



Circular No.: BCS 180

Date: 22 March 2007

From : Saudi Arabian Monetary Agency

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **SAMA - Basel II Prudential Returns**

Further to our circular #B.C.S./44523 of 6 January 2007 concerning Draft Basel II Prudential Returns, we have received comments from a number of Saudi Banks. These comments have been considered in making appropriate changes which have been highlighted on the attached package of Basel II Prudential Returns. The attached Prudential Returns are Consultative Draft #2 for Banks that are implementing the Standardized Approach to Credit Risk and either of the Basic Indicator or the Standardized Approach to Operational Risk. A soft copy is also being forwarded to you by e-mail. Also included are forms to cover Market Risk, which remain largely unchanged from the existing prudential returns, introduced on 1 January 2005. The returns also include a section for capital adequacy calculation for Pillar 2 risks.

SAMA intends to issue Prudential Returns related to IRB Approaches to Credit Risk during the second half of 2007. It may also include Prudential Returns for the Advanced Management Approaches for Operational risks.

As noted earlier, the Agency requires all Banks to implement these returns starting from 31 July 2007, on a pilot basis. During this period (July - December 2007), the Prudential Returns are to be completed and submitted to SAMA on a monthly basis, within 30 days after the month-end. Consequently, the first Prudential Return during the Parallel Run period is required to be submitted by 31 August 2007 based on data as of 31 July 2007. SAMA will carefully review the results and perform validations. This validation exercise will assist in finalizing the Prudential Returns by end of 2007, and also enable SAMA to decide when individual banks are ready to move to the new Basel II Prudential Returns. The Agency expects all Banks to be in a position to submit the Basel II Prudential Returns for 31 March 2008, within 30 days after the end of the quarter.

Further, in the context of Basel II, in February 2007, SAMA has issued additional guidance on Internal Capital Adequacy Plan under Pillar 2. It will also be shortly issuing guidance in the following areas:

1. Mapping of ECAI's ratings
2. Pillar 3 Transparency



It should be noted that these Prudential Returns are not applicable to branches of foreign banks as the Agency will discuss the Basel II implementation with their Head offices and Home Supervisory Authorities, and ensure that they include the branches in Saudi Arabia in their Capital Adequacy plans.

If there are any questions, these may be referred to Mr. Tariq Javed (01-4662532) or Mr. Abbas Hassan (01-4662526).

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Encls.: a/s