfunctions or insufficiency in technical hardware and software used in banks.**

8. **Legal Risks: Some legal risks can be anticipated, including:**

- Risks arising from errors in contracts or other documentation.
- Risks arising from ineffectiveness or corruption of a country's judicial ecosystem.
- Risks arising from delay in taking legal procedures in a timely manner.
- Risks arising from violating some laws or binding agreements, such e.g. violating AML/CTF laws, or laws restricting currency exchange or foreign exchange in some countries or binding boycott laws.

9. **Poor Planning:**

This occurs due to missing information during procedures which reveals incorrect results, thus exposing the whole process to risks.

10. **Uncontrollable Events (Force Majeure):**

Such risks often occur due to external factors e.g. political or climatic issues, which affect performance of work. and thus endanger the financial institution's position.

End of Chapter Questions

Answer the following questions and check your answer in the corresponding section:

1. What is meant by unusual and suspicious transactions?
   Answer Reference: Section 3.1.1
2. Mention the main indicators of unusual and suspicious transaction.
   Answer Reference: Section 3.1.2
3. Clarify KSA AML/CTF legal frameworks.
   Answer Reference: Section 3.2.1
4. Mention KSA's most prominent AML/CTF initiatives.
   Answer Reference: Section 3.2.2
5. Mention the role of AML/ CTF Compliance Department Officer.
   Answer Reference: Section 3.3.1
6. What are the main functions of an AML officer?
   Answer Reference: Section 3.3.1
7. What are the regulatory procedures for handling unusual and suspicious transactions?
   Answer Reference: Section 3.4.1
8. What is the data that shall be contained in a provisional seizure report?
   Answer Reference: Section 3.4.1

Chapter Four

Customer Credit Risk

This Chapter includes about 14 out of 100 MCQs in the exam.

Introduction:

Accurate determination of credit risk and development of indicators and data to help measure them are instrumental to manage and control risks, thus minimizing risks.
This Chapter focuses on credit risks that affect customers in addition to the financial objectives that are in line with customers financial position and applicable procedures. The Chapter further explains collection controls and procedures, as well as procedures for dealing with defaulting customers.

4.1 Customer Credit Risk and Impact Thereon:

Learning Objective

1. To be familiar with customer credit risk and the impact thereon.

4.1.1 Customer Credit Risk:

Credit decision-making in any bank or FI is influenced by a number of interrelated and complementary factors, i.e. customer-related factors and FI-related factors, as previously mentioned in the first part of Chapter II. However, we should mention some of SAMA's functions provided to protect customer rights, as follows:
Customer Protection:
One of SAMA's functions is to supervise licensed FIs authorized to operate in KSA including banks, insurance companies, money exchanger companies and credit information companies. SAMA has been a strong advocate of the protection of customer interests and played an important role so as to ensure that customers are dealt with professionally and fairly since the issuance of the Banking Control Law in 1966. SAMA's role has gradually extended in line with the expansion of the financial sector. In 2005, SAMA was designated as the regulator for the insurance sector under the Cooperative Insurance Law, in 2012, it also became responsible for supervising and overseeing finance companies thus further extending SAMA's role in strengthening customer protection. Thus, SAMA established "Customer Protection Department", which is mainly entrusted to ensure that customers dealing with institutions get a fair treatment transparently and honestly, and obtain financial services and products easily and smoothly at suitable costs and high quality, through the following:

- Following-up developments and trends in the financial sector and determine priorities and behaviors of financial services beneficiaries.
- Raising FI customers' awareness about key financial matters by providing training programs and information.
- Developing customer protection instructions (e.g. pricing, customer communication, and quality of service provided)
- Ensuring that all financial sectors comply with policies within the scope of customer protection functions.
- Receiving and addressing customer complaints across all different financial sectors.

Customer Rights Protection in Financing Services:

• A written or electronic contract shall be drafted between the finance entity and borrower, and each party shall receive a copy thereof. The finance contract shall contain at least the following data and information:

1. Names of the parties of the finance contract, number of national identity or Iqama (residence permit) of the borrower, their official addresses and contact information including mobile number and electronic mail address, if available;
2. Type of finance;
3. Term of the Finance contract;
4. The total amount of finance;
5. Conditions for withdrawing the amount of finance, if any;
6. In variable term cost finance contracts, a description of the formula that determines the rate shall be included in a way that enables the customer to understand the term cost and distribution of the cost over the repayment period;
7. The term cost, conditions governing its application, any index or reference rate applicable to the initially agreed upon term cost, as well as duration, conditions and procedures for changing the term cost;
8. Annual Percentage Rate (APR);
9. The total amount payable by the borrower calculated at the time of concluding the finance contract.
10. The amount of Installments payable by the Borrower and their number and duration, and the method of distributing them on the remaining amounts, in case of fixed Term Cost. In case of variable term cost, three examples of installment amount shall be set, taking into account the initial term cost as well as higher and lower term cost;
11. Fees, commissions and administrative services charges;
12. Due dates for payment of fees or amounts other than the finance amount and conditions for such payment;
13. Implications of late payments;
14. Attestation fees, if applicable;
15. Collateral and necessary insurance;
16. Bank name and account number for depositing the finance installments;
17. Procedures for exercising the right of withdrawal, its conditions and the financial obligations resulting therefrom;
18. Procedures of early repayment, and procedures for compensating the finance entity, if applicable, and manner of determining such compensation;
19. Procedures for dealing with guarantees when reduced, if any;
20. Procedures for exercising the right to terminate the finance contract;
21. The borrower's consent to include the borrower's information in the credit record;
22. Any other information or data stipulated by SAMA.

• The finance entity shall notify the borrower in writing of any change in the term cost two months before the change takes effect if the finance contract permits such change. The amount of payments payable upon enforcement of the new term cost and details on number or duration of such payments shall be identified, if covered by such change.

• All fees, costs and administrative services charges to be recovered from the borrower by the finance entity must not exceed the equivalent of (1%) of the amount of financing or SAR 5,000 (five thousand Saudi Riyals), whichever is lower. In addition to the added value on fees and commissions.

• The borrower may pay the remaining financing amount at any time before its maturity date, without incurring the term cost for the remaining period of the contract. The finance entity shall be entitled to compensation for the following:
- Cost associated with reinvestment not exceeding the term cost for the three months following the early payment, calculated by the declining balance method.
- Any cost required to be paid under contract to a third party by the finance entity if such cost cannot be recovered; and that shall be for the remaining period of the contract.

• The finance entity shall take the necessary procedures to ensure the confidentiality of its customers' information and transactions. The finance entity's employees are prohibited from disclosing any information about customers or transactions thereof even after leaving their job in such entity.

4.2 Financial Objectives Consistent with the Customer's Financial Position:

Learning Objective

2. To be familiar with the financial objectives that are consistent with the customer's financial position.

4.2.1 Financial Objectives Consistent with the Customer's Financial Position:

Customers are engaged to identify realistic financial objectives that are consistent with their financial position, circumstances, education, and scientific and practical experience. In communicating with customers, the credit officer must figure out the level of their financial awareness, knowledge of banking services and products, as well as how to benefit from such inputs according to such financial circumstances. Such objectives include:

A. Raising Customer Financial Awareness:

The cultural and social environment of customers seeking financial services constitute main driver in customers' decisions. The credit officer shall act as a guide to familiarize customers with the development and diversity of banking services, and how such developments can achieve material benefits for them so as to cut costs against obtaining such services. Moreover, the banking awareness is defined as the habit of individuals and economic sectors to deposit their funds in banks, their reliance on bank checks in their economic transactions, and their knowledge of banking services and products that are consistent with their needs. The demand for bank deposits is positively correlated to the spread of banking awareness, and the contrary leads to hoarding.

The bank or FI officer plays a significant role in raising the financial awareness of their customers, not only by providing different financial services and products, but also through clarifying advantages of such products or services, customer's capability and circumstances, as well as the most appropriate way to use them in an optimal way that is consistent with customers' needs. The bank officer shall also:

- Pay attention to the trends and needs of various customers dealing with FI.
- Identify and meet the needs of customers at the right place and time with an affordable price.
- Find the most cost-effective way to meet such desires so as to gain profit.

B. Customer Rights:

Bank customers' rights were identified under the "G20 High-Level Principles on Financial Consumer Protection" by a working group of the Organization for Economic Co-operation and Development (OECD) in 2011, as explained in the previous chapters.

C. Customer Financial Objectives:

Customer's financial objectives differ and vary according to his purposes for obtaining the financial assistance from the bank. Such objectives may be categorized as follows:

1. **Investment Credit:**

The credit sought by customer to finance his long-term operations, which aim to obtain either:

- Production means and equipment;
- Real estate, such as land, industrial, commercial, and administrative buildings.

2. **Commercial Credit**:

The customer aims to finance his business for the purpose of purchasing goods for trading.

3. **Consumer Credit:**

The customer seeks to finance his consumption activities such as buying a car or electrical appliances for a house or financing other consumption needs.

4. **Mortgage Finance:**

The customer seeks finance to buy a property for living. The FI's employee shall clarify the available alternatives of services and products that are consistent with the customer's ability to repayment of the amount of financing and the period of repayment in order to make the right decision.

4.3 Other Retail Credit Risks and How They Are Managed:

Learning Objective

4. To be familiar with the nature of retail credit risk

Despite the importance of money laundering and terrorist financing, there are other risks that must be taken into account to preserve reputation of financial institution. The successive financial crises and economic challenges worldwide during the past decade, most notably USA Mortgage Crisis 2008, made the collection and analysis of individuals' credit data an urgent necessity and revealed that analysis of borrowers' history is not sufficient to manage such credit risks. However, some involving and influencing factors and data must be taken into consideration, e.g. economic cycle, tax laws, high prices, unemployment, and other factors.

The availability of data related to performance of credit portfolio and its analysis that reveals quality of portfolio or ability to realize intended rates of return is not sufficient per se. **The key aspect of analysis is to figure out reasons for performance as indicated by root cause analysis.**

At the beginning of the Asian Economic Crisis 1997 (Thailand), credit portfolio of individuals in banks had grown rapidly, especially credit extended to low-income people, as many products were launched in such sector, without enough stress tests under challenging economic scenarios. Before exacerbation, several credit officers in Thai banks noticed an abnormal growth in retail portfolios performance. Opinions differed at that time on reason behind such sudden acceleration. Some attributed to the Chinese New Year, and some attributed to leniency in granting products. However, some believed that reason behind such acceleration was investments flowing to the country, amounting $142 billion at the time, due to high returns.

A. Credit Portfolio Drivers:

Analysis of credit portfolio behavior and performance should consider core reasons behind such behavior or performance. Many factors may affect performance of retail credit portfolios, indicating their pattern of behavior, most notably:

- Soundness of Credit Extension Process.
- Competition.
- Portfolio lifespan.
- Economic factors.

It can be detailed as follows:

First: Soundness of Credit Extension Process:

Note that the most important factor in successful performance of any credit portfolio is the starting point, i.e. credit extension process. Such process must be based on several aspects, most notably:

- Market survey and prevailing market conditions before selecting and providing credit products.
- Adoption of a balanced credit policy approved by financial institution's board of directors.
- A segregation of duties between the sale and grant process.

- A segregation of duties between the sale and grant process.
- Adopting credit scoring systems.
- Leveraging services and reports of credit bureaus.
- Periodic review of credit policies for more efficient credit process (At least annually) or whenever needed.

Second: Competition:

In times of economic prosperity, FIs do not make as much effort to attract customers as in a recession. In the latter case, i.e., a recession, there is no demand for credit. If this is accompanied by a large number of lending institutions, the result will inevitably be fierce competition among FIs to attract credit-qualified customers. Here, the problem of negative selection appears, which is the phenomenon of accepting customers who are rejected by other FIs or who do not meet the criteria for granting credit according to the policies adopted by FI. In such situations, loan managers must pay attention to the following:

- Review the report of credit information company to ensure that no outstanding receivables.
- Ensure that there are no rejected credit requests of the customer from other FIs.
- Limit exceptions or non-granting of credit where the conditions do not apply.
- Ensure that there is no regression in the sector in which the borrower works, and that it is not affected by regression if any.

It should also be noted that credit pricing - the profit margin ratio - can be an indicator of a borrower's credit ability. For example, accepting higher prices than the market may be an indication of failure to meet its demands with other FIs. Sound and efficient loan mechanisms and excellence in service provision are the best ways to attract customers when competition increases, rather than through leniency in the terms and conditions of the grant.

Third: Portfolio Average Maturity

Portfolio Weighted Average Maturity (WAM) is usually measured by measuring the average time remaining for loan entitlements in the Portfolio. WAM is a prerequisite for asset and liability management (ALM) . As we know, the nature of the domestic banking sector is based on "the longer the portfolio lasts, the higher the risk of any changes affecting the portfolio" such as: profit margin price, economic factors, potential for default.

Fourth: Macroeconomic Factors:

The prevailing and predictable economic environment plays an important role in borrowers' performance, so credit and risk managers should periodically examine the economic factors affecting customers' repayment capacity, including:

- Higher margin prices, as higher prices negatively affect borrower performance.
- Inflation rate, the increase in inflation affects the purchasing power of customers and thus negatively affects their ability to repay.
- Unemployment Rate: The high unemployment rate means that more people are losing their jobs and therefore there are no sources of payment.
- Business Default Rates: A high default in the business sector will inevitably lead to the loss of jobs and thus to a loss of income.

o Real estate price rates (steep fall in real estate prices) lead to a depreciation of collateral and a change in the borrower's repayment behavior (Moral Hazard).

B. Portfolio Management

Risk management usually analyzes the credit portfolio and submits it to senior management (Risk Committee/Board), but the importance is not in the preparation of these reports but in the decisions taken by management or the Board based on these reports.

In this context, it should be noted that (the independence of risk management and adequate support) are the key to the success of the management, giving confidence to Risk Manager and encouraging him to express his opinion transparently, in addition to helping invest in the human resources and systems necessary for the success of his management in carrying out its duties perfectly.

The time of reporting is also one of the most important factor in achieving the desired benefit from the reports. For example, if the portfolio is analyzed on a semi-annual basis, it is not necessary to wait six months for the report to be prepared if the sector experiences sudden developments such as the deterioration of the real estate market, a rise in interest rates, or new laws affecting the portfolio performance. In such cases, the portfolio must be analyzed immediately, the impact of new variables should be studied, and the appropriate stress scenarios should be implemented. The longer the portfolio is lived, the higher the risks to the portfolio, such as the interest rate, economic factors, and the possibility of default.

C. Consume Credit Scoring:

Consume Credit Scoring is one of the most important developments in FIs in the 1950s. It is based on an analysis of some data related to the borrower. Based on this analysis, the borrower is given a score that represents the extent of the client's, possible, ability to make payment. The system has several benefits, including:

- Efficiency of the credit process .
- The speed of decision-making in which credit decisions need to be made quickly and time-consuming given their large number. Therefore, FIs resort to adopting the outcome of the system in the automatic approval of finance in the event that it obtains the qualifying score.
- Impartiality and avoidance of personal opinions, as the system analyzes data based on pre-set equations and weights."
- The ability to deal with a large number of factors affecting a credit study by a credit officer.
- Savings in administrative expenses where credit is automated and human intervention is minimal.
- The ability to price properly for all significant factors.

It should also be noted that the individual risk assessment system is usually used for two main purposes:

1. Customer acquisition:

It represents the most common usage in the past period and is based on analysis of customer request data such as: income, debt burden, age, nature of work...... etc.

2. Customer credit behavior analysis:

This method is based on an analysis of the customer's obligation to pay installments on time (number of delays, default, number of days of delay.... etc.) This type of analysis is very important in determining the customer engagement strategy and the calculation of allocations where some FIs transfer the account to the collection management if the result of the evaluation indicates continued late payment and increased default opportunities.

There is no doubt that the lack of audited financial statements, as in some companies, and the lack of information sources and analyzes that reflect corporate performance, is a challenge to individual credit decisions. This is where the availability of customer data, customer performance data, systems and models for analyzing such data, and a closer look at customer behavior for timely and appropriate decision-making, are important.

4.4 Collection Regulations and Procedures:

Learning Objective

4. To be familiar with collection regulations and procedures.

4.4.1 Collection Regulations and Procedures:

When the Risk-Weighted Assets (RWA) differ, banks must determine the impact of risk mitigation (i.e., the method that reduces RWA).

The lending entity must also have clear rights on the guarantee and must be able to liquidate or legally acquire it in a timely manner. In the event of default or bankruptcy, all requirements set out in the transaction document must be met, even if the guarantor is not defaulting.

SAMA announced the issuance of "Debt Collection Regulations and Procedures for Individual Customers". In this regard, SAMA emphasized that banks and financing companies operating in KSA must strictly apply the provisions of such Regulations within the framework of dealing with customers fairly and equitably in all stages of their relationship. Such Regulations relied upon the Finance Companies Control Law issued by virtue of Royal Decree #M/51 dated 13/08/1433 AH, and the Banking Control Law issued by virtue of Royal Decree #M/5 dated 22/02/1386 AH, which authorized SAMA to regulate the finance and banking sectors in line with SAMA's keenness to keep FIs deal with customers fairly and equitably.

SAMA stated that such Regulations shall apply to banks and financing companies under its supervision, so as to regulate methods of collection and communication with individual customers and guarantors thereof in so far as to allow finance entities to adopt clear and specific procedures that maintain the rights of all parties, develop standards required to ensure all employees are professionally providing customers with the correct information about their current situation regarding default and the legal procedures that may be taken by the finance entity.

Decisions issued by officials confirmed that banks, as requested by a retail consumer, must reschedule the debt when a compelling change in the circumstances of the retail consumer is proved, according to:

- The debt shall be reschedule without granting any new loan
- The debt shall be reschedule without charging extra fees
- The debt shall be reschedule without charging Term Cost

They also added that such Regulations are minimum requirements against what should be provided by financing entities to take care of customers. Finance entities must continuously work on developing their own internal procedures, in line with the nature and size of their business and in accordance with the best local and international standards and practices.

According to "Debt Collection Regulations and Procedures for Individual Customers", creditors must apply due diligence when communicating with a retail consumer before seeking recourse in competent judicial authorities, while observing that the authenticated means of communication that a creditor has the right to use when communicating with customers or their guarantors are limited to: E-mail, registered mail, national address, SMS messages and phone calls.

Debt Collection Procedures from Customer Accounts:

A bank must not:

- Deduct any amounts from a retail consumer's accounts without a judicial order or ruling or without the retail consumer's prior consent, or if provided otherwise in the finance contract.
- Block accounts or balances of a retail customer, even if temporarily, and deny them access to funds available in their accounts without a judicial order or ruling.
- Deduct more than one monthly installment for each loan within a single pay cycle, unless there is a judicial order or ruling or prior consent is obtained from the retail customer.
- Deduct a monthly installment before the due date agreed upon or withhold an installment payment before the due date, as agreed in the finance contract.
- Withhold or deduct end-of-service gratuities payable to retail customers, unless a judicial order or ruling was issued in this regard.
- Creditors must set the date of deduction in accordance with the monthly payday, provided that such date is specified in the payment schedule or as may be agreed upon with the retail customer through any of the authenticated communication means.
- Creditors must deduct the monthly installment on the agreed date of deduction. If it is proved that a creditor does not comply with the agreed date of deduction, they shall extend the finance period by a similar term to be added at the end of the period, without any term cost or additional fees, and notify the retail customer of the same through authenticated communication means.
- A bank, as requested by a retail customer, must reschedule the debt when a compelling change in the circumstances of the retail customer is proved, without granting any new loan, charging extra fees or changing the term cost. A bank must carry out the rescheduling within a period not exceeding 30 days from the date the individual customer is provided with the necessary documents. This excludes asset-backed finance contracts.
- A bank, as requested by a retail customer, must reschedule the debt in the case that voluntary changes in a retail consumer's circumstances are proved, with the potentiality to change the term cost but without charging additional fees. Debt rescheduling must be carried out within a period not more than 30 days from the date the necessary documents are supplied by the individual customer. This excludes asset-backed finance contracts.

4.5 Procedures for Dealing with Defaulting Customers:

Learning Objective

4. To be familiar with the procedures for dealing with defaulting customers

4.5.1 Procedures for Dealing with Defaulting Customers:

A creditor must be entitled to take legal actions against any defaulting customer at the competent judicial authorities, and such customer must be notified in the event of default for more than three consecutive months or five separate months throughout the finance period. The last attempt to contact such customer must be through their national address. It shall also:

- Upon the issuance of a judicial order or ruling against a defaulting customer, a creditor must comply with the said order or ruling, unless both parties (creditor and retail customer) agree otherwise (for example without limitation, settlement of debt between both parties, debt rescheduling, etc.).
- A creditor must take into consideration the circumstances of any defaulting individual customer that was issued an enforceable judicial ruling against them in favor of the creditor, when providing the necessary guarantees by making available the option of debt rescheduling, with the potentiality to change the term cost and without charging additional fees.

End of Chapter Questions

Answer the following questions and check your answer in the corresponding section:

1. Mention the most prominent functions of SAMA to maintain customer rights.
   Answer Reference: Section 1.1.4
2. Specify the financial objectives that are consistent with the customer's financial position.
   Answer Reference: Section 1.2.4
3. Mention the customer's main financial objectives.
   Answer Reference: Section 1.2.4
4. What is meant by Raising Customer Financial Awareness?
   Answer Reference: Section 1.2.4
5. Explain in brief Debt Collection Regulations and Procedures for Individual Customers issued by SAMA.
   Answer Reference: Section 1.3.4
6. What are the compelling circumstances where banks must reschedule the customer's debt?
   Answer Reference: Section 1.3.4
7. What are the main acts that SAMA prohibited banks to do in the collection procedures from customer accounts?
   Answer Reference: Section 1.3.4
8. Explain the procedures for dealing with defaulting customers.
   Answer Reference: Section 1.4.4

Chapter Five

Self-Management and Work Ethics in Financial Institutions

This Chapter includes about 20 out of 100 MCQs in the exam.

Introduction:

This chapter addresses the concept of targets and how they are set, achieved, and pursued with the line manager. It also touches upon the Employee Performance Record in accordance with established procedures and determination of effective performance standards. It also provides an explanation of priorities to be adhered to by management and learn how to present information in a manner commensurate with the topic and target audience, in addition to the Code of Ethics and Professional Conduct in FIs.

5.1 Objectives and its concept:

Learning Objective

1. To understand the nature of targets and how to identify them, whether at the level of individual or establishment in which he works.

5.1.1 Definition of Targets:

Targets are the outcomes intended from the program and plan. They are defined as outcomes or purposes pursued by the management. These outcomes must be designed and approved in advance in the planning stage. Targets are the change intended to be made at the level of individual's performance, direction and behavior, and the objectives that a bank/ company wants to achieve within a specific period, where the FI identifies the expected achievements by departments, jobs, sections, teams and individuals. Targets are a key element in administration's work, as they serve in two directions:

Direction 1: They are a basis for drawing up policies and plans.

Direction 2: They are a standard for follow-up and performance assessment.

The Senior Management is responsible for setting and adjusting targets. Management-by-targets is a modern method for FI management. It is based on definition of each employee's targets, then compare FI's targets with employees' targets, and then direct their attention to targets that have been set to ensure the best performance by everyone. Management-by-targets includes continuous control of activities and feedback review.

5.1.2 Setting of Targets:

Setting targets is a key basis that constitutes a cornerstone for management. Setting targets achieves personal aspiration, harnesses the individual's energy and serves his tendencies, measures the progress achieved with regard to planned results by using regulatory criteria for achieving targets, and thus detecting failures, identifying the reasons for such failures, and working to correct them. It also guides human behavior, and measures his success and ability to employ his energies, because targets are like road signs that give the necessary impetus to reach them.

5.1.3 How to Set Targets:

In order to set targets, each department must discuss its targets in presence and participation of all employees, so that they have an effective role and remain aware of such targets. Then, the role of each employee must be discussed separately according to his/her job title. In this discussion, the employee's targets and role in his department and in achieving its target are agreed. Moreover, the employee may communicate with his/her line manager to discuss or understand these targets. Targets approval must not be complicated, and must begin with key responsibilities or job duties agreed. After that, joint examination is made for each area, targets and agreed performance standards, to ensure that they are appropriate. An agreement may be reached on the implementation of any project that may be linked to specific responsibility or to larger and more general projects.

In addition, the employee must select a list of key responsibilities or functions that may relate to targets. Targets are quantified and time-bound, and always attain specific outcomes that can be measured along with its period of achievement, as targets may achieve a certain level of results, or improve performance in some way. Targets can be translated financially, such as profits, income, costs reduced, or the budgets within which the employee will work, or in many other ways, such as: A specified number of operating units, responses received, or customers contacted within a given period.

5.1.4 Setting Targets at the level of individual and establishment:

There are two main types of targets namely:

Individual targets

Establishment targets.

A. Individual or Personal Targets:

Personal targets relate to individuals' work and improvement of performance (Performance Improvement Plans), or measuring their knowledge and skills, and their overall competence level (Continuing Professional Development (CDP) and Personal Development Planning (PDP)). Employees' personal targets stem from the department's plan and targets, which, in turn, stem from FI plan and targets. Therefore, it is natural that the targets of the department and employees be integrated within FI's targets and plans, and then support and help achieve them.

- Personal Development Plan (PDP)

The Personal Development Plan is known as the process of developing a simple plan to develop specific skills or knowledge so that individuals can apply them professionally and consistently in their workplaces. However, a clarification of targets that are consistent with FI mission, public beliefs and values should precede any development plan. PDP must address three key issues:

- What the employee is trying to achieve.
- Whether these achievements serve the employee's professional growth.
- Whether they set specific procedures and steps (SMART).

Any plan should be targeted, its targets should follow SMART procedures and steps, and should be clear as to what this person wants to do or what he/she wants to be.
SMART term means:

Specific	S
Measurable	M
Achievable	A
Realistic	R
Time Bound	T

B. Establishment Targets:

Work targets focus on results that individuals are expected to achieve, and how they contribute to achieving targets of the team, division and department, as well as preserving FI's financing values, targets, and core mission.
There are different classifications of targets that FI should pursue. Below are some of common targets:

- Innovation and novation: FI must set new innovative standards for delivering its products and services in a better way, to achieve a positive customer experience.
- Productivity: Bank/ FI must set targets for measuring efficiency of using its available resources.
- Financial and monetary resources: Bank/ FI is interested in setting standards that help it utilize its financial and monetary resources in the best way.

5.2 Targets That Are Achievable in Agreement with the Line manager:

Learning Objective

2. To set targets that are achievable in agreement with the line manager.

5.2.1 Setting achievable targets:

The target must be achievable, implementable, and feasible so as to reflect Bank/ FI management's ambitions to improve the standards of Bank/ FI's products and services, and it must also be deliverable.

Achievable targets issued by the Council of Economic and Development Affairs (CEDA) for the financial sector include:

The Financial Sector Development Program is one of the 13 operational programs launched by CEDA to realize the objectives of Saudi Vision 2030. The program seeks to develop the financial sector so that it becomes diversified and effective to support development of the national economy, stimulate savings, financing and investment, and increase efficiency of the financial sector to face and address challenges.

The program is underpinned by three main pillars:

1. Enabling FI to support private sector growth.
2. Developing an advanced capital market.
3. Promoting and enabling financial planning.

Targets must be set in agreement with the line manager, while ensuring:

- The line manager must review and discuss targets proposed by the employee to ensure that they are consistent with the management targets. He may also propose some additional targets and discuss them with the employee.
- The number of annual targets for each employee shall be set under the supervision of the line manager. In this sense, FI must rely on its employees to achieve the annual plans, and therefore the strategic plan. Each employee must have targets that conform to performance standards and indicators, and these targets must be measured annually.

5.2.2 Relationship between Targets and Motivation:

Work Incentives:

It is intended to stimulate individuals with the aim of satisfying certain needs. An incentive means to develop the desire to exert a higher level of efforts to achieve FI targets, provided that these efforts must lead to satisfying some individual needs. Incentives include two types, namely; Financial incentives, which are kind of monetary or economic incentives, such a type is among the oldest types of incentives, and is characterized by rapid influence and effectiveness. Moral incentives, which help people to satisfy their psychological and social needs.

Work Incentives and their Importance:

Incentivizing is one of the main factors that drives a person to respond and acts in a specific way to achieve a certain target, and to help FI accomplish a certain task. It is different from the motivations which are the desires, and needs that guide human behavior towards specific targets.

Motivation to work is self-induced energy that stimulates one's desire to work, meaning that is an inner power that pushes the individual to pursue something and drives his actions and behavior towards that thing, while work incentives are an external matter exists at the society, or the environment surrounding a person, that attracts a person as a way to satisfy his needs. Accordingly, the individual who needs money is driven by that feeling to seek work, so that his preference for a work is based on an increase in salary. Management at all levels must provide moral and financial incentives for members of its organization in order to lead them towards achieving organized targets and increasing production. The individual needs such incentives, because his inner motivations are not the only thing that drives him to development and success.

5.3 Code of Ethics and Professional Conduct in FIs:

Learning Objective

3. To be familiar with Code of Ethics and Professional Conduct in FIs.

5.3.1 Code of Ethics and Professional Conduct

A. A Compliance with Professional Conduct and Public Decency:

The FI Staff must:

- Demonstrate and have the highest ethical standards and characteristics, including, transparency, integrity, honesty and good morals in all dealings with colleagues and Stakeholders.
- Not hinder work progress, strike or incite such actions.
- Perform duties accurately and objectively in a manner that serves the business interests.
- Not waste time at work during official working hours, additional hours or official tasks and dedicate it for performing and completing tasks.
- Maintain the confidentiality of business information
- Apply and adhere to the laws and not bypass, violate or neglect them.
- Maintain an appropriate standard of dress and comply with the public decency in accordance with the Saudi laws
- Obtain a prior approval from the FI to publish information, statements or comments of its own.

B. Interaction with Stakeholders:

Stakeholders are of great importance to the FI and must be treated in a manner that achieves transparency, integrity and cooperation using the highest professional standards. The stakeholder policy developed by the FI sets out the general principles and guidelines for its relationships with Stakeholders through:

- Ambition: The FI should be the Stakeholder's most trusted partner, and provide the best experience.
- Engagement: The FI should be a constructive partner for Stakeholders by providing clear and honest advice and giving the necessary information about products and services to make sound decisions.
- Response: The FI should deal with the complaints and feedback received from Stakeholders immediately.
- Enhanced Trust: The FI must provide Stakeholders with clear, understandable, accurate and updated information within the framework of mutual trust.

C. Combating Financial and Administrative Corruption

1. Combating Money Laundering and Terrorist Financing Crimes and Suspicious Transactions. Money laundering and terrorist financing are considered criminal activities in Saudi Arabia under the Anti-Money Laundering Law and the Law on Terrorism Crimes and Financing and their Implementing Regulations. Such laws and regulations include preventive measures that the FI and its staff must take. Since such crimes do not only affect the FI but also the society

and state, the FI must have policies and procedures in place that ensure implementing strict measures to reduce the risk of misuse for financial crime purposes. The FI Staff must combat financial crimes, including money laundering and terrorist financing, avoid engaging in and report any unusual or suspicious activities to the Financial Investigation Unit in accordance with the legal requirements.

The FI Staff must be responsible for applying the AML/CTF instructions, including reporting suspicious transactions and activities, and not carrying implication to inform someone that he has been reported. In case of unfounded reports made in good faith, the person reporting such transactions and activities must have no liability to the reported person.

The FI must assign AML/CTF tasks to employees only after joining specialized and accredited AML/CTF courses. The FI must also spread Knowledge of AML/CTF by all appropriate means, such as training courses and bulletins. Duties and Responsibilities of FI Staff:

- Commit to the implementation of the Anti-Money Laundering Law and the Law on Terrorism Crimes and Financing, and SAMA's relevant instructions.
- Perform the duties and tasks with honesty, integrity, accuracy and professionalism.
- Not engage in any criminal, money laundering or terrorist financing activities.
- Immediately report all suspicious transactions carried out by Stakeholders or the Financial Institution Staff by the concerned department to the AML/CTF department, which in turn reports such transactions to the Financial Investigation Unit at the Presidency of State Security.
- Not carry implication to inform Stakeholders or staff that their activities that have been reported, will be reported to competent authorities or under investigation by the FI are suspected.

2. Dealing with Bribery and Corruption:

Bribery is one of the most serious crimes causing corruption in societies. Therefore, the FI must condemn and fight bribery and corruption in all forms in any dealing or interaction with Stakeholders. The FI must also educate staff about the gravity and adverse effects of bribery and corruption on the FI and the society as a whole. Duties and Responsibilities of FI Staff include:

- Report any suspicion of corruption or bribery to the competent directors or departments in the FI.
- Not exercise nepotism, cronyism or any forms of favoritism at work, which may adversely affect the confidence of the FI's clients.
- Not show any sign of moral or administrative corruption whatsoever, or use any suspected or illegal means to accomplish tasks.
- Not abuse job powers and report any abuse to the competent departments in the FI.

D. Gifts and Hospitality:

In the context of relationships, gifts and hospitality are offered and/or accepted, thus, all FI Staff must exercise caution and apply sound judgment when presenting and accepting gifts to or from Stakeholders. This aims at protecting the integrity of the FI and staff as per the institution's gift and hospitality policy.

To protect the principle of professionalism, an assessment must be made to determine whether the gift or hospitality is reasonable, appropriate and justified or not, taking into account the value, nature, time and intended intentions of such gift /hospitality.
The FI Staff must:
• Not request or accept any gifts invitation, service or anything of material or non-material value whether for himself/herself or his/her personal relationships from natural or legal persons that have or seek to have a relation with thee FI, which may directly or indirectly affect the objectivity of the FI Staff in implementing their tasks, the decisions made or may force them to commit to do something in return.
• Understand that any current or former employee violating, participating or assisting in violating the laws related to requesting or accepting gifts and invitations will be held accountable for such actions.
• Accept the gift presented if rejection would be offensive to the FI, rejection is not practically possible or if presented to the staff in official visits, events or receptions, in accordance with the rules of etiquette and protocol followed in visits and events. However, the acceptance of the gift must be subject to the following:
  - The gift must not be cash, loan, share or financial derivative.
  - The gift and its value must be according to the usual practices followed in a particular event, such as trophies.
  - If the gift is a fee discount or exemption, it shall be related to an invitation to attend a conference or meeting that enhances knowledge, positively reflects on the business of the Financial Institution and does not result in a conflict of interest.
  - The gift shall not be presented due to the recipient's position, or work at the Financial Institution.
  - The person presenting the gift shall not have private or public interest that he/she wishes to get from the Financial Institution or one of its staff.
• An employee may accept a prize from an entity with which the FI has a relationship due to his/her achievement as follows:
  - The prize must be awarded as part of an announced and recognized program on a regular basis.
  - The winner selection must be according to announced criteria.
  - Prior approval must be obtained from the FI.
• The gift recipient must submit a written disclosure form to the compliance department directly after receiving the gift in the following cases:
  - If the gift has a value and can be sold.
  - If the gift is perishable and of a value exceeding SAR 1000.
• The FI Staff must not offer gifts, grants or invitations to those who personally have business relationships with the FI, unless offered by the competent department as per the approved policy on this regard.
• Gifts and grants that may damage the reputation of the FI must not be accepted or requested.

E. Compliance with Laws, Regulations, Instructions and Policies:

Adherence to rules, regulations, instructions and policies is one of the most important bases and factors of success for the FI that helps maintaining its reputation and credibility. The FI Staff must be aware of, comply with and understand the applicable laws, regulations, instructions and policies related to the work and tasks assigned, which must also be applied without violation or negligence. In addition, any dealing that may violate such laws, regulations, instructions or policies must not be carried out in the name of the FI.

F. Dealing with Conflicts of Interest:

To protect the FI and Stakeholders, the staff must be responsible for identifying any potential or actual conflict of interest that may adversely affect the FI and/or Stakeholders. In cases where a conflict of interest is not possible to be prevented, the FI must properly manage such conflict through a set of controls, policies and procedures.

G. Confidentiality and Disclosure Mechanisms:

Information is an important asset to the businesses of the FI and information protection is an important factor for its success and continuity In addition, all information related to the FI's Stakeholders or Staff must be the property of the institution. The FI must prepare a set of controls and procedures for the destruction of unused or damaged documents and devices.
The FI must classify information in terms of confidentiality as follows:

Classification of FI Information:

- General Information:

  General information available to the public for free through the institution's authorized channels.
- Insider Information:

  Information not disclosed to any person outside the institution.
- Confidential Information:

  All non-public information related to the FI, staff or Stakeholders. FI Staff, with access to such information, must protect and only disclose the information to other staff members as necessary.

  Unauthorized disclosure of confidential information may result in legal ramifications, such as lawsuits, legal penalties or damage to reputation. Examples of confidential information include: private information, FI strategies, competitively sensitive information, trade secrets, specifications, stakeholder lists or research data. Unauthorized persons must not have access to such information.
- Highly Confidential Information:

  Information entrusted to some employees that could significantly affect the FI, staff or Stakeholders if disclosed without permission. Such information should be made available to the staff only as required by the FI's work. The FI Staff must comply with the information security policy, especially which addresses dealing with different types of information. Highly confidential information must only be available to authorized employees.

Classification of Confidentiality:

- Confidentiality of Stakeholder Information:

It must be the duty and responsibility of the FI to protect the confidentiality of stakeholder information. The staff must be entrusted with the stakeholder's important information which is also important to maintain the FI's ability to provide quality products and services. Such information includes personal data, information on products; services; accounts; balances; transactions; mergers or acquisitions; status of securities; pending requests or plans prepared to increase capital. Stakeholder information protection must be the sole and collective responsibility of the FI Staff. Information must be handled with the utmost confidentiality in accordance with the highest standards applied. The obligation to maintain the confidentiality of information must continue even after the end of the work/ service of the employee. Stakeholder information must not be shared with anyone who does not have access to it inside or outside the FI.

- Confidentiality of Property Information:

While working at the FI, staff may provide, develop and/or access information, ideas, innovations, systems, intellectual properties, technologies, policies, procedures, processes, software, hardware, operational processes, profitability results and forecasts, business plans, strategies, programs, staff data, reports, studies, records; stakeholder data, lists and information; trade secrets and other information related to the FI, its products or services, Stakeholders, potential stakeholders or any other relevant parties that are not publicly available. Such information may be original, copy of the original, electronic, saved, written or any other type. As a requirement for employment/ service, the FI Staff must acknowledge or agree that such information is the property of the FI alone and must not have any rights or interests with respect thereto. It must be the duty of the FI Staff to maintain property information. Furthermore, the unauthorized use of property information must be prohibited. FI Staff must not record any communications that include property information through the use of electronic devices or Employee Recording devices, including mobile phone cameras, and such information must not be used, spread or disclosed to any unauthorized third party during working at the institution or after leaving the job. FI Staff must not spread or destroy property information. In case of resignation, FI Staff must delete/ return property information in possession, including the information saved on personal devices, such as electronic devices or personal computers.

- Confidentiality of Insider Information:

FI Staff may sometimes be entrusted with material Insider Information. Such Information may be kept, but must not be misused.

The definition of "material Insider Information" is board. However, Insider Information is considered "material" if it is highly likely that an adult will consider it important to make investment/ business decisions or if the spread of such information will affect the price of the company's securities in the market. Insider information may also be considered material if it is related to the future or potential or expected events; or if considered material only when combined with publicly available information.

All information must be considered "Insider" unless disclosed and enough time has passed. Examples of adequate information disclosure include: information submitted to securities markets and regulators (such as Tadawul and CMA), based on information they have obtained from FIs. Such act is a punishable violation. Therefore, if any member of the FI believes that he/she has access to Insider Information, he/she must not trade in securities based on such information, except after consulting the Compliance Department. In case of carrying out trading activities or owning securities before joining the FI, the competent department must be informed.

• Exchange of Confidential Information on the Basis of Need:

FI Staff must not disclose confidential information to other employees, supervisory and control authorities or external lawyers and/or advisors, except after obtaining the required approvals. Disclosure must be in accordance with following cases:

• If the recipient is authorized and has a legitimate need for such information in relation to his/her responsibilities of work/ service according to the relevant instructions.

• If disclosing such information will not cause damage.

The authority to do so. As an exception, some information may be disclosed if disclosure is normal when carrying out the FI's business, for example, information requested about solvency and/or by a supervisory or regulatory authority or if disclosure is in the interest of the FI and its Stakeholders.

The following are examples of cases that are subject to the exemption, however, the exception will only be applied after obtaining the approval of the concerned officials at the FI:

• General periodic disclosures requested by regulators.

• Information requested by competent authorities for investigation purposes.

Regulation and supervision information requests must be referred to the compliance department. Thus, no employee must have the right to respond to any enquiry about regulation or supervision or provide such authorities with the requested information except through the Compliance Department or if he/she is authorized to do so.

H. Duties of FI Staff:

The FI Staff must be obliged to protect confidential information. In addition to complying with the detailed requirements stated in the information security policy prepared by the FI, the staff, as a minimum, must:

• Adhere to the information security policy and procedures, and the laws and instructions related to confidentiality.

• Not access non-public stakeholder or property information for purposes unrelated to their work, as accessing such information must be within their powers and for work reasons.

• Not try to obtain confidential information that is unrelated to their work.

• Not provide any unauthorized person inside or outside the FI with confidential information or facilitate his/her access to it.

• Provide authorized persons with information according to the required limits.

• Maintain stakeholder and property information or other confidential information in a way that allows access to authorized persons only.

• Not leave any confidential information in places where they can be accessed, such as shared offices or areas.

• Use envelopes, postal services or emails marked as confidential when exchanging confidential information within the FI.

• Not copy any document or text that is not related to work before obtaining the approval of the direct line manager.
• Not enter vaults, strong rooms or other restricted areas unless authorized or required by their work.
• Only put the documents they are currently working on the desk, and keep the other documents in drawers, preferably in locked places.
• Turn off all devices and lock all drawers before leaving the office.
• Destroy all documents that are no longer needed and contain sensitive or confidential information, and keep other papers and documents in files inside lockers.
• Not disclose any confidential information about the FI to any person, including the institution's employees who are unauthorized to access or do not need such information.
• Take precautionary measures to avoid an unauthorized disclosure of confidential information.
• Not discuss any sensitive or confidential information in public places, such as elevators, corridors and public transportations.
• Maintain the confidentiality of the FI information during working at the institution or after leaving the job, and not share, collect, record or spread such information at any time or for any reason unless after obtaining a written approval from the competent department.
• Not access the premises of the FI outside working hours unless after obtaining the approval of the line manager and the security and safety department.
• Understand and acknowledge that any intellectual property developed for the FI or created using its resources are the property of the FI alone.
• Maintain the confidentiality of the access codes and passwords of strong rooms, IT systems and any other codes or passwords.
• Prevent the intentional or unintentional disclosure of confidential information.
• Obtain prior approval from the authorized person to copy or keep any document or text outside the FI building to conduct work outside the building.

The information security department must be informed when any employee receives confidential information he/she does not need at that time. In addition to the abovementioned duties, the FI Staff must be responsible for meeting the following security obligations:

• Comply with legal, regulatory and other contractual requirements applied in their field of business.
• Maintain work ID and passwords of the IT systems and change them periodically; Understand that they are responsible for any action carried out using their work IDs, and follow information security policies to prevent misuse of work ID.
• Not tamper with the security and protection of the IT systems.
• Take the necessary steps to protect the information stored on computers.
• Comply with the additional security procedures established to prevent unintentional disclosure of confidential information by employees who have laptops, remote access to the systems or permission to use any other portable devices to perform the business of the FI.

I. Use and Leakage of Insider Information for Market Manipulation:

FI staff must not engage in any act, or participate in or encourage the performance of any conduct that may give false idea of any investment, price or value of something by using or leaking Insider Information to obtain personal benefits for their own or for third parties.

J. Whistleblowing:

The FI must provide effective methods of communication to receive reports of actual or potential violations. FI Staff must report any suspicious activities carried out by employees who have Insider or Confidential Information. In addition, cases of fraud or attempted fraud, money or business paper loss, potential violation of the laws, regulations, instructions or policies of the FI or unusual transactions that the reporting employee believes that they do not conform with the financial status of Stakeholders must be reported as well through the different reporting lines provided. The FI must protect the confidentiality of whistleblowers, protect employees reporting in good faith and not tolerate any form of retaliation against whistleblowers.

The FI must hold employees who deliberately ignore reporting wrongdoings that violate the relevant laws, regulations, instructions or policies accountable.

K. Remuneration and Compensation:

The Financial Institution may provide benefits to employees outside the scope of the official job contract concluded in order to incentivize them to achieve the best results, in accordance with remuneration and compensation set by FI, taking into account:

• Ensure sound and effective risk management through an effective management structure to set objectives and share them with employees.

• Ensure effective remuneration and compensation risk management by developing a policy to ensure that remuneration and compensation are not only given to specific category of employees.

• Comply with the Financial Institution business strategy, values, priorities and long term objectives.

5.3.4 Consequences of Non-Compliance with the Code of Ethics and Professional Conduct:

The FI must ensure the application of the Code of Ethics and Professional Conduct in the institution, monitor and control any violation thereof, develop and update the Code according to these principles and impose penalties for violations according to the relevant rules and instructions, and under the work organization law and penalties of each FI.

End of Chapter Questions

Answer the following questions and check your answer in the corresponding section:

1. How targets are set at the level of an individual and establishment?
   Answer Reference: Section 5.1.4
2. Explain in brief the most important considerations to be taken into account while setting targets.
   Answer Reference: Section 5.2.2
3. Describe the relationship between targets and Motivation.
   Answer Reference: Section 5.2
4. Compliance with Professional Conduct and Public Decency is one of the principles of Code of Ethics and Professional Conduct. Explain the phrase?
   Answer Reference: Section 5.3.3
5. What are the key duties and responsibilities of FI employees to enforce the Anti- Money Laundering/Combating the Financing of Terrorism Law
   Answer Reference: Section 5.3.3
6. Explain SAMA conditions for FI employees to accept gifts and hospitality?
   Answer Reference: Section 5.3.3
7. Explain in brief the key duties of FI employees to protect confidential information?
   Answer Reference: Section 5.3.3
8. Mention the means that the FI must provide to receive reports of actual or potential violations.
   Answer Reference: Section 5.3.3
9. What are the considerations that must be taken into account in accordance with the remuneration and compensation policy set out by the FI?
   Answer Reference: Section 5.3.4

Annex No. 1
Total or partial payment

Early repayment:

The financing laws and its implementing regulations and consumer finance controls for the beneficiaries of the financing products have ensured that the payment of the remaining amount of the financing shall be expedited at any time, except for the period of prohibition of early payment of real estate finance if the contract so provides, provided that the duration of the prohibition does not exceed two years from the date of the contract conclusion, without incurring the cost of the term for the remaining period. The Finance Company may be compensated for the following:

A. Cost associated with reinvestment not exceeding the term cost for the three months following the early payment, calculated by the declining balance method.

B. The third party's payment by the financing entity under the financing contract, under the following conditions:

1. It was paid to a third party and was not compensated by the beneficiary.
2. These payments should be documented in the finance file.
3. Third-party installments cannot be recovered.
4. It shall be calculated based on the remaining term of the finance contract.

Key early payment calculation conditions:

1. Use of the declining balance method in distributing the term cost over the maturity period, which means that the term cost is allocated pro-rata to installments based on the remaining balance of the amount of financing at the beginning of the period for which an installment is due.

2. The payment schedule (Amortization Table) should clarify: (Number of payments, date of payment, amount of payment, term cost (profit) and asset amount of each installment, balance remaining from finance amount after each payment).

3. In the event of early payment, the full balance of the finance amount must be paid in addition to the term cost of the three months following payment calculated on the basis of the decreasing balance.

Examples for calculating early payment amount:

Example (1) Method of calculating the amount of early payment for personal finance	
Finance data	An agreement of personal finance in the amount of SAR (50,000), to be paid in monthly payments and the amount of each payment shall be SAR (4,244) for a period of (12) months.
Early payment calculation method	If the customer wishes for early payment and the number of payments remaining (6), the balance remaining of the finance amount shall be SAR (25,212.74) and the total term cost for the three months following early payment shall be SAR (179.27).
Early Payment Amount (Total clarified amounts)	25,212.74 + 179.27 = SAR (25,392)

Month	Beginning of the period balance	Monthly installment	Term Cost Amount	Asset amount	End of period balance
1	50000.00	4244	142.03	4,101.97	45,898.03
2	45,898.03	4244	130.38	4113.62	41784.41
3	41784.41	4244	118.69	4125.31	37659.10
4	37659.10	4244	106.97	4137.03	33522.08
5	33522.08	4244	95.22	4148.78	29373.30
6	29373.30	4244	83.44	4160.56	25212.74
7	25212.74	4244	71.62	4172.38	21040.36
8	21040.36	4244	59.77	4184.23	16856.13
9	16856.13	4244	47.88	4196.12	12660.01
10	12660.01	4244	35.96	4208.04	8451.97
11	8451.97	4244	24.01	4219.99	4231.98
12	4231.98	4244	12.02	4231.98	0.00

Example(2) Example for calculating early payment amount for vehicle finance lease ending with ownership	
Finance data	A finance lease agreement for a vehicle worth SAR 150,000 to be paid in monthly installments, the value of each payment is SAR 2300 for a period of 60 months. The advance payment shall be SAR 30,000 and the administrative fees (SAR 10,000) shall be paid after the conclusion of the contract.
Early payment calculation method	If the customer wishes for early payment and the number of payments remaining (24), the balance remaining of the finance amount shall be SAR (52,084.08) and the total term cost for the three months following early payment shall be SAR (705.58).
Early Payment Amount (Total clarified amounts)	52,084.08 + 705.58 = SAR (52,789.66)

Month	Beginning of the period balance	Monthly installment	Term Cost Amount	Asset amount	End of period balance
1	120000	2300	564.18	1735.82	118264.18
2	118264.18	2300	556.02	1743.98	116520.19
3	116520.19	2300	547.82	1752.18	114768.01
4	114768.01	2300	539.58	1760.42	113007.59
5	113007.59	2300	531.30	1768.70	111238.89
6	111238.59	2300	522.99	1777.01	109461.88
7	109461.88	2300	514.63	1785.37	107676.51
8	107676.51	2300	506.24	1793.76	105882.75
9	105882.75	2300	497.80	1802.20	104080.55
10	104080.55	2300	489.33	1810.67	102269.88
11	102269.88	2300	480.82	1819.18	100450.70
12	100450.70	2300	472.27	1827.73	98622.97
13	98622.97	2300	463.67	1836.33	96786.64
14	96786.64	2300	455.04	1844.96	94941.68
15	94941.68	2300	446.37	1853.63	93088.05

16	93088.05	2300	437.65	1862.35	91225.70
17	91225.70	2300	428.90	1871.10	89354.59
18	89354.59	2300	420.10	1579.90	87474.96
19	87474.69	2300	411.26	1888.74	85585.95
20	85585.95	2300	402.38	1897.62	83688.33
21	83688.33	2300	393.46	1906.54	81781.79
22	81781.79	2300	384.49	1915.51	79866.29
23	79866.29	2300	375.49	1924.51	77941.78
24	77941.78	2300	366.44	1933.56	76008.22
25	76008.22	2300	357.35	1942.65	74065.57
26	74065.57	2300	348.22	1951.78	72113.78
27	72113.78	2300	339.04	1960.96	70152.83
28	70152.83	2300	329.82	1970.18	68182.65
29	68182.65	2300	320.56	1979.44	66203.21
30	66203.21	2300	311.25	1988.75	64214.46
31	64214.46	2300	301.90	1998.10	62216.36
32	62216.36	2300	292.51	2007.49	60208.87
33	60208.87	2300	283.07	2016.93	58191.94
34	58191.94	2300	273.59	2026.41	56165.53
35	56165.53	2300	264.06	2035.94	54129.59
36	54129.59	2300	254.49	2045.51	52084.08
37	52,084.08	2300	244.87	2055.13	50028.95
38	5028.95	2300	235.21	2064.79	47964.16
39	47964.16	2300	225.50	2074.50	45889.66
40	45889.66	2300	215.75	2084.25	43805.41
41	43805.41	2300	205.95	2094.05	41711.36
42	41711.36	2300	196.10	2103.90	39607.47
43	39607.47	2300	186.21	2,113.79	37,493.68
44	37493.68	2300	176.28	2123.72	35369.95
45	35369.95	2300	166.29	2133.71	33236.25

46	33236.25	2300	156.26	2143.74	31092.50
47	31092.50	2300	146.18	2153.82	28938.69
48	28938.69	2300	136.05	2163.95	26774.74
49	26774.74	2300	125.88	2174.12	24600.62
50	24600.62	2300	115.66	2184.34	22416.28
51	22416.28	2300	105.39	2194.61	20221.67
52	20221.67	2300	95.07	2204.93	18016.74
53	18016.74	2300	84.71	2215.29	15801.45
54	15801.45	2300	74.29	2225.71	13575.74
55	13575.74	2300	63.83	2236.17	11339.56
56	11339.56	2300	53.31	2246.69	9092.57
57	9092.87	2300	42.75	2257.25	6835.62
58	6835.62	2300	32.14	2267.86	4567.76
59	4567.76	2300	21.48	2278.52	2289.24
60	2289.24	2300	10.76	2289.24	0.00

Example (3) Method of calculating the amount of early payment for real estate finance	
Finance data	A real estate finance agreement worth SAR 1,000,000 to be paid in monthly installments, the value of each payment is SAR 4510 for a period of 300 months. The advance payment shall be SAR 300,000 and the administrative fees (SAR 5000) shall be paid after the conclusion of the contract.
Early payment calculation method	If the customer wishes for early payment and the number of payments remaining (120), the balance remaining of the finance amount shall be SAR (406,235.99) and the total term cost for the three months following early payment shall be SAR (6,056.03).
Early Payment Amount (Total clarified amounts)	6,056.03 +406,235.99 = SAR (412,292.02)

Month	Beginning of the period balance	Monthly installment	Term Cost Amount	Asset amount
1	700000	4510	3499.85	1010.15
2	698989.85	4510	3494.8	1015.2
3	697974.65	4510	3489.72	1020.28
4	696954.37	4510	3484.62	1025.38
5	695929	4510	3479.5	1030.5
6	694898.49	4510	3474.34	1035.66
7	693862.84	4510	3469.17	1040.83
8	692822	4510	3463.96	1046.04
9	691775.96	4510	3458.73	1051.27
10	690724.7	4510	3453.48	1056.52
11	689668.17	4510	3448.19	1061.81
12	688606.37	4510	3442.88	1067.12
13	687539.25	4510	3437.55	1072.45
14	686466.8	4510	3432.19	1077.81
15	685388.99	4510	3426.8	1083.2

16	684305.78	4510	3421.38	1088.62
17	683217.17	4510	3415.94	1094.06
18	682123.11	4510	3410.47	1099.53
19	681023.58	4510	3404.97	1105.03
20	679918.55	4510	3399.45	1110.55
21	678808	4510	3393.89	1116.11
22	677691.89	4510	3388.31	1121.69
23	676570.21	4510	3382.71	1127.29
24	675442.91	4510	3377.07	1132.93
25	674309.98	4510	3371.41	1138.59
26	673171.39	4510	3365.71	1144.29
27	672027.1	4510	3359.99	1150.01
28	670877.09	4510	3354.24	1155.76
29	669721.33	4510	3348.46	1161.54
30	668559.8	4510	3342.66	1167.34
31	667392.45	4510	3336.82	1173.18
32	666219.27	4510	3330.95	1179.05
33	665040.23	4510	3325.26	1184.94
34	663855.29	4510	3319.13	1190.87
35	662664.42	4510	3313.18	1196.82
36	661467.6	4510	3307.2	1202.8
37	660264.8	4510	3301.18	1208.82
38	659055.98	4510	3295.14	1214.86
39	657841.12	4510	3259.06	1220.94
40	656620.18	4510	3282.96	1227.04
41	655393.15	4510	3276.83	1233.17
42	654159.97	4510	3270.66	1239.34
43	652920.63	4510	3264.46	1245.54
44	651675.09	4510	3258.24	1251.76
45	650423.33	4510	3251.98	1258.02

46	649165.31	4510	3245.69	1264.31
47	647901	4510	3239.37	1270.63
48	646630.36	4510	3233.01	1276.99
49	645353.38	4510	3226.63	1283.37
50	644070	4510	3220.21	1289.79
51	642780.22	4510	3213.76	1296.24
52	641483.98	4510	3207.28	1302.72
53	640181.26	4510	3200.77	1309.23
54	638872.03	4510	3194.22	1315.78
55	637556.26	4510	3187.64	1322.36
56	636233.9	4510	3181.03	1328.97
57	634904.93	4510	3174.39	1335.61
58	633569.32	4510	3167.71	1342.29
59	632227.03	4510	3161	1349
60	630878.03	4510	3154.26	1355.74
61	629522.29	4510	3147.48	1362.52
62	628159.77	4510	3140.66	1369.34
63	626790.43	4510	3133.82	1376.18
64	625414.25	4510	3126.94	1383.06
65	624031.19	4510	3120.02	1389.98
66	622641.21	4510	3113.07	1396.93
67	621244.28	4510	3106.09	1403.91
68	619840.37	4510	3099.07	1410.93
69	618429.44	4510	3092.01	1417.99
70	617011.45	4510	3084.93	1425.07
71	615586.38	4510	3077.8	1432.2
72	614154.18	4510	3070.64	1439.36
73	612714.82	4510	3063.44	1446.56
74	611268.26	4510	3056.21	1453.79
75	609814.47	4510	3048.95	1461.05

76	608353.42	4510	3041.63	1468.37
77	606885.05	4510	3034.3	1475.7
78	605409.35	4510	3026.91	1483.09
79	603926.26	4510	3019.51	1490.49
80	602435.77	4510	3012.05	1497.95
81	600937.82	4510	3004.56	1505.44
82	599432.38	4510	2997.03	1512.97
83	597919.41	4510	2986.47	1523.53
84	596395.88	4510	2984.87	1525.13
85	594870.75	4510	2974.22	1535.78
86	593334.97	4510	2966.55	1543.45
87	591791.52	4510	2958.83	1551.17
88	590240.35	4510	2951.08	1558.92
89	588681.43	4510	2943.28	1566.72
90	587114.71	4510	2935.45	1574.55
91	585540.16	4510	2927.57	1582.43
92	583957.73	4510	2919.67	1590.33
93	582367.4	4510	2911.71	1598.29
94	580769.11	4510	2903.72	1606.28
95	579162.83	4510	2895.69	1614.31
96	577548.52	4510	2887.62	1622.38
97	575926.14	4510	2879.51	1630.49
98	574295.65	4510	2871.35	1638.65
99	572657	4510	2863.17	1646.83
100	571010.17	4510	2854.92	1655.08
101	569355.09	4510	2846.66	1663.34
102	567691.75	4510	2838.34	1671.66
103	566020.09	4510	2829.97	1680.03
104	564340.06	4510	2821.58	1688.42
105	562651.64	4510	2813.14	1696.86

106	560954.78	4510	2804.66	1705.34
107	559249.44	4510	2796.12	1713.88
108	557535.56	4510	2787.56	1722.44
109	555813.12	4510	2778.95	1731.05
110	554082.07	4510	2770.29	1739.71
111	552342.36	4510	2761.59	1748.41
112	550593.95	4510	2752.86	1757.14
113	548836.81	4510	2744.06	1765.94
114	547070.87	4510	2735.24	1774.76
115	545296.11	4510	2726.36	1783.64
116	543512.47	4510	2717.45	1792.55
117	541719.92	4510	2708.48	1801.52
118	539918.4	4510	2699.48	1810.52
119	538107.88	4510	2690.43	1819.57
120	536288.31	4510	2681.32	1828.68
121	534459.63	4510	2672.19	1837.81
122	532621.82	4510	2662.99	1847.01
123	530774.81	4510	2653.76	1856.24
124	528918.57	4510	2644.48	1865.52
125	527053.05	4510	2635.15	1874.85
126	525178.2	4510	2625.78	1884.22
127	523293.98	4510	2616.36	1893.64
128	521400.34	4510	2606.89	1903.11
129	519497.23	4510	2597.38	1912.62
130	517584.61	4510	2587.81	1922.19
131	515662.42	4510	2578.2	1931.8
132	513730.62	4510	2568.54	1941.46
133	511789.16	4510	2558.84	1951.16
134	509838	4510	2549.08	1960.92
135	507877.08	4510	2539.28	1970.72

136	505906.36	4510	2529.42	1980.58
137	503925.78	4510	2519.52	1990.48
138	501935.3	4510	2509.57	2000.43
139	499934.87	4510	2499.57	2010.43
140	497924.44	4510	2489.51	2020.49
141	495903.95	4510	2479.42	2030.58
142	493873.37	4510	2469.26	2040.74
143	491832.63	4510	2459.06	2050.94
144	489781.69	4510	2448.8	2061.2
145	487720.49	4510	2438.5	2071.5
146	485648.99	4510	2428.14	2081.86
147	483567.13	4510	2417.73	2092.27
148	481474.86	4510	2407.27	2102.73
149	479372.13	4510	2396.76	2113.24
150	477258.89	4510	2386.19	2123.81
151	475135.08	4510	2375.58	2134.42
152	473000.66	4510	2364.9	2145.1
153	470855.56	4510	2354.18	2155.82
154	468699.74	4510	2343.4	2166.6
155	466533.14	4510	2332.56	2177.44
156	464355.7	4510	2321.68	2188.32
157	462167.38	4510	2310.74	2199.26
158	459968.12	4510	2299.74	2210.26
159	457757.86	4510	2288.69	2221.31
160	455536.55	4510	2277.59	2232.41
161	453304.14	4510	2266.42	2243.58
162	451060.56	4510	2255.21	2254.79
163	448805.77	4510	2243.93	2266.07
164	446539.7	4510	2232.6	2277.4
165	444262.3	4510	2221.22	2288.78

166	441973.52	4510	2209.77	2300.23
167	439673.29	4510	2198.28	2311.72
168	437361.57	4510	2186.71	2323.29
169	435038.28	4510	2175.1	2334.9
170	432703.38	4510	2163.42	2346.58
171	430356.8	4510	2151.7	2358.3
172	427998.5	4510	2139.9	2370.1
173	425628.4	4510	2128.05	2381.95
174	423246.45	4510	2116.14	2393.86
175	420852.59	4510	2104.17	2405.83
176	418446.76	4510	2092.15	2417.85
177	416028.91	4510	2080.05	2429.95
178	413598.96	4510	2067.91	2442.09
179	411156.87	4510	2055.69	2454.31
180	408702.56	4510	2043.43	2466.57
181	406235.99	4510	2031.09	2478.91
182	403757.08	4510	2018.7	2491.3
183	401265.78	4510	2006.25	2503.75
184	398762.03	4510	1993.72	2516.28
185	396245.75	4510	1981.14	2528.86
186	393716.89	4510	1968.5	2541.5
187	391175.39	4510	1955.8	2554.2
188	388621.19	4510	1943.02	2566.98
189	386054.21	4510	1930.19	2579.81
190	383474.4	4510	1917.29	2592.71
191	380881.69	4510	1904.33	2605.67
192	378276.02	4510	1891.3	2618.7
193	375657.32	4510	1878.2	2631.8
194	373025.52	4510	1865.05	2644.95
195	370380.57	4510	1851.82	2658.18

196	367722.39	4510	1838.54	2671.46
197	365050.93	4510	1825.17	2684.83
198	362366.1	4510	1811.76	2698.24
199	359667.86	4510	1798.26	2711.74
200	356956.12	4510	1784.7	2725.3
201	354230.82	4510	1771.08	2738.92
202	351491.9	4510	1757.39	2752.61
203	348739.29	4510	1743.62	2766.38
204	345972.91	4510	1729.79	2780.21
205	343192.7	4510	1715.89	2794.11
206	340398.59	4510	1701.92	2808.08
207	337590.51	4510	1687.88	2822.12
208	334768.39	4510	1673.77	2836.23
209	331932.16	4510	1659.59	2850.41
210	329081.75	4510	1645.34	2864.66
211	326217.09	4510	1631.01	2878.99
212	323338.1	4510	1616.62	2893.38
213	320444.72	4510	1602.16	2907.84
214	317536.88	4510	1587.62	2922.38
215	314614.5	4510	1573	2937
216	311677.5	4510	1558.32	2951.68
217	308725.82	4510	1543.56	2966.44
218	305759.38	4510	1528.74	2981.26
219	302778.12	4510	1513.82	2996.18
220	299781.94	4510	1498.85	3011.15
221	296770.79	4510	1483.79	3026.21
222	293744.58	4510	1468.66	3041.34
223	290703.24	4510	1453.45	3056.55
224	287646.69	4510	1438.17	3071.83
225	284574.86	4510	1422.82	3087.18

226	281487.68	4510	1407.38	3102.62
227	278385.06	4510	1391.86	3118.14
228	275266.92	4510	1376.28	3133.72
229	272133.2	4510	1360.6	3149.4
230	268983.8	4510	1344.87	3165.13
231	265818.67	4510	1329.03	3180.97
232	262637.7	4510	1313.14	3196.86
233	259440.84	4510	1297.14	3212.86
234	256227.98	4510	1281.09	3228.91
235	252999.07	4510	1264.94	3245.06
236	249754.01	4510	1248.72	3261.28
237	246492.73	4510	1232.41	3277.59
238	243215.14	4510	1216.02	3293.98
239	239921.16	4510	1199.56	3310.44
240	236610.72	4510	1183	3327
241	233283.72	4510	1166.37	3343.63
242	229940.09	4510	1149.65	3360.35
243	226579.74	4510	1132.85	3377.15
244	223202.59	4510	1115.96	3394.04
245	219808.55	4510	1099	3411
246	216397.55	4510	1081.94	3428.06
247	212969.49	4510	1064.8	3445.2
248	209524.29	4510	1047.58	3462.42
249	206061.87	4510	1030.27	3479.73
250	202582.14	4510	1012.86	3497.14
251	199085	4510	995.39	3514.61
252	195570.39	4510	977.81	3532.19
253	192038.2	4510	960.15	3549.85
254	188488.35	4510	942.4	3567.6
255	184920.75	4510	924.56	3585.44

256	181335.31	4510	906.64	3603.36
257	177731.95	4510	888.62	3621.38
258	174110.57	4510	870.52	3639.48
259	170471.09	4510	852.31	3657.69
260	166813.4	4510	834.04	3675.96

Example (4) Method of calculating the amount of early payment for personal finance	
Finance data	An agreement of personal finance in the amount of SAR (100,000), to be paid in monthly payments and the amount of each payment shall be SAR (4,450) for a period of (24) months. The first installment is due 20 days after the date of signing the contract, and administrative fees SAR (1,000) are paid after the conclusion of the contract.
Early payment calculation method	If the customer wishes for early payment and the number of payments remaining (11), the balance remaining of the finance amount shall be SAR (47,376.41) and the total term cost for the three months following early payment shall be SAR (710.6).
Early Payment Amount (Total clarified amounts)	710.6 +47,376.41 = SAR (48,087.01)

Month	Beginning of the period balance	Monthly installment	Term Cost Amount	Asset amount	End of period balance
20 days	100,000.00	4,450	359.75	4,090.25	95,909.75
2	95,909.75	4,450	526.14	3,923.86	91,985.89
3	91,985.89	4,450	504.61	3,945.39	88,040.50
4	88,040.50	4,450	482.97	3,967.03	84,073.47
5	84,073.47	4,450	461.21	3,988.79	80,084.67
6	80,084.67	4,450	439.32	4,010.68	76,074.00

7	76,074.00	4,450	417.32	4,032.68	72,041.32
8	72,041.32	4,450	395.20	4,054.80	67,986.52
9	67,986.52	4,450	372.96	4,077.04	63,909.47
10	63,909.47	4,450	350.59	4,099.41	59,810.07
11	59,810.07	4,450	328.10	4,121.90	55,688.17
12	55,688.17	4,450	305.49	4,144.51	51,543.66
13	51,543.66	4,450	282.76	4,167.24	47,376.41
14	47,376.41	4,450	259.89	4,190.11	43,186.31
15	43,186.31	4,450	236.91	4,213.09	38,973.22
16	38,973.22	4,450	213.80	4,236.20	34,737.01
17	34,737.01	4,450	190.56	4,259.44	30,477.57
18	30,477.57	4,450	167.19	4,282.81	26,194.77
19	26,194.77	4,450	143.70	4,306.30	21,888.46
20	21,888.46	4,450	120.07	4,329.93	17,558.54
21	17,558.54	4,450	96.32	4,353.68	13,204.86
22	13,204.86	4,450	72.44	4,377.56	8,827.30
23	8,827.30	4,450	48.42	4,401.58	4,425.72
24	4,425.72	4,450	24.28	4,425.72	0.00

Partial payment:

Is the beneficiary eligible for early payment of part of the finance remaining amount?
There is nothing in the finance laws and implementing regulations to prevent early payment of part of the finance remaining amount. The updated consumer finance controls in the first paragraph of Article XI required the financing entity to accept any payment under the finance contract before the due date as partial payment equal to one premium or its multipliers.

Annex No. 2

Disclosure form of the real estate finance offer

Notice of Financing Entity			
Individual Real Estate Finance Offer Disclosure Form			
Customer data			
Customer name		Offer submission date	
National ID/ Resident ID No.		Offer Expiry Date	
Phone No.		Request Reference Number (File Number)	
Total monthly income	SAR	Net monthly disposable income	SAR
Ratio of total credit obligations to total monthly income (before granting finance)	(%)	Ratio of total credit obligations to total monthly income (if finance is granted)	%
Finance data			
Finance amount	SAR	Type of financing (Ijara / Murabaha / Istisna / Other)	
(+) Term cost amount	SAR	APR	%
Real estate valuation fee	SAR	Advance payment amount	SAR
Insurance*	SAR	Contract term	Months
Any other fees or charges*	SAR	Number of payment	Payments
Administrative fees	SAR	Monthly payment amount (installment/fee)	SAR
(=) Total amount payable	SAR	Type of term cost (fixed/variable)	
Variable term cost*: ……(%)	Fixed part: ….% Variable part: ….%	Fixed term cost*	%
Minimum monthly payment throughout the contract term*	SAR	Duration of first period	Months
Maximum monthly payment throughout the contract term*	SAR	Date of first recalculation of payments value*	
Customer signature on understanding of the difference between the (fixed/variable) term cost		Final payment amount*	SAR
		Additional Notes	
Major real estate data			
Type of real estate (apartment/ villa/ land/….)		Real estate value	
City		District	
Deed number		Deed issuance date	
Deed's place of issuance		Real estate number	
Land area		Building area*	
Readiness of real estate for residence*		Number of rooms*	
Real estate age		Real estate developer guarantee period*	

Note: Perusing this form does not preclude reading all the contents and annexes of the finance contract and does not exempt from the obligations contained therein.

customer's signature of receipt and acknowledgment that the credit advisor answered all inquiries (Signature does not compel to approval of contract)	**Signature of the authorized person in the finance entity and stamp** (Signature compel to finance according to the above data, unless misleading information or changing customer conditions is identified)

* (Not Applicable) shall be inserted if the relevant paragraph does not apply to the finance contract.

Annex No. 2B

Acknowledgment of Accepting Credit Risk for Real Estate Finance with Variable Term Cost

I (Customer's full name in handwriting) acknowledge that I submitted to (financier's name in print) (the Financier) the a real estate finance request in (real estate finance form), and that the Financier gave me a full explanation of (the real estate finance form), in which he explained the terms and conditions of this finance contract, and clarified the risks that accompanying (the real estate finance form), and answered all my questions, especially:

1. The Financier explained to me that the term cost associated with (the real estate finance form) is variable, which means that it may increase or decrease during the contract period and that the agreed installment will change up or down. The Financier shared with me examples showing that the installment amount may increase significantly (e.g. Agreed installment in contract: SAR 3,500, may reach SAR 5,500, and may reach SAR 7,500) and explained the mechanism for recalculating the term cost in terms of reference price and the dates for recalculating term cost.
2. I perused the real estate finance offer disclosure, explaining the ratio of term cost associated with (real estate finance form), the minimum monthly installment amount throughout the contract term and the maximum amount of monthly installment.
3. The Financier provided me with the real estate finance offer. The offer included clear copies of all data from the real estate finance contract and annexes thereof, the real estate finance offer disclosure form and from this declaration form. I took these documents for review outside the financier's headquarters and for presentation to whomever I wanted to request opinion and advice. The offer's validity was not less than fifteen working days.
4. The Financier provided me with a credit advisor who communicated with me and provided me (by phone / in person) with a full explanation on (the real estate finance form), through which he explained the terms and conditions of this finance contract and clarified the risks accompanying (the real estate finance form) and answered all my questions.

Having perused and fully understood all the details of the offer and form of real estate finance, and having studied all my obligations and taken into account all the future possibilities and ensuing burdens and obligations, other than those I bear before signing the contract, I hereby, of my own will, accept the obligations resulting from this type of real estate finance upon signing the contract and its entire annexes.

Glossary of Terms & Abbreviations

Credit Card:
A card that enables its holder to obtain in advance money, goods, services or other benefits from businesses accepting such card domestically and internationally, and repay the relevant indebtedness thereafter or in accordance with other arrangements.
Consumer Finance:
It is granted to individuals in order to fulfill customers' needs. It is often granted based on salary received by the beneficiary or personal or other in-kind guarantees as required by the card issuer.
Real Estate Finance:
Finance granted to customers for purposes such as building and purchasing residential and commercial units or buying and developing residential lands and other related activities.
Finance Lease:
Each contract whereby the lessor leases immovable or movable asset, facilities, services or intangible rights as being the owner of the same or benefits thereof or able to own or establish the same, if the main purpose sought by the lessor is to professionally lease the same for others, shall be considered as a finance lease
Charge Card:
A card that is similar to the credit card, but obligates its holder to pay the full due amount upon receipt of the statement of account or on the due date stated in the statement of account.
Card Association:
The operators of payment systems such as Visa, MasterCard, American Express, UnionPay, Diners Club, or other similar companies.
Cash Advance:
A cash withdrawal made by the credit or charge cardholder using the card such as cash withdrawal through POS or mega retailers.
Credit information company:
A licensed national credit information company that provides its members with services related to consumer and commercial credit information in the Kingdom of Saudi Arabia.
Default (in cards):
The Cardholder's non-compliance with terms and conditions of credit or charge card agreement, resulting in non-payment of the monthly installment by the cardholder for 90 calendar days as from the due date.
Fraud:
A deliberate act to dishonestly obtain a benefit (e.g. money, a product or a service).
Grace Period:
The date or period during which the credit amount paid for purchase may be paid without any consequent commission or profit fees due to charge of a periodical commission or profit rate.
Initial Disclosure:
The information required to be provided to the cardholder by a card issuer upon opening credit or charge card account.
Real Estate Finance:
Extending credit to a borrower for the purpose of owning a dwelling
Real Estate Finance Contract:
A deferred payment contract extended to a borrower to own a dwelling.

Real Estate Finance Contractual Rights:
Cash flows, mortgages, collaterals and other rights arising under a real estate finance contract.
Real Estate Finance Company:
A joint stock company licensed to engage in real estate finance activity.
Real Estate Finance Entity:
Commercial banks and real estate finance companies licensed to engage in real estate finance activity.
Housing Subsidy:
A financial or credit subsidy provided by the government, housing societies, or the like to make housing affordable.
Real Estate Refinance Company:
A joint stock company licensed to engage in real estate refinance activities.
Customer Credit Report (CCR):
Customer Credit Report is an integrated and comprehensive report comprising all details of customer's credit transactions with creditors. Such a report contains the obtained financial products such as loans and credit cards, as well as the relevant information such as maturity date, installment amount and status of payment.
Debt Burden Ratio (DBR):
DBR means the extent to which the customer is liable for payment of monthly installment based on the customer's monthly salary or income.
Credit Model (P5):
Such a credit model includes 5 key customer-related criteria that start with 'P' letter, namely People, Payment, Purpose, Protection, and Prospective.
Creditor:
Banks and financing companies supervised by SAMA and licensed to practice one or more of financing activities.
Finance Amount:
The limit or the total amount made available to the customer under a finance contract.
Term Cost:
Term cost due and payable by the customer under the Financing Contract; this may be expressed as a fixed or variable annual percentage of the Financing Amount obtained by the Customer.
Variable Term Cost:
A term cost to be determined based on a clear certain reference index established in the Financing Contract, while such cost changes as the index changes.
Compliance Department
An independent function that identifies, advises, monitors and prepares reports on the bank's non-compliance risks that may lead to statutory or administrative penalties, financial losses, or may harm the bank's reputation as a result of violating laws, controls, codes of conduct and sound professional practices.
AML/CTF Compliance Department Officer:
AML/CTF Compliance Department Officer must ensure that the bank applies AML/CTF rules and KYC (Know Your Customer) principles, particularly rules for opening bank accounts and general rules for operation of such accounts and technical supervision of the function established in the bank for that purpose.

AML Officer:

The bank's AML Officer shall be responsible for coordinating and monitoring daily compliance with the AML policy and applicable laws, regulations and rules.

Audit Unit Officer:

An independent Audit & Review Unit with sufficient resources that is established to monitor compliance with procedures, policies and controls according to risk rate standards, as per Article 12 of Anti-Money Laundering Law applicable to financial institutions, businesses, certain non-financial professionals and non-profit organizations.

Important Terms & Expressions

English	العربية
Annual Percentage Rate	معدل النسبة السنوي
Customer Credit Report	التقرير الائتماني للعميل
Debt Burden Ratio	نسبة عبء المديونية
People / Customers	العملاء- الناس
Payment	القدرة على السداد- المدفوعات
Purpose	الغرض من الائتمان-الغرض
Protection	الحماية
Perspective	الآفاق المستقبلية
Financial Action Task Force	مجموعة العمل المالي
Technical Compliance	الالتزام الفني
Know Your Customer	اعرف عميلك
Personal Development Plan	خطة التطوير الشخصية / الفردية
Human Resources Management	إدارة الموارد البشرية
Maslow›s hierarchy of needs	هرم ماسلو للحاجات الإنسانية
Goal setting Theory (Edwin Locke)	نظرية وضع الهدف (إدوين لوك)
Balanced Score Card	بطاقة الأداء المتوازن
Timely	الارتباط ببعد زمني
Operations Management	إدارة العمليات
Motivation	التحفيز في العمل
Standard Operating Procedures	إجراءات التشغيل القياسية

Multiple Choice Questions

Questions are to provide students with an overview of the exam questions. Kindly be aware that these are not the actual questions approved for Credit Advisor Professional Exam.
Kindly choose one answer for each question. Then, check the answers at the end of this section:

1. This financing is granted to individuals for satisfying customer needs, and often secured by beneficiary's salary.

A. Consumer finance.
B. Real estate finance
C. Direct Credit Facilities.
D. Finance lease

2. The minimum payment in credit cards is:

A. 5%
B. 7%
C. 10%
D. 15%

3. The card so issued is used by a cardholder to obtain in advance, by virtue of the issuer's credit, money, goods, services or other benefits from businesses accepting this card domestically and internationally, then, the cardholder repays the outstanding amount.

A. Charge card.
B. Corporate card.
C. Business card.
D. Credit card.

4. The holder of credit card is considered to be in default when the monthly installment is not paid for a period of (...) from maturity date.

A. 90 calendar days
B. 100 calendar days
C. 110 calendar days
D. 120 calendar days

5. A card that requires the cardholder to repay the full outstanding amount upon receipt of the account statement or on the due date as per the account statement.

A. Charge card.
B. Corporate card.
C. Business card.
D. Credit card.

6. A deliberate act to dishonestly obtain a benefit (e.g. money, a product or a service).

A. Default
B. Fraud
C. Unauthorized Use.
D. Outsourcing.

7. The information required to be provided to the cardholder by a card issuer upon opening a credit or charge card account.
A. Outsourcing.
B. Unauthorized Use.
c. Initial Disclosure
D. General Disclosures.

8. The updated Regulations for Issuance and Operations of Credit and Charge Cards include____________. (choose two correct answers)
A. Initial Disclosure
B. General Disclosures.
C. Transparency and Disclosure.
D. Rules and Criteria for Dealing with Customer
E. Satisfactorily Resolved.

9. The general requirements that shall be met by a credit or charge card issuer include_____________. (choose two correct answers)
A. All credit agreements should be concluded in Arabic.
B. The card issuer shall adopt an effective risk management strategy.
C. All card issuers must not comply with the international rules and procedures.
D. The cardholder shall not comply with terms and condition of the Cardholder Agreement.
E A card issuer may issue a credit or charge card without receiving a signed application from an applicant.

10. The minimum gross salary eligibility for new credit cardholders shall be set at ____________ per annum for non-bank customers.
A. SAR 18000
B. SAR 24000
C. SAR 27000
D. SAR 30000

11. A replacement credit or charge card with a new validity period may be issued by a card issuer to a cardholder in the following scenarios_________________. (choose two correct answers)
A. No new or updated requirements and regulations have been issued.
B. The account is not delinquent.
C. The card has been reported as lost, stolen or damaged.
D. The validity period of the original card is not expired.
E. The card has been invalidated on suspicion of a fraud or suspicious transaction.

12. When setting initial credit limits, a card issuer needs to consider________________.
A. Unfair Conditions.
B. Fair Conditions.
C. Assignment of rights.
D. Account behavior information.

13. The initial disclosure must include the following information as a minimum___________. (choose two correct answers)
A. The initial credit limit, if it is known at the time the disclosure is made.
B. The maximum payment during each payment period and the method for determining it.
C. Account behavior information.
D. The particulars of all fees and charges.
E. The results of a debt burden analysis.

14. The card issuer is required to promptly advise its cardholders of any changes in their credit or charge cards agreement by giving them at least 30 calendar days prior an advance notice. This goes under ______________.
A. Rights and Responsibilities of the Cardholder.
B. Disclosure of Fees, Commissions and Charges.
C. Resolution of Card-Related Disputes.
D. Credit or Charge Card Agreement.

15. A card issuer must inform cardholders about outstanding transactions and request payment within a maximum of 90 days from the original date of the transaction. After that, the card issuers can only debit a cardholder's account for payment after obtaining documented approval from the cardholder. This goes under ______________.
A. Rights and Responsibilities of the Cardholder.
B. Disclosure of Fees, Commissions and Charges.
C. Resolution of Card-Related Disputes.
D. Credit or Charge Card Agreement.

16. Card issuers cannot charge a late payment fee unless cardholders are given ____________.
A. At least 7days to pay their due amount
B. At least 14 days to pay their due amount
C.At least 21 days to pay their due amount
D. At least 30 days to pay their due amount

17. Card issuers may impose cash advance fees that must not exceed ______________.
A. SAR 75 for cash advance transaction up to SAR 3000.
B. 3% of transaction amount over SAR 3000, and subject to a maximum of SAR 300.
C. SAR 75 for cash advance transaction up to SAR 5000.
D. 2% of transaction amount over SAR 5000, and subject to a maximum of SAR 300.

18. One of the Regulations for Consumer Finance that a creditor shall comply with according to Disclosure and Transparency principle.
A. Financial education and awareness
B. Behavior and Work Ethic.
C Privacy Protection.
D. Providing customers with full documentation including credit agreements, repayment schedules, and application forms.

19. Necessary Content of Financing Contracts or Guarantee Agreements: include______________.

A. Providing correct and accurate information.

B. Early payment procedures, provisions and fees.

C. Updating information.

D. Viewing all documents.

20. An internationally recognized indicator to disclose the actual cost of financing, including all administrative costs and fees:

A. Annual Percentage Rate (APR).

B. Profit Rate (PR).

C. Return on Investment (ROI).

D. Rate of Expenditure (ROE).

21. The consumer-finance contract or guarantee agreement is considered unfair if any of the following conditions are applied: (choose two correct answers)

A. Following the regulatory procedures applied in dealing with borrowers.

B. Changing any contractual expenses, compensation, or fees other than FCR or PR.

C. Introducing conditions on the possibility of changing FCR or PR that prejudice the right of the borrower.

D. Practices of transferring the ownership.

E. Signing a check guaranteeing payment of the amount due in whole or in part by the borrower or guarantor.

22. Any person targeted by real estate finance services.

A. Consumer.

B. Real Estate Finance Entity.

C. Borrower.

D. Lessee.

23. SAMA shall, pursuant to the Real Estate Finance Law and Implementing Regulations thereof, regulate the real estate finance sector. For this purpose, SAMA may____________. (choose two correct answers)

A. Take necessary measures for promoting fair and effective competition between real estate finance entities.

B. Take the necessary measures to maintain the sector integrity and stability and fairness of transactions concluded therein.

C. Study the real estate finance market.

D. Determine prices of properties.

E. Real estate competition.

24. The lessor may terminate the contract, requesting the lessee to vacate and return the leased asset. The lessor may then request the following from the lessee: (choose two correct answers)

A. Non-refundable expenses that the lessor pays to third parties under such process.

B. The outstanding amounts of financing.

C. Payable and unpaid rent payments until the date of contract termination.
D. The value of using the leased asset from the time of contract termination until the return of the leased asset.
E. The value of the leased asset mortgage.

25. The lessee may, at any time, request early ownership within a period not less than 10 days before the date of rent payment. In this case, the lessor may obtain from the lessee the following amounts: (choose two correct answers)
A. Non-refundable expenses that the lessor pays to third parties under such process.
B. The outstanding amounts of financing.
C. Payable and unpaid rent payments until the date of contract termination.
D. The value of using the leased asset from the time of contract termination until the return of the leased asset.
E. The value of the leased asset mortgage.

26. The financier shall release the mortgage on the financed asset once the beneficiary fulfills all obligations under the contract within a period not exceeding ______________. (choose two correct answers)
A. (7) business days from the date of last installment or final payment.
B. (15) business days from the date of last installment or final payment.
C. (21) business days from the date of last installment or final payment.
D. (30) business days from the date of last installment or final payment.

27. The borrower shall be considered in violation of the contract if he refrained from paying three consecutive payments or delayed in paying five separate payments for a period of 7+ business days for each payment from its maturity date for every____________.
A. (3) years of the contract term.
B. (5) years of the contract term.
C. (7) years of the contract term.
D. (9) years of the contract term.

28. The lessee shall make the agreed lease payments on dates set in the contract regardless of whether the lessee benefits from the leased asset, unless the failure to benefit is caused by the lessor, however__________________.
A. A condition to advance the maturity dates of future lease payments to be made by the lessee in case of default is permissible, provided such payments do not exceed the number of defaulted payments.
B. The leased asset may be used from the time of contract termination until returning the leased asset.
C. The leased asset may be mortgaged.
D. Part of the lease payments may be advanced, and the advance lease payments shall be refunded in case of failure to deliver the leased asset or benefit therefrom for a reason not attributed to the lessee.
E. The outstanding amount of finance may be replayed.

29. The lessee shall be liable to pay the value of the leased asset save for what is covered by insurance if he______________.

A. Benefitted from the leased asset.

B. Terminated the contract.

C. Assigned the contract.

D. Caused loss to the leased asset.

30. The ____________ shall bear all insurance expenses for the leased asset:

A. Lessor

B. Lessee

C. Insurance company

D. Contractor.

31. Terms and conditions necessary for the financing product or service include____________. (choose two correct answers)

A. Registration procedures.

B. Analyzing the customer's personality.

C. Financing agreement termination procedures.

D. Considering the customer's ability to repay.

E. Complaint handling procedures.

32. The finance entity shall inform the consumer of any change in the terms and conditions of the financing product or service within ___________.

A. At least (15 business days) before making any change.

B. At least (20 business days) before making any change.

C. At least (30 business days) before making any change.

D. At least (45 business days) before making any change.

33. Finance entities should provide up-to-date information about products and services provided to customers. This information should be easily accessible, clear, easy-to-understand, accurate, and non-misleading. This goes under the principle of____________.

A. Equitable and fair treatment

B. Disclosure and transparency

C. Financial education and awareness

D. Behavior and Work Ethic.

34. Finance entities should develop appropriate programs and mechanisms to help current and potential customers promote their knowledge, skills and awareness. This goes under the principle of___________.

A. Equitable and fair treatment

B. Disclosure and transparency

c. Financial education and awareness

D. Behavior and Work Ethic.

35. Customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost. This goes under the principle of___________.

A. Competition
B. Disclosure and transparency
C. Financial education and awareness
D. Behavior and Work Ethic.

36. The finance entity shall inform the consumer by guaranteed means of communication of any change in the terms and conditions within _____________.

A. At least (7 business days) before making any change.
B. At least (15 business days) before making any change.
C. At least (21 business days) before making any change.
D. At least (30 business days) before making any change.

37. The Finance Entity's Responsibilities Before or Upon the Conclusion of the Financing Agreement include____________. (choose two correct answers)

A. The finance entity shall examine the customer's credit history.
B. The finance entity shall obtain consumers' necessary information to estimate their needs of financing products and services.
C. The finance entity shall examine the customer's credit rating.
D. The finance entity shall obtain a request from the customer by any guaranteed means of communication before granting a new finance.
E. Study of the eligibility of the beneficiary and the validity of borrowing.

38. The finance entity shall not send any marketing materials on financing products that contain unsuitable risks for individuals under _________.

A. The age of 16.
B. The age of 17.
C. The age of 18.
D. The age of 20.

39. The finance entity shall provide the customer, upon its request, with a detailed account statement without any delay, including all fees, term cost and all additional charges, in case of default or early repayment of finance.

A. The Finance Entity's Responsibilities Before the Conclusion of the Financing Agreement.
B. The Finance Entity's Responsibilities After the Conclusion of the Financing Agreement.
C. The Finance Entity's Responsibilities Upon the Conclusion of the Financing Agreement.
D. The Finance Entity's Responsibilities Before or Upon the Conclusion of the Financing Agreement

40. Which of the following phrases is one of the Rules for Disclosing the Prices of Financing and Saving Products? (choose two correct answers)

A. Information disclosed should only be quantitative.

B. The market and products shall be studied.

C. Disclosure should be made for all types of products, exposure classes and tenors within the scope of these rules.

D. Risks should be avoided.

E. Finance rate shall be determined.

41. A comprehensive and thorough report containing all details of the customer's credit transactions with creditors.

A. Customer Credit Report (CCR).

B. Financial Report

C. Statement of Account.

D. Loan Statement.

42. Determination of DBR aims to: (choose two correct answers)

A. Diversity and specialization

B. Creditworthiness.

C. Achieve the appropriate liquidity ratio.

D. Regulate the lending process and keep the financial burden of monthly payments under control.

E. Avoid wasting time and effort for a finance request that could eventually be rejected.

43. If the customer's monthly salary is SAR 8,000, and the value of all monthly payments is SAR 2,000. Then the DBR shall be __________.

A. 15%

B. 20%

C. 25%

D. 30%

44. This criterion addresses the availability of guarantees provided by the borrower to FI in terms of its market value, liquidity and risks.

A. Purpose

B. Payment

c. Prospective

D. Protection

45. ________________ means the ability of the FI to meet its obligations.

A. Profits.

B. Liquidity.

C. Interests.

D. Sales

46. __________ can be defined as the inability to expect the exact profits desired and expected from fund utilization

A. Lending Risk.
B. Risk of Default.
C. Inflation Risk.
D. Liquidity Risk.

47. Risks associated with purchasing power of loans and interests.

A. Lending Risk.
B. Risk of Default.
C. Inflation Risk.
D. Liquidity Risk.

48. Risks associated with the potential change in interest rates, which affects the bank's financing cost.

A. Liquidity Risk.
B. Risk of Default.
C. Inflation Risk.
D. Interest Rate Risk.

49. Debtor-related risks.

A. Liquidity Risk.
B. Risk of Default.
C. Inflation Risk.
D. Exchange Rate Risk.

50. The cost specified according to an index or a reference rate, which must be explicitly stated in the finance contract; such a cost will change in accordance with the change in such an index.

A. Variable Term Cost.
B. Fixed Term Cost
C. Term Cost.
D. The total amount of finance;

51. The remaining amount of the customer's total monthly income for spending, investment or savings after deducting basic expenses.

A. Total monthly income.
B. Gross Salary.
C. Monthly Disposable Income.
D. Deductible Ratio.

52. The monthly credit obligation of a credit card must be equal to the minimum repayment of the credit ceiling for each credit card issued to the customer, according to __________.

A. Quantitative Principles of Responsible Lending
B. Quantitative Principles of Responsible Lending

C. Financial Principles of Responsible Lending.
D. Credit Principles of Responsible Lending.

53. Deductible ratios for customers whose total monthly income is SAR 15,000 and less must be subject to the following restrictions:
A. Monthly credit obligations of finance must not exceed 75% of the total monthly income of the customer.
B. Monthly credit obligations of finance must not exceed 65% of the total monthly income of the customer.
C. Monthly credit obligations of finance must not exceed 60% of the total monthly income of the customer.
D. Monthly credit obligations of finance must not exceed 55% of the total monthly income of the customer.

54. Deductible ratios for customers whose total monthly income is more than SAR 15,000 and less than SAR 25,000 must be subject to the following restrictions:
A. Monthly credit obligations of finance must not exceed 75% of the total monthly income of the customer.
B. Monthly credit obligations of finance must not exceed 65% of the total monthly income of the customer.
c. Monthly credit obligations of finance must not exceed 60% of the total monthly income of the customer.
D. Monthly credit obligations of finance must not exceed 55% of the total monthly income of the customer.

55. Deductible ratios for customers whose total monthly income is SAR 25,000 and more must be subject to the following restrictions:
A. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 22.22% of the gross salary for employees and 15% for retired customers.
B. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 25% of the gross salary for employees and 20% for retired customers.
C. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 33.33% of the gross salary for employees and 25% for retired customers.
D. The monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 40% of the gross salary for employees and 35% for retired customers.

56. Which of the following goes under Customer Due Diligence Indicators? (choose two correct answers)
A. The beneficial owner uses bank accounts of other persons.

B. The customer intentionally conceals important data and information such as his/her actual place of residence.
C. The nonmatching between the value or repetition of customer operations with the information available.
D. The beneficial owner belongs to an organization known of criminal activity.
E. There is a criminal record for the suspect.

57. Which of the following goes under Account Activities Indicators? (choose two correct answers)
A. Sudden and unreasoned change in the living standard of the suspect and his family.
B. There is a criminal record for the suspect.
C. Cashing at close intervals or conducting foreign exchange withdrawals especially if they were originated abroad.
D. Cash deposits in a number of open accounts with fake identity from different branches of the same bank.
E. Dividing large cash amounts and deposit them in smaller amounts.

58. Which of the following goes under Indicators on The Cross Border Transportation of Funds? (choose two correct answers)
A. Conducting transactions from a country known for trafficking, promotion, growing, or production of drugs or suffers political unrest.
B. Dividing large cash amounts and deposit them in smaller amounts.
C. Cashing at close intervals or conducting foreign exchange withdrawals especially if they were originated abroad.
D. Dividing small cash amounts and deposit them in smaller amounts.
E. Large or unusual cash transfers of securities

59. Which of the following goes under Indicators on Financial Transactions? (choose two correct answers)
A. The suspect owns several bank accounts without clear justification.
B. Purchase securities that do not match with customer income.
C. The suspect or his representative inquires a lot about the AML details.
D. Sudden and unreasoned change in the living standard of the suspect and his family.
E. Large or unusual cash transfers of securities

60. Which of the following goes under Indicators on the Attitude of the Suspect? (choose two correct answers)
A. Sudden and unreasoned change in the living standard of the suspect and his family.
B. The purchase of real estate/jewelry/cars/other assets of high value.
C. The suspect owns several bank accounts without clear justification.
D. Signs of confusion and nervousness appear on the suspect or his representative during the execution of the transaction.
E. Large or unusual cash transfers of securities

61. _________________ is an independent function that identifies, advises, monitors and prepares reports on the bank's non-compliance risks.

A. AML Officer function.

B. Compliance Department function.

C. Audit Department function

D. Management Officer function.

62. Which of the following measures should be taken upon suspecting or having reasonable grounds to suspect money laundering or terrorism financing activity? (choose two correct answers)

A. Promptly report such transaction to the General Directorate of Financial Intelligence.

B. Report the General Directorate of Financial Intelligence in MOF

C. Report that the suspect owns several bank accounts without clear justification.

D. Report that signs of confusion and nervousness appear on the suspect or his representative during the execution of the transaction.

E. Provide a detailed report including all available data and information on such transaction and relevant parties to the General Directorate of Financial Intelligence.

63. The report provided to the General Directorate of Financial Intelligence should at least contain the following information: (choose two correct answers)

A. Two-year statements of account

B. Perpetrators' names, addresses and phone numbers.

C. The amount subject to the suspicious transaction and associated bank accounts.

D. All personal data and information available.

E. Amount of funds to be seized.

64. When suspecting suspicious transactions, FIs shall promptly and directly provide the Directorate with the report, which shall include_____________. (choose two correct answers)

A. Copies of attachments of account opening documents.

B. Perpetrators' names, addresses and phone numbers.

C. The amount subject to the suspicious transaction and associated bank accounts.

D. Data on the nature of the reported transaction.

E. Amount of funds to be seized.

65. Provisional seizure of funds, property and media related to the crime shall not exceed:

A. 60 days

B. 50 days

C. The term shall be specified by authorized authorities.

D. Until the crime ends

66. Customer Protection Department's functions include__________., (choose two correct answers)

A. Ensuring that all financial sectors comply with policies within the scope of customer protection functions.

B. Receiving and addressing customer complaints across all different financial sectors
C. Concluding contracts between customers and FIs.
D. Gathering customers' personal data and information available.
E. Reviewing customer's personal accounts.

67. The finance contract shall contain at least the following data and information: (choose two correct answers)
A. Customer account number and available funds therein.
B. Customer personal data and information available.
C. Customer's financial and ethical feasibility.
D. Fees, commissions and administrative services charges;
E. Procedures for exercising the right to terminate the finance contract;

68. All fees, costs and administrative services charges to be recovered from the borrower by the finance entity must not exceed ____________________.
A. The equivalent of (1%) of the amount of financing or SAR 3,000 (three thousand Saudi Riyals), whichever is lower.
B. The equivalent of (1%) of the amount of financing or SAR 4,000 (three thousand Saudi Riyals), whichever is lower.
C. The equivalent of (1%) of the amount of financing or SAR 5,000 (three thousand Saudi Riyals), whichever is lower.
D. The equivalent of (1%) of the amount of financing or SAR 6,000 (three thousand Saudi Riyals), whichever is lower.

69. The finance entity shall be compensated for (..........) if the beneficiary has accelerated payment of the finance remaining amount.
A. Cost associated with reinvestment.
B. Interests.
c. Commissions.
D. Collaterals.

70. The bank or FI officer plays a significant role in raising the financial awareness of their customers through: (choose two correct answers)
A. Avoiding participation and interaction with others.
B. Paying attention to the trends and needs of various customers.
C. Disregarding the social, political and legal atmosphere of the community to which customers belong.
D. Recognizing FIs rules and regulations
E. Finding the most cost-effective way to meet such desires so as to gain profit.

71. The credit sought by customer to finance his long-term operations.
A. Real estate finance
B. Consumer Credit.
C. Commercial Credit.

D. Investment Credit.

72. The customer aims to finance his business for the purpose of purchasing goods for trading.
A. Real estate finance
B. Consumer Credit.
C. Commercial Credit.
D. Investment Credit.

73. According to Debt Collection Procedures from Customer Accounts, banks must not: (choose two correct answers)
A. Deduct any amounts from a retail customer's accounts without a judicial order or ruling.
B. Block accounts or balances of a retail customer.
C. Withhold or deduct end-of-service gratuities payable to retail customers.
D. Recourse to justice
E. Request customers to sign additional documents.

74. A bank, as requested by a retail customer, must reschedule the debt in the case that voluntary changes in a retail consumer's circumstances are proved, with the potentiality to change the term cost but without charging additional fees. Debt rescheduling must be carried out within a period not more than ___________________.
A. 15 days from the date the necessary documents are supplied by the individual customer.
B. 30 days from the date the necessary documents are supplied by the individual customer.
C. 45 days from the date the necessary documents are supplied by the individual customer.
D. 60 days from the date the necessary documents are supplied by the individual customer.

75. A creditor must be entitled to take legal actions against any defaulting customer at the competent judicial authorities, and such customer must be notified in the event of default for more than ______________________.
A. Three consecutive months or five separate months throughout the finance period.
B. Three consecutive months or six separate months throughout the finance period.
C. Four consecutive months or five separate months throughout the finance period.
D. Four consecutive months or six separate months throughout the finance period.

76. The ___________________ is known as the process of developing a simple plan to develop specific skills or knowledge so that individuals can apply them professionally and consistently in their workplaces
A. Strategic Plan.
B. CBP Human Resource Program.
C. Financial Plan.
D. Personal Development Plan.

77. Personal Development Plan (PDP) must address some key issues: (choose three correct answers)
A. What the employee is trying to achieve.

B. Whether they relate to the employee’s area of work.
C. Whether they are represented in a paid trip for the employee.
D. Whether these achievements serve the employee’s professional growth.
E. Whether they set specific procedures and steps (SMART).

78. Any Personal Development Plan (PDP) should set SMART procedures and steps, which represent: (choose two correct answers)
A. Specific targets.
B. Measurable and objectively assessable.
C. Time-bound and appropriate.
D. Costly.
E. Timeless.

79. Bank/ FI must set new innovative standards for delivering its products and services in a better way, to achieve a positive customer experience. This goes in line with the target of ____________.
A. Productivity
B. Innovation and novation.
C. Profitability.
D. Public Responsibility.

80. Bank/ FI must set targets for measuring efficiency of using its available resources. This goes in line with the target of ____________.
A. Productivity
B. Innovation and novation.
C. Profitability.
D. Public Responsibility.

81. Which of the following is among the main pillars of the Financial Sector Development Program launched by CEDA to realize the objectives of Saudi Vision 2030? (choose two correct answers)
A. Increasing the Gross Domestic Product.
B. Promoting economy.
C. Developing an advanced capital market.
D. Promoting and enabling financial planning.
E. Reducing inflation.

82. In the absence of any existing financial obligations payable to the customer, the finance entity shall execute the request of the customer to issue a clearance letter - whatever its purpose - within a period not exceeding (...) from the date of receiving the request.
A. business day
B. Two business days
C. Three business days
D. Four business days

83. ______________ is responsible for setting and adjusting targets:
A. Employee
B. Senior Management
C. Line manager
D. Line manager and employee

84. In accordance with SAMA instructions to finance entities issued in June 2020, the finance entity shall submit a financing offer to the customer with a minimum validity period of (...) from the date it was delivered to the client.
A. 15 business days
B. 20 business days
C. 10 business days
D. 7 business days

85. In real estate finance, there shall be at least a waiting period (.....) from the date the customer receives the real estate finance offer, to enable the customer to review the offer, speak to the credit advisor and consult with whomever he wants.
A. 5 business days
B. 10 business days
C. 15 business days
D. 7 business days

86. The Saudi Credit Bureau (Simah) rating helps credit donors to: (choose three correct answers)
A. Improve collection management performance.
B. Reduce credit default.
C. Reduce costs associated with credit portfolios management.
D. Know the customer's personal details
E. Assist the financier in opening a customer account.

87. Some of the benefits of Simah report are: (choose three correct answers)
A. Financial risk reduction.
B. Faster study of credit demand.
C. debt management.
D. Assist the financier in opening a customer account.
E. Provide the Central Bank of financing contracts numbers.

88. Considerations to Be Observed in Setting Targets include:
A. Customers.
B. Senior Management.
C. Line Manager.
D. Preferred

89. Which of the following is a source of operational risks? (choose three correct answers)
A. Financial fraud and embezzlement.
B. Counterfeiting
C. Electronic crimes.
D. Exchange prices.
E. Credit risk

90. One of the indicators for identifying unusual and suspicious operations is customer due diligence. Details of these indicators are:
A. Presenting suspicious information such as an inoperative telephone number
B. Dealing through several persons and the existence of several authorized persons to sign on one account.
C. The beneficial owner uses bank accounts of other persons.
D. The beneficial owner belongs to an organization known of criminal activity.

91. Management at all levels must provide _______________ for members of its organization in order to lead them towards achieving organized targets and increasing production, and not to rely only upon their inner motivations.
A. Moral and financial incentives.
B. Accountability
c. Negligence
D. Additional stipends

92. Interaction with Stakeholders is categorized as:
A. Principles of Successful work.
B. Code of Conduct and Work Ethics.
c. Basics of Leadership.
D. Success of goals.

93. The FI Staff must: (choose two correct answers)
A. Demonstrate and have the highest ethical standards and characteristics.
B. Achieve their personal interests.
C. Practice professional behaviors.
D. Protect and not damage the reputation of the FI.
E. Expose themselves to the legal accountability.

94. The FI should be a constructive partner for stakeholders by providing clear and honest advice and giving the necessary information about products and services to make sound decisions. This goes in line with the principle of _____________.
A. Engagement
B. Response
C. Enhanced Trust.
D. Ultimate Objective.

95. According to KSA laws and regulations for combating financial and administrative corruption, duties and responsibilities of FI staff include?

A. Provide necessary information on products and services to take appropriate decisions.

B. Not engage in any criminal, money laundering or terrorist financing activities.

C. The FI must provide Stakeholders with clear, understandable, accurate and updated information.

D. The FI should deal with the complaints and feedback received from stakeholders.

96. According to KSA Anti-Bribery Law, duties and responsibilities of FI staff include: (choose two correct answers)

A. Provide necessary information on products and services to take appropriate decisions.

B. Not engage in any criminal, money laundering or terrorist financing activities.

C. Not exercise nepotism, cronyism or any forms of favoritism at work.

D. Not abuse job powers.

E. Perform the duties and tasks with honesty, integrity, accuracy and professionalism.

97. The acceptance of the gift shall be subject to the following:

A. The gift must be presented due to the recipient's position or work at the FI.

B. The gift and its value must be according to the usual practices followed in a particular event.

C. The person presenting the gift must have private or public interest.

D. The gift shall not be cash, loan, share or financial derivative.

98. The FI Staff must be obliged to protect confidential information, in addition to complying with the following: (choose two correct answers)

A. Provide necessary information on products and services to take appropriate decisions.

B.Adhere to the information security policy and procedures, and the laws and instructions related to confidentiality.

C. Not to put the documents they are currently working on the desk.

D. Seek to obtain confidential information not related to their work.

E. Not access the premises of the FI outside working hours unless after obtaining the approval of the line manager and the security and safety department.

99. FI Staff must be responsible for meeting the following security obligations by:

A. Not tampering with the information security systems stored on computers.

B. Provide necessary information on products and services to take appropriate decisions.

C. Maintaining work ID and passwords of the IT systems

D. Not tampering with the security and protection of the IT systems.

100. The FI shall, in accordance with the remuneration and compensation policy, take into consideration the following:

A. Ensure that remuneration and compensation are not only given to specific category of employees.

B. Provide remuneration and compensation for all employees on periodical basis.

C. Grant remuneration and compensation based on employees' behavior.

D. Offer remuneration and compensation based on employees' discipline.

Answers

Answers:

1. Answer: A reference: Chapter 1 section 1.1.1
Consumer financing is granted to individuals for satisfying customer needs, and often secured by beneficiary's salary

2. Answer: A reference: Chapter 1 section 1.1.1
Customer may pay a minimum of 5%

3. Answer: D reference: Chapter 1 section 1.2.1
Credit cards are issued to cardholders to obtain, in advance, money, goods, services or other benefits from businesses accepting this card domestically and internationally, then, the cardholder repays the outstanding amount.

4. Answer: A reference: Chapter 1 section 1.2.1
Default: The Cardholder's non-compliance with terms and conditions of credit or charge card agreement, resulting in non-payment of the monthly installment by the cardholder for 90 calendar days as from the due date.

5. Answer: A reference: Chapter 1 section 1.2.1
Charge Card: A card that requires the charge cardholder to repay the full outstanding amount upon receipt of the account statement or on the due date as per the account statement.

6. Answer: B reference: Chapter 1 section 1.2.1
Fraud: A deliberate act to dishonestly obtain a benefit (e.g. money, a product or a service).

7. Answer: C reference: Chapter 1 section 1.2.1
Initial Disclosure: The information required to be provided to the cardholder by a card issuer upon opening a credit or charge card account.

8. Answer: C,D reference: Chapter 1 section 1.2.2
The updated Regulations for Issuance and Operations of Credit and Charge Cards include_____________.
c. Transparency and Disclosure.
D. Rules and Criteria for Dealing with Customer

9. Answer: A,B reference: Chapter 1 section 1.2.3
The general requirements that shall be met by a credit or charge card issuer include_____________.
A. All credit agreements should be concluded in Arabic.
B. The card issuer shall adopt an effective risk management strategy.

10. Answer: D reference: Chapter 1 section 1.2.3

The minimum gross salary eligibility for new credit cardholders shall be set at SAR 30,000 per annum for non-bank customers.

11. Answer: C, E reference: Chapter 1 section 1.2.3

A replacement credit or charge card with a new validity period may be issued by a card issuer to a cardholder in the following scenarios:

C. The card has been reported as lost, stolen or damaged.

E. The card has been invalidated on suspicion of a fraud or suspicious transaction.

12. Answer: D reference: Chapter 1 section 1.2.4

When setting initial credit limits, a card issuer needs to consider account behavior information.

13. Answer: A,D reference: Chapter 1 section 1.2.5

The initial disclosure must include the following information as a minimum:

A. The initial credit limit, if it is known at the time the disclosure is made.

D. The particulars of all fees and charges.

14. Answer: B reference: Chapter 1 section 1.2.5

Pursuant to the principle of "Disclosure of Fees, Commissions and Charges", the card issuer is required to promptly advise its cardholders of any changes in their credit or charge cards agreement by giving them at least 30 calendar days prior an advance notice.

15. Answer: A reference: Chapter 1 section 1.2.6

Pursuant to the principle of "Rights and Responsibilities of the Cardholder", a card issuer must inform cardholders about outstanding transactions and request payment within a maximum of 90 days from the original date of the transaction. After that, the card issuers can only debit a cardholder's account for payment after obtaining documented approval from the cardholder.

16. Answer: C reference: Chapter 1 section 1.2.6

Card issuers cannot charge a late payment fee unless cardholders are given at least 21 days to pay their due amount

17. Answer: C reference: Chapter 1 section 1.2.6

Card issuers may impose cash advance fees that must not exceed SAR 75 for cash advance transaction up to SAR 5000 or less.

18. Answer: D reference: Chapter 1 section 1.3.1

Providing customers with full documentation including credit agreements, repayment schedules, and application forms is one of the Regulations for Consumer Finance that a creditor shall comply with according to Disclosure and Transparency principle.

19. Answer: B reference: Chapter 1 section 1.3.1

Necessary Content of Financing Contracts or Guarantee Agreements include early payment procedures, provisions and fees.

20. Answer: A reference: Chapter 1 section 1.3.1

Annual Percentage Rate (APR) is an internationally recognized indicator to disclose the actual cost of financing, including all administrative costs and fees.

21. Answer: B,C reference: Chapter 1 section 1.13

The consumer-finance contract or guarantee agreement is considered unfair if any of the following conditions are applied:

B. Changing any contractual expenses, compensation, or fees other than FCR or PR.

C. Introducing conditions on the possibility of changing FCR or PR that prejudice the right of the borrower.

22. Answer: A reference: Chapter 1 section 1.4

Consumer: Any person targeted by real estate finance services.

23. Answer: A,B reference: Chapter 1 section 1.4

SAMA shall, pursuant to the Real Estate Finance Law and Implementing Regulations thereof, regulate the real estate finance sector. For this purpose, SAMA may:

A. Take necessary measures for promoting fair and effective competition between real estate finance entities.

B. Take the necessary measures to maintain the sector integrity and stability and fairness of transactions concluded therein.

24. Answer: C,D reference:

The lessor may terminate the contract, requesting the lessee to vacate and return the leased asset. The lessor may then request the following from the lessee:

C. Payable and unpaid rent payments until the date of contract termination.

D. The value of using the leased asset from the time of contract termination until the return of the leased asset.

25. Answer: A,B reference: Chapter 1 section 1.5.1

The lessee may, at any time, request early ownership within a period not less than 10 days before the date of rent payment. In this case, the lessor may obtain from the lessee the following amounts:

A. Non-refundable expenses that the lessor pays to third parties under such process.

B. The outstanding amounts of financing.

26. Answer: B reference: Chapter 1 section 1.2.5

The financier shall release the mortgage on the financed asset once the beneficiary fulfills all obligations under the contract within a period not exceeding (15) business days from the date of last installment or final payment.

27. Answer: B reference: Chapter 1 section 1.5.1

The borrower shall be considered in violation of the contract if he refrained to pay three consecutive payments or delayed in paying five separate payments for a period of 7+ business days for each payment from its maturity date for every (7) years of the contract term.

28. Answer: A,D reference: Chapter 1 section 1.2.6

The lessee shall make the agreed lease payments on dates set in the contract regardless of whether the lessee benefits from the leased asset, unless the failure to benefit is caused by the lessor.
A. A condition to advance the maturity dates of future lease payments to be made by the lessee in case of default is permissible, provided such payments do not exceed the number of defaulted payments.
D. Part of the lease payments may be advanced, and the advance lease payments shall be refunded in case of failure to deliver the leased asset or benefit therefrom for a reason not attributed to the lessee.

29. Answer: D reference: Chapter 1 section 1.2.6

The lessee shall be liable to pay the value of the leased asset save for what is covered by insurance if he caused loss to the leased asset.

30. Answer: A reference: Chapter 1 section 1.2.6

The lessor shall bear all insurance expenses for the leased asset.

31. Answer: C,E reference: Chapter 1 section 1.7.1

Terms and conditions necessary for the financing product or service include_____________.
C. Financing agreement termination procedures.
E. Complaint handling procedures.

32. Answer: C reference: Chapter 1 section 1.7.1

The finance entity shall inform the consumer of any change in the terms and conditions of the financing product or service within at least (30 business days) before making any change.

33. Answer: B reference: Chapter 1 section 1.2.7

Pursuant to the principle of "Disclosure and Transparency", finance entities should provide up-to-date information about products and services provided to customers. This information should be easily accessible, clear, easy-to-understand, accurate, and non-misleading.

34. Answer: C reference: Chapter 1 section 1.2.7

Pursuant to the principle of "Financial Education and Awareness", finance entities should develop appropriate programs and mechanisms to help current and potential customers promote their knowledge, skills and awareness.

35. Answer: A reference: Chapter 1 section 1.2.7

Pursuant to the principle of "Competition", customers should be able to search, compare and where appropriate, switch between products, services and providers easily and clearly at a reasonable cost.

36. Answer: D reference: Chapter 1 section 1.2.7

The finance entity shall inform the consumer by guaranteed means of communication of any change in the terms and conditions within at least (30 business days) before making any change.

37. Answer: B,D reference: Chapter 1 section 1.2.7

The Finance Entity's Responsibilities Before or Upon the Conclusion of the Financing Agreement include____________.

B. The finance entity shall obtain consumers' necessary information to estimate their needs of financing products and services.

D. The finance entity shall obtain a request from the customer by any guaranteed means of communication before granting a new finance.

38. Answer: C reference: Chapter 1 section 1.2.7

The finance entity shall always grant customers the right to refuse to receive advertisements and shall not send any marketing materials on financing products that contain unsuitable risks for individuals under the age of 18.

39. Answer: B reference: Chapter 1 section 1.2.7

According to "The Finance Entity's Responsibilities After the Conclusion of the Financing Agreement", the finance entity shall provide the customer, upon its request, with a detailed account statement without any delay, including all fees, term cost and all additional charges, in case of default or early repayment of finance:

40. Answer: A, C reference: Chapter 1 section 1.2.8

Rules for Disclosing the Prices of Financing and Saving Products include____________.

A. Information disclosed should only be quantitative.

C. Disclosure should be made for all types of products, exposure classes and tenors within the scope of these rules.

41. Answer: A reference: Chapter 2 section 1.1.2

Customer Credit Report (CCR): A comprehensive and thorough report containing all details of the customer's credit transactions with creditors.

42. Answer: D,E reference: Chapter 2 section 2.1.1

Determination of DBR aims to:

D. Regulate the lending process and keep the financial burden of monthly payments under control.

E. Avoid wasting time and effort for a finance request that could eventually be rejected.

43. Answer: C reference: Chapter 2 section 2.1.1

If the customer's monthly salary is SAR 8,000, and the value of all monthly payments is SAR 2,000, then, the DBR shall be 25%.

44. Answer: D reference: Chapter 2 section 2.1.1

Protection: This criterion addresses the availability of guarantees provided by the borrower to FI in terms of its market value, liquidity and risks.

45. Answer: B reference: Chapter 2 section 2.1.1

Liquidity means the ability of the FI to meet its obligations.

46. Answer: A reference: Chapter 2 section 2.1.1

Lending risks can be defined as the inability to expect the exact profits desired and expected from fund utilization.

47. Answer: C reference: Chapter 2 section 1.1.2

Inflation Risk: Risks associated with purchasing power of loans and interests.

48. Answer: D reference: Chapter 2 section 2.1.1

Interest Rate Risk: Risks associated with the potential change in interest rates, which affects the bank's financing cost.

49. Answer: B reference: Chapter 2 section 1.1.2

Risk of Default: Debtor-related risks

50. Answer: A reference: Chapter 2 section 1.2.2

Variable Term Cost: The cost specified according to an index or a reference rate, which must be explicitly stated in the finance contract; such a cost will change in accordance with the change in such an index.

51. Answer: C reference: Chapter 2 section 2.2.1

Monthly Disposable Income: The remaining amount of the customer's total monthly income for spending, investment or savings after deducting basic expenses.

52. Answer: A reference: Chapter 2 section 2.2.3

Quantitative Principles of Responsible Lending: The monthly credit obligation of a credit card must be equal to the minimum repayment of the credit ceiling for each credit card issued to the customer.

53. Answer: D reference: Chapter 2 section 2.2.3

Deductible ratios for customers whose total monthly income is SAR 15,000 and less must be subject to the following restrictions: Monthly credit obligations of finance must not exceed 55% of the total monthly income of the customer.

54. Answer: B reference: Chapter 2 section 2.2.3

Deductible ratios for customers whose total monthly income is more than SAR 15,000 and less than SAR 25,000 must be subject to the following restrictions: Monthly credit obligations of finance must not exceed 65% of the total monthly income of the customer

55. Answer: C reference: Chapter 2 section 2.2.3

Deductible ratios for customers whose total monthly income is SAR 25,000 and more must be subject to the following restrictions: Monthly credit obligations of finance, which are linked only to the monthly deduction of the gross salary, must not exceed 33.33% of the gross salary for employees and 25% for retired customers.

56. Answer: B,C reference: Chapter 3 section 23.1.2

Customer Due Diligence Indicators include____________.

B. The customer intentionally conceals important data and information such as his/her actual place of residence.

C. The nonmatching between the value or repetition of customer operations with the information available.

57. Answer: D,E reference: Chapter 3 section 23.1.2

Account Activities Indicators include____________.

D. Cash deposits in a number of open accounts with fake identity from different branches of the same bank.

E. Dividing large cash amounts and deposit them in smaller amounts.

58. Answer: A, C reference: Chapter 3 section 23.1.2

Indicators on The Cross Border Transportation of Funds include____________.

A. Conducting transactions from a country known for trafficking, promotion, growing, or production of drugs or suffers political unrest.

C. Cashing at close intervals or conducting foreign exchange withdrawals especially if they were originated abroad.

59. Answer: B,E reference: Chapter 3 section 23.1.2

Indicators on Financial Transactions include____________.

B. Purchase securities that do not match with customer income.

E. Large or unusual cash transfers of securities

60. Answer: C,D reference: Chapter 3 section 23.1.2

Indicators on the Attitude of the Suspect include____________.

C. The suspect owns several bank accounts without clear justification.

D. Signs of confusion and nervousness appear on the suspect or his representative during the execution of the transaction.

61. Answer: B reference: Chapter 3 section 3.3.1

Compliance Department function is an independent function that identifies, advises, monitors and prepares reports on the bank's non-compliance risks.

62. Answer: A,E reference: Chapter 3 section 3.4.1

Measures that should be taken upon suspecting or having reasonable grounds to suspect money laundering or terrorism financing activity include____________.

A. Promptly report such transaction to the General Directorate of Financial Intelligence.

E. Provide a detailed report including all available data and information on such transaction and relevant parties to the General Directorate of Financial Intelligence.

63. Answer: B,C reference: Chapter 3 section 3.4.1

The report provided to the General Directorate of Financial Intelligence should at least contain the following information:

B. Perpetrators' names, addresses and phone numbers.

C. The amount subject to the suspicious transaction and associated bank accounts.

64. Answer: A,D reference: Chapter 3 section 3.4.1

FIs shall promptly and directly provide the Directorate with the report, which shall include____________.

A. Copies of attachments of account opening documents.

D. Data on the nature of the reported transaction.

65. Answer: A reference: Chapter 3 section 3.4.1

Provisional seizure of funds, property and media related to the crime shall not exceed 60 days

66. Answer: A,B reference: Chapter 4 section 4.1.1

Customer Protection Department's functions include____________.

A. Ensuring that all financial sectors comply with policies within the scope of customer protection functions.

B. Receiving and addressing customer complaints across all different financial sectors.

67. Answer: D,E reference: Chapter 4 section 4.1.1

The finance contract shall contain at least the following data and information:

D. Fees, commissions and administrative services charges;

E. Procedures for exercising the right to terminate the finance contract;

68. Answer: C reference: Chapter 4 section 4.1.1

All fees, costs and administrative services charges to be recovered from the borrower by the finance entity must not exceed the equivalent of (1%) of the amount of financing or SAR 5,000 (three thousand Saudi Riyals), whichever is lower.

69. Answer: A reference: Chapter 4 section 4.1.1

If borrower desires to advance the remaining financing amount, the finance entity shall be entitled to compensation for cost associated with reinvestment.

70. Answer: B,E reference: Chapter 4 section 4.1.2

The bank or FI officer plays a significant role in raising the financial awareness of their customers through:

B. Paying attention to the trends and needs of various customers.

E. Finding the most cost-effective way to meet such desires so as to gain profit.

71. Answer: D reference: Chapter 4 section 4.1.2

Investment Credit: The credit sought by customer to finance his long-term operations.

72. Answer: C reference: Chapter 4 section 1.2.4

Commercial Credit: The customer aims to finance his business for the purpose of purchasing goods for trading.

73. Answer: A,B reference: Chapter 4 section 4.4.1

According to Debt Collection Procedures from Customer Accounts, banks must not:

A. Deduct any amounts from a retail customer's accounts without a judicial order or ruling.

B. Block accounts or balances of a retail customer.

74. Answer: B reference: Chapter 4 section 4.4.1

A bank, as requested by a retail customer, must reschedule the debt in the case that voluntary changes in a retail consumer's circumstances are proved, with the potentiality to change the term cost but without charging additional fees. Debt rescheduling must be carried out within a period not more than 30 days from the date the necessary documents are supplied by the individual customer.

75. Answer: A reference: Chapter 4 section 4.5.1

A creditor must be entitled to take legal actions against any defaulting customer at the competent judicial authorities, and such customer must be notified in the event of default for more than three consecutive months or five separate months throughout the finance period.

76. Answer: D reference: Chapter 5 section 5.1.4

The Personal Development Plan is known as the process of developing a simple plan to develop specific skills or knowledge so that individuals can apply them professionally and consistently in their workplaces

77. Answer A,D,E reference: Chapter 5 section 4.1.5

Personal Development Plan (PDP) must address some key issues:

- What the employee is trying to achieve
- Whether these achievements serve the employee's professional growth.
- Whether they set specific procedures and steps (SMART).

78. Answer A,C reference: Chapter 5 section 4.1.5

The goals must be specific and timely

79. Answer: A reference: Chapter 5 section 5.1.4

To achieve Innovation and Novation, FI must set new innovative standards for delivering its products and services in a better way, to achieve a positive customer experience.

80. Answer: A reference: Chapter 5 section 5.1.4

To achieve Productivity, Bank/ FI must set targets for measuring efficiency of using its available resources.

81. Answer C,D reference: Chapter 5 section 1.2.5

The main pillars of the Financial Sector Development Program launched by CEDA to realize the objectives of Saudi Vision 2030 include:

c. Developing an advanced capital market.

D. Promoting and enabling financial planning.

82. Answer: A reference: Chapter 1 section 1.2.4

In the absence of any existing financial obligations payable to the customer, the finance entity shall execute the request of the customer to issue a clearance letter - whatever its purpose - within a period not exceeding business day from the date of receiving the request.

83. Answer: B reference: Chapter 5 section 1.1.5

The Senior Management is responsible for setting and adjusting targets. Objectives Management is one of the modern ways of managing a bank/ company, and relies on defining the objectives of each employee, then comparing the objectives of the bank/ company with the employees

84. Answer: A reference: Chapter 2 section 2.3

In accordance with SAMA instructions to finance entities issued in June 2020, the finance entity shall submit a financing offer to the customer with a minimum validity period of 15 business days from the date it was delivered to the client.

85. Answer: A reference: Chapter 2 section 2.3

In Real Estate Finance, there shall be a waiting period of no less than five working days from the date of customer's receipt of the mortgage offer, to enable the customer to review the offer and consult his credit advisor.

86. Answer: A, B, C reference: Chapter 2 section 2.4

The Saudi Credit Bureau (Simah) rating helps credit donors to:

- Improve collection management performance.
- Reduce credit default.
- Reduce costs associated with credit portfolios management

87. Answer: A, B, C reference: Chapter 2 section 2.4
Some of the benefits of Simah report are:

- Financial risk reduction.
- Faster study of credit demand.
- debt management.

88. Answer C reference: Chapter 5 section 5.6.2
Objectives should be set in agreement with the line manager

89: Answer: A, B, C reference: Chapter 3 section 3.3.5
Operational risk sources include:

- Financial fraud and embezzlement
- Counterfeiting
- Electronic crimes.

90. Answer: A reference: Chapter 3 section 3.1.2
One of the indicators for identifying unusual and suspicious operations is customer due diligence. Details of these indicators include furnishing suspicious information such as providing a phone number that is disconnected from the service.

91. Answer: A reference: Chapter 5 section 5.2.2
Management at all levels must provide moral and financial incentives for members of its organization in order to lead them towards achieving organized targets and increasing production, and not to rely only upon their inner motivations.

92. Answer C reference: Chapter 5 section 5.3
Code of Conduct and Work Ethics in Financial Institutions

93. Answer A, D reference: Chapter 5 section 5.3.1
The FI Staff must:
A. Demonstrate and have the highest ethical standards and characteristics.
D. Protect and not damage the reputation of the FI.

94. Answer: A reference: Chapter 5 section 5.3.1
Engagement: The FI should be a constructive partner for stakeholders by providing clear and honest advice and giving the necessary information about products and services to make sound decisions.

95. Answer: B reference: Chapter 5 section 5.9.3
According to KSA laws and regulations for combating financial and administrative corruption, duties and responsibilities of FI staff include: Not engage in any criminal, money laundering or terrorist financing activities.

96. Answer C,D reference: Chapter 5 section 5.3.1

According to KSA Anti-Bribery Law, duties and responsibilities of FI staff include:

C. Not exercise nepotism, cronyism or any forms of favoritism at work.

D. Not abuse job powers.

97. Answer D reference: Chapter 5 section 5.3.1

The gift shall be accepted if it is not be cash, loan, share or financial derivative.

98. Answer: B, E reference: Chapter 5 section 5.3.1

The FI Staff must be obliged to protect confidential information, in addition to complying with the following:

B.Adhere to the information security policy and procedures, and the laws and instructions related to confidentiality.

E. Not access the premises of the FI outside working hours unless after obtaining the approval of the line manager and the security and safety department.

99. Answer C reference: Chapter 5 section 5.3.1

FI Staff must be responsible for meeting the following security obligations by Maintaining work ID and passwords of the IT systems.

100. Answer: A reference: Chapter 5 section 5.3

The FI shall, in accordance with the remuneration and compensation policy, take into consideration ensuring that remuneration and compensation are not only given to specific category of employees.

Curriculum Map

Curriculum Unit/Item		Chapter /Section
First element	Financing Products and services	Chapter One
	Upon completing study of this section of the book, the examinee shall:	
1	1. To be familiar with the main financing products and services provided by banks and financing companies in the Kingdom of Saudi Arabia to retail customers. 1.1 Financing Products and services. 1.1.1 Financing Products and Services Rendered to Individual Customers:	Section 1
2	1. To be familiar with Regulations for Issuance and Operations of Credit and Charge Cards 1.2 Controls for obtaining financing products. 1.2.1 Definition of Credit and Charge Cards 1.2.2 Regulations for Issuance and Operations of Credit and Charge Cards: 1.2.3 Issuance of Credit and Charge Cards 1.2.4 Credit Limits of Cards: 1.2.5 Information Disclosure 1.2.6 Rights and Responsibilities of the Cardholder: 1.2.7 Resolution of Card-Related Disputes.	Section 2
3	3. To be familiar with regulations for consumer finance 1.3 Regulations for Consumer Finance. 1.3.1 Regulations for Consumer Finance.	Section 3
4	4. To be familiar with the Implementing Regulations of the Real Estate Finance Law 1.4 Implementing Regulations of the Real Estate Finance Law	Section 4
5	5. To be familiar with the standard form for contracts of real estate finance (Murabaha and Ijara): 1.5 Standard Form for Contracts of Real Estate Finance (Murabaha and Ijara): 1.5.1 Real Estate Finance Contract in the Form of Ijara: 1.5.2 Real Estate Finance Contract in the Form of Murabaha:	Section 5
6	6. To be familiar with the rights of the lessor and lessee under the Finance Lease Law. 1.6 Rights of the Lessor and Lessee under the Finance Lease Law: 1.6.1 The Lease Contract. 1.6.2 Finance Lease Controls:	Section 6
7	7. To be familiar with the rights and responsibilities associated with financing products. 1.7 Rights and Responsibilities Associated with Financing Products. 1.7.1 Rights and Responsibilities Associated with Financing Products. 1.7.2 Finance Entities and Banks' Customer Protection.	Section 7
8	8. To be familiar with the rules for disclosing the prices of financing and saving products. 1.8 Rules for Disclosing the Prices of Financing and Saving Products: 1.8.1 Rules for Disclosing the Prices of Financing and Saving Products: 1.8.2 Disclosure Requirements 1.8.3 Disclosure Forms	Section 8

Second element	Financing Mechanism	Chapter Two
	Upon completing study of this section of the book, the examinee shall:	
1	1. To be familiar with factors affecting acceptance of applications for financing individual customers. 2.1.1 Factors Affecting the Acceptance of Applications for Financing Individual Customers:	Section 1
2	2. To be familiar with the principles of responsible lending for individual customers. 2.2 Responsible Lending Principles for Individual Customers: 2.2.1 Definitions. 2.2.2 Qualitative Principles of Responsible Lending. 2.2.3 Quantitative Principles of Responsible Lending.	Section 2

Third element	Introduction to Operational Risk Management	Chapter Three
	Upon completing study of this section of the book, the examinee shall:	
1	1.To be familiar with unusual and suspicious transactions and procedures of dealing therewith 3.1 Unusual and Suspicious Transactions and Procedures of Dealing therewith: 3.1.1 Definition of Unusual and Suspicious Transactions. 3.1.2 Indicators of Unusual and Suspicious Transactions.	Section 1
2	1. To be familiar with KSA legal framework for AML/CTF. 3.2 KSA Legal Framework for AML/CTF: 3.2.1 KSA Legal Framework for AML/CTF: 3.2.2 KSA AML/CTF Initiatives:	Section 2
3	3. To be familiar with administrative reference for unusual and suspicious transactions (Compliance Department – the role of Audit Department Officer). 3.3 Administrative Reference for Unusual and Suspicious Transactions (Compliance Department The Role of Audit Department Officer). 3.3.1 Determining the Administrative Reference for Handling Unusual and Suspicious Transactions:	Section 3
4	4. To be familiar with the regulatory procedures for dealing with unusual and suspicious transactions. 3.4 Regulatory Procedures for Dealing with Unusual and Suspicious Transactions: 3.4.1 Regulatory Procedures for Dealing with Unusual and Suspicious Transactions:	Section 4

Fourth element	Customer Credit Risk	Chapter Four
	Upon completing study of this section of the book, the examinee shall:	
1	1. To be familiar with customer credit risk and the impact thereon. 4.1 Customer Credit Risk and Impact Thereon. 4.1.1 Customer Credit Risk:	Section 1
2	2. To be familiar with the financial objectives that are consistent with the customer's financial position. 4.2 Financial Objectives Consistent with the Customer's Financial Position. 4.2.1 Financial Objectives Consistent with the Customer's Financial Position:	Section 2
3	4. To be familiar with collection regulations and procedures.. 4.3 Collection Regulations and Procedures. 4.4.1 Collection Regulations and Procedures.	Section 3
4	4. To be familiar with the procedures for dealing with defaulting customers. 4.4 Procedures for Dealing with Defaulting Customers. 4.4.1 Procedures for Dealing with Defaulting Customers.	Section 4

Fifth element	Self-Management and Work Ethics in Financial Institutions	Chapter Five
	Upon completing study of this section of the book, the examinee shall:	
1	1. To understand the nature of targets and how to identify them, whether at the level of individual or establishment in which he works. 5.1 To understand the nature of targets and how to identify them, whether at the level of individual or establishment in which he works. 5.1.1 Definition of Targets. 5.1.2 Setting of Targets: 5.1.3 How to Set Targets. 5.1.4 Setting Targets at the level of individual and establishment.	Section 1
2	2. To set targets that are achievable in agreement with the line manager. 5.2 Targets That Are Achievable in Agreement with the Line manager. 5.2.1 Setting achievable targets. 5.2.2 360-degree Performance Appraisal:	Section 2
3	3. To be familiar with Code of Ethics and Professional Conduct in FIs. 5.3 Code of Ethics and Professional Conduct in FIs: 5.1.3 Introduction 5.3.2 Definitions 5.3.3 Code of Ethics and Professional Conduct 5.3.4 Consequences of Non-Compliance with the Code of Ethics and Professional Conduct.	Section 3

Umm Salmah Al Ansari St. Al Mutamarat
Riyadh 12712, Saudi Arabia
Telephone: +966-11- 466-2688
cs@fa.org.sa
Fax: +966-11- 466-2936 / 466-2966