Saudi Arabian Monetary Agency

RIYADH 11169 · SAUDI ARABIA

Deputy Governor

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19th January 2004

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To : All Banks

From : Saudi Arabian Monetary Agency

Attention : Managing Directors and General Managers

Subject : **SAMA Circular on Loan Classification, Provisioning and Credit Review**

In July 2002, SAMA had issued a draft Circular entitled 'Credit Classification and Review.' Subsequently, Saudi banks were required to provide comments on the circular and estimate the quantitative impact of these rules on their financial position. In 2003, all Saudi banks have submitted their comments to SAMA.

SAMA has also closely monitored international developments in this regard emanating from the Basel Committee on Banking Supervision and the International Accounting Standard Board. Currently there is considerable amount of work in progress which has relevance for this subject in these organizations. However, we have incorporated various relevant concepts from recent developments in this circular and also highlighted their implications over the next few years.

Consequently, the Agency has decided to implement the proposed rules as minimum standards, while Saudi banks are encouraged to develop more sophisticated and refined methodologies for loan classification and provisioning. The added incentive for the banks would be better alignment of their methodologies for provisioning and the Basel capital requirements under the IRB approaches. Consequently, an integrated system based on historical loss experience, on a portfolio based approach, may be desirable to enable banks for estimating their provision and capital requirements.

SAMA has also addressed specific issues raised by banks as follows:

1. There are inevitable differences between Accounting Provisions and Supervisory Provisions. The annual difference between the two calculations should be adjusted to the accumulated retained earnings in the Supervisory Returns. No adjustment needs to be made to the published financial statements of the banks. Where a bank has no accumulated retained earnings,

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the adjustment could be made to a general reserve or to statutory reserve following approval by SAMA on a case by case basis.

2. General Provisions will be 1% of loans in the 'Standard' and 'Special Mention' categories. All Saudi Government loans or claims fully backed by collateral of Saudi Government in form of securities or guarantees should be deducted before calculating general provisions.

3. SAMA has specified automatic provisioning requirements related to Banks' non-performing loan portfolios, based on the number of days past due. However, exceptions are permitted for individual loans where a bank has strong documentary evidence that a loan is performing despite being past due. It is expected that such exceptions will be used in limited number of cases. Saudi banks are required to maintain a list of such loans that have been treated under this exception and document the underlying reasons.

SAMA requires all Saudi banks to provide the following information. These are to be provided by 15th of the month following the end of the quarter.

1. A quarterly report on the loan portfolios according to the proposed classification system – Annex 1.
2. A quarterly report on Loan Provisions – Annex 2.
3. A quarterly list of loans where exceptions have been made to the general rule of automatic classification – Annex 3.
4. Guidance Notes – Annex 4.

These rules are to be implemented from 1 January 2004, with the first Quarterly Reports due as of 31 March 2004.

Jammaz Al-Suhaimi

Rules Governing Loan Classification, Provisioning and Credit Review

Saudi Arabian Monetary Agency
December 2003

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LOAN CLASSIFICATION, PROVISIONING AND CREDIT REVIEW

SECTION I. LOAN CLASSIFICATION

1.1 Introduction

Realistic assessment of asset quality and prudent recognition of income and expenses lie at the heart of the assessment of financial soundness of any individual banking institution. Therefore, it is essential that banks in Saudi Arabia follow minimum standards for loan assessment and classification.

This regulation aims to provide a degree of uniformity and consistency by requiring Saudi banks to use the proposed principal categories for loan classifications. All Saudi banks will be required to provide supervisory data on the basis of these proposed classification grades for comparison and for consolidation on a banking system-wide basis. However, Saudi banks are encouraged to develop and use more sophisticated classification systems and methodologies as long as they are consistent with the principal classification categories defined in this regulation.

1.2 Scope

The credit products covered by this regulation (collectively referred to as "loans") include all types of consumer and corporate loans, advances, overdrafts, credit card balances, leasing, musharaka, murabaha, istisna, letters of guarantee and credit and any other commission and non-commission bearing credit-related instruments and arrangements. They also include loans to businesses, financial institutions, governments and their agencies, individuals, project finance, residential and commercial mortgages and direct financial leases. Off balance sheet items such as guarantees, letters of credits, and derivatives such as futures and forward contracts, etc. carry credit risk. These may turn into loans or receivables as a result of defaults and other events and should be classified in appropriate categories, when such credit risk crystallizes into a loan or receivable.

1.3 *Objectives*

The main objectives of a system of loan classification are as follows:

- To highlight those loans that represent an above-normal credit risk;
- To evaluate the degree of risk involved;
- To develop a strategy or action plan for monitoring and follow-up on weak loans and for the recovery or liquidation of impaired loans and other such outstanding credits;
- To provide essential information for the determination of adequate provisions for expected credit losses; and,
- To bring a degree of uniformity and consistency in the method of classification of loans outstanding among Saudi banks.

1.4 *Assessment and Classification of Individual Loans*

1.4.1 Large commercial loans to corporates, governments, private banking customers and others are often reviewed and assessed on an individual basis. Systematic measurement of impairment of individual loans must include the use of a classification system for assigning loans to risk categories. Such a system should segregate loans by the probability of risks associated with individual loans. Over time, banks should monitor and evaluate the levels and trends of risk in their commercial loan portfolios through an analysis of the classification categories. Banks should also target troubled loans for more frequent reviews and higher levels of scrutiny.

1.4.2 The assessment of each loan should be based upon its fundamentals, including as a minimum the following evaluation factors:

- The obligor's character and integrity.
- The purpose of the loan and the sources of repayment.
- The overall financial condition and resources of the obligor, including the current and future cash flows.
- The credit and delinquency history of the obligor.
- The probability of default on existing loan and any new loan being extended.
- The types of secondary sources of repayment available, such as guarantor's support and collateral values when they are not a primary sources of repayment. (Undue reliance on secondary

sources of repayment should be questioned and the bank's policy on such practice should be reviewed.)

1.4.3 While assessing a loan, banks should consider the extent of the shortfall in the operating results and cash flows of the obligor, the support provided by any pledged collateral, and/or the support provided by any third party.

1.4.4 In order to promote uniformity in the criteria used by Saudi Banks for assigning quality rating to loans, SAMA proposes the system of credit classifications described in the following paragraphs. It should be noted that banks may use classification systems that have more grades than those noted below, as long as they can demonstrate that their systems comply with and their data can be summarized in a manner consistent with the system proposed in these regulations.

1.4.5 Standard Category

Loans in this category are performing and have sound fundamental characteristics such as borrower's overall financial conditions, resources and cash flows, credit history and primary or secondary sources of repayment.

A classification of standard should be given to all loans that exhibit neither actual nor potential weaknesses. Loans that exhibit potential weaknesses should be categorized as Special Mention. Standard and Special Mention loans are considered as "performing" credits.

1.4.6 Special Mention Category

A 'Special Mention' loan is defined as having potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the loan. These loans are normally current and up-to-date in terms of principal and commission/income payments but deserve management's close attention. These potential weaknesses may include:

- Declining profitability
- Tightening liquidity or cash flow
- Increasing leverage and/or weakening net worth

- Weakened marketability and/or value of collateral
- Industry-specific problems
- Economic and/or other problems affecting the obligor's performance
- Concerns about the obligor's management competence or depth
- Material documentation problems
- Inability to obtain current financial information

1.4.7 'Special Mention' loans would not expose an institution to sufficient risk to warrant a non-performing classification and would continue to accrue commission. 'Special Mention' loans would have characteristics, which corrective management actions could remedy. The 'Special Mention' category should also not be used to list loans that contain risks usually associated with that particular type of lending. Any lending involves certain risks, regardless of the collateral or the obligor's capacity and willingness to repay the debt. But only where the risk has increased beyond that which existed at origination, should the loans be categorized as 'Special Mention'. However, loans to businesses in certain industries (for example, those with declining revenues or reducing margins or which are subject to specific competitive issues) may be included.

1.4.8 Loans, which exhibit well-defined weaknesses and a distinct possibility of loss, should be assigned the following categories from less to most severe:

- "Substandard"
- "Doubtful"
- "Loss"

Loans in the 'Substandard', 'Doubtful' and 'Loss' categories would be collectively termed as "non-performing" credits.

1.4.9 'Substandard' Category

Loans in this category have well-defined weaknesses, where the current financial soundness and paying capacity of the obligor is not assured. Orderly repayment of debt may be in jeopardy. A 'Substandard' loan is inadequately protected by future cash flows, the obligor's current net worth or by the collateral pledge, if any. An important indicator is that any portion of commission/income or principal or both are more than

90 days past due or where there is insufficient credits for an overdraft. For corporate, government and private banking loans and other individually reviewed loans, the 90 days past due rule will also generally apply, unless a bank has strong documentary evidence to support a different classification.

1.4.10 'Doubtful' Category

A loan classified as 'Doubtful' has all the weaknesses inherent in one classified 'Substandard' with the added characteristic that the weaknesses make collection or liquidation of the principal and contractual commission/income in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Classification as 'loss' is not warranted because of specific factors that generate additional cash flows other than from realization of existing collateral. Such factors include business cash flows, potential merger, acquisition, capital injection or additional collateral. In general a loan where the principal and commission are more than 180 days past due should be included in this classification, except where a bank has strong documentary evidence to support a different categorization such as 'Sub-standard' or 'Special Mention'.

1.4.11 'Loss' Category

A loan classified as 'Loss' is considered uncollectible in the normal course of business and recourse will have to be made to collateral. Loss category does not mean that the asset has absolutely no recovery or salvage value but rather that it is prudent to establish a provision for the entire loan not covered by collateral. For private banking loans and other individually reviewed loans where principal or commission/income are past due for more than 360 days should be included in this classification except where a bank has strong documentary evidence to support a different categorization.

1.5 Split Classifications

1.5.1 Split classifications refer to the practice of assigning different classifications to different entities within the same group relationship, or to different loans extended to the same obligor, or to different portions of a single loan.

1.5.2 ***Split within a relationship***. Loans extended to subsidiaries of a parent company on the basis of direct or implied support from the parent should generally not be classified at the higher level than the parent. On the other hand, loans extended to subsidiaries without direct or implied parent support may be classified at a lower level than the parent. An exception may be where there is tangible collateral or independent cash flow.

1.5.3 ***Split to same obligor***. All loans extended to one borrower should generally be classified at the same level. However, certain loans to an obligor may be classified at a different level than other loans if they are secured by collateral or guarantees of unquestionable value. For example, a loan secured by properly hypothecated cash collateral would be less severely classified than other less well-secured loans to the same borrower.

1.6 Assessing Classification and Impairment of a Group of Loans

1.6.1 Generally, it is impractical for a bank to analyze and provide for impairment losses for their smaller loans on an individual, loan by loan basis, e.g. consumer and credit card loans. For groups of small homogenous loans, the loss attributes should normally be based on available information such as past due status.

1.6.2 For retail and consumer loans, it is difficult or impractical to make an individual assessment, the banks should use the following classification system to classify outstandings on a grouped basis.

1.6.3 ***Standard Loans***. Loans in this category are performing and have sound fundamental characteristic of credit history, cash flow and timely repayment. These are normally represented by current balances with no hint of default.

1.6.4 ***Special Mention***. These loans exhibit potential weaknesses that at a future date may result in deterioration of repayment. These loans are current and up to date but deserve management's close attention.

1.6.5 ***Substandard***. Loans where any portion of commission income or principal are more than 90 days overdue.

1.6.6 ***Doubtful Category***. Loans where any portion of commission income or principal are more than 180 days overdue.

1.6.7 ***Loss Category***. Loans where any portion of commission income or principal are overdue by more than one year.

1.6.8 For banks that wish to use more sophisticated methodologies based on historical data, there is no single best method for quantifying loss attributes for groups of loans. Acceptable methods range from a simple average of bank's historical loss experience over a period of years to more complex 'migration' analysis techniques. The specific method often depends on the sophistication of a bank's information system.

1.7 Recognition of Income

1.7.1 Notwithstanding the provisions made under Section II below, all commission/income accrued but not received on loans that become non-performing should not be recognized as income and should be transferred to a commission/income in suspense account. Similarly, commission/interest charged to a non-performing overdraft is not considered to have been received. The bank should set aside a specific provision for the full amount of the commission transferred to the suspense account. This provision would offset the commission income receivable included under assets. These transfers to a suspense account should be made without regard to collateral, if any, and the possibility of the ultimate collection of the overdue amounts.

1.7.2 When amounts are received from borrowers in repayment of overdue commission/income or overdue principal, such amounts should first be offset against the overdue commission. This should be followed until such time as the loan is regularized and can be classified as performing, i.e. Standard or Special Mention.

SECTION II. MINIMUM PROVISIONING REQUIREMENTS

2.1 General Provisions:

Experience shows that loan portfolios often contain loans which are in fact impaired at that balance sheet date, but which will not be specifically identified as such until some time in the future. Generally, there will not be sufficient

information on hand during the review of loans to be certain that all impaired loans have been identified or of the correctness of the estimated losses and the adequacy of the provision for loan losses.

2.2 As a result, a general provision should be made to cover the impaired loans which will only be identified as such in the future. Unless otherwise prescribed by SAMA, this general provision should be a minimum of 1% of the outstanding balances of the Standard and Special Mention categories. All Saudi government loans or claims fully backed by collateral of Saudi government in form of securities or guarantees should be deducted before calculating general provision.

2.3 In general, if a bank has at least 3 years of reliable historical data captured through a system validated and approved by SAMA, it could establish an appropriate general provision using such data adjusted for current observable conditions. Such banks may seek exemption from SAMA in relation to the requirements in paragraph 2.2 above. Saudi banks are also encouraged to develop and implement more sophisticated systems that capture historical data on loan defaults and loss experience that could be used for general provisioning purposes. Although historical loss experience provides a reasonable starting point for a bank analysis, these cannot be accepted without analysis of current conditions and future prospects. Banks must make an adjustment that should reflect management's best estimate of the level of charge-offs or specific provision that will be recognized. Factors include:

- Change in national and international lending policies and procedures.
- Change in local, national and international economic and business conditions.
- Changes in trends, volumes and severity of past due loans, impaired loans and troubled debt restructuring.
- Changes in experience, depth and ability of lending management and staff.
- Changes in bank's loan review system and the degree of oversight by the Board.
- Existence and effect of any concentration of credit.
- Effect of external factors, competition, legislation, regulatory requirement, etc.
- Changes in the risk profile of the portfolio as a whole.

Loans that have been individually analyzed and provided for with a provision should also be included in the group for determining a bank's historical experience for such group. However, to avoid double counting, loans for which specific provision has already been made should be subtracted from the group

before a historical loss factor is applied to the group to establish appropriate general provisions.

Saudi banks should use a period of at least 3 years to determine their average historical loss experience. However, banks should weigh recent experience more heavily to accurately estimate bank's expected losses in the current economic climate.

2.4 *Specific Provisions:*

A specific provision should be made for incurred and expected losses for individually assessed corporate, government, private banking and other large loans to reduce the carrying value of impaired credits to their estimated net realizable amount. Retail loans that fall under the non-performing loan categories should also be covered by specific provisions. Unless otherwise prescribed by SAMA, the following minimum provisions should be made on the aggregate of individual net exposures for each classification category. Loans which have been individually assessed and on which specific provisions, in excess of the prescribed minimum, have been made should be excluded in computing the minimum provisions by each classification category. Minimum provisions are to be computed on the net exposure which represents the balance outstanding less a prudent estimate of the fair value of the perfected collateral.

Category	***Minimum Provision (% of net exposure)***
'Substandard'	25%
'Doubtful'	50%
'Loss'	100%

2.5 *Treatment of Differences between Supervisory and Accounting Provisions*

Saudi banks are expected to apply the relevant Accounting Standards. For purposes of bank accounting and financial reporting, the computation of general and specific provisions for loan impairment is governed by these accounting standards. Consequently, these are likely to differ from the supervisory general and specific provisions provided in this circular. While the accounting provisions are to be used for all published financial statements of a Saudi bank, the supervisory provisions are to be used solely for the purpose of prudential reporting to SAMA.

The treatment of accumulated specific and general accounting and supervisory provisions will continue to be guided by the relevant accounting standards and relevant SAMA rules respectively. However, the difference in the annual charge between accounting and supervisory provisions must be reflected by an adjustment directly into the accumulated retained earnings of the bank on the supervisory returns. In case a bank has no retained earnings, the adjustment will be made to the general or statutory reserves after discussion with the Agency on a case by case basis.

SECTION III. OTHER MATTERS

3.1. Rescheduled Loans

A restructured troubled loan arises when a bank, for economic or legal reasons related to the obligor's financial difficulties, grants him a concession that it would not otherwise consider. A bank should measure a restructured troubled loan by reducing the recorded outstanding to net realizable value as required by the relevant accounting standards, taking into account the cost of all concessions at the date of restructuring. The reduction in the outstanding amount should be recorded as a charge to the income statement in the period in which the loan is restructured.

In cases where non-performing loans in particular are rescheduled, such loans should not be upwardly reclassified merely because of the existence of a rescheduling agreement. Upward reclassification should only be made if and when there is sufficient evidence of adherence to the terms of the rescheduling agreement. This evidence would include the establishment of a history for at least 12 months of timely repayments of both principal and commission/interest under the rescheduling agreement.

3.2. Overdrafts

Formal procedures should be put into place to support the determination of the classification of an overdraft based on transactions within the overdraft and in particular the timeliness of repayments of commission/income.

As a minimum, these procedures should include:

- Periodic systematic comparison of the aggregate value of credits in the overdraft account with the repayments due and other debits in the account.

- Understanding the nature and source of the credits in the account.
- Review of the history of the account balance.

3.3. *Collateral*

Prudent and proper valuation of collateral is critical to the determination of provisions. Proper procedures should be put into place to value collateral on a periodic basis, at least once a year, using external appraisers or external reliable published information. In cases where judgment is used in the valuation of the collateral and where the collateral or the credit is significant, valuations should be carried out by more than one external appraiser. In general, collateral obtained for consumer credit and similar credits where large number of relatively small balances is outstanding would be excluded from such requirements. The valuations so obtained should be adjusted downwards by an appropriate percentage to reflect costs of disposal, fluctuations in market values and the inherent lack of accuracy in such valuations.

3.4. *The Basel Capital Accord and Provisioning*

The Basel 2 Capital Accord provides incentives to internationally active banks to develop and implement sophisticated and advance system for measuring and capturing credit, market and operational risks. For credit risk, it encourages banks to develop and implement sophisticated internal ratings based approaches. As a minimum, it requires all credit risk on the bank's banking book to be classified into a system that has as a minimum 7 grades for performing loans and one for non-performing loans. It also requires banks to gather data for a minimum of 3 years on their history of losses arising from loan defaults. Data gathered from such systems permits banks and supervisors to collect information on Probability of Default (PD), Loss Given Default (LGD), and Expected Amount at Default (EAD). Such data permits banks to compute a capital charge for capital ratio purposes, using the risk weighted assets models designed by Basel under the IRB approach.

SAMA encourages all Saudi banks to understand, develop and implement, where cost-justified and appropriate, IRB approaches for capital adequacy purposes. While the IRB systems are primarily aimed at computation of regulatory capital, it is understood that the information on historical loss experience may have relevance for a bank's calculation of general provisions. Consequently, SAMA will encourage Saudi banks to look into ways of aligning their capital adequacy and provisioning methodologies.

SECTION IV. INDEPENDENT CREDIT REVIEW SYSTEM

4.1. Introduction

All Saudi banks are expected to establish a system of independent, ongoing credit review and results of such reviews should be communicated directly to senior management, the Board of Directors and the Audit Committee. While the determination of the impairment of an asset is made by banks based on their own internal credit review procedures, which can vary from one bank to another, this regulation is aimed at ensuring that banks' own systems as a minimum meet the following requirements.

4.2. Objectives

The principal objectives of an effective independent credit review system are as follows:

- To ensure the credits are appropriately classified;
- To ensure that credits with potential or well-defined weaknesses are identified promptly and that timely action is taken to minimize credit losses;
- To project relevant trends that affect the collectibility of the portfolio and to isolate potential problem areas;
- To review the adequacy of the allowance for credit losses;
- To assess the adequacy of and adherence to internal credit policies and administrative procedures and to monitor compliance with relevant laws and regulations;
- To evaluate the activities of credit personnel;
- To provide senior management, the Board of Directors and the Audit Committee with an objective and timely assessment of the overall quality of the credit portfolio; and,
- To ensure that management is provided with accurate and timely information related to credit quality that can be used for financial and regulatory reporting purposes.

For an effective achievement of the above objectives, financial institutions should operate an independent credit review system having regard to the size of the institution and the complexity of its operations.

4.3. *Elements of an Independent Credit Review System*

An institution's written policy on its independent credit review system should address the following elements:

- Qualifications of credit review personnel
- Independence of credit review personnel
- Frequency of reviews
- Scope of reviews
- Depth of reviews
- Review of findings and follow-up
- Workpaper and report distribution

4.4. *Qualifications of Credit Review Personnel*

Persons involved in the credit review function should be qualified based on level of education, experience, and extent of formal credit training and should be knowledgeable in both sound lending practices and the institution's lending guidelines for the types of credits offered by the bank. In addition, these persons should be knowledgeable of all relevant laws and regulations affecting the bank's lending activities.

4.5. *Independence of Credit Review Personnel*

An effective credit review system utilizes both the initial identification of emerging problem credits by credit officers, and the review of credit by individuals independent of the credit approval decisions. An important element of an effective system is to place responsibility on credit officers for continuous portfolio analysis and prompt identification and reporting of problem credits. Because of their frequent contact with borrowers, credit officers can usually identify potential problems before they become apparent to others. However, financial institutions should be careful to avoid over-reliance upon credit officers for identification of problem credits. Financial institutions should ensure that credits are also reviewed by individuals who do not have control over the credits they review and are not part of, or influenced by anyone associated with, the credit approval process.

While larger financial institutions would typically establish a separate department (unit) staffed with credit review specialists, cost and volume considerations may not justify such a department in smaller financial institutions. In smaller financial institutions, an independent credit review officer or internal audit may fill this role.

4.6. Frequency of Reviews

Optimally, the credit review function can be used to provide useful continual feedback on the effectiveness of the credit process in order to identify any emerging problems. For example, the frequency of independent review of significant credits could be at least annually, upon renewal, or more frequently for 'Special Mention' loans, or when internal or external factors indicate a potential for deteriorating credit quality in a particular type of credit or pool of credits. A system of on-going or periodic portfolio reviews is particularly important for the provisioning process, which is dependent on the accurate and timely identification of problem credits.

4.7. Scope of Reviews

The review should cover all credits that are significant. Also, the review typically includes, in addition to all credits over a pre-determined size, a sample of small credits, past due, non-accrual, renewed credits, restructured credits, credits previously considered non-performing or designated as 'Special Mention', related party credits, and concentrations and other credits affected by common repayment factors. The sample for each type of facility/portfolio selected for review should provide reasonable assurance that the results of the reviews have identified the major problems in the portfolio and reflect its quality as a whole. Financial institutions' management is required to document the scope and the process of its reviews. The scope of credit reviews should be approved by the financial institutions' Board of Directors and its Audit Committee on an annual basis or when any significant changes to the scope of reviews are made.

4.8. Depth of the Reviews

These reviews should analyze a number of important aspects of selected credits, including:

- Credit quality

- Sufficiency of credit and collateral documentation
- Proper lien perfection
- Proper approvals
- Adherence to any credit agreement covenants
- Compliance with internal policies and procedures and laws and regulations
- Appropriateness of the classification assigned to the credits
- Adequacy of the provisions made against such credits

Furthermore, these reviews should consider the appropriateness and timeliness of the identification of problem credits by credit officers and the adequacy of the overall level of provisions for the whole credit portfolio and for the non-performing credits.

4.9. Review of Finding and Follow-up

Findings should be reviewed with appropriate credit officers, department managers, and members of senior management and any existing or planned corrective action should be clarified for all noted deficiencies and identified weaknesses, including the timeframes for correction. All noted deficiencies and identified weaknesses that remain unresolved beyond the assigned timeframes for correction should be promptly reported to senior management, the Board of Directors and the Audit Committee.

4.10. Workpaper and Report Distribution

A list of credits reviewed, the date of the review and documentation (including summary analysis) to substantiate assigned classifications of credits should be prepared on all credits reviewed. A report that summarizes the results of the credit review should be submitted to the Board of Directors on at least a quarterly basis. In addition to reporting current credit quality findings, comparative trends can be presented to the Board of Directors that identify significant changes in the overall quality of the portfolio. Findings should also address the adequacy of and adherence to internal policies, practices and procedures, and compliance with laws and regulations so that any noted deficiencies can be remedied in a timely manner.

Annex 1

SAMA Prudential Return
Classification of Loans
For the Quarter Ending

	Individually Assessed Loans (SR 000's)			Loans Assessed as a Group (SR 000's)			Total Loans (SR 000's)		
	Current QTR	Previous QTR	QTR in Previous Year	Current QTR	Previous QTR	QTR in Previous Year	Current QTR	Previous QTR	QTR in Previous Year
Standard									
Special Mention									
Substandard									
Doubtful									
Loss									
TOTAL									

Annex 2

SAMA Prudential Return
Supervisory Loan Provisioning
For the Quarter Ending

	(SR 000's) Current Quarter						
	Gross Loan Amount	*Interest in Suspense*	*General Provision*	*Specific Provision*	*Total*	*Total Previous QTR*	*Current QTR Charge to Net Income*
1. Standard							
2. Special Mention							
3. Substandard							
4. Doubtful							
5. Loss							
TOTAL							
6. Provisions for Published Statements per IAS							
Retained Earnings: • Retained Earnings on Supervisory Returns							
7. Cumulative Charge (Addition) to Accumulated Retained Earnings on Supervisory Return							
8. Supervisory Retained Earnings at end of the period							

Annex 3

SAMA Prudential Return
List of Individually Assessed Loans
Where Exceptions Made to the
90, 180, 360 Day Rule for Classification
For the Quarter Ending

(SR 000's)

I. Analysis of the Loan Portfolio:

	Performing Loans	*Loans 90 Overdue*	*Loans 180 Overdue*	*Loans 360 Overdue*	*Total*
Number of Loans					
Amount					

II. Analysis of Exceptions:

	Gross Amount	*(SR 000's) Loans on Which Exceptions Made*		*Impact on Classification*
		Number of Loans	*Amount*	*(+ or -)*
Standard				
Specific Mention				
Substandard				
Doubtful				
Loss				
TOTAL				

III. List 10 Major Loans on which exceptions made:

Name of Counterparty	*(SR 000's) Amount*	*Impact on Classification (+ or -)*

Guidance Notes for Prudential Returns For Loan Classification and Provisioning

1. Annex 1 – Loan Classification

- Columns 1, 4 and 7 – Total reflects gross loan amount before Provisions.
- Columns 2, 5 and 8 – Previous quarter gross Loans.
- Columns 3, 6 and 9 – Same Quarter previous year.
- Totals in columns 7, 8 and 9 should agree with total for item 9 on the M-1 returns.

2. Annex 2 – Loan Provisioning

- Column 1 – Shows gross loan outstanding amounts before Provisions. This should agree with item 9 on M-1 Return.
- Column 2 – Interest in suspense to agree with 27.2 on M-1 return.
- Column 3 – Shows general provisions to agree with 27.13 on M-1.
- Column 4 – Shows specific provisions to agree with 27.12 on M-1.
- Column 5 – Total Provisions for columns 2, 3 and 4.
- Column 6 – Total provisions for same Quarter in previous year
- Column 7 – This should reflect the charge (or credit) to net income on supervisory returns for the current Quarter.
- Item 6 – This line should reflect the most recent available Quarter (indicate date) for which Accounting provision information is available.
- Item 7 – This should reflect the adjustment (charge or credit) to supervisory Accumulated Retained Earnings arising from the difference between supervisory and accounting provisions.
- Item 8 – Supervisory retained earnings at the end of the Quarter.

3. Annex 3 – Loan Classification Exceptions

- Item I – This is a simple aging analysis of the loan portfolio of the bank in terms of the number of loans and the amounts (before any exceptions are made).
- Item II – Analysis of Exceptions:
    - Column 1 – Shows gross amount of loans in each category – equals item 9 on M-1.
    - Column 2 – Shows # of loans on which exception is made
    - Column 3 – Shows Amount of Loans on which exception is made
    - Column 4 – Impact of the exception on proposed classifications – show + or –, i.e. net impact on classification grades.
- Item III – Shows impact for top 10 loans on standard classifications.