Guideline for calculation of provisions for claims of credit institutions

In order to compensate for contingent damages or losses due to customers' failure to meet their obligations with regard to granted facilities, the credit institution[1] is required to calculate the general and special provisions based on the guideline for asset classification of credit institutions and as described below.

Article 1: General provision

The general provision is calculated at the end of the fiscal year or in periods when financial statements are prepared. The method for calculation of general provision for doubtful claims is proportionate with such claims and it should, at least, equal 1.5% of the total amount of facilities granted by the credit institution - as defined in clause 1-1 of the guideline for asset classification of credit institutions (including old, current, overdue, past due, and doubtful transactions) – at the end of each fiscal year.

Article 2: Special provisions

2-1- Based on sub-articles 2-2, 2-3, and 2-4 of the guideline for asset classification of credit institutions, the special provisions are calculate as described below.

Class	Percent
Overdue facilities	10
Past due facilities	20
Doubtful facilities	50 to 100

Note 1: Setting more than 50% provisions for doubtful facilities requires special assessments and acceptable evidence based on accounting standards. However, for all facilities whose payment of principal and interest is overdue more than 5 years, the special provision is set as 100%.

[1] Definitions specified in the guideline for asset classification of credit institutions are applicable in this guideline.

Note 2: In cases where general provisions are calculated for facilities based on this guideline, the remaining of such facilities should be deducted from the total position of facilities (which is the basis for calculation of general provisions).

2-2- While calculating the special provision, the credit institution is required to apply the following weights for collaterals and deduct the result from each facility.

2-2-1- 100% of the cash collaterals such as Gharzulhasanah savings deposits, short-term investments, long-term investments, and bank certificate of deposit (both in Rial and foreign exchange)

2-2-2- 100% of the value of participation bonds guaranteed by the government or issued by the central bank

2-2-3- 80% of the value of participation bonds guaranteed by the banking system of the country

2-2-4- Maximum 70% of the market value of real estate and properties

2-2-5- Maximum 70% of the market value of the shares listed in the stock exchange, valid banking documents such as negotiated documentary credits, banking letters of guarantee, and the like

2-2-6- Maximum 50% of the market value of machineries and equipment

Note: The valuation of the collaterals mentioned in 2-2-4 and 2-2-6 above shall be conducted by a qualified expert selected either from inside or outside by the board of directors of the credit institution. The valuation remains valid for three years provided that it is adjusted with the change of indexes by the central bank. This adjustment takes place at the end of the fiscal year or when the financial statements are prepared.

Article 3: Provisions for claims against the government

No special provision is set for facilities guaranteed by the government (as defined in article 4 of the guideline for asset classification of the credit institutions).

This guideline includes 3 articles and 3 notes and was approved by the Money and Credit Council in its 1074th meeting in 2006.