

Saudi Arabian Monetary Agency

HEAD OFFICE

The Governor

CIRCULAR

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To : All Banks

From : Saudi Arabian Monetary Agency

Subject : Loans to Deposits Ratio Guidelines

For many years SAMA has used a Loans to Deposits Ratio as guideline for Saudi banks to manage their liquidity. SAMA's objective was to guide the Board of Directors and senior management in maintaining an adequate focus on a bank's liquidity by taking into account, the composition and stability of the deposits base, the composition and liquidity of loans and advances, general economic situation, official monetary policy etc. Over a long period, this ratio has served the banking system well and has been an important element of prudential monitoring of the banks. Nevertheless, the ratio has been applied in a flexible manner by SAMA keeping in view the needs of individual banks and the banking system.

However, in recent years the banking system in Saudi Arabia has changed rapidly in response to local, regional and international factors. The nature of banking business is becoming more sophisticated and banks are rapidly diversifying their assets and funding sources in response to these developments. In view of these changes, SAMA has decided to revise the L/D ratio as follows:

1. Numerator:

- Loans and advances [M1 – Item 9]
- Less
 - Specific provision for loan losses [M1 – Item 27.12]
 - General provision for loan losses [M1 – Item 27.13]
 - Unearned commissions income [M1 – Item Note 1] →
 - Commissions in suspense [M1 – Item 27.2]

2. Denominator:

- Customer Deposits [M1 – Items 21, 22, 23]
 - Demand
 - Time
 - Repos

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- Savings
- Shariah Compliant Deposit Contracts
- Others

- Long Term Debt
 - Certificate of Deposits [M1 – Item 24]
 - Insured Bonds [M1 – Item 25]
 - Syndicated Loans, Bonds, Qualifying Sukuks [M1 – Item 26]

- Subordinated Debt issues [M1 – Item 28]

The Agency has also increased the observation ratio from 60% to 85%. The ratio is to be applied at both the solo (domestic) and the consolidated (including overseas operations) levels. Banks should report this ratio to SAMA on a monthly basis. This ratio will continue to be a prudential guideline and will be used in conjunction with other prudential laws and regulations.

This circular will be in effect from 1st September 2006.



Hamad Al-Sayari
Governor

Note 1. This item may be included under other liabilities and payables and would need to be identified for the L/D ratio.