

Central Bank of Jordan

Regulatory Capital Instructions

According to the Basel III standard

No. (67/2016)

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First: These instructions shall be applied to all banks operating in the Kingdom on a consolidated basis, as well as at the levels shown below, so that the banks shall provide the Central Bank with capital adequacy models for these levels as follows:

- 1. The banking group¹, including the financial subsidiaries and holding companies (excluding insurance companies)
- 2. Jordan and abroad branches.
- 3. Jordan branches.
- 4. Cross-border establishments separately.
- 5. The banking subsidiaries separately.

Second: The consolidation mechanism for the purposes of implementing the capital adequacy standard

- 1. Banks and other financial companies consolidated within the banking group:
 - 1.1 Companies' financial statement may not be consolidated if they are acquired as debt payment or kept for a temporary period for the purpose of sale, or if they are subject to special legislation that does not allow for consolidation.
 - 1.2 In the event of non-consolidation for the purposes of calculating capital adequacy and the company's financial statements are consolidated for accounting purposes, then the value of the bank's investment in the non-consolidated company must be subtracted from the regulatory capital of the banking group, and at the same time, for the purposes of capital adequacy calculation, the assets, liabilities and minority interest (related to the non-consolidated company) from the financial statements of the banking group.
- 2. Investments in banks, securities companies, and other financial companies:
 - 2.1 Banks, securities firms, and other financial companies owned or controlled by the bank should fully consolidate their accounts to the maximum extent possible, in all cases, the financial statement of banks, securities companies and other financial companies owned by more than 50% of their capital must be consolidated, except in cases in which this matter cannot be achieved due to lack of benefit, as cases where the share is temporary in nature or where non-consolidation is a legal requirement of the host supervisory authority. In the event of non- consolidation, the carrying value of the bank's share in the capital of these companies shall subtracted from the regulatory capital, as indicated in annex no. (1).
 - 2.2 When consolidating the accounts of banks, securities companies and other financial companies owned by a majority (50% or more) or controlled (according to the definition of control mentioned in the accounting standards)

¹ The banking group, Jordanian banks.

from the bank with its financial accounts, and for the purposes of calculating the capital, the recognition of these companies' capital in the parent bank's capital is subject to the guidelines for the recognition of minority interest. See clause (third / 4) of chapter two.

- 2.3 In the case of subsidiary companies (that consolidate their financial statement) that have a deficit in the capital which was decided by the supervisory authority (the host), the concerned licensed bank must directly inform the Central Bank of Jordan of this deficit. In turn, the Central Bank of Jordan will monitor the measures taken by that subsidiary company to rectify its situation. If the company does not correct during the period granted to the bank, this deficit will be subtracted from the regulatory capital of the licensed bank (the parent bank).
- 3. Investments in the capital of banks, financial companies and insurance companies that are not consolidated within the banking group:
 - 3.1 Investments² in the capital of banks, financial companies and insurance companies that are less than (10%) of the capital of these companies are treated with as described in clause (fourth / 10) of chapter two.
 - 3.2 Investments in the capital of banks, financial companies and insurance companies that exceed (10%) of the capital of these companies are treated with as described in clause (fourth / 11) of chapter two.
 - When consolidating insurance company accounts that are majority owned 3.3 and/or controlled by the bank. The Central Bank of Jordan will only allow recognition of the surplus in the insurance companies capital (which is the amount that exceeds the regulatory capital required of the insurance company) under certain conditions³ within the regulatory capital of the licensed bank, as indicated in Minority Interests clause no. (third / 4) of Chapter Two. The banks that have recognized the surplus in the capital of the subsidiary insurance companies must disclose to the public the amount of this surplus. Note that if the bank's ownership in the insurance company's capital (more than 50% and less than 100%), then the recognized surplus must be proportional to the ownership percentage. For the surplus in insurance companies' capital which the bank owns minority interest and not major to the bank, it will not be recognized, as the bank does not have the ability to transfer the surplus in the capital of these companies because the bank has no control over that.

² It includes direct and indirect investments, whether classified within the banking or trading book.

³ The amount deducted from investments in equity and other investments in regulatory capital will be subject to adjustment to reflect the amount of the surplus in capital of these companies that exceeds the regulatory requirements. That is, the deducted amount will be the amount of investment and / or the regulatory capital requirements, whichever is less, as indicated in clause (third / 4) of chapter two. The amount representing the surplus (the difference between the investment in these companies and their regulatory capital) will be given a risk-weight like any other investment.

3.4 In the case of subsidiary insurance companies (which consolidate their financial statement) that have a deficit in the capital, which was decided by the supervisory authority. The concerned licensed bank must directly inform the Central Bank of Jordan of this deficit. In turn, the Central Bank of Jordan will monitor the measures taken by that subsidiary company to correct its position. If the company does not rectify its positions during the period granted to the bank, this deficit will be subtracted from the regulatory capital of the licensed bank (the parent bank).

First: Components of Capital

This section provides a definition of capital base components for licensed banks. The eligible capital along with the total risk-weighted assets shall be used in calculating the Capital Adequacy Ratio (CAR) for the banks., this section will further explain the criteria and characteristics of each component of eligible capital.

Second: Elements of Capital

- 1. The eligible regulatory capital will include the following capital elements:
 - 1.1 Tier 1 Capital (going-concern capital):
 - 1.1.1 Common Equity Tier 1 (CET1)
 - 1.1.2 Additional Tier 1 (AT1).
 - 1.2 Tier 2 (T2) Capital (gone-concern capital), as indicated in Clause (third / 3) of this chapter ⁴.
- 2. For each of the three capital types (CET1, AT1 and T2), there is a specific set of criteria that the financial instrument must fulfill before being included in the relevant category, as shown later.
- 3. All capital elements will be after the regulatory adjustments specified in clause (fourth) of this chapter. So that the total regulatory capital must be at least (12%) of the risk-weighted assets for credit, market and operational risks at all times. So that the components of the ratio are as follows:
 - 3.1 Common Equity Tier 1 must be at least 6% of risk-weighted assets at all times.
 - 3.2 The additional Tier 1 (AT1) shall not exceed (1.5%) of risk-weighted assets at all times.
 - 3.3 Tier 2 (T2) shall not exceed (2%) of risk-weighted assets at all times.
 - 3.4 The Conservation Buffer is (2.5%) of risk-weighted assets and it should be from (CET1).
- 4. For the purposes of classifying the bank within the first category "Well Capitalized", its capital adequacy ratio must not be less than (14%), but if the bank is classified within D-SIBs and for the purposes of its classification within the Well Capitalized category, its capital adequacy ratio must not be less than (14%+ capital required from D-SIBs, according to the category to which the bank belongs, and according to the time frame set out in the Domestic Systemically Important Banks (D-SIBs) instructions).
- 5. Regarding banks that have cross-border establishments, in the event that the host supervisory authorities impose a capital adequacy ratio higher than (12%). The bank, upon consolidating its financial statements for the purposes of capital adequacy, must increase the risk-weight assets of its external presence as a proportion and proportionate to reflect the capital adequacy ratio required of its external presence. For example, if the

⁴ In the event that the bank encounters substantial financial problems, the Central Bank has the right to issue instructions that include these instruments absorbing losses.

bank has an external subsidiary and the required capital adequacy ratio of this company is (16%) and the risk weighted assets is (1) billion JD. In this case, the required capital of this company according to the instructions of the host supervisory authority is (160) million JD, while the required capital according to the Central Bank instructions is (120) million JD. In order to reflect the increase in the capital adequacy ratio of this company, the risk-weighted assets of the subsidiary upon consolidating the financial statements will equal (160 million x 1 billion) / 120 million = 1,333 billion JD.

Third: Capital Qualifying Criteria

1. Common Equity Tier 1

- 1.1 Common Equity Tier 1 shall consist of the following items⁵ (after the regulatory adjustments used to calculate (CET1) according to clause (Fourth) of this chapter):
 - 1.1.1 Common shares issued by the bank that meet the criteria for classification as common shares for regulatory purposes.
 - 1.1.2 Retained earnings (losses).
 - 1.1.3 Accumulated other comprehensive income, including the cumulative change in fair value in full, foreign currency translation differences and hedge reserve for cash flows for assets not at fair value⁶.
 - 1.1.4 Disclosed reserves: regulatory reserve, voluntary reserve, stock surplus (share premium), and treasury shares premium.
 - 1.1.5 Any other unrestricted reserves subject to the prior approval of the Central Bank of Jordan.
 - 1.1.6 Minority interest, which are the common shares issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Common Equity Tier 1 capital. As described in clause (third/4) of this chapter.
- 1.2 Interim net profit is entered after deducting the tax and subtracting the value of the expected distributions within (CET1), while losses for the period are subtracted.
- 1.3 Qualification criteria for common shares issued by the bank: For an instrument to be included in Common Equity Tier 1 (CET1) it must meet all of the following criteria:
 - 1.3.1 Represents the most subordinated claim in liquidation of the bank.
 - 1.3.2 Entitled to a claim on the residual assets that is proportional with its share of issued capital, after repaid all seniority claims in case of liquidation (i.e. has an unlimited and variable claim, not a fixed or capped claim).

⁵ Proposed dividend is not included in CET1.

⁶ If the reserve resulted from assets not valued at fair value, then this reserve is not recognized as a credit facility.

- 1.3.3 Principal is permanent and never repaid outside of liquidation (regardless of whether there is a repurchases option or other means of reducing capital on optional manners that are allowed by relevant laws).
- 1.3.4 The bank does not create any expectation at issuance that the instrument will be bought back, redeemed or cancelled nor do the contractual terms provide any feature which might give rise to such an expectation.
- 1.3.5 Distributions are paid out of distributable items (included retained profits), and the distributions level is not in any way linked to the amount paid in at issuance and is not subject to a contractual cap.
- 1.3.6 There are no circumstances under which the distributions are obligatory. Therefore, non-payment is not an event of default.
- 1.3.7 Distributions are paid only after all legal and contractual obligations have been met and payments on more seniority capital instruments have been made.
- 1.3.8 To bear any losses first that may occur.
- 1.3.9 The paid in amount is recognized as equity capital (i.e. not recognized as a liability) for determining balance sheet insolvency, it is also classified as equity under the relevant accounting standards.
- 1.3.10 It is directly issued and paid-in and the bank cannot directly or indirectly have funded the purchase of the instrument.
- 1.3.11 The paid in amount is neither secured nor covered by a guarantee of the issuer or related entity⁷ or subject to any other arrangement that legally or economically enhances the seniority of the claim.
- 1.3.12 It is only issued with the approval of the bank owners, either given directly by the owners or by other persons duly authorized by the owners.
- 1.3.13 It is clearly and separately disclosed on the bank's balance sheet.

2. Additional Tier 1 capital

- 2.1 Additional Tier 1 capital consists of the sum of the following elements (after the regulatory adjustments used to calculate AT1):
 - 2.1.1 Instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1 capital (and are not included in Common Equity Tier 1), such as the nominal value of non-accumulating preferred shares (dividends) and similar instruments.
 - 2.1.2 Stock surplus (share premium) resulting from the issue of instruments included in Additional Tier 1 capital.
 - 2.1.3 Minority interest, which are the instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria

⁷ A related entity can include a parent company, a sister company, a subsidiary or any other affiliate. A holding company is a related entity irrespective of whether it a part of the banking group.

for inclusion in Additional Tier 1 capital and are not included in Common Equity Tier 1.

- 2.2 The following list sets out the minimum set of criteria for an instrument issued by the bank to meet or exceed in order for it to be included in Additional Tier 1 capital. Criteria for inclusion in Additional Tier 1 capital:
 - 2.2.1 Issued and paid-in.
 - 2.2.2 Subordinated to depositors, general creditors and subordinated debt of the bank.
 - 2.2.3 Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis bank creditors.
 - 2.2.4 Is perpetual, i.e. there is no maturity date and there are no step-ups or other incentives to redeem.
 - 2.2.5 May be callable at the initiative of the issuer only after a minimum of five years, in the event that the bank has a right to exercise a call option, the bank must:
 - Receive prior supervisory approval.
 - Not do anything which creates an expectation that the call will be exercised; note that the bank must not exercise a call unless:
 - a. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions maintains the banks' ability to maintain sustainable income⁸.
 - b. The bank proves that its capital position is above the minimum capital requirements after the call option is exercised⁹.
 - 2.2.6 Any repayment of principal (through repurchase or redemption) must be with prior CBJ approval and banks should not assume or create market expectations that CBJ approval will be given.
 - 2.2.7 Dividend/ interest payment:
 - The bank has the right at all times to cancel dividends/interest payments.
 - Cancellation of payments must not be an event of default.
 - Banks must have full access to cancelled payments to meet obligations as they fall due.
 - The cancellation of dividends/interest payments must not impose legal or regulatory restrictions on the bank.
 - 2.2.8 Dividends/ interest payment must be paid out of distributable items.

⁸ Replacement issues can be concurrent with but not after the instrument is called.

⁹ If the redemption option is implemented, the assessment of the bank's capital adequacy is subject to verification by the Central Bank of Jordan.

- 2.2.9 The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organization's credit standing.
- 2.2.10 Instruments classified as liabilities for accounting purposes (Such as long-term bonds and classified under AT1) must have principal loss absorption through either:
 - Conversion to common shares at an objective pre-specified trigger point, so that the trigger point is (30%) of CET1, or
 - A write-down mechanism which allocates losses to the instrument at a pre-specified trigger point. The write-down will have the following effects:
 - a. Reduce the claim of the instrument in liquidation;
 - b. Reduce the amount re-paid when a call is exercised;
 - c. Partially or fully reduce coupon/dividend payments on the instrument.
- 2.2.11 Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
- 2.2.12 The instrument cannot have any features that hinder recapitalization, such as provisions that require the issuer to compensate investors if a new instrument is issued at a lower price during a specified time frame.
- 2.2.13 If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g. a special purpose vehicle "SPV"), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Additional Tier 1 capital.
- 2.3 Stock surplus (share premium) resulting from the issue of financial instruments included in Additional Tier 1 capital:Stock surplus (share premium) that is not eligible for inclusion in Common Equity Tier 1, will only be permitted to be included in Additional Tier 1 capital if the shares giving rise to the stock surplus are permitted to be included in Additional Tier 1 capital.

3. Tier 2 Capital

- 3.1 Tier 2 capital consists of the sum of the following elements (Regulatory adjustments applied in the calculation of Tier 2 Capital):
 - 3.1.1 Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital (and are not included in Tier 1 capital).
 - 3.1.2 Stock surplus (share premium) resulting from the issue of instruments included in Tier 2 capital.

- 3.1.3 Minority interest, which are the Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital and are not included in Tier 1 capital.
- 3.1.4 General provisions/general loan-loss reserves: will be limited to a maximum of 1.25 percentage points of credit risk-weighted assets calculated under the standardized approach. Note that any provisions or reserves deducted by the bank to meet losses that have occurred are not recognized.
- 3.2 Instruments issued by the bank that meets Tier 2 criteria:

The objective of Tier 2 is to provide loss absorption on a gone-concern basis. Based on this objective, the following list sets out the minimum set of criteria for an instrument to meet or exceed in order for it to be included in Tier 2 capital:

- 3.2.1 Issued and paid-in.
- 3.2.2 Subordinated to depositors and general creditors of the bank.
- 3.2.3 Is neither secured nor covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors.
 3.2.4 Maturity:
- 3.2.4 Maturity:
 - Minimum original maturity of at least five years;
 - Recognition in regulatory capital in the remaining five years before maturity will be amortized according to the following:

The remaining period of maturity	weight
Year or less	0%
More than a year - two years	20%
More than two years - three years	40%
More than three years - four years	60%
More than four years - five years	80%
more than five years	100%

- There are no step-ups or other incentives to redeem.
- 3.2.5 May be callable at the initiative of the issuer only after a minimum of five years, and to exercise a call option a bank must:
 - Receive prior Central Bank approval; and
 - Not do anything that creates an expectation that the call will be exercised; note that banks must not exercise a call unless:
 - a. They replace the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank¹⁰.

¹⁰ Replacement issues can be concurrent with but not after the instrument is called.

- b. The bank demonstrates that its capital position is well above the total applicable capital requirements after the call option is exercised¹¹.
- 3.2.6 The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation.
- 3.2.7 The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the banking organisation's credit standing.
- 3.2.8 Neither the bank nor a related party over which the bank exercises control or significant influence can have purchased the instrument, nor can the bank directly or indirectly have funded the purchase of the instrument.
- 3.2.9 If the instrument is not issued out of an operating entity or the holding company in the consolidated group (e.g. an SPV), proceeds must be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all of the other criteria for inclusion in Tier 2 Capital.
- 3.3 Stock surplus (share premium) resulting from the issue of financial instruments included in Tier 2 capital:Stock surplus (share premium) that is not eligible for inclusion in Tier 1, will only be permitted to be included in Tier 2 capital if the shares giving rise to the stock

be permitted to be included in Tier 2 capital if the shares giving rise to the stock surplus are permitted to be included in Tier 2 capital.

4. Minority interest (non-controlling interest) and other capital issued out of consolidated subsidiaries that is held by third parties

4.1 Common shares issued by consolidated subsidiaries:

Minority interest arising from the issue of common shares by a fully consolidated subsidiary of the bank may receive recognition in Common Equity Tier 1 only if:

- 4.1.1 The instrument giving rise to the minority interest would, if issued by the licensed bank, meet all of the criteria for classification as common shares for regulatory capital purposes.
- 4.1.2 The subsidiary that issued the instrument is itself a bank.
- 4.1.3 The amount of minority interest meeting the criteria above that will be recognised in consolidated Common Equity Tier 1 will be calculated as follows:
 - Total minority interest meeting the two criteria above minus the amount of the surplus Common Equity Tier 1 of the subsidiary attributable to the minority shareholders.

¹¹ Subject to an assessment of the licensed bank's capital adequacy by the Central Bank of Jordan if the call were to be exercised.

- Surplus Common Equity Tier 1 of the subsidiary is calculated as the Common Equity Tier 1 of the subsidiary minus the lower of:
 - a. The minimum Common Equity Tier 1 requirement of the subsidiary plus the Conservation Buffer (8.5% of the risk weighted assets of the subsidiary) and
 - b. The portion of the consolidated minimum Common Equity Tier 1 requirement plus the Conservation Buffer (8.5% Of consolidated risk weighted assets) that relates to the subsidiary.
- The amount of the surplus Common Equity Tier 1 that is attributable to the minority shareholders is calculated by multiplying the surplus Common Equity Tier 1 by the percentage of Common Equity Tier 1 that is held by minority shareholders.

Annex no. (2) shows an example of the calculation method.

- 4.2 Tier 1 qualifying capital issued by consolidated subsidiaries:
 - 4.2.1. Tier 1 capital instruments issued by a fully consolidated subsidiary of the bank to third party investors may receive recognition in Tier 1 capital only if the instruments would, if issued by the bank, meet all of the criteria for classification as Tier 1 capital. The amount of this capital that will be recognised in Tier 1 will be calculated as follows:
 - Total Tier 1 of the subsidiary issued to third parties minus the amount of the surplus Tier 1 of the subsidiary attributable to the third party investors.
 - Surplus Tier 1 of the subsidiary is calculated as the Tier 1 of the subsidiary minus the lower of:
 - a. The minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer (10%¹² of risk weighted assets) and
 - b. The portion of the consolidated minimum Tier 1 requirement plus the capital conservation buffer (10% of consolidated risk weighted assets) that relates to the subsidiary.
 - The amount of the surplus Tier 1 that is attributable to the third party investors is calculated by multiplying the surplus Tier 1 by the percentage of Tier 1 that is held by third party investors.

Annex no. (2) shows an example of the calculation method.

- 4.3 Tier 1 and Tier 2 qualifying capital issued by consolidated subsidiaries:
 - 4.3.1 Total capital instruments (Tier 1 and Tier 2 capital instruments) issued by a fully consolidated subsidiary of the bank to third party investors may receive recognition in total Capital only if the instruments would,

¹² In the event that the requirements of the host supervisory authority are higher, they are taken into consideration.

if issued by the bank, meet all of the criteria for classification as Tier 1 or Tier 2 capital.

The amount of this capital that will be recognised in consolidated total capital will be calculated as follows:

- Total capital instruments of the subsidiary issued to third parties minus the amount of the surplus total capital of the subsidiary attributable to the third party investors.
- Surplus Total Capital of the subsidiary is calculated as the total capital of the subsidiary minus the lower of:
 - a. The minimum total capital requirement of the subsidiary (T1+T2) plus the capital conservation buffer (12%¹³ of risk weighted assets) and
 - b. The portion of the consolidated minimum total capital requirement (T1+T2) plus the capital conservation buffer (12% of consolidated risk weighted assets) that relates to the subsidiary.
- The amount of the surplus total capital that is attributable to the third party investors is calculated by multiplying the surplus total capital by the percentage of total capital that is held by third party investors.

Annex no. (2) shows an example of the calculation method.

Fourth: Regulatory adjustments

This section sets out the regulatory adjustments to be applied to regulatory capital. In most cases these adjustments are applied in the calculation of Common Equity Tier 1.

1. Goodwill and other intangibles assets

- 1.1 Goodwill and all other intangibles assets must be deducted in the calculation of Common Equity Tier 1, including any goodwill included in the valuation of significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation.
- 1.2 International Financial Reporting Standards (IFRS) definitions are used to determine which assets are classified as intangible and are thus required to be deducted.

2. Deferred tax assets (DTAs):

- 2.1 Deferred tax assets that rely on future profitability of the bank to be realized are to be deducted in the calculation of Common Equity Tier 1. Deferred tax assets may be netted with associated deferred tax liabilities (DTLs) only if the DTAs and DTLs relate to taxes levied by the same taxation authority and offsetting is permitted by the relevant taxation authority.
- 2.2 An over installment of tax or, in some jurisdictions, current year tax losses carried back to prior years may give rise to a claim or receivable from the Income

¹³ In the event that the requirements of the host supervisory authority are higher, they are taken into consideration.

tax department in Jordan or any tax authority in the countries in which the bank operates. Such amounts are typically classified as current tax assets for accounting purposes. The recovery of such a claim or receivable would not rely on the future profitability of the bank and would be assigned the relevant sovereign risk weighting.

3. Cash flow hedge reserve:

The amount of the cash flow hedge reserve that relates to the hedging of items that are not fair valued on the balance sheet (including projected cash flows) should be derecognized in the calculation of Common Equity Tier 1. This means that positive amounts should be deducted and negative amounts should be added back.

4. Gain on sale related to securitisation transactions:

Derecognize in the calculation of Common Equity Tier 1 any increase in equity capital resulting from a securitisation transaction, such as that associated with expected future margin income (FMI) resulting in a gain-on-sale.

5. Cumulative gains and losses due to changes in own credit risk on fair value financial liabilities:

Derecognize in the calculation of Common Equity Tier 1, all unrealized gains and losses that have resulted from changes in the fair value of liabilities that are due to changes in the bank's own credit risk.

6. Deferred provisions with the approval of the Central Bank (if any) are deducted from CET1.

7. Investments in own shares (treasury stock):

All of a bank's investments in its own common shares, whether held directly or indirectly, will be deducted in the calculation of Common Equity Tier 1. In addition, any own stock which the bank could be contractually obliged to purchase should be deducted in the calculation of Common Equity Tier 1.

Banks should look through holdings of index securities to deduct exposures to own shares (The amount to be deducted equals the value of the bank's own shares in the index).

8. Investments in the capitals of subsidiaries that are not consolidated with the bank's accounts, as described in annex no. (1).

9. Reciprocal cross holdings in the capital of banking, financial and insurance entities:

Reciprocal cross holdings of capital that are designed to artificially inflate the capital position of banks will be deducted in full. Banks must apply a "corresponding deduction approach" to such investments in the capital of other banks, other financial institutions and insurance entities. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself.

10. Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity:

- 10.1 The regulatory adjustment described in this section applies to investments in the capital of banks, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity. These investments include the following:
 - 10.1.1 Holdings in both the banking book and trading book, Including any investments in subordinated debt to other banks.
 - 10.1.2 Direct and indirect investments¹⁴ in securities indexes. where banks should look through holdings of index securities to determine whether any of them belong to investments in the capital of banks, financial companies and insurance capital.
 - 10.1.3 Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included.
 - 10.1.4 If the capital instrument of the entity in which the bank has invested does not meet the criteria for Common Equity Tier 1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment. If the investment is issued by a financial institution that is subject to supervision and the investment is not included in the regulatory capital of the financial company, this investment should not be subject to deduction.
- 10.2 If the total of all holdings listed above in aggregate exceed 10% of the bank's common equity (after applying all other regulatory adjustments in full listed prior to this one) then the amount above 10% is required to be deducted, applying a corresponding deduction approach. This means the deduction should be applied to the same component of capital for which the capital would qualify if it was issued by the bank itself, as shown in annex no. (3).
- 10.3 If, under the corresponding deduction approach, a bank is required to make a deduction from a particular tier of capital and it does not have enough of that tier of capital to satisfy that deduction, the shortfall will be deducted from the next higher tier of capital (e.g. if a bank does not have enough Additional Tier 1 capital to satisfy the deduction, the shortfall will be deducted from Common Equity Tier 1).
- 10.4 Amounts below the threshold (10% from CET1), will continue to be risk weighted. That is, the amount contained within the trading portfolio is subject to weights of market risk, and contained within the banking portfolio is subject to weights of credit risk).

11. Significant investments in the capital of banks, financial and insurance entities that are outside the scope of regulatory consolidation where the bank owns more

¹⁴ Indirect holdings are exposures or parts of exposures that, if a direct holding loses its value, will result in a loss to the bank substantially equivalent to the loss in value of the direct holding.

than $10\%^{15}$ (Taking into account not to violate the provisions of the Instructions No. (12/2002) dated 2002 on Banks Ownership of Shares and Stocks in Companies' Capital).

- 11.1 The regulatory adjustment described in this section applies to investments in the capital of banks, financial and insurance entities that are outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common share capital of the issuing entity or where the entity is an affiliate30 of the bank. These investments include the following:
 - 11.1.1 Holdings in both the banking book and trading book, including any investments in subordinated debt to other banks.
 - 11.1.2 Direct and indirect investments in securities indexes. where banks should look through holdings of index securities to determine whether any of them belong to investments in the capital of banks, financial companies and insurance capital.
 - 11.1.3 Underwriting positions held for five working days or less can be excluded. Underwriting positions held for longer than five working days must be included.
 - 11.1.4 If the capital instrument of the entity in which the bank has invested does not meet the criteria for Common Equity Tier 1, Additional Tier 1, or Tier 2 capital of the bank, the capital is to be considered common shares for the purposes of this regulatory adjustment. If the investment is issued by a financial institution that is subject to supervision and the investment is not included in the regulatory capital of the financial company, this investment should not be subject to deduction.
- 11.2 All investments included above that are not common shares must be fully deducted following a corresponding deduction approach. This means the deduction should be applied to the same tier of capital for which the capital would qualify if it was issued by the bank itself. If the bank is required to make a deduction from a particular tier of capital and it does not have enough of that tier of capital to satisfy that deduction, the shortfall will be deducted from the next higher tier of capital (eg if a bank does not have enough Additional Tier 1 capital to satisfy the deduction, the shortfall will be deducted from Common Equity Tier 1).
- 11.3 Investments included above that are common shares will be subject to the following threshold treatment:
 - 11.3.1 Threshold deductions:
 - Instead of a full deduction, the following items may each receive limited recognition when calculating Common Equity Tier 1, with

¹⁵ Investments in entities that are outside of the scope of regulatory consolidation refers to investments in entities that have not been consolidated at all or have not been consolidated in such a way as to result in their assets being included in the calculation of consolidated risk-weighted assets of the group.

recognition capped at 10% of the bank's common equity (after the application of all regulatory adjustments set out in clause Fourth):

- a. Significant investments in the common shares of unconsolidated financial institutions (banks, insurance and other financial entities) as referred to in Clause (Fourth / 9) of Chapter Two;
- b. Mortgage servicing rights (MSRs).
- c. DTAs that arise from temporary differences.
- From 30-9-2013 to 31-12-2018, a bank must deduct the amount by which the aggregate of the three items above exceeds 15% of its common equity component of Tier 1 (calculated prior to the deduction of these items but after application of all other regulatory adjustments applied in the calculation of Common Equity Tier 1). The items included in the 15% aggregate limit are subject to full disclosure. As of 1 January 2019, the calculation of the 15% limit will be subject to the following treatment: the amount of the three items that remains recognised after the application of all regulatory adjustments must not exceed 15% of the Common Equity Tier 1 capital, calculated after all regulatory adjustments. See Annex 4 for an example.
- The amount of the three items that are not deducted in the calculation of Common Equity Tier 1 will be risk weighted at 250%.
- Annex no. (5) shows the elements of regulatory capital and regulatory amendments (Deductions).
- 11.3.2 Former deductions from capital (Basel II)

The following items, which under Basel II were deducted 50% from Tier 1 and 50% from Tier 2 (or had the option of being deducted or risk weighted), will be completely deducted from CET1, according to the time arrangements shown in Annex No (1):

- Certain securitisation exposures and credit derivative exposures.
- Significant investments that exceed (10%) in commercial entities.

Fifth: Instructions application

- 1. The implementation will be on 9/30/2016, as banks will be required to meet the following new minimum requirements in relation to risk-weighted assets (RWAs):
 - The minimum for CET1 should not be less than $(6\%)^{16}$.
 - The minimum (Tier 1) should not be less than (7.5%).
 - The minimum regulatory capital (CAR) is not less than $(12\%)^{17}$.

¹⁶ (4.5%) according to the Basel III paper and (1.5%) additional risk hedging margin from the Central Bank.

¹⁷ The minimum is included in the Conservation Buffer of (2.5%) of risk weighted assets, so that it is CET1.

2. With regard to capital instruments that are no longer eligible to include in (CET1) or (AT1) or (T2), they will be subject to transitional arrangements as of 30/9/2016 for a period of ten years by reducing them (10%) annually, so that the recognition of these instruments will be within the year 2026 equals zero.

In addition to the capital requirements mentioned in Chapter Two, banks must maintain additional capital requirements, as follows:

1. Conservation Buffer

- 1.1 A capital conservation buffer of 2.5%, comprised of Common Equity Tier 1, is established above the regulatory minimum capital requirement.
- 1.2 In the event that the bank is unable to meet the minimum CET1 (6%) in addition to the conservation buffer (2.5%), the Central Bank has the right to impose restrictions on the distribution of profits, as follows:

CET1 ratio (6%) in addition to	Percentage of profits not allowed to
conservation buffer (2.5%)	be distributed
Less than 6.625%	100%
6.625% - 7.25%	80%
7.25% - 7.875%	60%
7.875% - 8.5%	40%
More than 8.5%	0

2. Countercyclical Buffer

- 2.1 The Central Bank of Jordan will, as of 30/9/2016, calculate countercyclical buffer that varies between zero and 2.5% from total risk weighted assets. The Central Bank will ask banks if needed to build this buffer within a year from the date of providing them with the ratio. The buffer must be from CET1. Annex no. (6) shows the steps that the Central Bank will follow regarding the countercyclical buffer.
- 2.2 In the event that the bank is unable to meet the minimum CET1 (6%) in addition to the conservation buffer (2.5%) and countercyclical buffer (2.5%)¹⁸, the Central Bank has the right to impose restrictions on the distribution of profits, as follows:

CET1 ratio + conservation buffer +	Percentage of profits not allowed to
(2.5%)	be distributed
Less than 6 %	100%
7.25% - 8.5%	80%
8.5% - 9.75%	60%
9.75% - 11%	40%
More than 11%	0

¹⁸ Assuming that the maximum value of countercyclical buffer is imposed.

3. Capital required from Domestic Systemically Important Banks D-SIBs.

- 3.1 The Central Bank will adopt a methodology for calculating the additional capital (Surcharge) required from banks that will be considered D-SIBs, note that this methodology will be issued in a circular coinciding with the issuance of these instructions, and so that it will enter into force with the entry into force of Basel III instructions.
- 3.2 Restrictions on distributing profit in the event that the bank is unable to maintain the capital required from D-SIBs will be specified in the instructions that will be issued later.

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First: Credit risk (standardized approach)

1. Scope of application

- 1.1 The methodology for allocating risk weights to on-balance sheet exposures cover all items within the on-balance sheet except for the following :
 - 1.1.1 All assets and investments that must be deduct from Tier1 and Tier2 Capita, and according to the arrangements mentioned in annex no. (1).
 - 1.1.2 All debt securities, equity instruments and commodities items held within the trading book which are dealt within the framework of market risk.

2. Risk Weights- On Balance Sheet Items

2.1 General Rules

- 2.1.1 The total credit exposures within the risk-weighted balance sheet is equal to the sum of all risk-weighted assets, or
- 2.1.2 The total credit exposures within the risk-weighted balance sheet is equal to the algebraic sum of items into the same category after weighting them with an appropriate risk weight.
- 2.1.3 The risk-weighted value of the item within the balance sheet is determined by multiplying its net book value by its appropriate weight, taking into account item (4.1.2) below:
 - The net book value means the balance of the credit exposure (and/ or the nominal value of capital market instruments) including any accrued interest, this is after subtracting the special provision, interest and commissions in suspense and / or depreciation charges, taking into account the differences of re-assessing.
 - The special provision means the provision for credit facilities impairment, wherever it is stated in these instructions.
- 2.1.4 In the event that the item within the balance sheet is secured by one of the qualifying collateral or guaranteed by an acceptable guarantee or an acceptable credit derivative, the bank has the right to use the credit risk mitigations stipulated in clause (second) of this chapter (Credit Risk Mitigations), to reduce the risk weighted value of this item when calculating the capital adequacy.
- 2.1.5 The bank shall refer to the Central Bank of Jordan if it is unable to determine the risk-weighted value of any of the balance sheet item.

2.2 Types of claims/exposures:

- 2.2.1 Claims on Sovereigns:
 - Claims on sovereigns and/or their central banks will be risk weighted as follows:

Credit	AAA	A+ to	BBB+ to	BB+	Below	Unrated
rating as S&P *	to AA-	A-	BBB-	to B-	B-	
Risk Weight	0%	20%	50%	100%	150%	100%

* The ratings of other entities (mentioned in annex no. 7) accepted by the Central Bank and whose ratings are equivalent to the above rating.

- All obligations on the Jordanian government and the Central Bank of Jordan (in Jordanian dinars) are given a risk weight equal to (zero%), provided that the sources of financing these obligations are in Jordanian dinars.
- The above rule applies to the host countries' obligations of the Jordanian banks branches and subsidiary banking companies in the event that they are in the local currency of those countries and provided reciprocity.
- Banks may recognize the country risk scores assigned by Export Credit Agencies (ECAs) that approved by the Central Bank of Jordan. These ECA risk scores will correspond to risk weight categories as detailed below:

ECA risk scores	0-1	2	3	4-6	7
Risk weight	0%	20%	50%	100%	150%

If the country is unrated, claims are given a risk weight of 100%.

- 2.2.2. Claims on the Bank for International Settlements, the International Monetary Fund, the European Central Bank, Arab Monetary Fund and the European Community may receive a 0% risk weight.
- 2.2.3. Claims on non-central government public sector entities (PSEs) These entities are divided into three types:
 - Regional governments and local authorities could qualify for the same treatment as claims on their sovereign or central government if these governments and local authorities have specific revenue raising powers and have specific institutional arrangements the effect of which is to reduce their risks of default.
 - Administrative bodies responsible to central governments, regional governments or to local authorities and other noncommercial entities owned by the governments or local authorities may not warrant the same treatment as claims on their sovereign if the entities do not have revenue raising powers or other arrangements as described above. If strict lending rules apply to these entities and a declaration of bankruptcy is not possible because of their special public status, it may be appropriate to treat these claims in the same manner as claims on banks (except for preferential treatment for short-term claims).
 - Commercial entities owned by central or regional governments or local authorities: although most of the shares of these entities are

owned by the state or local authority, they are treated the same as commercial entities, and companies' risk weights are given according to their credit rating.

In light of the above definitions, the Central Bank of Jordan has classified public sector entities and companies according to the abovementioned categories (according to the annexes numbers 8,9,10).

- 2.2.4. Claims on multilateral development banks (MDBs)
 - Claims on these banks are treated the same as banks with the exception of the preferential treatment for short-term claims except for the following banks that are given a risk weight (zero%):

World Bank Group for Reconstruction and Development (IBRD)
International Finance Corporation (IFC)
The Asian Development Bank (ADB)
The African Development Bank (AFDB)
The European Bank for Reconstruction and Development (EBRD)
Inter-American Development Bank
The European Investment Bank (EIB)
The European Investment Fund
The Nordic Investment Bank (NIB)
The Caribbean Development Bank (CDB)
The Islamic Development Bank (IDB)
The Council of Europe Development Bank (CEDB)

- A risk weight (0%) is applied to any similar banks, subject to the prior approval of the Central Bank of Jordan.
- 2.2.5 Claims on banks
 - Banks' claims are given a risk weight according to the external rating of the concerned bank according to the following table, so that the risk weight is not less than (20%) in any case:

Credit	AAA to	A+	BBB+ to	BB+	Below	Unrated
rating as S&P *	AA-	to A-	BBB-	to B-	B-	
Risk Weight	20%	50%	50%	100%	150%	50%
Risk weight for short-term foreign currency claims	20%	20%	20%	50%	150%	20%
Risk weight for short-term Jordanian currency claims	20%					

* The ratings of other entities (mentioned in annex no. 7) accepted by the Central Bank and whose ratings are equivalent to the above rating.

- Short-term claims are defined as those claims with an original maturity period of three months or less.
- The preferential treatment of short-term claims in foreign currencies applies to all banks that are rated or unrated, except for those rated and whose risk weight is (150%).

- Short-term claims lose their preferential treatment in the presence of the phrase "automatically renewed" or any other expressions of the same connotation.
- 2.2.6 Claims on Securities Firms

Claims on securities firms may be treated as claims on banks provided these firms are subject to supervisory and regulatory arrangements comparable to those under this framework (including, in particular, risk-based capital requirements), otherwise such claims would follow the rules for claims on corporates.

2.2.7 Claims on Corporates

- Entities' claims are given a risk weight according to the external rating of the concerned entity according to the following table:

Credit	AAA to	A+ to	BBB+ to	Below B-	Unrated
rating as S&P *	AA-	A-	BBB-		
Risk Weight	20%	50%	100%	150%	100%

^{*} The ratings of other entities (mentioned in annex no. 7) accepted by the Central Bank and whose ratings are equivalent to the above rating.

- Claim on an unrated corporate may be not given a risk weight preferential to that assigned to its sovereign of incorporation.
- The Central Bank of Jordan may increase the risk weight more than (100%) for unrated claims, based on its observations of the default rates in the various sectors at the level of all banks operating in the Kingdom and / or at the level of a single bank.
- A risk weight of 100% can be applied to all corporates, regardless of their external rating, subject to obtaining prior approval from the Central Bank of Jordan to allow this, provided that it is applied to all corporates' claims with the bank.
- 2.2.8 Claims Included in the Regulatory Retail Portfolio (consistent with the standards set by the Central Bank that listed below):

Claims that qualify under the criteria listed below may be considered as retail claims for regulatory capital purposes and included in a regulatory retail portfolio.

Exposures included in such a portfolio may be risk-weighted at 75%:

- a. Orientation criterion: the exposure is to an individual person or related persons or to a small business; according to the definition contained in annex no. (11).
- b. Product criterion: The exposure takes the form of any of the following: personal loans, credits cards, auto loans, consumption loans, educational loans, financial leasing, small business facilities including commercial real estate loans granted to them, others (any credit with similar characteristics

to the products above and after obtaining the prior approval of the Central Bank).

- c. Granularity criterion: to be a well- diversified retail portfolio, so that no aggregate exposure to one client can exceed 0.2% of the overall retail portfolio, and it is calculated at the level of the geographical region / country.
- d. Maximum value criterion: the total credit (excluding housing loans) granted to one client (whether at the level of the individual and / or small business) does not exceed (250) thousand JD at the level of a single bank.
- None of the following are included in this portfolio:
 - a. Eligible housing loans claims.
 - b. Debt bonds issued by small enterprises.
 - c. Any credit granted (within a product) for speculation, such as financing the purchase of stocks and / or lands, which aims to benefit from price differences in the foreseeable future.
 - d. Any claims over an original life of more than seven years.
 - e. Any client (individual) whose debt burden ratio when granting and / or renewing facilities exceeds 50% of his net monthly income recorded in the client's file after deducting income tax and social security contributions. The debt burden ratio means the total amount owed on the customer to his net monthly income after the above deductions.
- Retail portfolio that do not meet all of the above conditions are given a risk weight (100%) and are included under the item "Other retail portfolio".
- 2.2.9 Claims secured by residential property (Including rent-to-own for residential apartments):
 - Lending fully secured by mortgages on residential property will be risk weighted at 35%, in the event that all of the following conditions and conditions stipulated in annex no. (12) are applied:
 - a. Fully secured by mortgage of residential real estate (occupied by the borrower or leased to others and with a maximum of three rental housing units within the same building)
 - b. The property is for residential and not for commercial purposes.
 - c. The purpose of the loan is to build, buy, expand or renew a residential property (it does not include personal loans secured by real estate mortgages).
 - d. That the loan to value does not exceed (80%) of the estimated value of the property or the purchasing value, whichever is less, upon granting.

- e. The property must be owned by an individual or group of individuals.
- The Central Bank will raise the risk weight in case the losses resulting from the residential loan portfolio is greater than expected, whether at the level of the banking system or a particular bank.
- In the event that all of the above conditions are not met, the full value of the credit exposure is subject to 100% risk-weight.
- 2.2.10 Claims Secured by Commercial Real Estate:
 - Specialized lending instructions apply to this type of financing.
 - In the event that lending to companies is to finance the buildings used for the purposes of the company, it is treated as corporate claims.
- 2.2.11 Past Due Loans (included as an independent category from the rest of the claims):
 - The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions, will be risk-weighted as follows:
 - a. 50% risk weight when specific provision is greater than 50% of the outstanding amount of the loan.
 - b. 100% risk weight when specific provision is greater than or equal 20% and less than 50% of the outstanding amount of the loan.
 - c. 150% risk weight when specific provision is less than 20% of the outstanding amount of the loan.
 - For the purpose of defining the secured portion of the past due loan, eligible collateral and guarantees will be the same as for credit risk mitigation purposes.
 - Past due retail loans are to be excluded from the overall regulatory retail portfolio when assessing the granularity criterion for riskweighting purposes.
 - In the case of qualifying residential mortgage loans, when such loans are past due for more than 90 days they will be risk weighted at 100%, net of specific provisions. If such loans are past due but specific provisions are no less than 20% of their outstanding amount, the risk weight applicable to the remainder of the loan will be 50%.
- 2.2.12 Higher Risk Categories
 - The following claims will be risk weighted at 150% (included as an independent category from the rest of the claims):

- a. Claims on sovereigns, PSEs, banks, and securities firms rated below B-.
- b. Claims on corporates rated below BB-.
- c. Facilities granted to finance Venture Capital (Venture capital financing: facilities granted for the purpose of financing the purchase of shares in the capital of companies, except for public joint-stock companies listed in the financial market).
- d. Facilities granted to finance the shares writing in public joint stock companies under incorporation.
- e. Direct and / or indirect writing by banks of public joint-stock companies shares under incorporation.
- f. Credit exposures that take the form of subordinated debts, regardless of the borrower and its credit rating.
- g. Overdraft current accounts (with the exception of current accounts that have been overdrawn for a period of less than 30 days, which are included in a product guaranteed by a salary transfer and up to the maximum value of that salary).
- h. Any other claims that the Central Bank of Jordan includes in this category.
- Securitisation tranches that are rated between BB+ and BB- will be risk weighted at 350%, the value of the parts with a lower credit rating is subtracted from the regulatory capital.
- 2.2.13 The facilities refinanced from the Jordan Mortgage Refinance Company and bonds issued by it, as well as the guaranteed portion of credit facilities by the Jordan Loan Guarantee Corporation: The facilities refinanced from the Jordan Mortgage Refinance Company and the bonds issued by it, as well as the guaranteed portion of the credit facilities by the Jordan Loan Guarantee Corporation, are given a risk weight (20%).
- 2.2.14 Specialized Lending
 - Banks must distinguish between five types of specialized lending when defining corporate lending, as follows, and according to annex no. (13):
 - a. Project finance.
 - b. Object finance.
 - c. Commodities finance.
 - d. Income-producing real estate.
 - e. High-volatility commercial real estate.

Claims that fall within any of the previous five types are given a risk weight not less than (100%), except for those that fall under the high-volatility commercial real estate, which are given a risk weight not less than (150%).

- The Central Bank may increase risk weights beyond the above rates at the level of all banks operating in the Kingdom and / or at the level of a single bank.
- 2.2.15 Other Assets (items not listed in any of the above categories):
 - Other assets will be (0%) risk-weight as follows:
 - a. Cash (or any assets like cash) that is kept with the bank, regardless of currency.
 - b. Deposits held with foreign branches (including deposits with the parent company and banking companies within the group) regardless of currency.
 - c. Compulsory cash reserve maintained with central banks, regardless of currency
 - d. Gold bullion held in the bank's own vaults or with specializes companies.
 - The risk weight for the following other assets will be 100%:
 - a. Investments in equity (within the banking book) or any capital instruments issued by banks or securities and classified as regulatory capital, unless deducted from the capital base.
 - b. All assets not included in the other assets category, with the exception of securitization assets.
 - Checks under collection and other items in transit are given (20%) risk weight.

3. Off – Balance Sheet Items

3.1 General Rules:

- 3.1.1 Calculation of credit risk-weighted amount for off-balance sheet items:
 - The first step: Converting the nominal value of the item into a credit factor for items within the on-balance sheet by multiplying it by its Credit Conversion Factor (CCF).
 - The second step: the outcome from the above step is multiplied by an appropriate risk weight for the item within the on-balance sheet and according to the type of claim.
- 3.1.2 In the case of eligible guarantees, the effect of the guarantee is calculated before the first step above (i.e. subtracted from the nominal value of the item and then transferred to a credit factor).

3.2 Types of claims / exposures:

- 3.2.1 Direct Credit Substitutes
 - The following Off Balance Sheet Items will receive a CCF of 100%:
 - All types of payment guarantees, including down payment guarantees.
 - All types of customs guarantees.
 - All types of practicing the profession guarantees.

- All types of goods suppling guarantees (which are issued upon request of the buyer in favor of the supplier of goods).
- All types of facilities guarantees.
- Retention Guarantees.
- Deferred letters of credit.
- Sight letters of credit of more than (180) days.
- Bank acceptance.
- Enhancing letters of credit included in this category (direct credit substitutes).
- Enhancing bank acceptances of all kinds.
- All types of Selling Credit Protection.
- Standby letters of credit (SBLC)¹⁹ serving as financial guarantees.
- Any other obligations treated as direct credit, so that the bank's commitment under these obligations is an undertaking to pay a third party in the event of a deterioration in the credit position of the customer on whose behalf these obligations were issued.
- Any other obligations that the Central Bank of Jordan adds to this list.
- 3.2.2 Performance Related Contingencies:

The following Performance Related Contingencies will receive a CCF of (50%):

- Bid entry guarantees.
- performance guarantees.
- Maintenance guarantees.
- Shipping guarantees (according to the maximum value of the goods).
- Compliance with legislation and laws guarantees.
- Warranties.
- Indemnities.
- SBLC serving as the above guarantees.
- 3.2.3 Trade Related Contingencies:

The following off – balance sheet items will receive a CCF of 20%:

- Sight letters of credit of (180) days or less, provided that it is selfliquidating and related to the transportation of goods and that it does not contain any condition that may negatively affect the value

¹⁹ letters of credit that are used to present colletrals as a substitute for guarantees.

of the goods (for example: that the goods are perishable or that the shipment is by land ... etc).

- SBLC serving as the above letters of credit.
- Enhancing letters of credit in the two above items.
- 3.2.4 Credit Commitments:
 - Commitments that are unconditionally cancellable at any time without prior notice are given (0%) credit conversion factor.
 - Commitments with an original maturity of one year or less are given (20%) credit conversion factor.
 - Commitments with an original maturity exceeding one year are given (50%) credit conversion factor.
- 3.2.5 Other Off-Balance Sheet Items
 - The following items are given (100%) credit conversion factor:
 - Securities lending and / or depositing as collateral operations.
 - Sale and repurchase agreements.
 - Assets Sold with Recourse.
 - Forward agreements to purchase assets, which includes the agreement to purchase a loan, debt bond, or any other asset from a foreign party at a future date.
 - The unpaid portion of purchased shares and / or securities that represent an obligation on the bank to pay this portion at a future date.
 - The bank's commitment to make term deposits with other parties. The bank's obligations to cover and / or finance the purchase of the unsubscribed portion of the securities issues are given (50%) conversion factor.
- 3.2.6 Market related off-balance sheet items:
 - The following items are given credit conversion factor as shown in the table below and are calculated based on the contract's nominal value:

	Interest	Foreign exchange	Equity	Precious metals	Contracts on
Maturity date	rate	rate and gold	instruments	contracts	other
	contracts	contracts	contracts	(except gold)	commodities
one year or less	0.5%	1%	6%	7%	10%
exceeding one year	1%	5%	8%	7%	12%
and five years or less					
exceeding five years	2%	7.5%	10%	8%	15%

This does not apply to operations where failure has been confirmed, as the appropriate capital requirements for these operations are taken.

Second: Credit Risk Mitigations (CRM)

1. General Remarks

- 1.1 The framework set out in this instructions is applicable to the banking book exposures within the standardised approach only.
- 1.2 The comprehensive approach within this framework applies to the following within the trading book:
 - 1.2.1 The counterparty risk charges for OTC derivatives.
 - 1.2.2 The counterparty risk charges for repo-style transactions.
- 1.3 No transaction in which CRM techniques are used should receive a higher capital charge than an otherwise identical transaction where such techniques are not used.
- 1.4 The effects of CRM will not be double counted. Therefore, no additional supervisory recognition of CRM for regulatory capital purposes will be granted on claims for which an issue-specific rating is used that already reflects that CRM. Principal-only ratings will also not be allowed within the framework of CRM.
- 1.5 While the use of CRM techniques reduces or transfers credit risk, it simultaneously may increase other risks (residual risks). Residual risks include legal, operational, liquidity and market risks. Therefore, it is imperative that banks employ robust procedures and processes to control these risks, including strategy; consideration of the underlying credit; valuation; policies and procedures; systems; control of roll-off risks; and management of concentration risk arising from the bank's use of CRM techniques and its interaction with the bank's overall credit risk profile. The Pillar 3 requirements must also be observed for banks to obtain capital relief in respect of any CRM techniques.
- 1.6 Where these risks are not adequately controlled, CBJ may impose the following:
 - 1.6.1 Not recognition the impact of CRM.
 - 1.6.2 Increase the minimum regulatory capital requirements in accordance with the instructions related to pillar 2 issued pursuant to Circular No. (10/1533) dated 3/2/2010.

2. Legal certainty

- 2.1 In order for banks to obtain capital relief for any use of CRM techniques, the following minimum standards for legal documentation must be met:
 - 2.1.1 All documentation used in collateralised transactions and for documenting on-balance sheet netting, guarantees and credit derivatives must be binding on all parties and legally enforceable in all relevant jurisdictions.
 - 2.1.2 Banks must have conducted sufficient legal review to verify this and have a well-founded legal basis to reach this conclusion, and undertake such further review as necessary to ensure continuing enforceability.
- 2.2 Overall Framework and Minimum Conditions:
 - 2.2.1 Banks may opt for either the simple approach or for the comprehensive approach, according to the following:

- Banks may operate under either, but not both, approaches in the banking book.
- Operate only under the comprehensive approach in the trading book.
- Partial collateralisation is recognised in both approaches.
- Mismatches in the maturity of the underlying exposure and the collateral will only be allowed under the comprehensive approach.
- 2.2.2 In addition to the above general requirements for legal certainty, the legal mechanism by which collateral is pledged or transferred must ensure that the bank has the right to liquidate or take legal possession of it, in a timely manner, in the event of the default, insolvency or bankruptcy (or one or more otherwise-defined credit events set out in the transaction documentation) of the counterparty (and, where applicable, of the custodian holding the collateral).

Furthermore, banks must take all steps necessary to fulfil those requirements under the law applicable to the bank's interest in the collateral for obtaining and maintaining an enforceable security interest, e.g. by registering it with a registrar, or for exercising a right to net or set off in relation to title transfer collateral.

- 2.2.3 The credit quality of the counterparty and the value of the collateral must not have a material positive correlation. For example, securities issued by the counterparty or by any related group entity.
- 2.2.4 Banks must have clear and robust procedures for the timely liquidation of collateral to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly.
- 2.2.5 Where the collateral is held by a custodian, banks must take reasonable steps to ensure that the custodian segregates the collateral from its own assets.
- 2.2.6 A capital requirement will be applied to a bank on either side of the collateralised transaction: for example, both repos and reverse repos, both sides of a securities lending and borrowing transaction and any other similar lending / borrowing.
- 2.2.7 Where a bank, acting as an agent, arranges a repo-style transaction between a customer and a third party and provides a guarantee to the customer that the third party will perform on its obligations, then the risk to the bank is the same as if the bank had entered into the transaction as a principal. In such circumstances, a bank will be required to calculate capital requirements as if it were itself the principal.

3. Credit Risk Mitigation Techniques

- 3.1 Collateralized Exposures
 - 3.1.1 A collateralised transaction is one in which banks have a credit exposure or potential credit exposure, and that exposure is hedged in whole or in part by collateral posted by a counterparty or by a third party on behalf of the counterparty.
 - 3.1.2 Where banks take eligible financial collateral (Contained within clause no. (4) below), they are allowed to reduce their credit exposure to a counterparty when calculating their capital requirements to take account of the risk mitigating effect of the collateral.

4. Collaterals

- 4.1 Eligible financial collaterals:
 - 4.1.1 The following collaterals are eligible for recognition in the simple approach:
 - Cash on deposit (as well as certificates of deposit or comparable instruments issued by the lending bank) with the bank which is incurring the counterparty exposure. When cash on deposit, certificates of deposit or comparable instruments issued by the lending bank are held as collateral at a third-party bank in a noncustodial arrangement, if they are openly pledged/assigned to the lending bank and if the pledge/assignment is unconditional and irrevocable, the exposure amount covered by the collateral (after any necessary haircuts for currency risk) will receive the risk weight of the third-party bank.
 - Gold deposits (deposit accounts whose currency is gold).
 - Debt securities rated by a recognised external credit rating institution where these are either:
 - At least BB- when issued by sovereigns or PSEs that are treated as sovereigns.
 - At least BBB- when issued by other entities (including banks and securities firms); or
 - At least A-3/P-3 for short-term debt instruments.
 - Debt securities not rated by a recognised external credit rating institution where these are:
 - Issued by a bank.
 - Listed in a recognised financial market.
 - Classified as senior debt.
 - All rated issues of the same seniority by the issuing bank that are rated at least BBB- or A-3/P-3 by a recognised external credit rating institution.

- The bank holding the securities as collateral has no information to suggest that the issue justifies a rating below BBB- or A-3/P-3.
- The Central Bank is sufficiently confident about the market liquidity of the security.
- Traded shares (including convertible bonds) that are included in a main index.
- Mutual investment funds and what they are based on, where:
 - A price for the units is publicly quoted daily.
 - The mutual fund is limited to investing in the instruments listed above.
- 4.1.2 The following collaterals are eligible for recognition in the comprehensive approach:
 - All of the collaterals in simple approach.
 - Traded shares (including convertible bonds) which are not included in a main index but which are listed on a recognised financial market.
 - Mutual funds which include such equities.

5. Simple Approach

In the simple approach the risk weighting of the collateral instrument collateralizing or partially collateralizing the exposure is substituted for the risk weighting of the counterparty.

6. Minimum conditions to be met in collaterals

- 6.1 The collateral must be pledged for at least the life of the exposure.
- 6.2 It must be marked to market and revalued with a minimum frequency of six months.
- 6.3 In the event of partial coverage, the claim is divided into two parts, covered part which is given the risk weight of the guarantee, and not covered part is given the risk weight of the counterparty.
- 6.4 The part covered by an eligible guarantee is subject to a minimum risk weight (20%), taking into account the exceptions mentioned in clause (7) below.

7. Exceptions to the Risk Weight Floor:

- 7.1 Transactions which fulfil the criteria outlined in the paragraph related to the conditions for (zero%) haircut and are with a core market participant, receive a risk weight of 0%.
- 7.2 Transactions which fulfil the criteria outlined in the paragraph related to the conditions for (zero%) haircut and counterparty to the transactions is not a core market participant, receive a risk weight of 10%.
- 7.3 A 0% risk weight can be applied where the exposure and the collateral are denominated in the same currency, and:
 - 7.3.1 The collateral is cash on deposit.
- 7.3.2 The collateral is in the form of sovereign/PSE securities eligible for a 0% risk weight, and its market value has been discounted by 20%.
- 7.3.3 If the collateral is a cash where the exposure and the collateral are denominated in different currency, then the cash collateral discounted by (8%).
- 7.4 OTC derivative transactions subject to daily mark-to-market, collateralised by cash and where there is no currency mismatch should receive a 0% risk weight.

8. Collateralized OTC Derivatives Transactions:

8.1 The following equation is used within the current exposure method to calculate the credit risk charge for such contracts:

Counter party charge = ((RC + add-on) - CA) * rw * 12%

where:

RC	:	the replacement cost
add-on	:	the amount for potential future exposure
CA	:	the volatility adjusted collateral amount under the comprehensive
rw	•	the risk weight of the counterparty

8.2 When effective bilateral netting contracts are in place, RC will be the net replacement cost and the add-on will be the net add-on. In the event that the currency is different, the currency differences rate deduction must be used.

9. Comprehensive Approach

- 9.1 In the comprehensive approach, when taking collateral, banks will need to calculate their adjusted exposure to a counterparty using haircuts, so banks are required to adjust the amount of the exposure to the counterparty upwards and the value of the collateral downwards to take account of possible future fluctuations in the value of either.
- 9.2 Where the exposure and collateral are held in different currencies an additional downwards adjustment must be made to the volatility adjusted collateral amount to take account of possible future fluctuations in exchange rates.
- 9.3 Where the volatility-adjusted exposure amount is greater than the volatilityadjusted collateral amount (including any further adjustment for foreign exchange risk), banks shall calculate their risk-weighted assets as the difference between the two multiplied by the risk weight of the counterparty (according to what is shown within the methodology for calculating capital requirements within the comprehensive approach).
- 9.4 The bank shall use the standard supervisory haircuts shown in the table of deduction rates listed below
- 9.5 The size of the individual haircuts will depend on:
 - 9.5.1 The type of instrument.
 - 9.5.2 The type of currency.

- 9.5.3 Periodic re-evaluation.
- 9.5.4 Remargining.
- 9.6 For certain types of repo-style transactions (broadly speaking government bond repos) the bank has the right to use (zero%) haircut (in line with the terms of calculating the (zero%) haircut set forth later).
- 9.7 The effect of master netting agreements covering repo-style transactions can be recognised for the calculation of capital requirements subject to the conditions in paragraph (13).

10. Calculation of capital requirements:

10.1 For a collateralised transaction, the exposure amount after risk mitigation is calculated as follows:

$$E^*=\max \{0, [E^*(1 + He) - C^*(1 - Hc - Hfx)]\}$$

where:

E*	:	the exposure value after risk mitigation
Е	:	the exposure value before risk mitigation
He	:	haircut appropriate to the exposure
С	:	the current value of the collateral received
Hc	:	haircut appropriate to the collateral
Hfx	:	haircut appropriate for currency mismatch between
		the collateral and exposure

10.2 The exposure amount after risk mitigation will be multiplied by the risk weight of the counterparty to obtain the risk-weighted asset amount for the collateralised transaction.

$$RWA = E^* * RW$$

- 10.3 The treatment for transactions where there is a mismatch between the maturity of the counterparty exposure and the collateral is given in paragraph of the maturity mismatch below.
- 10.4 Where the collateral is a basket of assets, the haircut on the basket will be $H = \sum_{i} a Hi$, where: **a**_i is the weight of the asset in the basket, **H**_i the haircut applicable to that asset and **H** the standardized haircut.

11. Standard Supervisory Haircuts:

11.1 These are the standard supervisory haircuts approved by the Central Bank of Jordan and are subject to amendment as the Central Bank deems appropriate:

Issue rating for debt securities	Sovereigns*	Other issuers	
	Less than or equal to a year	0.5 %	1 %
$\Delta \Delta \Delta$ to $\Delta \Delta_{-}/\Delta_{-}1$	More than a year and less	2%	4%
	than or equal to 5 years		
	More than 5 years	4%	8%
1. A+ to BBB-/A-2/A-3/P-	Less than or equal to a year	1%	2%
3	More than a year and less	3%	6%
2. Unrated and issued by	than or equal to 5 years		
qualified banks whose rate is no less than BBB-	More than 5 years	6%	12%
BB+ to BB-	All	15%	
 Main index equities (included in the main market) Gold 	15%		
Main index equities (incluincluded in the main marecognised financial market	25%	6	
Transactions in which t instruments (non-investme securities)	25%	6	
Mutual funds	Highest haircut any security is fund can invest	applicable to n which the	
Eligible cash collateral in the	0%	,	
Currency risk where ex denominated in different cur	8%		
Jordanian dinars securitie government, the Central Ba are treated as sovereigns	0%	,	

* Includes PSEs which are treated as sovereigns. Also, Multilateral development banks receiving a 0% risk weight will be treated as sovereigns.

- 11.2 The above percentages are based on a 10-business day holding period and daily mark-to-market.
- **12.** Conditions for Zero Haircuts:
 - 12.1 For repo-style transactions where the following conditions are satisfied, and the counterparty is a core market participant, a haircut of zero is applied instead of the haircuts specified in the comprehensive approach:
 - 12.1.1 Both the exposure and the collateral are cash or a sovereign security or PSE security qualifying for a 0% risk weight in the standardised approach.

- 12.1.2 Both the exposure and the collateral are denominated in the same currency.
- 12.1.3 Either the transaction is overnight or both the exposure and the collateral are marked-to-market daily and are subject to daily remargining.
- 12.1.4 Following a counterparty's failure to remargin, the time that is required between the last mark-to-market before the failure to remargin and the liquidation of the collateral is considered to be no more than four business days.
- 12.1.5 The transaction is settled across a settlement system proven for that type of transaction.
- 12.1.6 The documentation covering the agreement is standard market documentation for repo-style transactions in the securities concerned.
- 12.1.7 The transaction is governed by documentation specifying that if the counterparty fails to satisfy an obligation to deliver cash or securities or to deliver margin or otherwise defaults, then the transaction is immediately terminable.
- 12.1.8 Upon any default event, regardless of whether the counterparty is insolvent or bankrupt, the bank has the unfettered, legally enforceable right to immediately seize and liquidate the collateral for its benefit.
- 12.2 Core market participants may include (the country in which the bank or branch operates), the following entities:
 - 12.2.1 Sovereigns, central banks and PSEs.
 - 12.2.2 Banks and securities firms;
 - 12.2.3 Other financial companies (including insurance companies) eligible for a 20% risk weight in the standardised approach.
 - 12.2.4 Regulated mutual funds that are subject to capital or leverage requirements.
 - 12.2.5 Regulated pension funds.
 - 12.2.6 Recognised clearing organizations.
- 13. Treatment of repo-style transactions covered under master netting agreements
 - 13.1 The effects of bilateral netting agreements covering repo-style transactions will be recognised on a counterparty-by-counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt. In addition, netting agreements must:
 - 13.1.1 Provide the non-defaulting party the right to terminate and/or close-out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty.

- 13.1.2 Provide for the netting of gains and losses on transactions (including the value of any collateral) terminated and closed out under it, so that a single net amount is owed by one party to the other.
- 13.1.3 Allow for the prompt liquidation and/or ownership of collateral upon the event of default.
- 13.2 Netting across positions in the banking and trading book will only be recognised when the netted transactions fulfil the following conditions:
 - 13.2.1 All transactions are marked to market daily.
 - 13.2.2 The collateral instruments used in the transactions are recognised as eligible financial collateral in the banking book.
- 13.3 The formula in paragraph (10) will be adapted to calculate the capital requirements for transactions with netting agreements.
- 13.4 The framework below will apply to take into account the impact of master netting agreements:

 $E^*=\max\{0, [(\Sigma(E) - \Sigma(C)) + \Sigma(Es * Hs) + \Sigma(Efx * Hfx)]\}$

where:

where.		
E*	:	the exposure value after risk mitigation
E	:	the exposure value befor risk mitigation
С	:	the value of the collateral received
Es	:	absolute value of the net position in a given security
Hs	:	haircut appropriate to Es
Efx	:	absolute value of the net position in a currency different
		from the settlement currency
Hfx	:	haircut appropriate for currency mismatch

The intention here is to obtain a net exposure amount after netting of the exposures and collateral and have an add-on amount reflecting possible price changes for the securities involved in the transactions and for foreign exchange risk if any. The net long or short position of each security included in the netting agreement will be multiplied by the appropriate haircut.

13.5 All other rules regarding the calculation of haircuts stated in Comprehensive approach paragraphs apply for banks using bilateral netting agreements for repostyle transactions.

14. On Balance Sheet Netting

If the following conditions apply to the bank, it may use the net exposure of loans and deposits as the basis for its capital adequacy calculation in accordance with the formula in paragraph (10). Assets (loans) are treated as exposure and liabilities (deposits) as collateral. The haircuts will be zero% except when a currency mismatch exists:

14.1 Has a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction regardless of whether the counterparty is insolvent or bankrupt.

- 14.2 Is able at any time to determine those assets and liabilities with the same counterparty that are subject to the netting agreement.
- 14.3 Monitors and controls its roll-off risks.
- 14.4 Monitors and controls the relevant exposures on a net basis.

15. Guarantees & Credit Derivatives

In order to fulfill the operational requirements, the guarantee or the counter-guarantee or credit derivative must fulfill all of the following conditions:

- 15.1 Must represent a direct claim on the protection provider.
- 15.2 Must be explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible.
- 15.3 Non-payment by a protection purchaser of money due in respect of the credit protection contract it must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure.
- 15.4 Must be unconditional; there should be no clause in the protection contract outside the direct control of the bank that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payments due.

16. Additional Operational Requirements for Guarantees:

In addition to the legal certainty requirements mentioned above, in order for a guarantee to be recognised, the following conditions must be satisfied:

- 16.1 On the qualifying default/non-payment of the counterparty, the bank may in a timely manner pursue the guarantor for any monies outstanding or pursue the guarantor to make one lump sum payment of all monies according to a schedule agreed upon with him.
- 16.2 The bank must have the right to receive any such payments from the guarantor without first having to take legal actions in order to pursue the counterparty for payment.
- 16.3 The guarantee is an explicitly documented obligation assumed by the guarantor.
- 16.4 the guarantee covers all types of payments the underlying obligor is expected to make. Where a guarantee covers payment of principal only, interests and other uncovered payments should be treated as an unsecured amount in accordance with proportional coverage paragraph.

17. Additional Operational Requirements for Credit Derivatives:

- 17.1 In order for a credit derivative contract to be recognised, the following conditions must be satisfied:
 - 17.1.1 The credit events specified by the contracting parties must at a minimum cover:

- Failure to pay the amounts due under terms of the underlying obligation.
- Bankruptcy, insolvency or inability of the obligor to pay its debts, or its failure or admission in writing of its inability generally to pay its debts as they become due.
- Restructuring of the underlying obligation involving:
 - a. Forgiveness from any portion of principal, interest or fees.
 - b. Charge-off specific provision or other similar debit to the profit and loss account.
 - c. When restructuring is not specified as a credit event, refer to section 17.2 below.
- 17.1.2 If the credit derivative covers obligations that do not include the underlying obligation, paragraph (17.1.7) below governs whether the asset mismatch is permissible.
- 17.1.3 The credit derivative shall not terminate prior to expiration of any grace period required for a default on the underlying obligation to occur as a result of a failure to pay, subject to the provisions of paragraph 24 (Maturity mismatches).
- 17.1.4 Credit derivatives allowing for cash settlement are recognised for capital purposes insofar as a robust valuation process is in place in order to estimate loss reliably. There must be a clearly specified period for obtaining post-credit-event valuations of the underlying obligation. If the reference obligation specified in the credit derivative for purposes of cash settlement is different than the underlying obligation, paragraph (17.1.7) below governs whether the asset mismatch is permissible.
- 17.1.5 If the protection purchaser's right/ability to transfer the underlying obligation to the protection provider is required for settlement, the terms of the underlying obligation must provide that any required consent to such transfer may not be unreasonably withheld.
- 17.1.6 The identity of the parties responsible for determining whether a credit event has occurred must be clearly defined. This determination must not be the sole responsibility of the protection seller. The protection buyer must have the right/ability to inform the protection provider of the occurrence of a credit event.
- 17.1.7 A mismatch between the underlying obligation and the reference obligation under the credit derivative (i.e. the obligation used for purposes of determining cash settlement value or the deliverable obligation) is permissible if:
 - The reference obligation ranks pari passu with or is junior to the underlying obligation.

- The underlying obligation and reference obligation share the same obligor and legally enforceable cross-default or cross-acceleration clauses are in place.
- 17.1.8 A mismatch between the underlying obligation and the obligation used for purposes of determining whether a credit event has occurred is permissible if:
 - The latter obligation ranks pari passu with or is junior to the underlying obligation.
 - The underlying obligation and reference obligation share the same obligor and legally enforceable cross-default or cross-acceleration clauses are in place.
- 17.2 When the restructuring of the underlying obligation is not covered by the credit derivative, but the other requirements in paragraph (17.1.3) are met, partial recognition of the credit derivative will be allowed, as follows:
 - 17.2.1 If the amount of the credit derivative is less than or equal to the amount of the underlying obligation, 60% of the amount of the hedge can be recognised as covered.
 - 17.2.2 If the amount of the credit derivative is larger than that of the underlying obligation, then the amount of eligible hedge is capped at 60% of the amount of the underlying obligation.
- 17.3 Only credit default swaps and total return swaps that provide credit protection equivalent to guarantees will be eligible for recognition. The following exception applies:
 - 17.3.1 Where a bank buys credit protection through a total return swap and records the net payments received on the swap as net income, but does not record offsetting deterioration in the value of the asset that is protected (either through reductions in fair value or by an addition to reserves).
 - 17.3.2 The treatment of first-to-default and second-to-default products is covered separately in paragraphs 27.2 and 27.3 (First-to-default credit derivatives and Second-to-default credit derivatives).
- 17.4 Other types of credit derivatives will not be eligible for recognition.

18. Range of eligible guarantors

Credit protection given by the following entities will be recognised:

- 18.1 Sovereign entities and PSEs.
- 18.2 Banks, other MDBs and securities firms with a lower risk weight than the obligor.
- 18.3 The Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community.
- 18.4 MDBs eligible for a 0% risk weight.

18.5 Other entities rated A- or better. This would include credit protection provided by parent, subsidiary and affiliate companies when they have a lower risk weight than the obligor.

19. Risk Weights

- 19.1 The protected portion is assigned the risk weight of the protection provider. The uncovered portion of the exposure is assigned the risk weight of the underlying counterparty.
- 19.2 Materiality thresholds on payments below which no payment is made in the event of loss are equivalent to retained first loss positions and must be deducted in full from the capital of the bank purchasing the credit protection.

20. Proportional Coverage

Where the amount guaranteed, or against which credit protection is held, is less than the amount of the exposure, and the secured and unsecured portions are of equal seniority, i.e. the bank and the guarantor share losses on a pro-rata basis capital relief will be afforded on a proportional basis: i.e. the protected portion of the exposure will receive the treatment applicable to eligible guarantees/ credit derivatives, with the remainder treated as unsecured.

21. Tranched Credit Protection

Where the bank transfers a portion of the risk of an exposure in one or more tranches to a protection seller or sellers and retains some level of risk of the loan and the risk transferred and the risk retained are of different seniority, banks may obtain credit protection for either the senior tranches (e.g. second loss portion) or the junior tranche (e.g. first loss portion). In this case, the instructions for the securitisation framework will apply, which will be issued later.

22. Currency Mismatches

Where the credit protection is denominated in a currency different from that in which the exposure is denominated — i.e. there is a currency mismatch — the amount of the exposure deemed to be protected will be reduced by the application of a haircut HFX, as following:

|--|

where:

- G : nominal amount of the credit protection
- HFx : haircut appropriate for currency mismatch between the credit protection and underlying obligation

23. Sovereign Guarantees and Counter-guarantees

23.1 A zero% risk weight may be applied at national discretion to a bank's exposures to the sovereign and/or central banks, where the exposure is denominated in

domestic currency and funded in that currency. In the event the coverage is partial, only the covered part gives a (zero%) risk weight.

- 23.2 If the claim covered by a guarantee that is indirectly counter-guaranteed by a sovereign and/or central banks. Such a claim may be treated as covered by a sovereign and/or central banks guarantee provided that:
 - 23.2.1 The sovereign counter-guarantee covers all credit risk elements of the claim.
 - 23.2.2 Both the original guarantee and the counter-guarantee meet all operational requirements for guarantees, except that the counter-guarantee need not be direct and explicit to the original claim.
 - 23.2.3 The supervisor is satisfied that the cover is robust and that no historical evidence suggests that the coverage of the counter-guarantee is less than effectively equivalent to that of a direct sovereign guarantee.

24. Maturity Mismatches

- 24.1 A maturity mismatch occurs when the residual maturity of a hedge is less than that of the underlying exposure.
- 24.2 When the maturity mismatch occurs and the original life of a hedge is less than one year, the hedge will not recognize.
- 24.3 If the original life of the hedge is more than one year, the hedge will be partially recognized.
- 24.4 Hedges with maturity mismatches will no longer be recognised when they have a residual maturity of three months or less.
- 24.5 Under the simple approach for collateral maturity mismatches will not be allowed.

25. Definition of Maturity

- 25.1 Maturity means the effective maturity of the underlying exposure, and should be gauged as the longest possible remaining time before the counterparty is scheduled to fulfil its obligation, taking into account any applicable grace period.
- 25.2 For the hedge, embedded options which may reduce the term of the hedge should be taken into account so that the shortest possible effective maturity is used, for example:
 - 25.2.1 Where a call is at the discretion of the protection seller, the maturity will always be at the first call date.
 - 25.2.2 The call is at the discretion of the protection buying bank but the terms of the arrangement at origination of the hedge contain a positive incentive for the bank to call the transaction before contractual maturity, the remaining time to the first call date will be deemed to be the effective maturity.

26. Risk weights for maturity mismatches

When there is a maturity mismatch with recognised credit risk mitigants, the following adjustment will be applied:

where:

- Pa : value of the credit protection adjusted for maturity mismatch
- P : credit protection adjusted for any haircuts
- t : min (T, residual maturity of the credit protection arrangement) expressed in years
- T : min (5, residual maturity of the exposure) expressed in years

27. Other items related to the treatment of CRM techniques:

27.1 Treatment of pools of CRM techniques

- 27.1.1 In the case where a bank has multiple CRM techniques covering a single exposure, the bank will be required to subdivide the exposure into portions covered by each type of CRM technique and the risk-weighted assets of each portion must be calculated separately.
- 27.1.2 When credit protection provided by a single protection provider has differing maturities, they must be subdivided into separate protection as well.
- 27.2 First-to-Default Credit Derivatives
 - 27.2.1 If a bank obtains credit protection for a basket of reference names and where the first default among the reference names triggers the credit protection and the credit event also terminates the contract. In this case, the bank may recognize regulatory capital relief for the asset within the basket with the lowest risk-weighted amount, but only if the nominal amount is less than or equal to the nominal amount of the credit derivative.
 - 27.2.2 With regard to the bank providing credit protection through such an instrument, if the product has an external credit rating from an eligible credit rating institution, the securitisation instructions will be applied. If the product is not rated by an eligible external credit rating institution, the risk weights of the assets included in the basket will be aggregated up to a maximum of 1250% and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk-weighted asset amount.
- 27.3 Second-to-default credit derivatives
 - 27.3.1 In the case where the second default among the assets within the basket triggers the credit protection, the bank obtaining credit protection through such a product will only be able to recognize any capital relief if first-default-protection has also be obtained or when one of the assets within the basket has already defaulted.
 - 27.3.2 For banks providing credit protection through such a product, the capital treatment is the same as in paragraph (27.2.2) above with one exception. The exception is that, in aggregating the risk weights, the

asset with the lowest risk weighted amount can be excluded from the calculation.

Third: Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

1. The measurement methodologies

The framework outlined below presents three methods for calculating operational risk:

- 1.1 The Basic Indicator Approach.
- 1.2 The Standardised Approach/ The Alternative Standardized Approach.
- 1.3 Advanced Measurement Approaches (AMA).

2. The Basic Indicator Approach

2.1 Banks using the Basic Indicator Approach must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted alpha) of positive annual gross income. Figures for any year in which annual gross income is negative should be excluded from the numerator of the percentage denominator, accordingly, the number of years is adjusted. The charge may be expressed as follows:

$$\mathsf{KBIA} = [\Sigma (\mathsf{GI} 1...n \times \alpha)] / n$$

where:

- KBIA : the capital charge under the Basic Indicator Approach
- GI : annual gross income, where positive, over the previous three years
- N : number of the previous three years for which gross income is positive
- α : 15%.
- 2.2 Definition of gross income:
 - 2.2.1 Gross income is defined as net interest income plus net non-interest income, and is calculated, as follows:

Net interest and commission income

+ Foreign currency gains (losses)

+ Profits (losses) for financial assets trading

+ Profits (losses) of financial assets at fair value through income statement

+ Dividend income from financial assets through other comprehensive income statement items

+ The bank's share of the profits / (losses) of affiliates

+ The bank's share of dividends / subsidiary and affiliates (in the non-consolidated financial statements).

+ Other revenues (mentioned in detail), with the exception of:

- revenues derived from insurance operations
- extraordinary or irregular revenues
- (mentioned in detail)

Gross income

- 2.2.2 Banks have to comply with the Basel Committee's guidance on Sound Practices for the Management and Supervision of Operational Risk, June 2011. In the event that the Central Bank finds deficiencies in applying these practices, the factor (α) mentioned in the aforementioned calculation equation will be increased.
- 2.2.3 Banks wishing to switch to the standardized approach for calculating operational risks, must fulfill all quantitative and qualitative requirements that qualify them for that. This will be according to the Basel committee, especially dividing their activities into eight business lines (according to the reality of the situation with them), provided that the prior approval of the Central Bank is obtained before starting to move to this approach.

3. Standardized Approach/ The Alternative Standardized Approach

3.1 Standardized Approach:

To apply the Standardized Approach, the bank must do the following:

- 3.1.1 banks' activities are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage. The business lines are defined in detail in annex (14).
- 3.1.2 Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines.
- 3.1.3 The capital charge for each business line is calculated by multiplying gross income by a factor (denoted beta) assigned to that business line. Beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate level of gross income for that business line. It should be noted that in the Standardised Approach gross income is measured for each business line, not the whole institution, i.e. in retail banking, the indicator is the gross income generated in the retail banking business line.
- 3.1.4 The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then the input to the numerator for that year will be zero. The total capital charge may be expressed as:

K= \sum business lines 1-8{max [(\sum years1-3 GI₁₋₈ / 3) X β_{1-8} }, 0]

Where:

- K : the capital charge under the Standardised Approach
- GI₁₋₈ : annual gross income in a given year (at the end of year), for each of the eight business lines
- β_{1-8} : a fixed percentage, for each of the eight business lines as below:

Business Lines	Beta Factor %
Corporate finance	
Trading and sales	18
Payment and settlement	
Commercial banking	15
Agency services	15
Retail banking	
Asset management	12
Retail brokerage	

3.1.5 In the event that the gross income is negative for the past three years, or in the case of newly licensed bank with operations of less than three years, or in the case of mergers, acquisitions, or substantial restructuring, the Central Bank of Jordan negotiates with the licensed bank regarding an alternative method for calculating capital requirements on operational risks. For example, the newly licensed bank may be required to use the expected gross income in the business plan for the next three years, and the other method is that the Central Bank of Jordan may require those banks to adhere to higher standards of the Capital Adequacy Ratio (CAR).

3.2 The Alternative Standardized Approach

3.2.1 based on the Alternative Standardized Approach (ASA), the operational risk capital charge methodology is the same as for the Standardised Approach except for two business lines — retail banking and commercial banking. Banks under this approach may use a three-year average for loans and advances in place of gross income. The betas for retail and commercial banking are unchanged from the Standardised Approach. The ASA operational risk capital charge for retail banking (with the same basic formula for commercial banking) can be expressed as:

$K_{RB} = \beta_{RB} \times m \times LA_{RB}$

Where:

 K_{RB} : the capital charge for the retail banking business line

- β_{RB} : the beta for the retail banking business line
- LA_{RB} : total outstanding retail loans and advances (non-risk weighted and gross of provisions), averaged over the past three years m : 0.035
- 3.2.2 For the purposes of the ASA, total loans and advances in the retail banking business line consists of the total drawn amounts in the following credit portfolios: retail, SMEs treated as retail, and purchased retail receivables. For commercial banking, total loans and advances consists of the drawn amounts in the following credit portfolios: corporate, sovereign, bank, specialized lending, SMEs treated as corporate and purchased corporate receivables. The book value of securities held in the banking book should also be included.
- 3.2.3 Under the ASA, banks may aggregate retail and commercial banking (if they wish to) using a beta of 15%. Similarly, those banks that are unable to disaggregate their gross income into the other six business lines can aggregate the gross income for these six business lines using a beta of 18%, with negative gross income treated.
- 3.2.4 As under the Standardised Approach, the total capital charge for the ASA is calculated as the simple summation of the regulatory capital charges across each of the eight business lines.
- 3.3 Qualifying criteria
 - 3.3.1 A bank must develop specific policies and have documented criteria for mapping gross income for current business lines and activities into the standardised framework. And it must be able qualitatively and quantitatively to fulfill the requirements of this method, and it has to explain the reasons for this mapping in accordance with the requirements of the Central Bank of Jordan. The criteria must be reviewed and adjusted for new or changing business activities as appropriate.
 - 3.3.2 The approach used by the bank to define its activities into eight business lines must meet the following requirements:
 - Its senior management are actively involved in the oversight of the operational risk management framework which must approved by board of directors.
 - It has sufficient resources in the use of the approach in the major business lines as well as the control and audit areas.

- All activities of the licensed bank must be defined in the form of eight business lines of the first level in a comprehensive and exclusive manner.
- Any banking or non-banking activities that cannot be easily identified within the framework of business activities and that represent an activity attached to the original activity, must be assigned to the business lines that supports it (including it to the nearest business line).
- When identify the gross income and if it is not possible to specify an activity in a specific activity plan, the bank activity that meets the highest percentage of the capital requirement must be used (18%), and any ancillary and accompanying activities will be subject to the same treatment.
- The bank's operational risk management system must be well documented. The bank must have a routine in place for ensuring compliance with a documented set of internal policies, controls and procedures concerning the operational risk management system, which must include policies for the treatment of noncompliance issues.
- There must be procedures for defining any new activities or products.
- The bank's operational risk management processes and assessment system must be subject to validation and regular independent review by the Risk Management Department and internal and external auditors.
- The Central Bank of Jordan has the right, and before permanently adopting this approach for the purposes of calculating the operational risks capital charge, monitoring the bank's experience in the application for a period of time and ensuring its commitment to quantitative and qualitative standards. In the event that the bank does not meet the requirements, it will not be permitted to convert to this approach.
- 3.4 Operational risk-weighted assets

The total exposures weighted for operational risk is determined by multiplying the capital requirements for operational risk by (12.5) and adding the result to the total credit and market risk-weighted assets, to obtain the total risk weighted exposures that will be used to calculate the capital adequacy ratio (CAR).

Fourth: Market Risk – Standardized Approach

This clause of instructions aims to ensure that all banks operating in the Kingdom that exercise activities that entail risks associated with potential changes in market prices applying the minimum administrative and supervisory requirements, and continuously adheres to the regulatory capital requirements in proportion to these risks.

1. Definitions:

Market risk is defined as the losses that the bank may suffer as a result of maintaining any on and off-balance-sheet financial positions arising from movements in market prices.

- 1.1 Included within the definition are any actual financial positions or any financial positions resulting from financial derivatives
- 1.2 Market risk is divided into four main categories:
 - 1.2.1 Interest rate risk.
 - 1.2.2 Exchange rate risk.
 - 1.2.3 Equity position risk.
 - 1.2.4 Commodities risk.
- 1.3 Market risk consists of two main types:
 - 1.3.1 General Market Risk:

The risk of loss arising from changes in market prices or in interest rates, which affects the value of financial positions related to interest rates, equity positions, exchange rates and commodities.

1.3.2 Specific Risk:

The risk of changing the price of a financial instrument due to factors related to the issuer, it applies to financial positions related to interest rates and equity instruments issued by this entity.

2. Key Principles:

- 2.1 Banks are required to provide the Central Bank with a trading book policy that specifically states all financial activities and positions that fall within this book.
- 2.2 The bank must have prudent policies and procedures for evaluating positions within the trading book, in addition to having effective systems for measuring and managing market risks.
- 2.3 Market risk is calculated at the end of each business day, and the values of the calculation process must be included in the quarterly report on all business days during that period.

3. Responsibilities of the Board of Directors and Executive Management:

- 3.1 The Board of Directors shall approve strategies and policies related to market risks and ensure that the executive management takes all necessary steps to monitor and control these risks.
- 3.2 The board of directors should ensure that the bank has adequate systems in place to identify, measure, monitor and control market risks, including specifying responsibilities, separating tasks and avoiding any conflict of interest. The bank must also inform the Central Bank of any material changes that occur to these systems, as well as to its market risk profile.

3.3 The board of directors should ensure that the bank adheres to capital adequacy requirements to continuously face market risks, while not exaggerating daytime positions.

4. Trading Book:

- 4.1 Trading book consists of positions in financial instruments, commodities, and derivatives held either with trading intent or in order to hedge other elements of the trading book. Note that the positions taken with trading intent are those that meet any of the following conditions:
 - 4.1.1 Held intentionally for short-term resale (The short term for this purpose is known as a period not exceeding 90 days).
 - 4.1.2 Held with the intent of benefiting from actual or expected short-term price movements.
 - 4.1.3 Resulted from brokerage and market making processes.
- 4.2 The following will be the basic requirements for positions eligible to receive trading book capital treatment:
 - 4.2.1 Clearly documented trading strategy for the positions and/or financial instrument and/or portfolios, approved by senior management (which would include expected holding horizon).
 - 4.2.2 Clearly defined policies and procedures to manage the positions, which must include:
 - Positions are managed on a trading desk.
 - Position limits are set and monitored for appropriateness.
 - Dealers have the autonomy to manage the positions within agreed limits and according to the agreed strategy.
 - Positions are marked to market at least daily and when marked to model the parameters must be assessed on a daily basis.
 - Positions are reported to senior management as an integral part of the institution's risk management process.
 - Positions are actively monitored with reference to market information sources (assessment should be made of the market liquidity and/or the ability to hedge positions and/or the portfolio risk profiles).
 - The necessity to assess the quality and availability of market inputs to the valuation process, level of market turnover, sizes of positions traded in the market (Market Depth Assessment).
- 4.3 In the event that the bank finances its investments in financial positions through the issuance of securities, such securities are included in the trading book only if the provisions of the trading book mentioned in clause no. (4) above apply to them.
- 4.4 When a bank hedges a banking book credit risk exposure using a credit derivative booked in its trading book, the banking book exposure is not deemed to be hedged for capital purposes unless this derivative fulfills all the conditions

stipulated in paragraphs no. (15) and (17) of clause two/chapter four. Conversely, the derivative is included in the banking book.

- 4.5 The bank must include repo-style agreements classified within the banking book in the trading book for regulatory capital purposes so long as all such repo-style agreements fulfill the provisions of the trading book. For this purpose, tradingrelated repo-style transactions are in the form of either cash or securities includable in the trading book. Regardless of where they are booked, all repostyle transactions are subject to a banking book counterparty credit risk charge.
- 4.6 The bank shall subject the process of classifying any position or instrument within the banking book or trading book to internal auditing as soon as it arises, to ensure that it meets all the conditions mentioned in these instructions

5. Trading book policy:

- 5.1 The trading book policy prepared by the bank should include the following:
 - 5.1.1 The department authorized to approve or amend the policy.
 - 5.1.2 The activities the bank considers to be within the trading book for regulatory capital purposes.
 - 5.1.3 The evaluation methodology for trading book positions includes the following:
 - The extent to which an exposure can be marked-to-market daily by reference to an active, liquid two-way market.
 - For exposures that are marked-to-model²⁰, the extent to which the bank can:
 - a. Identify the material risks of the exposure.
 - b. Hedge the material risks of the exposure and the extent to which hedging instruments would have an active, liquid two-way market.
 - c. Dependence on the correctness and reliability of the key assumptions and parameters used in the model.
 - 5.1.4 In the event that there are Structural Foreign Exchange Positions²¹, the bank is responsible for defining these positions, how they are managed and the mechanism for separating them from foreign currency positions in the trading book.
 - 5.1.5 That this policy be subjected to periodic review, no more than annually.
 - 5.1.6 The extent to which legal restrictions and/or other operational requirements would impede the bank's ability to effect an immediate liquidation of the exposure.
 - 5.1.7 With regard to internal transactions, whether at the bank or banking group level:
 - The bank may neutralize the effect of all transactions between different portfolios within its trading book before calculating the

²⁰ Positions and portfolios pricing according to prices determined by financial models, not the market.

²¹ Structural Foreign Exchange Positions: The positions by which a group of foreign currency positions is hedged in the balance sheet of the bank.

financial positions exposed to market risks, or that any / or all internal transactions in the positions are included, provided that one of the two methods is consistently adhered to.

- The bank may not neutralize the impact of internal transactions between the trading book and the banking book when calculating the trading book positions.
- 5.1.8 The extent of the bank's ability to effectively manage all the risks of the trading book positions.
- 5.1.9 The need to inform the Central Bank of Jordan immediately of any material changes that occur to it.
- 5.1.10 Description of the bank's market risk management system.
- 5.1.11 That this policy appears in the Annual Management Attestation.

6. Valuation of the trading book:

Banks must establish and maintain adequate systems and controls sufficient to give management and Central Bank the confidence that their valuation estimates are prudent and reliable. These systems must be integrated with other risk management systems within the organization. Such systems must include:

- 6.1 Documented policies and procedures for the process of valuation. This includes:
 - 6.1.1 clearly defined responsibilities of the various areas involved in the determination of the valuation.
 - 6.1.2 sources of market information and review of their appropriateness.
 - 6.1.3 timing of closing prices.
 - 6.1.4 frequency of independent valuation.
 - 6.1.5 procedures for adjusting valuations.
 - 6.1.6 end of the month and ad-hoc verification procedures.
- 6.2 Clear and independent (i.e. independent of front office) reporting lines for the department accountable for the valuation process. The reporting line should ultimately be the board of directors.

7. Valuation methodologies:

- 7.1 Marked to Market:
 - 7.1.1 Marked-to-market is at least the daily valuation of positions at readily available close out prices that are sourced independently. Examples of readily available close out prices include exchange prices, screen prices, or quotes from several independent reputable brokers.
 - 7.1.2 Banks must mark-to-market as much as possible. The more prudent side of bid/offer must be used unless the institution is a significant market maker in a particular position type and it can close out at mid-market.
- 7.2 Marked to Model:
 - 7.2.1 Where marked-to-market is not possible, banks may mark-to-model.
 - 7.2.2 Marked-to-model is defined as any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input.

- 7.2.3 If this methodology is used, the Central Bank will consider the following in assessing:
 - Senior management should be aware of the elements of the trading book which are subject to mark to model and should understand the materiality of the uncertainty this creates in the reporting of the risk/performance of the business.
 - Market inputs should be sourced, to the extent possible, in line with market prices. The appropriateness of the market inputs for the particular position being valued should be reviewed regularly (no more than one month).
 - Where available, generally accepted valuation methodologies for particular products should be used as far as possible.
 - Where the model is developed by the bank itself, it should be based on appropriate assumptions, which have been assessed and challenged by suitably qualified parties independent of the development process. The model should be developed or approved independently of the front office. It should be independently tested. This includes validating the mathematics, the assumptions and the software implementation.
 - There should be formal change control procedures in place and a secure copy of the model should be held and periodically used (Maximum monthly) to check valuations.
 - Risk management should be aware of the weaknesses of the models used and how best to reflect those in the valuation output.
 - The model should be subject to periodic review to determine the accuracy of its performance (e.g. assessing continued appropriateness of the assumptions, analysis of P&L versus risk factors, comparison of actual close out values to model outputs).
 - Valuation adjustments should be made as appropriate, for example, to cover the uncertainty of the model valuation.

8. Independent price verification:

- 8.1 Independent price verification is distinct from daily mark-to-market. It is the process by which market prices or model inputs are regularly verified for accuracy. While daily marking-to-market may be performed by dealers, verification of market prices or model inputs should be performed by a unit independent of the dealing room, at least monthly (or, depending on the nature of the market/trading activity, more frequently).
- 8.2 In cases that Independent price verification entails a higher standard of accuracy in that the market prices or model inputs are used to determine profit and loss figures, for independent price verification, where pricing sources are more subjective, e.g. only one available broker quote, prudent measures such as valuation adjustments may be appropriate.

- 8.3 Banks must establish and maintain procedures for considering valuation adjustments/reserves. Banks using third-party valuations have to consider whether valuation adjustments are necessary. Such considerations are also necessary when marked-to-model.
- 8.4 The bank should consider the following valuation adjustments/reserves to be formally considered at a minimum wherever required:
 - 8.4.1 Unearned credit spreads.
 - 8.4.2 Close-out costs.
 - 8.4.3 Operational risks.
 - 8.4.4 Early termination.
 - 8.4.5 Investing and funding costs.
 - 8.4.6 Future administrative costs.
 - 8.4.7 Model risk.
- 8.5 Banks must make downward valuation adjustments/reserves for less liquid positions, and to review their continued appropriateness on an on-going basis. Banks must consider all relevant factors when determining the appropriateness of valuation adjustments/reserves for less liquid positions. These factors may include, but are not limited to:
 - 8.5.1 The time it would take to hedge out the risks position.
 - 8.5.2 The average volatility of bid/offer spreads.
 - 8.5.3 The availability of independent market quotes.
 - 8.5.4 The average and volatility of trading volumes
 - 8.5.5 Market concentrations.
 - 8.5.6 The aging of positions.
 - 8.5.7 The extent to which valuation relies on marked-to-model.
 - 8.5.8 The impact of other model risks.

9. Market risk – The standardised approach method:

In this method, a ready-made form prepared by the Basel Committee is used in which various market risks are measured, and the following is an explanation of the measurement of these risks according to this method:

9.1 Interest rate risk:

The risk of holding or taking positions in debt securities and other interest rate related instruments in the trading book. The instruments covered include all fixed-rate and floating-rate debt securities (classified within the trading book as defined in clause no. (4) above), which includes the following:

- 9.1.1 Securities and bonds.
- 9.1.2 Non-convertible preferred stocks.
- 9.1.3 Debt issues and preferred stocks that are convertible, at a stated price, into common shares, if they are similar in behavior to debt instruments.
- 9.1.4 Treasury bills.
- 9.1.5 Any other financial instruments that behave similar to debt instruments.
- 9.2 The minimum capital requirement is expressed in terms of two separately calculated charges, one applying to the "specific risk" of each security, whether

it is a short or a long position, and the other to the interest rate risk in the portfolio (termed "general market risk") where long and short positions in different securities or instruments can be offset.

- 9.2.1 Specific Risk: the losses that may arise from adverse movements in the prices of any of the above-mentioned financial instruments due to factors related to the issuer of those instruments (credit risk). Where the capital requirements to meet the interest rates risks are calculated as shown in the table below, noting that the method of calculation is shown in annex no. (15).
- 9.2.2 If the issuer is the same, no offsetting will be permitted, but it is permissible for long and short positions of the same issue, taking into account the following:
 - Government securities: are the securities issued by the Jordanian government or its guarantee in Jordanian dinars, provided that the sources of financing these securities are in Jordanian dinars, as these securities do not need capital requirements, but if they are issued in foreign currency, the capital requirements are determined according to the state's credit rating.
 - Qualifying securities, includes:
 - a. Securities issued by public sector entities and multilateral development banks (as it is explained in first clause/credit risk of this chapter).
 - b. Securities that meet one of the following conditions:
 - Rated investment-grade by at least two credit rating agencies recognized by the Central Bank of Jordan.
 - Rated investment-grade by one rating agency recognized by the Central Bank of Jordan. Or unrated, subject to CBJ approval, and the issuer has securities listed on a recognised financial market.

Categories	External credit	residual term to final maturity	Specific risk capital
	rating		charge %
	AAA to AA-		0
		6 months or less	0.25
	$\Lambda \perp$ to BBB	more than 6 and up to 24	1.00
Government	AT IO DDD-	months	
		more than 24 months	1.60
	BB to B- or Unrated		8
	Below B-		12
		6 months or less	0.25
Qualifying		more than 6 and up to 24	1.00
		months	
		more than 24 months	1.60
Other	BB+ to BB- or Unrated		8
Oulei	Below BB-		12

- 10. **General market risk**: The capital requirements for general market risk are designed to capture the risk of loss arising from changes in market interest rates.
 - 10.1 Maturity method will be adopted for the purposes of calculating general risks, in which positions that are exposed to interest rate risk are slotted into a maturity ladder comprising thirteen time-bands.
 - 10.1.1 Debt instruments are divided according to the interest rate into two categories, first: debt instruments with an interest rate of more than (3%), and the second: debt instruments with an interest rate of less than (3%). As shown in annex no. (16) [noting that the method of calculation is shown in annexes no. (17 / A) and no. (17 / B).
 - 10.1.2 Long and short positions are slotted according to maturities or repricing periods with no offsetting between different positions in different currencies, Whereas, offsetting is only allowed for positions for the same currency and for the same maturity date.
 - 10.1.3 Fixed rate instruments should be allocated according to the residual term to maturity and floating-rate instruments according to the residual term to the next repricing date.
 - 10.1.4 Futures and forward contracts, including forward rate agreements are treated as a combination of a long and a short position. The maturity of a future or a FRA will be the period until delivery or exercise of the contract, plus where applicable the life of the underlying instrument. The party receiving the interest is a long position and the party paying the interest is a short position.
 - 10.2 Calculation mechanism
 - 10.2.1 Positions are weighted according to the weights corresponding to the position type (long or short) and the appropriate time category.
 - 10.2.2 Calculate the bank's net open position, regardless of sign.
 - 10.2.3 Calculate the weighted longs and shorts in each time-band, resulting in a single short or long position for each band. Since, however, each band would include different instruments and different maturities, a 10% capital charge to reflect basis risk and gap risk will be levied on the smaller of the offsetting positions, be it long or short. This is called Vertical Disallowance.
 - 10.2.4 Calculate the covered positions in the first, second and third zones, as follows (Horizontal disallowances):

Zones	Within the zone	Between adjacent zones	between zones 1 and 3
Zone 1	40%	40%	
Zone 2	30%		100%
Zone 3	30%	40%	100%

10.2.5 The capital required for general interest rate risk is the sum of capital from the above table (within the zones + between adjacent zones + between zones 1 and 3).

10.2.6 The market risk for these instruments is calculated by multiplying the required capital by (12.5).

11. Equity Position Risk:

- 11.1 The risk of holding or taking positions in equities in the trading book. It applies to long and short positions. This includes:
 - 11.1.1 Common stocks.
 - 11.1.2 Convertible securities that behave like equities.
 - 11.1.3 Commitments to buy or sell equity securities.
 - 11.1.4 Global stock indices.
 - 11.1.5 Preferred Stocks that are convertible into common shares.
 - 11.1.6 Derivatives based on the above instruments.
 - 11.1.7 Contributions to investment funds that contain such aforementioned instruments, for the purposes of these instructions, investment funds that are fully formed or (at least 20%) of them from the abovementioned instruments shall be treated as equity instruments.
- 11.2 Specific and general market risks are calculated as shown in annex no. (18), and as follows:
 - 11.2.1 Determine the longs and shorts positions in each time-band. In this regard, it is permissible to offset between these positions if they belong to the same issuance only and regardless of sign.
 - 11.2.2 Determine the total position of the bank, which represents the sum of long and short positions.
 - 11.2.3 Determine the capital charge for specific risk which represents the result of multiplying the total positions by 8%.
 - 11.2.4 Determine the net positions of the bank, which represents the offset between long and short positions.
 - 11.2.5 Determine the capital charge for general market risk which represents the result of multiplying the net positions by 8%.
 - 11.2.6 Calculating the specific and general market risk, which represents the outcome of sum the required capital for each of them.
 - 11.2.7 The market risk for equity instruments is calculated by multiplying the required capital by (12.5).

12. Foreign exchange and gold risk:

The risk of holding or taking positions in foreign currencies, including gold.

- 12.1 Calculate the net spot position (i.e., all asset items less all liability items, including accrued interest).
- 12.2 Calculate the net forward position (i.e., all amounts to be received less all amounts to be paid under forward foreign exchange transactions, including currency futures and the principal on currency swaps not included in the spot position).
- 12.3 Net positions in foreign currencies are calculated through the items below:

- 12.3.1 Guarantees that are certain to be called and are likely to be irrecoverable.
- 12.3.2 Any item that represents a foreign currency gain or loss.
- 12.3.3 The net delta-based equivalent of the total book of foreign currency options.
- 12.4 Measuring the foreign exchange and gold risk in a portfolio of foreign currency positions and gold as shown in annex no. (19) and as follows:
 - 12.4.1 Determine the net open positions (long or short) for each currency separately.
 - 12.4.2 Determine the total net open positions (long or short) for all currencies.
 - 12.4.3 Determine the sum of long or short positions, whichever is greater.
 - 12.4.4 Determine the net open position in gold (long or short).
 - 12.4.5 The capital charge will be 8% of the overall net open position (The overall net open position is measured by aggregating items (12.4.3) and (12.4.4)).
 - 12.4.6 The market risk for foreign exchange rates and gold is calculated by multiplying the required capital by (12.5).

13. Commodities risk:

- 13.1 The risk of holding/ taking positions in commodities, including precious metals, but excluding gold.
- 13.2 The simplified approach will be used to calculate the commodities risk according to annex no. (20), and as follows:
 - 13.2.1 The net positions are calculated by adding the net spot positions and net future positions.
 - 13.2.2 List the net individual positions, whether long or short, in annex no. (20).
 - 13.2.3 Calculate the net position, which represents the absolute value of the difference between long and short positions.
 - 13.2.4 Calculate the total positions of the bank, whether long or short, regardless of the sign, which represents the result of the sum of the long and short positions.
 - 13.2.5 The capital charge will equal 15% of the net position plus 3% of the bank's gross positions.
 - 13.2.6 Calculating the commodities risk, which represents the required capital multiplied by (12.5).

14. Derivative risk:

- 14.1 The losses that the bank may incur as a result of maintaining derivative contracts for trading or hedging trading instruments, as a result of the adverse change in the prices of the financial instruments on which these contracts are based (Underlying Assets).
- 14.2 Banks which solely use purchased options will be use the simplified approach (These instructions do not apply in which the bank is writer), as follows:

- 14.2.1 The bank maintains long or short positions with the right to Put or call them.
- 14.2.2 Holding long positions with the right to Put them. The value of the option contract is calculated whether it is a profit (In the Money) or a loss (Out of the Money), where the contract is profit when the strike price is higher than the market price of the underlying security, and vice versa.
- 14.2.3 Holding short positions with the right to Call them. The value of the option contract is calculated whether it is a profit or a loss, where the contract is profit when the market price of the underlying security is higher than the strike price, and vice versa.
- 14.2.4 The capital charge will be the market value of the underlying security multiplied by (16%) (8% for specific risk and 8% for general risk) less the amount of profit if the contract is a profit (In the Money).

15. Maintaining derivative contracts for trading:

15.1 Call – Put:

The capital charge will be the lesser of:

- 15.1.1 The market value of the underlying security multiplied by (8%).
- 15.1.2 The Premium.

Annex no. (21) shows the details of that.

15.2 Calculating the derivatives risk, which represents the required capital multiplied by (12.5).

16. The Counterparty risk/ Settlement risk:

The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows, which includes the following:

- 16.1 Repurchase agreements, reverse repurchase and securities lending and borrowing agreements:
 - 16.1.1 Repurchase and Securities lending agreements that are based on securities in the trading book: calculate the difference between (the market value of the sold securities with a pledge to repurchase them or the lent securities) and (the amount borrowed by the bank or the market value of the guarantee taken), in case the difference is positive. [Annex no. (22 / A / 1)].
 - 16.1.2 Reverse repurchase and securities borrowing agreements: calculate the difference between (the loaned amount or the market value of the given guarantee) and (the market value of the purchased securities), in case the difference is positive. [Annex no. (22 / A / 2)].
 - 16.1.3 The accrued interest should be included in the calculation of the market value of the amounts borrowed or loaned.
- 16.2 Delivered and unrecovered shares and / or shares paid for but not received.

It represents shares that have been delivered by the bank but its price has not been received, or shares received and its price has not been paid. [annex no. (23)].

General note:

With regard to other risks such as the counterparty credit risk, which were not addressed in these instructions, and in the event that the bank faces these risks, refer to the document issued by the Basel Committee under the (Basel III: A global regulatory framework for more resilient banks and banking systems) 12/2010.

Chapter five: Leverage Ratio

- 1. To introduce a simple, transparent, non-risk based leverage ratio that is calibrated to act as a credible supplementary measure to the risk based capital requirements. The leverage ratio is intended to achieve the following objectives:
 - 1.1 Constrain the build-up of leverage in the banking sector, helping avoid destabilizing deleveraging processes which can damage the broader financial system and the economy.
 - 1.2 Inforce the risk based requirements with a simple, non-risk based "backstop" measure.

2. Definition and calculation of the leverage ratio:

The minimum leverage ratio is (4%), so that it is calculated as follows:

- 2.1 The numerator of the ratio is (T1) capital as defined in paragraph (1.1) of clause (Second / 1) of chapter two of these instructions. items that are deducted completely from capital do not contribute to leverage, and should therefore also be deducted from the measure of exposure. That is, the capital and exposure should be measured consistently and should avoid double counting. This means that deductions from Tier 1 capital should also be made from the exposure measure.
- 2.2 The denominator for the ratio consists from on-balance and off-balance sheet items, as follows:

<u>On-balance sheet items</u>: are net of specific provisions and unpaid interest. Noting that the credit risk mitigation and netting of loans and deposits is not allowed to reduce on-balance sheet exposures.

<u>Off-balance sheet items</u>: as indicated in annex no. (24) and according to credit conversion factor (CCF) for each of the off-balance sheet items shown in the annex. Note that these factors are for the purpose of calculating leverage ratio only.

3. Application arrangements:

Banks start with the trial calculation starting from the date of applying these instructions and disclosing them in the regulatory capital statements, and based on the impact study to be made by the Basel Committee in light of the results of the experimental application, the Central Bank will introduce any amendments in this regard.

Annex (1) Investments in banks, securities companies, and other financial companies in the event of non- consolidation

Year	2016	2017	2018	2019	2020
Reducing percentage	20%	40%	60%	80%	100%
T1	60%	70%	80%	90%	100%
T2	40%	30%	20%	10%	0

Annex (2) Minority interest illustrative example

A banking group consists of two legal entities that are both banks. Bank A is the parent and Bank B is the subsidiary and their unconsolidated balance sheets are set out below.

	Bank A					
	Assets	Liabilities and equity				
100	Loans to customers	70 Deposits				
7	Investment in CET1 of Bank B	Equity				
4	Investment in the AT1 of Bank B	26 CET1				
2	Investment in the T2 of Bank B	7 AT1				
		10 T2				
113	Total	113 Total				

Bank B					
Assets	Assets Liabilities and equity				
150 Loans	127 Deposits				
	Equity				
	10 CET1				
	5 AT1				
	8 T2				
150 Total	150 Total				

The balance sheet of Bank A shows that in addition to its loans to customers, it owns 70% of the common shares of Bank B, 80% of the Additional Tier 1 of Bank B and 25% of the Tier 2 capital of Bank B. The ownership of the capital of Bank B is therefore as follows:

Capital issued by Bank B				
	Amount issued to parent (Bank A)	Amount issued to third parties	Total	
CET1	7	3	10	
AT1	4	1	5	
T2	2	6	8	
Total	/13	10	23	

The consolidated balance sheet of the banking group is set out below:

Consolidated balance sheet		
Assets		
Loans to customers	250	
Liabilities and equity		
Deposits	197	
Tier 2 issued by subsidiary to third parties	6	
Tier 2 issued by parent	10	
Additional Tier 1 issued by subsidiary to third parties	1	
Additional Tier 1 issued by parent	7	
Common equity CET1 issued by subsidiary to third parties (minority interest)	3	
Common equity CET1 issued by parent	26	
Total	250	

For illustrative purposes, Bank B is assumed to have risk weighted assets of 100. In this example, the minimum capital requirements of Bank B and the subsidiary's contribution to

the consolidated requirements are the same since Bank B does not have any loans to Bank A. This means that it is subject to the following minimum plus capital conservation buffer requirements and has the following surplus capital:

Minimum and surplus capital of Bank B			
item	Minimum plus capital conservation Surplus		
	buffer (2.5%)		
CET1	8.5	1.5	
CLII	(=8.5%*100)	(=10-8.5)	
T1	10	5	
(CET1+AT1)	(=10%*100)	(=10+5-10)	
TC(CET1 + AT1 + T2)	12	11	
1C(CE11+A11+12)	(=12%*100)	(=10+5+8-12)	

The following table illustrates how to calculate the amount of capital issued by Bank B to include in consolidated capital:

Bank B: amount of capital issued to third parties included in consolidated capital					
Item	Total amount issued by Bank B (1)	Amount issued to third parties (minority interest) (2)	Surplus (3)	Surplus attributable to third parties (amount excluded from consolidated capital) (4) =(3)*(2)/(1)	Amount included in consolidated capital =(2)-(4)
CET1	10	3	1.5	0.45	2.55
T1	15	4	5	1.33	2.67
TC	23	10	11	4.78	5.22

The following table summarizes the components of capital for the consolidated group based on the amounts calculated in the table above. Additional Tier 1 is calculated as the difference between Common Equity Tier 1 and Tier 1 and Tier 2 is the difference between Total Capital and Tier 1.

	Total amount issued by parent (all of which is to be included in consolidated capital)	Amount issued by subsidiaries to third parties to be included in consolidated capital	Total amount issued by parent and subsidiary to be included in consolidated capital
CET1	26	2.55	28.55
AT1	7	0.12	7.12
T1	33	2.67	35.67
T2	10	2.55	12.55
TC	43	5.22	48.22

Annex (3) Corresponding Deduction Approach

Million JD

Item	Example 1	Example 2
CET1	95	95
Investments in the capital of banks, financial companies and		
insurance companies that are less than (10%) of the capital of	20	20
these companies		
CET1	7	20
AT1	6	0
T2	7	0
(10%) of CET1	9.5	9.5
Investments exceed 10% of the bank's common equity CET1	10.5	10.5
Deduction from CET1 10.5*7/20 Or 10.5*20/20	3.675	10.5
Deduction from AT1 10.5*6/20 Or 10.5*0/20	3.15	0
Deduction from T2 10.5*7/20 Or 10.5*0/20	3.675	0
The remaining investments are weighed in proportion to their risk weight	9.5	9.5

Annex (4) Threshold deductions illustrative example

Item	Million JD
The bank's common equity CET1	95
Investments in the capital of banks, financial companies and insurance companies that are more than (10%) of the capital of these companies	20
CET1	15
AT1 *	3
T2 *	2
Deferred tax assets due to temporary differences	20

* Any capital instruments other than CET1 are fully deducted from the corresponding capital item in the bank's capital. In other words, if the bank invests in capital instrument (AT1) with a certain amount, it must be deducted from the AT1 in the corresponding capital.

First threshold deduction: more than (10%) of each item of CET1

Item	Million JD
10% of CET1	9.5
Deduction from CET1 (15-9.5=5.5)	5.5
Deduction from AT1	3
Deduction from T2	2
Deferred tax assets due to temporary differences (20-9.5=10.5)	10.5
Remaining from the investments and deferred tax assets due to temporary differences	9.5+9.5=19

Second threshold deduction: more than (15%) of aggregate CET1

- 30/9/2016 - 31/12/2018

Item	Million JD
15% of the Common Equity Tier 1 capital (95*15%)	14.25
Deduction from CET1 that exceed the second threshold 35-5.5-10.5=19 ²² 19-14.25=4.75	4.75
Total of deductions from CET1 (10.5+5.5+4.75)	20.75

- From 1/1/2019

Item	Million JD
15% of the Common Equity Tier 1 capital (95-35=60*17.65%)	10.59
Deduction from CET1 that exceed the second threshold	
35-5.5-10.5 = 19	8.41
19-10.59 = 8.41	
Total of deductions from CET1 (8.41+10.5+5.5)	24.41

²² It is the sum of (15) million JD, which represents investments in banks, financial companies and insurance companies that exceed (10%) within CET1 instruments, with an amount of (20) million JD, which represents deferred tax assets.

Annex (5) The regulatory capital

1. Common Equity Tier 1 Capital	
Share Capital	
Retained earnings (losses)	
Other comprehensive income items	0
Cumulative change in fair value in full	
Exchange differences arising from the translation of foreign operations	
Cash flow hedge reserve relates to assets that are not fair valued	
Share premium (discount)	
Statutory reserve	
Voluntary reserve	
Treasury share premium	
Other reserves approved by the Central Bank	
Minority interest	
Total of Common Equity Tier 1 Capital	0
Regulatory adjustments	
Goodwill and other intangibles assets	
Deferred tax assets	
Cash flow hedge reserve relates to assets that are not fair valued	
Gain on sale related to securitisation transactions	
Cumulative gains and losses due to changes in own credit risk on fair valued	
financial liabilities	
Investments in own shares (treasury stock)	
Deferred provisions with the approval of the Central Bank (if any)	
Investments in the capitals of subsidiaries that are not consolidated with the	
bank's accounts, as described in annex no. (1)	
Reciprocal cross holdings in the capital of banking, financial and insurance	
entities within CET1	
Investments in the capital of banking, financial and insurance entities where the	
bank own less than 10% (According to what is indicated in the instructions)	
Significant investments in the capital of banking, financial and insurance entities	
that are outside the scope of regulatory consolidation where the bank owns more	
than 10%	
Deferred tax assets (DTAs) that arise from the investments in First threshold	
(10%)	
(DTAs) that arise from the investments in second threshold (15%)	
Net of CET1	0

As of //

2. Additional Tier 1	
Long-term bonds convertible to common shares	
non-accumulating preferred shares	
Instruments issued by the bank that meet the criteria for inclusion in Additional Tier 1	
capital	
Stock surplus (share premium)	
Minority interest	
Total of AT1	0
Regulatory adjustments	
Reciprocal cross holdings in the capital of banking, financial and insurance entities	
within AT1	
Investments in the capital of banking, financial and insurance entities where the bank	
own less than 10% (According to what is indicated in the instructions)	
Investments in the capital of banking, financial and insurance entities where the bank	
own more than 10% (According to what is indicated in the instructions)	
Net of AT1	0
Net of T1	0
3. Tier 2	
Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital	
Stock surplus (share premium)	
General provisions/general loan-loss reserves: will be limited to a maximum of 1.25	
percentage points of credit risk-weighted risk assets	
Minority interest	
Total of T2	0
Regulatory adjustments	0
Investments in the capitals of subsidiaries that are not consolidated with the bank's	
accounts, as described in annex no. (1)	
Reciprocal cross holdings in the capital of banking, financial and insurance entities	
within T2	
Investments in the capital of banking, financial and insurance entities where the bank	
own less than 10% (According to what is indicated in the instructions)	
Investments in the capital of banking, financial and insurance entities where the bank	
own more than 10% (According to what is indicated in the instructions)	
Net of 12	6
The regulatory capital	0

It is filled out at the level of the banking group, Jordan and abroad branches, and Jordan branches
Annex no. (6) The steps that the Central Bank will follow regarding the countercyclical buffer

The countercyclical buffer calculation includes the following steps:

- 1. Calculate the private sector credit-to-GDP ratio.
- 2. Estimate the credit-to-GDP gap (the gap between the ratio and its trend), using statistical measures.
- 3. Calculate the required buffer based on the estimated gap, as follows:
 - a. If the gap is less than (2%), the buffer is zero.
 - b. If the gap exceeds (10%), the buffer is (2.5%).
 - c. If the gap ranges between the minimum limit and the upper limit that mentioned above, the buffer is:
 - (GAP-2%)*2.5%/8%

The Central Bank of Jordan will assess the need to increase or decrease the buffer according to systemic risk trends, before imposing the buffer, the central bank will give banks a grace period of (12) months for compliance in order to give banks sufficient time to fulfill the additional capital requirements, as for the reduction process, it is directly implementable as soon as it is announced by the Central Bank.

Annex (7) External Risk Rating Mapping

Long Te	Short Term Rating Assessment				Obligor						
			C A D					a t	Banks		
S&P's	Moody's	Fitch's	S&P's	Moody's	Fitch's		Sovereign	Corporate	$M \le 3$ months	M > 3 months	
AAA to AA-	Aaa to Aa3	AAA to AA-	A-1+ A-1	P-1	F1+ F1		0%	20%	20%	20%	
A+ to A-	A1 to A3	A+ to A-	A-2	P-2	F2		20%	50%	20%	50%	
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	A-3	P-3	F3		%	100%	20%	50%	
BB+ to BB-	Ba1 to Ba3	BB+ to BB-					100%	100%	50%	100%	
B+ to B-	B1 to B3	B+ to B-					100%	150%	50%	100%	
CCC+ and below	Caa1 and Below	CCC+ and below	B-1, B-2 B-3, C	, NP	Below F3		150%	150%	150%	150%	

Annex (8) * Ministries and institutions eligible for Jordanian government risk weights (zero%)

No.	Name
1	Royal Hashemite Court
2	The Parliament
3	Council of Ministers
4	Ministry of Social Development
5	Jordan Armed Forces
6	Royal Medical Services
7	Royal Jordanian Air Force
8	Royal Jordanian Geographic Center
9	Ministry of Interior
10	Public Security Directorate
11	Civil Defense
12	General Intelligence Department
13	Ministry of Justice
14	Supreme Judge Department
15	Ministry of Foreign
16	Department of Palestinian Affairs
17	Ministry of Finance in all its departments
18	Ministry of Industry, Trade and Supply
19	Ministry of Tourism and Antiquities
20	Ministry of Local Administration
21	Ministry of Energy and Mineral Resources
22	Natural Recourses Authority
23	Ministry of Public Works and Housing
24	Government Tenders Department
25	Ministry of Agriculture
26	The Agricultural Marketing Corporation
27	Ministry of Water and Irrigation
28	Jordan Valley Authority

29	The Ministry of Education
30	Higher Education Council
31	Ministry of Health
32	Ministry of Social Development
33	Ministry of Labor
34	Ministry of Awqaf and Islamic Affairs
35	Ministry of Culture
36	Ministry of Transport / Jordan Civil Aviation Regulatory Commission
37	Ministry of Information and Communications Technology
38	Ministry of Environment
39	Social Security Corporation
40	Jordan Free and Development Zones Group
41	Water Authority of Jordan
42	Aqaba Special Economic Zone Authority
43	Aqaba Company for Ports Operation and Management
44	Telecommunications Regulatory Commissions
45	Jordan Securities Commission
46	Transport Regulatory Commission
47	Jordan Insurance Federation
48	Energy and Minerals Regulatory Commission
49	Jordan Deposit Insurance Corporation
50	Greater Amman Municipality
51	Others (subject to prior approval from the Central Bank)

* This Annex is exclusively approved for the purposes of implementing Basel III standard.

Annex (9) Establishments and institutions that eligible for banks risk weights²³

No.	Name
1	Municipalities and Local Councils
2	Royal Jordanian
3	National Electric Power Company
4	Electricity Distribution Company
5	Central Electricity Generating Company
6	Jordan Industrial Estates Corporation
7	Jordan Export Development & Commercial Centers Corporation
8	Al-Aqsa Mosque Reconstruction Committee
9	Military Retired Foundation
10	Royal Scientific Society
11	The Military Consumer Institution
12	The University of Jordan
13	Yarmouk University
14	Al Albayt University
15	Mutah University
16	AlBalqa Applied University
17	Jordan University of Science and Technology
18	Amman Faculty of Engineering Technology
19	Al-Hussein Bin Talal University
20	The Hashemite University
21	The Higher Council for Science and Technology
22	Jordan University Hospital
23	Jordan Medical Council
24	Provident Fund for University of Jordan Employees

²³ If the exposures belonging to these institutions are in foreign currency, then the risk weight given to these exposures should not be less than the weight of the Jordanian government exposures in foreign currency.

25	End of service compensation fund for University of Jordan employees
26	The University of Jordan Investment Fund
27	Yarmouk University Investment Fund
28	Jordan University of Science and Technology workers housing fund
29	Jordan University of Science and Technology Provident Fund
30	Jordan Institute of Diplomacy
31	Military Housing Corporation / Housing Fund
32	Shared services councils in the provinces
33	Social Security Fund for Audit Bureau employees
34	Armed Forces Officers Club
35	Social Security Fund for Ministry of Education Employees
36	Housing Fund for Ministry of Education Employees
37	King Abdullah II Fund
38	King Hussein Cancer Center
39	King Abdullah University Hospital
40	The National Center for Diabetes Endocrinology
41	Diabetes Center Donation Fund
42	Tafila Technical University
43	Provident Fund for Tafila Technical University Employees
44	Technical and Vocational Education and Training Support Fund
45	General Intelligence Officers Housing Fund
46	The Armed Forces Development and Investment Projects Fund
47	The Civil Consumer Institution
48	National Aid Fund
49	Aqaba Railway Corporation
50	Vocational Training Corporation
51	General Organization for Environmental Protection
52	Housing and Urban Development Corporation
53	Development and Employment Fund
54	Jordan Hejaz Railway
55	Health Insurance Agency
56	Jordan Standards and Metrology Organization
57	Jordan Postal Saving Fund
58	The Royal Aal al-Bayt Institute for Islamic Thoughts
59	Higher Council for Youth and Sport
60	Others (subject to prior approval from the Central Bank)

Annex (10) Establishments and institutions that eligible for companies' risk weights

No.	Name
1	Jordan Petroleum Refinery Company
2	Jordan Phosphate Mines Company
3	Arab Potash Company
4	Arab Mining Company
5	Jordan Glass Industrials Company
6	Jordan Company for Wood Industry Company
7	Jordan Hotels and Tourism Company
8	Jordanian Company for Television Production
9	Jordan Real Estate Company
10	Syrian Jordanian Company for Industry
11	Arabian White Cement Company
12	Jordan Telecom Company

Annex (11) Conditions that must be met by a small enterprise to be included in the retail portfolio

- 1. Its legal status is not a public joint stock company.
- 2. The total credit (direct and indirect ceilings, including liabilities related to financial leasing) does not exceed (250) thousand JD with a single bank.
- 3. That its total assets do not exceed (500) thousand JD.
- 4. That its total annual sales do not exceed one million JD.
- 5. These conditions apply only to customers of bank branches within the Kingdom, as for customers of Jordanian bank branches operating abroad, the instructions of the host countries will apply, provided that the branch operating abroad proves its commitment to all instructions in this regard.
- 6. The bank shall ensure compliance with the above conditions periodically (for a period not exceeding one year).

1. General Rules:

- 1.1 Lending fully secured by mortgages on residential property will be risk weighted at 35%, in the event that all of the following conditions are applied.
- **1.2** The preferential treatment does not apply to:
 - 1.2.1 Mortgage backed Securities.
 - 1.2.2 The value of the increase in the amount of the loan granted by the bank in the event of refinancing housing loans granted by other banks.
- 1.3 In the event that any of the above criteria are violated, the full value of the loan is included in the unqualified housing loans portfolio, which will be risk weighted at (100%).

2. Lending criteria:

- 2.1 The purpose of the loan is to build, buy, expand or renew a residential property inside Jordan, in the case of the bank's branches abroad, the funded real estate must be in the host country (it does not include personal loans secured by real estate mortgages).
- 2.2 Any re-loaned sums to the customer, under whatever name it was, must be separated from the eligible housing loan portfolio unless it is related to the property and in a manner that fulfills all other conditions.
- 2.3 The bank must have at all times the legal right to implement on the property, including the right to sell or own in the event of borrower default.
- 2.4 The bank must have clear and written policies and procedures within its credit policy to assess the borrower's ability to fulfill all of its obligations.
- 2.5 The bank must have clear, written and documented procedures within its credit policy to ensure the correctness of the information used in the borrower's credit analysis process, especially those data related to the main income and other sources of income, if any, the customer job data and terms of employment, and data related to his other financial obligations with the bank or the banking system. These tasks are required to be performed before the final approval.
- 2.6 In the event that outsourcing services are used in the credit analysis process, for example: real estate office services and / or real estate companies, the bank must have a clear policy that governs such relationships, also a clear and written procedures to ensure the safety of the standards approved by external parties when conducting the credit analysis process.
- 2.7 The credit policies and procedures of the bank must include clear and documented criteria for the real estate appraisal process, so that these

criteria include cases in which the bank approves internal appraisers and cases in which an external appraiser is approved. The bank must also adopt a list of its external appraisers.

- 2.8 The bank's credit policies and procedures must include clear and documented criteria for the real estate re-assessing process, so that it includes at the minimum the following: the approved periodicity of revaluation, the requirements for re-evaluation in light of economic conditions that may negatively affect the value of real estate, and the requirements for re-evaluation in the event of default of the borrower.
- 2.9 The mortgaged residential real estate is required to be easy to liquidity, within a reasonable period of time, and without substantial loss in its market value, in the event that there is something that prevents this, the loan is not classified within the portfolio of eligible housing loans.

3. Funding ratio criteria:

- 3.1 The loan to value does not exceed (80%) of the estimated value of the property or the purchasing value, whichever is less, upon granting. Otherwise, it should be included in the unqualified housing loan portfolio and given a (100%) risk weight.
- 3.2 As for housing loans that are excluded from the qualified portfolio for violating this condition, they may be re-listed within the portfolio as soon as the outstanding balance reaches (80%) of the estimated or purchasing value of the property upon granting.

4. Mortgage criteria:

- 4.1 The financed property must be mortgaged of the first degree and subsequent degrees are accepted on the condition that there is no mortgage in favor of another party.
- 4.2 The value of the mortgage bond must not be less than the value of the granted loan.
- 4.3 Mortgages for the purposes of including the loan in the portfolio of eligible housing loans are not accepted if they are related to shares or commonly owned real estate.

5. Insurance criteria:

In the event that the financing is more than (80%) of the value of the property with mortgage insurance at a rate of not less than (40%) of the loan value issued by an insurance agency recognized by the Central Bank, in this case, the bank may include the loan in the eligible housing loan portfolio.

1. General Rules:

Specialized lending has the following common characteristics:

- 1.1 The exposure is typically to an entity (often a special purpose entity (SPE)) which was created specifically to implement/ finance/operate any of the five activities listed in the Specialized lending claims section (2.2.12/1).
- 1.2 The credit decision mainly depends on the funded assets ability to generate sufficient income (cash flows) to pay off the credit exposure, not on the creditworthiness (solvency) of the parties that own the special purpose entity.
- 1.3 In the event that the credit decision is based on the creditworthiness (solvency) of the entities that own the special purpose entity, the credit exposure is excluded from the framework (concept) of specialized lending and is treated accordingly as corporate claims. For this, it is required to obtain the guarantees of the owners of the full value of the financing until the last maturity date.
- 1.4 The borrowing entity has little or no other material assets or activities, and therefore little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed.
- 1.5 The terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates.
- 1.6 The financed assets must be fully mortgaged as guarantee for the lending bank.

2. Types of specialized lending:

This type of lending is divided into five types as follows:

2.1 **Project Finance:**

- 2.1.1 Is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure.
- 2.1.2 This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure.
- 2.1.3 Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements.
- 2.1.4 In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant.

2.1.5 The borrower is usually an SPE that is not permitted to perform any function other than developing, owning, and operating the installation.

2.2 **Object finance:**

- 2.2.1 Object finance (OF) refers to a method of funding the acquisition of physical assets (e.g. ships, aircraft, railcars, and fleets) where the repayment of the exposure is dependent on the cash flows generated by the specific assets that have been financed and pledged or assigned to the lender.
- 2.2.2 A primary source of these cash flows might be rental or lease contracts with one or several third parties.

2.3 Commodities finance:

- 2.3.1 Commodities finance (CF) refers to structured short-term lending (no more than 180 days) to finance reserves, inventories, or receivables of exchange-traded commodities (e.g. crude oil, metals, or crops).
- 2.3.2 the exposure will be repaid from the proceeds of the sale of the commodity and the borrower has no independent capacity to repay the exposure. This is the case when the borrower has no other activities and no other material assets on its balance sheet.
- 2.3.3 The structured nature of the financing is designed to compensate for the weak credit quality of the borrower. The exposure's rating reflects its self-liquidating nature and the lender's skill in structuring the transaction rather than the credit quality of the borrower.
- 2.3.4 such lending can be distinguished from exposures financing the reserves, inventories, or receivables of other more diversified corporate borrowers. Banks are able to rate the credit quality of the latter type of borrowers based on their broader ongoing operations. In such cases, the value of the commodity serves as a risk mitigant rather than as the primary source of repayment.

2.4 Income-producing real estate:

- 2.4.1 Refers to a method of providing funding to real estate e (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cash flows generated by the asset. The primary source of these cash flows would generally be lease or rental payments or the sale of the asset.
- 2.4.2 The borrower may be, but is not required to be, an SPE, an operating company focused on real estate construction or holdings, or an operating company with no other major sources of revenue.

2.5 High-volatility commercial real estate:

- 2.5.1 High-volatility commercial real estate (HVCRE) lending is the financing of commercial real estate that exhibits higher loss rate volatility compared to other types of SL.
- 2.5.2 HVCRE includes (Land acquisition, development and construction), If any of the following apply:
 - The source of repayment at origination of the exposure is either the future uncertain sale of the property or cash flows whose source of repayment is substantially uncertain (e.g. the property has not yet been leased to the occupancy rate prevailing in that geographic market for that type of commercial real estate).
 - Commercial real estate financed by more than 70% of the estimated value of the construction cost, including the value of the land.
 - Any real estate that the Central Bank of Jordan includes in this category, regardless of the financing percentage.
 - Any real estate that any supervisory authority in the host country (in which the real estate is originating) is included in this category even if it is not explicitly classified as such by the Central Bank of Jordan.

Annex	(14)	Map	ping	of	Business	Lines
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Main Business Lines (Banks, Investment banks, non-banking companies)	Beta equivalent	Description				
Corporate Finance	18%	Mergers and acquisitions, underwriting, securitisation, syndications, IPO				
Trading & Sales	18%	Private sector lending, banking services, trusts and real estate, providing consulting				
Retail Banking	12%	Retail loans and deposits, retail banking services, card services				
Commercial Banking	15%	Project finance, real estate, export finance, guarantees,				
Payment and Settlement	18%	Payments and collections, funds transfer, clearing and settlement				
Agency Services	15%	Issuer and paying agents for corporate agency				
Asset Management	12%	 Pooled, segregated, retail, institutional, closed, open, private equity for Discretionary Fund Management. Pooled, segregated, retail, institutional, closed, open for Non-Discretionary Fund Management 				
Retail Brokerage	12%	Execution and full service				

						Thousand	ls JD
Instruments	Rating	Maturity	Long Positions	short Positions	1+2	Risk weight	Capital 3*4
			1	2	3	4	5
securities issued by the Jordanian government or its guarantee in Jordanian dinars	Regardless	the rating			0	0%	0
	(AAA) –	- (AA-)			0	0%	0
securities issued by governments	(A+) – (BBB-)	6 months or less			0	0.25%	0
(including the securities issued by	and the residual term	Over 6 to 24 months			0	1%	0
the Jordanian government in	to maturity:	Over 24 months			0	1.6%	0
foreign currency)	(BB+) -	– (B-)			0	8%	0
classified as follows:	Less that	un (B-)			0	12%	0
	Unra	ted			0	8%	0
		6 months or less			0	0.25%	0
Qualifying securities	residual term to maturity:	Over 6 to 24 months			0	1%	0
		Over 24 months			0	1.6%	0
Other Deht	(BB+) –	- (BB-)			0	8%	0
Instruments	Less that	n (BB-)			0	12%	0
monumento	Unra	ted			0	8%	0
Total of capital requi	rement for intere	st rate specific	risk				0
Specific market risk =	= Total of capital	requirement fo	r interest ra	te specific i	risk*12.	.5	0

Annex (16)	General risk for interest rate related debt instruments
	Maturity method: time-bands and weights

Coupon 3% or more	Coupon less than 3%	Risk weight
1 month or less	1 month or less	0%
1 to 3 months	1 to 3 months	0.20%
3 to 6 months	3 to 6 months	0.40%
6 to 12 months	6 to 12 months	0.70%
1 to 2 years	1.0 to 1.9 years	1.25%
2 to 3 years	1.9 to 2.8 years	1.75%
3 to 4 years	2.8 to 3.6 years	2.25%
4 to 5 years	3.6 to 4.3 years	2.75%
5 to 7 years	4.3 to 5.7 years	3.25%
7 to 10 years	5.7 to 7.3 years	3.75%
10 to 15 years	7.3 to 9.3 years	4.50%
15 to 20 years	9.3 to 10.6 years	5.25%
over 20 years	10.6 to 12 years	6.0%
	12 to 20 years	8.0%
	over 20 years	12.5%

	(1/-A): Debt instruments with more than	5% CC	oupon									Thou	isands JD		
No.			Zo	ne 1				Zor	ne 2			Zone 3			
	Time-band	0-1	1-3	3-6	6-12	1-3	2-3	3-4	4-5	5-7	7-10	10-15	15-20	Over 20	
	Open positions		Мо	onths			Years			•	Υe	ars			
	Total														
	Total of long positions	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Total of short positions	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Weight	0	0	0	0	0	0	0	0	0	0	0	0	0	
	long positions*Weight (A)	0	0.2%	0.4%	0.7%	1.25%	1.75%	2.25%	2.75%	3.25%	3.75%	4.5%	5.25%	6%	
	Short positions*Weight (B)	0	0	0	0	0	0	0	0	0	0	0	0	0	
1	(A) + (B)	0	0	0	0	0	0	0	0	0	0	0	0	0	
2		0	0	0	0	0	0	0	0	0	0	0	0	0	0.00
3	Vertical disallowances (matched position within time-band *10%)	0	0	0	0	0	0	0	0	0	0	0	0		
4	horizontal disallowances: matched position within the zones * (40%,30%,30%)	0	0	0	0	0	0	0	0	0	0	0	0	0	0.00
5	horizontal disallowances: matched position between adjacent zones*40%	0				0			0						0.00
6	horizontal disallowances: matched position between zones 1 and 3 * 100%	0					0							0.00	
7	The capital required for general risk of debt instruments subject to interest rate risk equal:	0 0.0							0.00						
8	The market general risk for interest rate = the required capital * 12.5									0.00					
												0.00			

Annex (17): calculation of General risk for interest rate related of debt instruments

(17-B): Debt instruments with less than (3%) coupon

Thousands JD

No.		Zone 1				Zone 2 Zone 3]					
	Time-band	0-1	1-3	3-6	6-12	1-1.9	1.9-2.8	2.8-3.6	3.6-4.3	4.3-5.7	5.7-7.3	7.3-9.3	9.3-10.6	10.6- 12	12-20	Over 20	
	Open positions		Months Years						Ye	ears							
	Total																
	Total of long positions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Total of short positions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
1	Weight	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
2	long positions*Weight (A)	0	0.2%	0.4%	0.7%	1.25%	1.75%	2.25%	2.75%	3.25%	3.75%	4.5%	5.25%	6%	8%	12.5%	
3	Short positions*Weight (B)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
4	(A) + (B)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0	0				
5	Vertical disallowances (matched position within time-band *10%)	0	0	0	0	0	0		0	0	0	0	0		0	0	0
6	horizontal disallowances: matched position within the zones * (40%,30%,30%)	0		<u>.</u>	<u>.</u>	0			0		<u>.</u>	<u>.</u>	<u>.</u>				0
7	horizontal disallowances: matched position between adjacent zones*40%	0				-	0		-	-							0
8	horizontal disallowances: matched position between zones 1and3 * 100%	orizontal disallowances: matched position between zones 1 and 3 *							0								
	The capital required for general risl	c of deb	t instrum	nents sub	ject to in	terest rate	e risk equa	ıl:									0
	The market general risk for interest	rate =	the requi	red capit	al * 12.5												0

Annex (18) The capital charge for equities risk

Thousands JD

The book	Open positions		Total position	capital charge for specific risk	Net of position	capital charge for general risk	capital charge for specific and general risk
1	Long (2) Short (3)		(4)	Total position (5)	(6)	Net of position (7)	(8)
			(2+3)	(4*8%)	2-3)	(6*8%)	
			0	0	0	0	0
			0	0	0	0	0
			0	0	0	0	0
			0	0	0	0	0
			0	0	0	0	0
			0	0	0	0	0
Total	0	0	0	0	0	0	0

Market risk for equity instruments	0
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Annex (19) Market risk for foreign exchange rate and gold

currency	Net p	ositions
	long	short
Dollar		
Euro		
Japanese Yen		
Swiss franc		
Swedish krona		
Canadian Dollar		
Danish Krone		
pound		
Other currencies		
Total of net open positions (long and short)	0	0
a. The greatest open positions	0	
b. Net open position in gold (Long or short)		
a+b	0	
Capital charge for foreign exchange risk	0	
Market risk for foreign exchange rate = Capital * 12.5	0	

Annex (20) Simplified approach used to calculate commodities risk

Commodity type	Long position	Short positon	Net of position	Total of positions	The required capital
			(1)-(2)	(1)+(2)	$\{(4)*3\%\}+\{15\%*(3)\}$
	1	2	3	4	5
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
			0	0	0
	0				
Tota	0				

				Thousands JD
The position	Position value (1)	Position value * 16%	In the money	Capital charge
9		0		0
Maintaining positions with the right of call-put		0		0
Total of (A)	0	0	0	0

a. Maintaining positions with the right of call-put

b. Maintaining derivative contracts for trading

Thousands JD

derivative contracts	No. of shares/ bonds	market price of the shares / bond	market value of the asset based on the derivative		market value of the derivative (Premium)	(3) * 8%	Capital charge = the lesser of (6) or (5)
	1	2	3	4	5	6	7
Call			0			0	0
			U U			0	0
Put			0			0	0
Put Total of (b)	0	0	0	0	0	0	0
Put Total of (b) Capital charg	0 ge for marke	$\frac{0}{10000000000000000000000000000000000$	0 0 0	0	0	0	0 0 0

The value of the derivative (In the Money) is profit in the following cases:

- d. Call: When the strike price is less than the actual market.
- e. Put: When the strike price is greater than the actual market.

Annex (22) The counterparty risks for repurchase, reverse repurchase, securities lending and borrowing agreements

The counterparty raring	The counterparty weight	The market value of sold or lending securities	The borrowed amounts or the market value of the taken guarantee	Positive difference *	The ratio of the required capital	The required capital	
				(2) - (3)		$(1)^{*}(4)^{*}(5)$	
	1	2	3	4	5	6	
(AAA,AA-)	0%			0	8%	0	
(A+, A-)	20%	1200	600	600	8%	9.6	
(BBB+,BBB-)	50%			0	8%	0	
Less than the above rating or unrated	100%			0	8%	0	
Total							
The counterparty risks for repurchase agreements (Total *12.5)							

A/1 Repurchase and securities lending agreements:

A/2 Reverse repurchase and securities borrowing agreements:

The counterparty raring	The counterparty weight	The loaned amounts or the market value of the given guarantee	The market value of the purchased or borrowed securities	Positive difference *	The ratio of the required capital	The required capital		
				(2) - (3)		$(1)^{*}(4)^{*}(5)$		
	1	2	3	4	5	6		
(AAA,AA-)	0%			0	8%	0		
(A+, A-)	20%			0	8%	0		
(BBB+,BBB-)	50%			0	8%	0		
Less than the above rating or unrated	100%			0	8%	0		
Total								
The counterpar	The counterparty risks for reverse repurchase agreements (Total *12.5)							

* In the event that the difference is negative, there are no capital requirements.

Annex (23) The counterparty risks for unrecovered received / delivered shares

Table 7/b	The counterparty weight	The value of received or delivered shares	The ratio of the required capital	The required capital			
				(1)*(2)*(3)			
	1	2	3	4			
(AAA,AA-)	0%		8%	0			
(A+, A-)	20%		8%	0			
(BBB+,BBB-)	50%		8%	0			
Less than the above rating or unrated	100%		8%	0			
Total	Total						
The counterpart	0						

Annex (24) Leverage Ratio

No.	Exposures	Amount	CCF	Amount after CCF
1	The numerator			0
1.1	T1 after deductions ¹		100%	0
2	The denominator			0
2.1	Cash and balances with central banks		100%	0
2.2	Balances with banks and financial institutions		100%	0
2.3	Securities portfolio ²		100%	0
2.4	Credit facilities ³		100%	0
2.5	Net fair value of derivatives ⁴			
2.5.1	For hedging		100%	0
2.5.2	For trading		100%	0
2.6	Net fixed assets		100%	0
2.7	Other assets		100%	0
	Total On-balance sheet items ⁵			0
2.8	Irrevocable obligations			0
2.8.1	Guarantees		100%	0
2.8.2	Letters of credit		100%	0
2.8.3	Sight letters of credit		100%	0
2.8.4	Acceptances		100%	0
2.8.5	Unutilized credit facilities ⁶		100%	0
2.8.6	Underwriting		100%	0
2.8.7	Liquidity facility		100%	0
2.8.8	Any other obligations		100%	0
2.9	Cancelable obligations ⁷			
2.9.1	Guarantees		10%	0
2.9.2	Letters of credit		10%	0
2.9.3	Sight letters of credit		10%	0
2.9.4	Unutilized credit facilities (Non-binding credit		10%	0
	ceilings)			
2.9.5	Liquidity facility (credit lines)		10%	0
2.9.6	Others		10%	0
	Total off-balance sheet items (8.2 + 9.2) ⁸			0
	Leverage ratio (1/2)			
1	All deductions from the conital will be from the T1 and the	itama ana fui	11 daduata	d from

All deductions from the capital will be from the T1, and the items are full deducted from T1 will be excluded from the denominator of the ratio.

- ² net of securities portfolio.
- ³ The credit facilities will be after deducting the provision for impairment and suspending interests.
- ⁴ Off-balance sheet credit derivatives represent the positive net fair value after excluding the negative value.

- ⁵ All assets within on-balance sheet must be without deduction of any financial or tangible guarantees and without taking credit risk mitigations. Also, it is not allowed to netting between loans and deposits.
- ⁶ The unutilized facilities include direct and indirect.
- ⁷ Obligations that the bank may cancel without referring to the customer and without prior notice, and their maturity is usually less than a year.
- 8 The off-balance sheet items will be net after excluding cash collaterals.