

# Rules Governing Calculation of Annual Percentage Rate (APR)

Rabi' II 1445H / November 2023

**Important note:**

For the updated and amended Rules, SAMA advises referring to the version published on its website: [www.sama.gov.sa](http://www.sama.gov.sa)



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## Chapter I: General Provisions

### Article 1: Definitions

The following terms and phrases, where used in these Rules, shall have the corresponding meanings unless the context requires otherwise:

**SAMA:** The Saudi Central Bank.

**Rules:** Rules Governing the Calculation of the Annual Percentage Rate (APR).

**Finance Providers:** Banks, and Finance Companies Licensed to engage in retail lending.

**Borrower:** a person receiving finance.

**Financing Agreement:** an agreement whereby financing is granted for the activities listed in the Laws and Regulations.

**Amount of Finance:** the ceiling or the total amounts made available to the borrower under a finance agreement.

**Annual Percentage Rate (APR):** The discount rate at which the present value of payments and installments that are due from the borrower representing the total amount payable by the borrower equals the present value of all payments of the amount of financing available to the borrower on the date on which the financing amount or the first payment thereof is available to the borrower.

**Total Amount Payable by the Borrower:** the sum of principal loan amount and the total cost of finance.

**Total Cost of Finance:** All the costs to be paid by the borrower under a financing agreement other than the amount of Finance, including term cost, fees, commissions, administrative services fees, insurance, and any charges required to obtain finance excluding any expenses the borrower can avoid such as costs or fees payable by the borrower due to his breach of any of his obligations contained in the financing agreement.

## **Article 2: Scope of Implementation**

1. These Rules shall be applicable on all finance providers engaging in retail lending.
2. The Rules shall be read in conjunction with the related Laws and Regulations, including but not limited to the following:
  - Finance Companies Control Law and its Implementing Regulation.
  - Rules Regulating Consumer Microfinance Companies.
  - The Rules on disclosure of interest rates on financing and saving Products.
  - The Regulations for Consumer Financing.
  - SAMA's Circular No. 381000095091 issued on 10/9/1438H to clarify Article (10) and Article (21) and the APR Calculation Mechanism in the Regulation for Consumer Financing.

## **Article 3: General Provisions**

1. The objective of these Rules is to standardize the Annual Percentage Rate (APR) calculation for different types of retail lending, ensuring transparency in the finance offers and comparability to enable retail consumers to make informed decisions.
2. The APR for financing transactions shall be determined in accordance with the instructions and APR Calculator implemented through these Rules for the following:
  - a. Advertising and promotional materials.
  - b. Finance offering stage.
  - c. Financing contract.
  - d. Periodic statements provided to customers.
  - e. Any other disclosure of APR.

## Chapter II: APR Calculator

### Article 4: SAMA APR Calculator

Finance providers shall utilize the Excel based calculator issued by SAMA for the purpose of implementing the Rules.

### Article 5: Implementation and Update of the APR Calculator

1. Finance providers shall update the relevant policies and procedures to comply with the requirements included in the Rules.
2. Finance providers are responsible for implementing adequate internal controls and audit mechanisms to safeguard the integrity of the APR Calculator deployed. In case where the APR Calculator is automated, finance providers should verify the results obtained using the automated tool by comparing those results to the figures obtained by using Excel based APR Calculator provided by SAMA.
3. Finance providers shall also ensure that the APR Calculator made available to customers through their websites is updated to align with the Rules requirements and the enclosed Calculator.

## Chapter III: APR Calculation Requirements

### Article 6: APR Calculation Method

The APR should be calculated based on the net present value method using the following formula:

$$\sum_{d=1}^m C_d(1+X)^{-S_d} = \sum_{p=1}^n B_p(1+X)^{-t_p}$$

Where:

- ***m*** is the last payment of the amount of finance to be received by the borrower.
- ***d*** is the payment to be received by the borrower from the amount of finance.
- ***Cd*** is the payment value of (*d*) to be received by the borrower from the amount of finance.
- ***Sd*** is the period between the date on which the amount of finance or the first payment is available to the borrower and the date of payment (*d*), calculated

*in years and parts of the year, and so that this period of first payment received by the borrower from the amount of finance is zero ( $s_1=0$ )*

- ***n** is the last payment payable by the borrower.*
- ***p** is the payment payable by the borrower.*
- ***Bp** is the payment value (*p*) payable by the borrower*
- ***Tp** the period between the date on which the amount of finance or the first payment is available to the borrower and the date of the payment (*p*) to be received from the borrower, calculated in years and parts of the year.*
- ***X** is the Annual Percentage Rate.*

## **Article 7: Cost of Finance**

1. For calculating the APR, finance providers shall specify the total amount payable by the borrower.
2. Finance providers shall include the cost elements in the total cost of finance as specified below:
  - a. All types of costs that the borrower has to pay in order to access the credit.
  - b. All costs shall be accounted for regardless of whether they are payable to the finance provider or a third party or payable directly or indirectly by the borrower or whether they give access to financial or non-financial services.
  - c. Term cost, commissions arising from the credit agreement, credit brokerage fees payable by the borrower, administrative fees / or loan processing fee, insurance related costs, valuation costs, cost of ancillary services, and taxes including VAT, etc.
  - d. Cost of ancillary services or supplementary services to the financing agreement, shall be included in the total cost of finance where the ancillary service is mandatory to obtain the finance or to obtain the finance on the terms and conditions marketed by the finance provider.

## **Article 8: Costs Excluded from APR Calculations**

The total cost of finance shall not include:

- a. Any amount charged in lieu of early repayment or settlement and changes in the terms and conditions of the financing agreement.

- b. Fees and charges incurred as a result of failure to comply with the terms of the agreement i.e., late payment charges in the form of penalties, charges for collection, etc.
- c. Other costs not paid in connection with the financing agreement (e.g. vehicle registration fees).

## **Article 9: General Requirements**

Finance providers must consider the following while calculating the APR:

1. The periods between the date on which the amount of finance or the first payment is available to the borrower and the date of each payment received or payable by the borrower shall be calculated on the basis of 365 days a year.
2. The APR shall be calculated on the assumption that the amount of finance is valid for the term agreed upon and the parties' adherence to their obligations according to the conditions stipulated in the financing agreement.
3. The APR must be calculated and expressed in percentage points with a minimum of two basis points, rounding half basis points to the nearest full basis points.
4. In case the finance agreement contains a clause allowing variations in term cost and fees contained in the APR (e.g. floating) which is not quantifiable at the time of financing, the APR must be calculated on the assumption that the term cost and other charges remain fixed in relation to the initial term cost applied and will remain applicable until the end of the financing agreement.

## **Article 10: Specific Requirements for Credit Cards Products**

Finance providers while calculating the APR for credit cards shall assume the following:

1. The amount of finance is provided for a period of 1 year starting from the date of the initial drawdown or card allotment/approval date, and that the final payment made by the borrower clears the principal payment, term cost and other charges, if any.

2. The principal payments and term cost are repaid by the borrower in 12 equal monthly payments, commencing 1 month after the date of the initial drawdown.
3. If the ceiling of the credit card has not been determined, that ceiling shall assumed to be SAR 10,000 when calculating the advertised APR.
4. At the pre-contractual stage, the amount of finance shall be equal to the financing limit or credit card limit requested by the customer or offered to the customer.
5. At the contractual stage, the amount of finance shall be equal to the financing limit or credit card limit based on the agreement concluded with the borrower.

## **Chapter IV: Concluding Provisions**

### **Article 11:**

The internal audit function shall review the APR calculation process at least annually. Any control deficiencies highlighted by the internal auditor shall be addressed by management in a timely and effective manner.

### **Article 12:**

These Rules shall enter into force (90) days after the date of their publication on SAMA's official Website.