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From : Saudi Arabian Monetary Agency
CC : H.E. Abdulaziz Al-Helaissi, Deputy Governor for Supervision
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **SAMA's Final Document concerning Basel III Internal Rating Based (IRB) Approaches for Credit Risk**

In 2006, SAMA introduced the option for banks to use the Internal Rating Based Approaches (IRB) for Credit Risk through its circular entitled "SAMA Detailed Guidance document relating to Pillar 1". Also, in January 2012 SAMA issued its final document concerning Basel II through its circular # BCS 5318 entitled "Basel II IRB Prudential Returns Guidance Notes Package and Frequently Asked Questions (FAQs)". Subsequently, with the advent of Basel III, SAMA issued a consultative document in February 2014 concerning Basel III IRB Approaches entitled "SAMA Consultative Draft Concerning Basel III Internal Rating Based (IRB) Approaches for Credit Risk" soliciting banks comments by 30 April 2014. We have now received comments from the banks, and on this basis, SAMA is issuing this final circular for Basel III for banks to implement effective from the date of this circular.

The Prudential Returns and Guidance notes concerning Basel III Internal Rating Based (IRB) Approaches for Credit Risk are covered in the three documents given below.

1. General Guidance Notes (GGN) on Internal Rating Based Approach
2. Specific Guidance Notes (SGN) on Internal Rating Based Approach
3. IRB Related Prudential Returns

Currently, no Saudi Bank has migrated to the Foundation or Advance IRB Approaches. This circular is to be implemented by those banks that are planning to move to the IRB Approaches in the coming years. Going forward, Banks should note that SAMA's regulatory approval is required before they can utilize IRB Approaches for calculation of capital requirements for credit risk. This approval is given following a validation exercise carried out by the Agency.



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