



Circular No.: BCS 290
Date: 12 June, 2006

From : Saudi Arabian Monetary Agency (SAMA)

To : All Banks

Attn. : General Managers and Managing Directors

Subject: **Basel II – SAMA's Detailed Guidance Document relating to Pillar 1, June 2006**

This refers to the earlier SAMA Guidance Document issued on 31 May 2005, entitled "New Basel II Framework Initial Implementation Document for Banks Operating in Saudi Arabia". At that time, SAMA had indicated that additional guidance was to be provided in certain areas following further announcements by the Basel Committee and the Islamic Financial Services Board as well as work done by the Banks' Working Groups on IRB Approaches, Securitization and Operational Risk.

As a result of these developments and to fill in some of the gaps the Agency is issuing Consultative Document # 2. A number of minor changes, corrections and amendments have been made that were noted by SAMA and the Banks in the review process. Also, the document incorporates additional guidance in the following areas:

1. Credit Risk Mitigation (Chapter 6)
2. Shariah Compliant Banking (Chapter 9)
3. Operational Risk (Chapter 10)
4. Pillar 2 (Chapter 11)
5. Stress Testing (Chapter 12)



There are a few additional areas where guidance from SAMA will be forthcoming in the near future. These will include the work arising from Banks' Working Group on Pillar 3, Basel Committee pronouncements, National data pooling project, etc.

The Agency expects banks to continue the use of this Guidance Document in their implementation plans and to provide any further comments they may have. Please note that all changes, corrections, amendments and additions have been underlined in this document for ease of reference. If you require any further clarifications, you may contact the following persons.

- Fahd Al-Mufarrij, Director of Banking Supervision, at 466-2305.
- Ahmed Al-Sheikh, Senior Supervisor, at 466-2494.
- Tariq Javed, Senior Adviser, at 466-2532.
- Abbas Hassan, Adviser, at 466-2526.

Dr. Abdulrahman Al-Hamidy
Deputy Governor
Technical Affairs