



Circular No.: BCS 5610
Date: 13 February 2011

From : Saudi Arabian Monetary Agency
To : All Banks
Attention : Managing Directors, Chief Executive Officers and General Managers
Subject : **Quarterly Monitoring of Capital Leverage Ratio in 2011 and 2012**

A major initiative announced by the Basle Committee (the Committee) in its Basel II reform package issued in December 2010 relates to the Capital Leverage Ratio to be maintained by banks in addition to the risk based capital ratio. In this regard, excessive leverage in banks and the banking system was a major cause of the global financial crisis notwithstanding that such banks were carrying strong Basel II related risk based capital ratios. Consequently, the Committee agreed to introduce a non risk based capital leverage ratio in addition to the risk based capital ratio in its overall Basel III Capital Adequacy regime. The Capital Leverage Ratio is designed to be simple, assists in constraining the build up of Leverage and accordingly acts as a back stop measure.

This Circular is intended to provide for the definition and calculation of the Leverage Ratio which will serve as a basis for testing during the parallel run period. In this regard, the Committee intends to have a monitoring period to test a minimum leverage ratio of 3%, as well as the underlying components of the agreed definitions over January 2011 to January 2012. The testing will be carried out prior to the parallel run period (January 2013 to January 2017).

Therefore, the Agency requires the completion of the attached Prudential Return to be submitted on a quarterly basis starting January 2011. The first quarterly return will be due in SAMA on 30 April 2011 concerning data as of 31 March 2011. Accordingly, to facilitate the quarterly submission and testing of the capital leverage ratio, the guidance notes are attached. All Banks must review and provide their comment by 28 February, 2011.

If you need further clarification, please contact Mr. Tariq Javed at 01-466-2524, e-mail: t_javed@sama-ksa.org or Mr. Abbas Hassan at 01-466-2526, e-mail: ahassan@sama.org.sa by 28 February 2011.

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