Syrian Arab Republic
The Monetary and Credit Council
Central Bank of Syria

Banking Supervision Instructions

No. 14 dated 19 December 2004

Instructions for

the Contents of Credit Facilities Files

Issued by The Monetary and Credit Council through Decision No. (95/M.C.C/S4) dated 19 December 2004, and accredited by the Prime Minister

The Monetary and Credit Council Decision (95/M.C.C/S4)

The Monetary and Credit Council, pursuant to the provisions of /**section 4**/ of the Central Bank of Syria Law and the Basic Monetary System No. 23 dated 17 March 2002,

and in accordance with the "Credit Risk Management Principles" issued by the Basel Committee on Banking Supervision in September 2000,

the "Basic Principles for Effective Banking Supervision" issued by the aforementioned committee in September 1997, and in line with sound banking practices,

and upon its deliberations in the session held on 19 December 2004,

decides the following:

Article 1: The adoption of the attached contents of Credit Facilities Files and requesting the banks operating in the Syrian Arab Republic to apply and implement the contents thereof.

Article 2: This Decision shall be communicated to whom it may concern for implementation.

Damascus on 19 December 2004

Chairperson of The Monetary and Credit Council
Dr. Muhammed Bashar Kabbara

Accredited by the Prime Minister
Eng. Muhammed Naji Itry

Secretary of The Monetary and Credit Council
Hana'a Audeh

Special Instructions on the Contents of Credit Facilities Files

Based on /**item 2.e**/ of /**Article 1**/ and /**Article 118**, (**Paragraph 5**)/ of the Central Bank of Syria Law and the Basic Monetary System issued by Law No. /23/ dated 17 March 2002, with the aim of identifying, measuring, monitoring, and following up on credit risks, and for the purpose of making sound Decisions regarding credit facilities, banks are requested to keep comprehensive files on all clients and entities they deal with, according to the classifications shown below, in order to be able to properly assess and objectively classify credit risks. The information contained in these files should be monitored and updated periodically (at least once a year) and whenever any modification or change occurs to the terms of the granted facilities.

A file shall be opened for each client benefiting from credit facilities, regardless of their type or nature, and copies of these facilities' files shall be kept at the bank's lending division and made available to the Credit Committee and the Board of Directors when needed. This preservation must observe the banking secrecy imposed by /**Articles 3**/ and /**Articles 5**/ of Law No. /29/ of 2001 and the principle of occupational segregation between the tasks of the bank's employees related to the various stages of credit operations. Access to these files is prohibited except by persons charged with managing credit risks or as designated by the bank's Board of Directors.

Contents of the Lending File

The following are the main sections that a lending file must contain, and the information and documents that must be available in each section as a minimum. Each bank has the right to add any other sections or additional information it deems necessary for proper monitoring and assessment of the credit risks associated with the file.

Each file shall include the following main sections:

1. Identification and inquiry about the client.
2. Decisions of the Credit Committee and related studies.
3. Financial statements.
4. Taken guarantees.
5. Correspondence.
6. Information related to other clients associated with the concerned client.
7. Follow-up.
8. Contracts and legal documents.

1. Identification and Inquiry about the Client

This section includes the following information:

1.1. A list of detailed information about the client including personal information, ethics, reputation, opinions of banks and entities they deal with, and their commercial history. If the client is a legal entity, the names of major shareholders, partners, board members, their positions, duration of their election, and the names of individuals authorized to sign on behalf of the company or institution, accompanied by a copy of their power of attorney or assignment, as well as personal and financial information about board members, major shareholders, and partners where applicable.
1.2. An estimate of the client’s financial, tangible, and real estate capabilities, accompanied by documentary evidence, copies of ownership deeds, and recent real estate statements.
1.3. A statement of the client’s contributions and shares in other companies and institutions, their role therein, and an estimate of the value of these contributions.
1.4. The banks with which the client deals and the total loans and banking facilities granted to them by these banks at the time of granting the facilities.
1.5. The supervisory commissioner responsible for auditing the client’s financial statements.
1.6. Names of the individuals responsible for the client’s activities and information about their managerial capabilities.
1.7. The geographical scope within which they operate.
1.8. The activity in which the client is engaged and the size of their business relative to the sector’s activity size.
1.9. Names of the main competitors of the client’s activity.

2. <u>Decisions of the Credit Committee and Related Studies</u>

A. <u>Facility Decisions:</u>

- The requested facilities, their type, purpose, and repayment method.
- The date and number of the Credit Committee’s Decision to grant the facilities, specifying their value and terms such as the currency of the facilities, interest rate, applicable commissions, maturity of the facilities, repayment schedule, and methods.
- The value and date of the last facilities granted by the bank to the client.
- The required guarantees and what they include, such as value and location if they are in the form of real estate guarantees, and the type of accepted securities if the facilities are against these securities, and any other information related to the guarantee of the granted credit facilities.

B. <u>Studies:</u>

The study prepared by the Department of Studies in the Lending Division should include the following:

- The Department of Studies’ opinion on the client’s business literature, financial status, and solvency, accompanied by the analytical study conducted by this department.

- The total transactions conducted with the bank during the preceding twelve months, if the client is not new to the bank, including the total number and amounts of withdrawals, and the total number and amounts of deposits, recorded interests and commissions, highest balance and its date, lowest balance and its date, number of opened letters of credit and their amounts, and returned checks if any.
- The extent of the client's overstepping on the granted credit lines and the duration of their continuation.
- The financial resources available to the client and their stability.
- The client's ability to repay the value of the granted facilities.
- The client's ability and continuity in paying the interests and the debt capital.
- The robustness and strength of the client's financial activity.
- The potential for development and success of the client's business.
- The client's cash flows and their stability.
- The size of the facilities granted to the client and their ratio to their own funds, to the total bank's lending at the date of granting, and to the bank's own funds, in addition to the size of the client's other banking risks.
- An analysis on the economic sector in which the client operates, indicating the risks faced by this sector.
- The extent of the client's compliance with previously agreed repayment programs with the bank, and if the answer is negative, an explanation of the reasons is requested.
- The solvency of the guarantors and their actual readiness to pay the client's obligations in case of default.
- The client's credit rating, whether done by a private rating institution, by the bank's internal rating department, or by the Banking Supervision Department.

C. <u>Financial Analysis:</u>

- A study showing the development of the client's financial situation through a comparative study of the financial statements for the preceding three years, with an understanding of the development of the main items and accounts.
- A study of the development of the business volume and the net profits or losses realized.
- A table of the expected financial flows for the coming years and an analysis of these flows according to some assumptions through stress testing.
- An economic feasibility study of the project subject to the facilities.
- The client's foreign currency income (if the client exports abroad) and the ratio of this income to the total income in Syrian pounds.

- Analysis of financial and operational ratios, including liquidity ratios, profitability ratios, financial leverage ratios, adequacy of own funds and solvency ratios, commercial activity ratios or turnover rates, etc.

3. **<u>Financial Statements:</u>**

   The lending file must include the following financial statements according to the client's legal personality, whether a corporate entity or an individual.

   If the client is a corporate entity in the form of a capital company or a partnership or a joint company (between the public and private sectors), they must present the financial statements for the last three years, including:

   - The balance sheets.
   - The income statement (profits and losses).
   - The cash flow statement.
   - The statement of changes in equity and shareholders' rights.
   - Disclosures and explanations about these statements.

   These statements must be signed by the accredited auditor (control commissioner), accompanied by their reports on them, ensuring that they comply with the systems and methods explained in International Accounting Standard No. 1. If the client is an individual, they must present their financial situation for the last three years, accompanied by income statements and cash flows for these periods.

   This section should include the consolidated financial statements that comprise the client's financial statements and the financial statements of their affiliated institutions and companies (an institution or company is considered affiliated when the main client has the authority to manage it, or when they have the majority of voting rights or ownership in it).

   In addition to the financial statements mentioned above, and aside from these statements, a financial analysis must be provided if the subject of the granted facilities is a specific project, explaining:

   - The economic feasibility of the project.
   - The environment or geographical area in which this project operates and the extent to which this project is affected by changes that may occur in this environment or area.
   - Available funding sources for the project.
   - Strengths or weaknesses that exist in the project but whose value is not reflected on the balance sheet according to International Accounting Standards.

4. **<u>Taken Guarantees:</u>**

   A. **<u>Real estate guarantees:</u>**

   If the credit facilities are provided against a real estate guarantee, the facilities file must include the following documents:

- Copies of the insurance certificate on the property insured against the granted facilities.
- Periodic statements issued by the real estate departments about the status of the insured property.
- The report on the appraisal of the insured property by sworn or accredited real estate experts, and the property must be re-appraised periodically at least once every three years and when renewing or modifying the granted facilities.
- The opinion of the bank's legal division on the validity and legality of the real estate insurance.

B. <u>Cash guarantees:</u>

If the credit facilities are provided against cash guarantees, the credit facilities file must include the following documents:

- Copies of letters of mortgage of the creditor cash accounts against the facilities. It must take the legal principles applied to the mortgage of creditor accounts into consideration. The letter of mortgage must explicitly state the value and currency of the mortgaged account and the date of the mortgage, clarifying the value and currency of the debtor account against which the mortgage was made, and a mark must be placed on the mortgaged account so that no withdrawals can be made from it.
- The opinion of the legal division on the validity of the mortgage.

C. <u>Securities:</u>

In the case that the guarantee is securities, the credit facilities file must include the following documents:

- Periodically updated copies of the type and value of the securities with statements of their market value.
- A copy of the letter of mortgage of the securities signed properly by their owners.
- A clarification from the credit committee or the general management in the entity benefiting from the revenues of these securities, whether in the form of interests or profit shares.
- If these securities are not traded in the financial market, this section should include the financial statements and conditions of the companies issuing these papers and a recent estimate by the bank's management of the value of these securities.
- The opinion of the legal division on the validity of the mortgage concluded on these securities.

D. <u>Personal guarantees:</u>

- Copies of personal or banking guarantees that guarantee the client.

- Signatures of the guarantors acknowledging that they have been informed of the value of the amounts reached by the debtor accounts they guarantee.
- Models with the signatures of the guarantors.
- An assessment of the financial and real estate conditions of the guarantors and a re-assessment of these conditions at least once a year.

E. <u>Insurance policies:</u>

If the credit facilities are granted against insurance policies, the credit facilities file must include the following documents:

- Copies of the insurance policies if their value is transferred in the name of the bank.
- Copies of receipts given after paying premiums for insurance policies in life insurance cases.

For the **original documents** of all the above guarantees, they must be kept in a safe place such as the iron safes at the lending division or at the general management, and no document should be removed from these safes except in the presence and signature of at least two responsible persons in addition to the signature of the person who received the original document.

A periodic inventory of the contents of these safes is organized and signed by those responsible for them, in addition to the signature of another responsible person.

5. <u>Correspondence:</u>

This section includes correspondence that takes place between the client and the bank and is arranged according to its historical sequence. Here are some examples of correspondence included in this section:

- The client's request for credit facilities, their value, purpose, how to repay them, and the proposed guarantees to be provided.
- The notifications that the management sends to the client informing them of any change in the interest rate and commissions.
- The client's endorsement of their account balances.
- The client's endorsement of the interest rates on the facilities granted to them.
- Minutes of meetings that take place with the client, whether during their visit to the bank's management or during the visit of the bank's representatives to the client's workplace.
- Any other correspondence.

6. <u>Information Related to Other Clients Associated with the Concerned Client:</u>

This section includes general information about entities associated with the client who has obtained credit facilities. An entity is considered associated with the client when one or more of the following elements are present:

- The client has the authority to manage an institution or owns the majority of voting rights and majority ownership rights in it.
- The group of institutions over which the client has direct supervisory authority and decision-making power.
- The natural person or legal entity guaranteed by the client.
- The client's spouse and children.
- Any person or institution that the Banking Supervision Department may consider associated with the client unless the concerned bank can prove the lack of risk correlation between this person or institution and the client's risks.

This section periodically includes the risk volume of the group associated with the client at the bank and at other banks where applicable.

7. **Follow-up:**

This section states the follow up procedures conducted by the bank on the client's conditions and activities, which includes:

- The reports of the visits paid by bank representatives to the work sites of the client.
- Minutes of meetings held between the bank and the client.
- Debt repayment programs and plans set by the bank.
- The lending division's opinion on the client's situation.
- Reports from lawyers tasked with legally pursuing the client, explaining developments in lawsuits filed against them or about the measures taken to collect the debt.

8. **Contracts and Legal Documents:**

This section includes, for example, the following documents:

- A copy of the client's personal identity and family civil registry extract. In the case of a legal entity in the form of a company, a copy of the statute of the company and amendments made to it, in addition to copies of the identities of the signatories authorized.
- A copy of the commercial registration certificate and a copy of the commercial circular.
- Copies of account opening contracts in addition to legally approved signature models.
- Minutes of the general assemblies of shareholders for the past three years.
- Minutes of the board of directors' sessions.
- The legal division's opinion about the bank regarding the legality and validity of the granted facilities.
- Any other legal document.