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Instructions for Cross- Border Establishment by Jordanian Banks

No. (18/2004)

Issued by the Central Bank of Jordan

In order to organize the process of cross-border establishment of Jordanian banks in a way that will improve the diversification and allocation of their sources of income and assets, and in an effort to enhance the level of consolidated supervision executed by the Central Bank, and pursuant to the provisions of the Article (12/g) of the Central Bank of Jordan Law No. (23) for 1971 and its amendments and the Articles (17/b) and (99/b) of the Banking Law No. (28) for 2000, I list below the general principles for cross-border establishment of Jordanian banks issued in accordance with CBJ's Board of Directors resolution No. (60/2004) dated 22/6/2004:

- 1. The cross-border establishment of Jordanian banks takes the following forms:**
 - a. Ordinary or offshore branch.
 - b. Subsidiary banking institution.
 - c. Representative office.
 - a. Any other cross-border establishment approved by the Central bank.
- 2. The prerequisites which must be met by the bank willing to branch outside the Kingdom:**
 - a. The bank has practiced banking activities inside the Kingdom for a minimum of five years.
 - b. The bank has an appropriate level of financial solvency which enables it to engage in banking activities outside the Kingdom. In this regard, the classification of the bank in terms of solvency must be within the category of "Well Capitalized" according to the definition included in the memorandum of the Framework for Corrective Actions no. (4/2004) dated 11/1/2004. Furthermore, the cross-border establishment by the bank should not lead to deterioration in this classification.

- c. The rating of the bank based on the CAMEL system should not be less than 2 (Well Rated).
- d. The rating of the management (M) based on the CAMEL system should not be less than 2 (Well Managed).
- e. The bank must have a written policy governing the relationship between the bank Head office with its cross-border establishments. Such a policy should include, at minimum, the following:
 - A system of internal audit and inspection by the bank Head office for its cross-border establishments.
 - The authorities of those responsible for managing the cross-border establishments.
 - The Head office authorities related to supervising and managing sources of funds and their investments in the cross-border establishments.

3. Host Country:

When reviewing the applications for cross-border establishment, the Central Bank of Jordan will take into consideration the following:

- a. The nature and level of supervision by regulatory authorities in the host country on cross-border establishments of the Jordanian bank.
- b. The nature of the conditions or pledges or comfort letters required by regulatory authorities in the host country either from the head office of the bank or the Central Bank of Jordan.
- c. The cooperation of the host country with respect to the exchange of regulatory information and, generally, its commitment to the Basel Committee accords for the supervision on cross-border establishments.
- d. The signed agreements with the regulatory authority in the host country.

4. Economic Feasibility Study:

The bank looking for cross-border establishments should attach an economic feasibility study to its application submitted to the Central Bank; including the proposed projected budgets for the first three years of the cross-border establishments.

5. General Provisions :

- a. The Central Bank has the right **to impose building reserves and / or identify higher risk weights** for the assets of cross-border establishments in the case that these establishments are exposed to additional risks or in the case that high risks face the establishments
- b. The bank willing to have cross-border establishments should be committed to provide the Central Bank with the following :
- Once they are realized, any extraordinary losses, , and any significant events that may affect the situation of the cross-border establishments.
 - Summary of the periodic auditing and inspection process.
 - Reports of external auditors.
 - Any directives from regulatory authorities in the host country, and any correspondence with them related directly to the bank activities.
 - Annual financial statements certified by legal auditors in accordance with the instructions of the Central Bank in this regard.
 - Head office assessment for the risk of various investments and the adequacy of reserves and provisions against these investments.
 - Date of launching the operation in the cross-border banking unit including information on the address, phone and fax numbers as well as the name of the manager
 - Informing the Central Bank in advance about its intention of shutting down or moving any cross-border banking units from one location to another .
 - Any data or information requested by the Central Bank of Jordan.

6. Provisions of memorandum No. (249/93) dated 9/11/1993 shall be repealed.

7. These instructions shall come into force as of this date.

Sincerely,

Governor
Dr. Umayyah Toukan