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

Banking Supervision Instructions
No. 12 dated 19 December 2004

Instructions for
Credit Risk Management Standards

Issued by The Monetary and Credit Council through Decision No. (93/M.C.C/S4) dated 19 September 2004, and accredited by the Prime Minister

The Monetary and Credit Council Decision (93/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 credit risk management standards 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

Credit Risk Management Standards

Based on the second paragraph of /**Article 99**/ and the third paragraph of /**Article 100**/ of the Central Bank of Syria Law and the Basic Monetary System issued by Law 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, and the "Basic Principles for Effective Banking Supervision" issued by the aforementioned committee in September 1997, especially the seventh principle thereof, banks are required to comply with the following:

Establishing an Appropriate Environment for Credit Risk Management

1. The bank's board of directors must work on developing and defining a strategy and policy for credit risk management and review them periodically, at least once a year, provided that the strategy reflects the bank's ability to bear credit risks and the level of profits it aspires to achieve under these risks. The adopted strategy must include the following:
   - The entities, activities, economic sectors, and geographical areas intended for dealings.
   - The credit risks that are acceptable or bearable and the expected profits from them.
   - Increasing the bank's own funds proportionate to the granted credit risks.

   The credit risk management policy decided by the board of directors must be communicated to the relevant administrative levels within the bank so that each party involved in credit risks can perform its duties according to the set policy. This requires the bank's general management to monitor the implementation of this policy, the extent of any deviations, and propose amendments to it and the credit terms set according to the changing circumstances surrounding the bank.
2. The bank's general management must implement the credit risk management policy approved by the board of directors, develop it, and the related procedures, and work on identifying, measuring, monitoring, and following up on the overall and individual credit risks. These procedures must be consistent with the instructions that may be set by The Monetary and Credit Council and with the banking practices in effect, ensuring the determination of the powers to grant facilities, the allowed limits of facilities, the economic sectors and activities intended for granting, and the terms of granting facilities in addition to diversifying and distributing them. These matters require the general management to implement the following:
   - Ensuring compliance with the general policy set when granting any credit facilities.
   - Developing the policies and procedures set for credit risk management and ensuring compliance with them.

- Delegating powers regarding the granting of credit facilities and setting limits for the amounts that can be granted at each level.
- Periodically evaluating the facilities granting policy and the administrative functions associated with it, and the independence and neutrality of this evaluation.
- Ensuring the ability to identify and evaluate debts and form appropriate provisions for them.
- Obtaining full knowledge of Sovereign and Transfer Risks when it comes to granting facilities to entities outside Syrian territory.

In all cases, a bank's general management must work on communicating and informing the set credit policy to all relevant departments and units within the bank so that each party is fully aware of its duties and responsibilities in the credit granting process and in monitoring, following up, identifying, and measuring credit risks.

3. Banks must work on identifying and managing potential credit risks in every new credit activity or new financial instrument before dealing with them. They are also required to establish the necessary policies, procedures, and plans to manage these risks.

Sound Standards for Granting Credit Facilities

4. Banks must establish sound standards and strict measures when granting credit facilities. These standards should include a clear definition of the lending objectives, the activities and sectors intended for granting, and the bank's capacity to bear the losses that may result from non-repayment of the granted facilities. This requires the bank to take into account the following:
   - The purpose of the granted facilities and their sources of repayment.
   - The risks surrounding the borrowing entity and its sensitivity to market developments and the economic sector in which it operates.
   - Complete knowledge of the borrowing entity's repayment capacity.
   - Estimation of the expected cash flows from the borrowing entity under various conditions.
   - The size of the borrowing entity relative to the size of the market in which it operates and its experience and capability in its field of work.
   - The terms of the facilities and the agreements and contracts concluded with the borrowing entity.
   - The bank's ability to liquidate the collateral taken against the granted facilities.
   - The credibility and reputation of the borrowing entity and its ability to repay all its obligations to the bank itself and other creditors.
   - Complete knowledge of the borrowing client through their moral reputation and study of their personal and commercial history.
   - The client's relationship with other group/s of borrowers.
5. For risk allocation, banks must adhere to the maximum limits that The Monetary and Credit Council may set for credit facilities that can be granted to a single natural or legal

borrower or to a connected group of debtors, and for operations related to inside and outside the balance sheet. These limits should also include different economic sectors, various types of commercial, industrial, and real estate activities, as well as geographical areas. This requires the bank to conduct stress testing of credit risks under various difficult conditions to understand the risks and losses it may face in each circumstance.

6. Banks must establish clear procedures when granting any new facilities or modifying, renewing, or refinancing existing credit facilities. These procedures should be based on cooperation and coordination between all parties concerned with lending risks, which requires:
   - A clear definition of powers and responsibilities in the bank that align with the set policies and objectives.
   - Identification of the parties that have the right to approve the granting of facilities.
   - A clear path for auditing and documenting the processes of granting credit facilities.
   - Examination and review of borrowing requests submitted by various entities by experienced and competent individuals.
   - Determination of the minimum information required about the client before granting any new facilities or renewing or modifying their existing facilities.
   - Training and qualification of a sufficient number of specialized employees to study and evaluate borrowing requests.
   - Identification of the competent authorities responsible for reviewing the evaluation of borrowing requests.
7. Banks must comply with the third paragraph of /**Article 100**/ of the Central Bank of Syria Law and the Basic Monetary System No. 23 of 2002, which prohibits opening credits or granting loans or advances in any form to its employees, auditors, or state officials who have a direct relationship with the supervision, monitoring, or follow-up of its activities, and their spouses and children, unless The Monetary and Credit Council has previously approved it.

Maintaining Appropriate Procedures for Managing, Measuring, and Monitoring Lending

To maintain appropriate procedures for managing, knowing the size of lending, and monitoring it, a bank must at least:

8. Implement a special system for managing various credit portfolios. In this case, the general management is tasked with monitoring the implementation of this system and ensuring its proper application, so that this system provides the following:
   - A lending file for each client, attested with the necessary documents, recent financial data, and updated with sufficient recent information, documents, contracts, and guarantees.
   - Ensuring the accuracy and timing of the information reported to the concerned parties.

- Functional separation between the tasks of those in charge of credit operations at all stages.
- Monitoring the procedures and office operations related to lending processes.
- Ensuring the implementation of the drawn policies and the application of the laws and instructions in force.

9. Implement a specialized system for monitoring and following up on the status and conditions of each credit operation separately and determining the adequacy of provisions. This necessitates designing and developing comprehensive procedures and a sufficient information system to monitor the status of each credit file. This system must ensure the following:
   - Adherence to the standards set by The Monetary and Credit Council regarding debt classification.
   - Customers' compliance with contracts and agreements concluded with the bank.
   - Assessment of the adequacy of the collateral taken against the granted debts.
   - Prompt handling of nonaccrual loans.
10. Adopt administrative information systems and advanced analytical techniques that enable the bank's management to measure the inherent credit risks in its various activities, both inside and outside the balance sheet.
   These systems should provide sufficient information about the composition of the credit portfolio, including:
   - The nature and type of credit, whether in the form of a loan, credit facilities, or other forms of credit.
   - The terms of the credit contracts, including interest rates, maturity dates, repayment schedules, etc.
   - The presence or absence of specific guarantees.
   - The probability of non-repayment according to the bank's assessment of each credit file.
   - The concentration ratio of debts.
   - The extent of exceeding the granted credit lines.
   - Risks of interconnected groups of debtors.

   The adopted administrative information systems must be suitable for the size of the bank's activity and the complexity and branching of its operations, based on available and accurate information. The bank's management must review and periodically adjust these systems and ensure that this information reaches the concerned parties in a timely manner to prevent any credit risks before they occur.

11. In addition to monitoring and following up on the credit risks of each client separately, a bank must implement a special system for monitoring and following up on the overall quality of the credit portfolio, such as concentration in a connected group of debtors, a specific type of business, a particular economic sector, a specific geographical area, or a

particular type of lending. Therefore, a bank must work to reduce the concentration of its credit activity as much as possible and distribute it across several activities, sectors, and a large number of borrowers.

12. Take into account potential changes in economic conditions when evaluating the debt of each borrower and the total debts of the credit portfolio, applying stress testing on these debts under pressing conditions and difficult circumstances, such as an economic slowdown, increased market risks, or a liquidity shortage, to understand the extent of the bank's ability to bear the losses that may result from these conditions and situations.

Adequate Control Over Credit Risks

A bank must ensure that there is adequate control over credit risks and work on the following:

13. Establish a system based on continuous and independent evaluation of the credit risk management process and inform the board of directors and the general management of the bank of the results of this evaluation. This necessitates a continuous supply of internal reports raised to the board of directors and the general management from the parties concerned with credit facility operations in the bank.
14. Ensure that the process of granting credit facilities is conducted and managed properly and that the amounts of granted and used facilities remain within the defined prudential standards and limits, and work on establishing and enforcing internal control and complementary procedures to ensure that any deviations from the policies, procedures, and limits set are reported to the concerned administrative parties in a timely manner.
15. Provide a special system for the early treatment of deteriorating credit quality and for managing difficult debts, which includes:
    - Methods for reviewing and evaluating debts to identify non-interest-producing and troubled debts.
    - The necessary reports to be prepared to inform the concerned parties about non-interest-producing and troubled debts.
    - How to handle non-interest-producing and troubled debts and the necessary steps to pursue their collection.