Prudential Return # 1

BASEL III LEVERAGE RATIO
For the Quarter Ending
(All Amount in SR 000's)

A. On Balance Sheets Assets[1]	**Quarter Ending**[1]
1. Cash	
2. Balances Due from SAMA	
3. Items in course of collection	
4. Due from Commercial Banks	
5. Due from Specialized Banks	
6. Due from Other Financial Institutions	
7. Due from Head Office / Branches	
8. Due from OBU's	
9. Credit Facilities	
10. Investments	
11. Fixed Assets	
12. Other Assets[3]	
13. Total Assets[4]	
14. Net of Adjustment from BCBS document of January, 2014 as below. - Item 12 - Item 13 - Item 14	
15. Total On Balance Sheet for Leverage Purposes effective January 2015.	

B. Off Balance Sheet Obligations excluding[1] **Derivatives**	**Quarter Ending**[1] **Notional Values**	**On Balance Sheet LEQ**[2] **Values**
1. Letters of Credit		
2. Guarantees		
3. Acceptances		
4. Endorsements		
5. Asset Sale & Repurchase Agreements		
6. Committed Facilities to Lend, Purchase Securities, Provide Guarantees & Acceptances		
7. Revolving Underwriting Facilities & note Issuing Facilities		
8. Revocable Overdraft & Other Non-Committed Facilities		
9. Others		
Net of adjustments concerning off-balance sheet items concerning Leverage Ratio based on BCBS document of January 2014, item 38 and 39		
10. Total Off Balance Sheet items excluding[3] derivatives effective January 2015		

C. Derivatives[2] ▪ Financial Derivatives	**Quarter Ending**[1] **Notional Values**	**On Balance Sheet LEQ**[2] **Values**
▪ Foreign Exchange		
▪ Interest Rate		
▪ Equity		
▪ Fixed rate securities		
▪ Commodities		
▪ Others		
▪ Net of adjustment concerning		

derivatives emanating from BCBS document concerning Leverage Ratio of January 2014, item 18 to 31		
▪ Total Derivatives exposures to Leverage Ratio effective January 2013.		

LEQ: Loan Total Values[2]

[1]To agree with M-1with the exception of those on balance sheet assets which are net of provision, and unearned commission.
[2]To agree with Q17.6.2, and 7.6.3 series only for the month of March, June, September and December
[3]If positive derivative values are included, these should not be double counted in off balance sheet items.
[4]Total measures of exposures are item A+B+C. From this total Tier 1-1 regulatory deduction should be deducted to arrive at the total measure of exposures.

Basel III
Prudential Return Concerning Leverage Ratio
Based on BCBS document of January 2014
Entitled "Basel III Leverage Ratio framework and disclosure requirements"

A. Basel III Capital for Leverage Purposes	**Quarter Ending**
Tier – 1	
▪ Issued Capital	
▪ Legal Reserves	
▪ General Reserves	
▪ Retained Earnings	
▪ Regulatory Deduction relating to common equity	
▪ Total Common Equity Capital	
▪ Additional Tier 1 Capital	
▪ Regulatory Deductions relating to additional Tier-1	
▪ Adjustments to Tier-1 Capital arising from BCBS document of January 2014 concerning the Leverage Ratio is covered in item 10 and 11 of the BCBS document of January 2014.	
▪ Total Tier-1 Capital applicable as of January 2015	

[1]Additional Tier 1 Capital includes all those instruments issued by the Bank that qualify under item 54 and 55 net of applicable deduction described in BCBS document of December 2010 entitled "Basel III: A Global Regulatory Framework for Resilient Bank and Banking Supervision" .

E. Capital Leverage Ratio Calculation

The calculation of Capital Leverage is going to be on a quarterly basis as follows:

- Tier – 1 Capital (D) divided by sum of on-balance sheet amount (A), Off-balance sheet obligations excluding derivative (B), and C (Derivative)

$$E = \frac{D}{A+B+C}$$

Note: All Off-Balance Sheet (B) and (C) Derivatives are at Loan Equivalent Values (LEQ).

Attachment – 1A

LEVERAGE RATIO
Guidance Notes for Prudential Return # 1

A. General Guidance

This guidance is to implement the quarterly monitoring of Leverage Ratio effective January 2015 is based on the BCBS document of January 2014.

SAMA is using the incremental approach for implementing the BCBS document of January 2014 concerning leverage. Consequently, the Agency is adjusting its Guidance Notes and Prudential Returns framework issued in 2011 with the amendments issued in January 2014.

- Banks are to complete the Prudential Return described in attachment – 1.
- This is a simple non-risked based Capital Ratio designed to measure leverage based on Gross exposures with the exception of credit exposures which are net of specific provisions and Tier 1 Capital under Basel III.
- Annual to date quarterly ratio is the average of the preceding quarterly ratio.
- It provides a breaker from building excessive leverage in the Banks and the Banking systems.
- The basis of calculation is the average of the monthly leverage ratio for the quarterly reporting of 2015.
- The leverage ratio is to be calculated on the basis of Basle III Tier – 1 Capital and Bank exposure comprising of on-balance sheet items equivalent values for off-balance sheet and derivative obligations. These are to be based on the BCBS document of January 2014 to December 2014 for effective implementation post January 2015.

Reporting and Monitoring Period

- The monitoring period will be from 30 September 2014 to December 2014.
- Banks are expected to report to SAMA on a quarterly basis their leverage information as per the attached Prudential Return (attachment -1) to track in a consistent manner the underlying components of the agreed definition and resulting ratio.
- The returns should be submitted 30 days following the quarter end.

Parallel Runs

- SAMA expects the January parallel runs to commence effective 1st June 2014 to December 2014 for effective implementation post January 2015.
- Based on the parallel run period any final adjustments will be done in the first half of 2017 with a view to migrate to Pillar – 1
- Additional guidance will be issued in this regard in due course.

Banks Level Disclosure

Banks level disclosures of the capital leverage ratio and its component will start 1 January 2015. SAMA is developing these prudential returns in conjunction with CFOs of the Bank.

Implementation as a regulatory measures

The actual implementation as a regulatory ratio and as a component of Pillar 1 is likely to commence from 1st January 2018.

B. Specific Guidelines

Major Time-lines

- Monitoring Period: January 2015 – January 2017
- Parallel Runs: January 2013 – January 2017
- Migration to Pillar 1: January 2018

Gross Exposures

- Exposures include On and Off-balance sheet items and it includes exposures relating to derivatives net of Tier – 1 capital deductions. These are described as and defend in item A, B and C of the Prudential Returns.

A.: On-Balance Sheet

- All exposures concerning On-balance sheet, off balance sheet derivatives are measured at net of specific provisions and credit valuation adjustments
- Netting of loans and deposits not allowed
- Gross exposures measured through
  - No netting through collaterals
  - All measurements in accordance with Accounting IFRS Rules
  - No netting of offsetting debits and credit balance through netting schemes
- Items deducted from capital do not contribute to leverage and should also be deducted from the measures of on-balance sheet exposures
- With regard to positive net present value derivative position which if included in other assets are not to be double counted in off balance sheet items.
- Any unearned commission on Islamic loan is to be netted from the underlying asset value.
- All on balance sheets assets item to agree with balances with M-1, with the exception of those on-balance sheet items which are reported net of provisions, and other deductions given above.
- Other amendments in items from the BCBS document of January 2014.

B. and C.: Off-Balance Sheet Items including derivatives

These include Off-Balance Sheet items including credit derivatives, liquidity facilities, unconditional and cancellable commitments, direct credit substitutes, acceptances, standby letters credit, trade letters of credits, guarantees, etc. and positive net present value of derivatives outstanding.

All of balance sheet items including derivative are to be converted to their cash equivalents utilizing credit conversion factor used for in the Basle framework utilizing standardized approaches. Consequently, the following elements must agree.

- All cash equivalent value to agree with like off-balance sheet items and derivatives outstanding in Q17 series.
- Other adjustment to the above items from the BCBS document of January 2014.

D.: Capital

The capital is to be measured as the Basel III Tier 1 capital as given below. A number of these elements are not applicable to Saudi Banks. Also, please refer to BCBS document on Basel III of 31.12.2010 for further clarification on Item 48 to 96. Capital is also amended as a result of implementing the BCBS document of January 2014.

Common Equity Tier 1

- Common shares issued by the bank
- Retained earnings
- Accumulated other comprehensive income and other disclosed reserves.
- Regulatory adjustments applied in the calculation of common Equity Tier – 1 Capital

Additional Tier 1 Capital

- Instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1 capital.
- Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Additional Tier 1 capital.
- Regulatory adjustments applied in the calculation of Additional Tier 1 capital.
- This generally includes reciprocal holdings of this capital, investment in own sharing additional Tier-1 capital.
- Any other adjustment emanating from the BCBS document of January 2014 regarding Tier-1 Capital items 10 and 11.

Regulatory Adjustments

This section sets out the regulatory adjustments to be applied to regulatory capital. In most cases these adjustments are applied in the calculation of Common Equity Tier 1 unless otherwise mentioned.

- Goodwill and other intangibles (except mortgage servicing rights)
- Deferred tax assets
- Cash flow hedge reserve
- Gain on sale related to securitization transactions
- Defined benefit pension fund assets and liabilities
- Mortgage servicing rights
- Investment in own shares (treasury stock) as applicable to Tier 1 Capital
- Reciprocal Cross Holdings of Banking, Financial Institutions, Insurance Company in common equity Tier-1 Capital
- Gains or losses due to change in own credit risk on fair valued liabilities

- Investments common equity (Tier-1 Capital) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity.
- Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation. Investments in entities that are outside the scope of regulatory consolidation refers to investments in entities that have not been consolidated at all or have not been consolidated in such a way as to result in their assets being included in the calculation of consolidated risk-weighted assets of the group.
- Threshold deductions: Instead of a full deduction, the following items may each receive limited recognition when calculating Common Equity Tier 1, with recognition capped at 10% of the bank's common equity (after the application of all regulatory adjustments.

    - Significant Investment in common shares of unconsolidated financial institutions (banks, insurance and other financial entities)
    - Mortgage servicing rights
    - DTAs that arise from temporary differences
    - Regulatory adjustment concerning On, Off balance sheet and derivative exposures emanating from the BCBS document of January 2014 as below.

Capital (Tier-1)

Item 10 and 11

Exposure Measurements

Page 12-14

a. On Balance Sheet

Item 15-17

b. Derivatives Exposures

Item 18-31

c. Securities Financing Transactions

Item 32-37

d. Off Balance Sheet items

Item 38 to 39

Attachment – 2

Frequently Asked Questions

Issues # 1

Figures are to tally with the Q17 quarterly report. However, guidance note number 1 mentions that the basis of calculation is the average of the monthly leverage ratio over the quarter. Due to this apparent inconsistency could you please confirm if the computation is based on quarter-end figures.

Response

- Generally, the quarterly submission represents the average of 3 months over a quarter. Consequently, monthly leverage rate will be computed for 3 months and an average of 3 months will arrived at. This will commence from 1 January 2012.

  However for 2011, the Leverage Ratio will be computed using quarterly data.

Issues # 2

Please explain the methodology for computing Leverage ratio (which reads "Annually to-Date quarterly"). Should Bank use quarterly Prudential Returns figures where required and monthly averages of M-1 tables?

Response

- Annually to date quarterly means that to date quarterly average will be given also. For example, for quarter ending June, the average of the 1-Q and 2-Q will be provided in the "annually to date quarter"

Issues # 3

Please confirm the deduction on unearned commission on Islamic loans when reporting on-balance sheet gross exposures.

Response

Yes.

Issues # 4

Capital for Leverage purpose, the term “Other Tier 1 Capital” is not clear. Could you please provide us with some explanation regarding this item.

Response

Other Tier 1 Capital has been defined in the amended Prudential Returns package on Capital Leverage.

Issues # 5

Credit Facilities

In your proposed schedule, Banks have to adjust the amount of Credit facilities disclosed in M1 in the Asset part by the Specific Provisions and Interest in Suspense which appear as liabilities in the M1 report, in line with clause 3.1 of the implementation Guidance.

Response*:* Yes. Refer to Amended Quarterly Return.

Issues # 6

Derivatives

Positive NPV of Derivatives have been excluded from Other Assets to avoid double counting of same asset as these NPV have also been included in Schedule "D" on Derivatives.

It is recommended that the implementation guidance of SAMA be revised to incorporate the same.

Response: Yes. Refer to Amended Guidelines.

Issues # 7

NPV of Derivatives has been grossed up for the netting agreement as required implementation guidance document.

Response*:* Yes. Netting not permitted in KSA.