No: 10/1/3573

Date: 27/6/1440 AH

Corresponding to: 4/3/2019 AD

**Instructions of Large Exposures limits and Credit Granting Controls**

**No. (2/2019)**

**Greetings,,,**

We enclose herewith the Instructions of Large Exposures limits and Credit Granting Controls, and in this regard, I hereby decide the following: -

1. These instructions shall apply as of 30/6/2019, and the bank that appears to have violated the above instructions at their enforcement date must provide the Central Bank with a clear timetable for rectifying these violations.
2. Applying the instructions of Credit limits No. (9/2001) dated 1/8/2001 and the provision of credit concentrations data shall continue according to the currently approved forms up to the data of 31/5/2019.
3. The banks will be provided in the future with forms especially prepared for the purposes of reporting the data relating to the Instructions of large exposure limits and credit granting controls, which are required to be submitted to the Central Bank starting from their enforcement date.

**Yours sincerely,,,**

**Governor**

**Dr. Ziad Fariz**



**Central Bank of Jordan**

**Instructions of Large Exposures limits and Credit Granting Controls**

**No. (2/2019)**

**First: References**

These instructions are called (Instructions of Large Exposures limits and Credit Granting Controls), and are issued pursuant to the provisions of articles (4/B/6), (44/A), and (44/B) of the Central Bank Law No. (23) of 1971 and its amendments, and articles (3/A), (40/A/4), (40/A/9), (41/B), (41/C), (45), (46), (47), and (99/B) of the Banking Law No. (28) of 2000 and its amendments. The instructions are effective as of 30/6/2019.

**Second: Scope of Application**

These instructions shall be applied to all banks operating in the Kingdom according to the levels shown below:

1. The banking group including the financial subsidiaries (excluding insurance companies).
2. Jordan branches.
3. Banking subsidiaries each separately.

**Third: Definitions**

1. The terms: credit, person, administrator, effective interest, control and subsidiary shall have the meanings stated in the Banking Law in force, and the definition of administrator mentioned in the Banking Law in force shall apply to the administrator in the subsidiary.
2. Definition of Exposure:

Exposure includes all forms of direct and indirect credit granted to one person, bonds, Islamic Sukuk, and debt instruments issued by the same person and purchased by the bank, in addition to the bank's investments in this (legal) person, whether in the form of equities or any other investments. For the purposes of these instructions, the connected person shall be considered as a single person, and this includes the following:

1. The person’s obligations that appear within items in the bank’s on-balance sheet, including: -

* Direct credit facilities and overdraft current account balances.
* Bonds, Islamic Sukuk, and shares issued by the (legal) person, and the similar financial investments.
* Balances and deposits of the bank with other banks.

1. The person’s obligations that appear within items in the bank’s off- balance sheet, including: -

* Direct unutilized binding credit facilities Commitments.
* Enhanced received and issued letters of credit.
* Guarantees issued by the bank.
* Banking acceptances.

1. Any other exposures to the person that arise as a result of contracts with him, including but not limited to financial derivatives, Assets sold with recourse.
2. Definition of Connected Person:

The term “connected person” shall have the meaning stated in the Banking Law in force, and the connected persons include the following:

* Control of a person over another (which includes, for example but is not limited to, the position of a chairman of a board of directors, chairman of a management committee, a general manager, or whoever acts on their behalf and/ or any person authorized to sign separately for the person’s financial and/ or administrative affairs).
* A person owns at least 40% of the other person’s capital.
* The exchange of mutual guarantees between two persons.
* The existence of a single source to settle the obligations of two or more persons.
* Two or more persons borrowing for a single project.
* Solidarity companies in which the person is a partner.
* Limited partnership companies in which the client is a general partner.
* The person who has economic ties with one person or more, so that if any of them encounters financial difficulties, this will affect the ability of others to settle their obligations.
* The definition of the connected person includes public shareholding companies in the event that any of the above-mentioned cases applies to them. In exceptional cases, it is possible to request the prior approval of the Central Bank to exclude the public shareholding company from applying the related concept if there are justifications for that.
* The bank is fully responsible for verifying the data and information relating to the connected persons and disclosing them accurately in the prepared forms that are submitted to the Central Bank, and the bank shall refer to the Central Bank in the event that it is unable to identify the group of connected persons.

1. Definition of capital base:
2. For the purposes of these instructions, capital base consists of Tier 1 of the qualified regulatory capital determined in the Instructions of Regulatory Capital in accordance with Basel III Standard No. (67/2016) and the Instructions of Regulatory Capital in accordance with the amended standard No. (15) issued by the Islamic Financial Services Board (IFSB) No. (72/2018)
3. The exposure ratio for the bank’s branches inside the Kingdom is calculated based on the capital base of the bank’s branches inside the Kingdom.
4. The exposure ratio for the banking group is calculated based on the capital base of the banking group.
5. The exposure ratio of the subsidiary bank of the Jordanian bank is calculated based on the capital base of the subsidiary bank.
6. The capital base is adopted after approval of the bank's financial statements by the central bank.
7. Definition of Related Counterparty:
8. A person is considered related to the bank:
   * 1. If either of them (the person or the bank) has a direct or indirect effective interest in the other, the subsidiary of the bank is considered a related party.
     2. If the person is an administrator in the bank or has a common business interest with an administrator in it.
     3. If the person is a spouse of an administrator in the bank or a relative to this administrator or to his spouse up to the third degree, or has a common business interest with any of them.
9. The bank shall be responsible for verifying the data and information of the bank’s related counterparties within the limits of its knowledge, and to disclose such data and information in the prepared forms that are submitted to the Central Bank.

**Fourth: Calculation Mechanism of Exposure Value**

1. The ratio of large exposure is 10% or more of the capital base.
2. The exposure value for an on-balance sheet item is calculated by measuring the net book value of the credit facilities’ balance (and/ or the fair value of other types of exposures), including any accrued interest, after subtracting the impairment provision and suspended interest and commissions, if any.
3. For the purposes of applying item (B) above, the impairment provisions that must be subtracted are those that are set aside in accordance with the instructions for applying the International Financial Reporting Standard (9) No. (13/2018) or the instructions for classification of credit facilities and calculating impairment provision and reserve for general banking risks No. (47/2009), whichever is stricter.
4. In the event that the exposure is secured by one of the eligible collaterals listed in Appendix No. (1), the exposure value shall be calculated after subtracting the collateral value, taking into account that all necessary steps are taken to fulfill all legal verification requirements in a manner that guarantees the bank’s right to obtain the collateral and take action on it.
5. The bank is allowed to offset cross-border deposits with the same party in the event that the currency of those deposits is the same.
6. The exposure value for an off-balance sheet item is calculated by multiplying the nominal value of the item by its credit conversion factor, and if there are eligible collaterals then the collateral effect is calculated before multiplying the item’s nominal value by the credit conversion factor (i.e. the eligible collateral is subtracted from the item's value and then it is multiplied by its credit conversion factor).
7. Credit conversion transactions for off-balance sheet items are clarified in Appendix No. (2) of these instructions.
8. The exposure value of derivatives contracts other than options contracts is calculated in the same way stated under the Instructions of Regulatory Capital in accordance with Basel III Standard No. (67/2016).
9. The exposure value in options contracts is calculated as follows:

|  |  |  |
| --- | --- | --- |
| * Long Call Option | : exposure | = market value of call option |
| * Short Put Option | : exposure | = Strike price - market value of put option |
| * Short Call Option | : exposure | = - (market value of call option) |
| * Long Put Option | : exposure | = - (Strike price- market value of put option) |

1. In derivative contracts, and in case there are different long and short positions towards the same party with similar currency type, it is allowed to add the total of those negative and positive exposures to that party, and if the sum is negative then the value of the exposure equals zero.

**Fifth: The maximum exposure limit to a single person and/ or to the group of connected persons**

A- The total exposure of the bank to a single person and/ or to the group of connected persons must not exceed 25% of the bank’s capital base.



B- The total exposure of the bank to the main shareholder[[1]](#footnote-1) of the bank and/ or the group of persons connected to him or that granted with his guarantee shall not exceed (10%) of the bank’s capital base.

C- The total large exposures must be no more than eight times the capital base.

**Sixth: The maximum credit limit granted for construction or purchase of real estate**

1. The maximum limit of credit granted by the bank (Jordan branches) for real estate’s construction or purchase should not exceed (20%) of the total clients’ deposits (Jordan branches) in Jordanian Dinars.
2. Credit granted for real estate’s construction or purchase comprises the following:

* Credit granted for the construction or purchase of real estates, which include lands and lands on which buildings are established.
* Credit granted for all purposes directed to the construction sector, such as construction, maintenance, expansion, completion or improvement of existing properties and others.
* Credit granted for the establishment or purchase of commercial complexes and commercial offices.
* Credit granted to real estate investors and housing companies.
* Any credit granted for similar purposes.

1. The following are excluded from the above components, provided that the excluded amounts are disclosed within the forms prepared by the Central Bank:

* Credit granted to finance the construction or purchase of hospitals, universities, schools, factories, tourist facilities, hotels, suites and hotel apartments, which were taken into account when granting, provided that:

1. The original maturity period for the credit shall not exceed (7) years.
2. The credit decision depends mainly on the ability of the financed project to generate sufficient operating income/ cash flows to repay the finance.

* Credit granted to finance working capital for contractors.
* Amounts refinanced from the Jordan Mortgage Refinance Company, up to the maximum value of the agreement signed between the bank and the company.

- Facilities granted to finance the purchase of residential apartments within the royal initiative framework "Decent housing for a decent living", as well as the credit facilities granted to approved contractors for the purposes of financing the execution of residential projects related to this initiative exclusively, provided that a qualification certificate issued by the Housing & Urban Development Corporation is obtained from the entities mentioned in the above exception.

1. The maximum credit granted for the construction or purchase of real estates does not include Ijara Muntaheya bil tamlik.
2. The above percentage is calculated as stated in Appendix No. (3) of these instructions.

**Seventh: The maximum credit limit granted in the form of overdrafts**

1. The ratio of credit granted by the bank (Jordan branches) in the form of overdraft should not exceed (20%) of the total direct credit granted by the bank (Jordan branches).
2. Credit should not be granted in the form of overdraft against cash collaterals.
3. It is prohibited to grant any credit which has the nature and description of the overdraft under other names.
4. The above percentage is calculated as stated in Appendix No. (3) of these instructions.

**Eighth: The maximum credit limit granted to the largest ten persons of the bank’s clients in the Kingdom**

1. The ratio of direct credit granted to the largest ten persons of the Jordanian bank’s clients (Jordan branches) should not exceed (35%) of the total direct credit granted by the Jordanian bank (Jordan branches).
2. The ratio of direct credit granted to the largest ten persons of the foreign bank’s clients in the Kingdom should not exceed (70%) of the total direct credit granted by the foreign bank in the Kingdom.
3. The above percentage is calculated as stated in Appendix No. (3) of these instructions.

**Ninth: The maximum exposure limits to bank’s related counterparties**

1. The maximum exposure to the member of the bank’s board of directors should not exceed (5%) of the capital base.
2. The maximum exposure to the member of the board of directors of the subsidiary of the bank should not exceed (5%) of the capital base.
3. The maximum exposure to the member of the bank’s board of directors and the person connected to him, including the credit granted by the member’s guarantee, should not exceed (10%) of the capital base.
4. The maximum exposure to the member of the board of directors of the subsidiary and the person connected to him, including the credit granted by the member’s guarantee, should not exceed (10%) of the capital base.
5. The maximum total exposures to the members of the bank’s board of directors and the members of the board of directors of the bank’s subsidiaries collectively should not exceed (25%) of the capital base.
6. The maximum total exposures to the members of the bank’s board of directors and the members of the board of directors of the bank’s subsidiaries and the persons related to them collectively should not exceed (50%) of the capital base.
7. The maximum limit of the credit granted to the subsidiary of the bank (and any other subsidiaries directly or indirectly affiliated with it) should not exceed (20%) of the subsidiary’s subscribed capital, and the bank is prohibited from guaranteeing any credit granted to these companies by other banks.
8. The maximum limit of the credit granted to the general managers, their deputies, assistants, advisors, executive directors and the like in the bank or in any subsidiary of the bank should not exceed (70) times the monthly salary only (without bonuses, incentives, or any other benefits) for all purposes and with the pre-approval of the bank's board of directors and in accordance with the bank’s policies and internal systems related to granting credit facilities. As for the rest of the bank’s administrators, the limits prescribed in the bank’s regulations and instructions must be adhered to.
9. The maximum limit of the credit granted to the parties related to the bank collectively - except the credit granted to the members of the bank’s board of directors and the members of the board of directors of any of its subsidiaries and persons related to them and the housing loans granted to the bank’s employees - should not exceed (50%) of the capital base .
10. The following shall be taken into account when dealing with the bank’s related counterparties:
11. Obtaining the pre-approval of the bank's board of directors when granting or renewing or increasing or making any credit decision related to the credit facilities of a member of the bank’s board of directors, provided that the member of the of the bank’s board of directors, requesting the credit, should not participate in any meeting in which the subject of granting him the credit is discussed, and the board of directors may not delegate his authority in this regard to any of the committees emanating from it or to any other authority.
12. The credit of any party related to the bank should not benefit from terms which are more favorable than those granted to any person who is not related to the bank including determining interest rates and commissions on credit granted to related counterparties in accordance with what is followed for other clients.
13. Including the bank’s annual report and financial statements with the credit facilities granted to related parties in the bank, indicating the number of clients, the volume of credit facilities they were granted, the guarantees provided against those facilities, and the interest rates and commissions.

**Tenth: Exemptions**

* The following are excluded from these instructions:

1. Exposure to the Jordanian government or guaranteed by it, and for the purposes of these instructions the definition of Jordanian government stated in Public Debt and Public Debt Administration Law of 2001 shall be applied.
2. Exposure to the ministries and institutions eligible for Jordanian government risk weights (zero%) stated in annex (8) of the Instructions of Regulatory Capital in accordance with Basel III Standard No. (67/2016) and the Instructions of Regulatory Capital in accordance with the amended standard No. (15) issued by the Islamic Financial Services Board (IFSB) No. (72/2018)
3. Exposures between foreign banks operating in the Kingdom and the parent bank’s headquarter and the parent bank’s branches around the world, and the compliance with the limits and ratios determined by any other orders or instructions issued by the Central Bank of Jordan in this regard is taken into account.

**Eleventh: General Provisions**

1. The banking subsidiaries of Jordanian banks operating outside the Kingdom must adhere to the maximum limits determined by these instructions or to the instructions of the regulatory authorities in the host countries whichever is stricter. In case the instructions of the regulatory authorities in the host countries are less stricter, the concerned bank may seek the approval of the Central Bank of Jordan to apply the instructions of the host country
2. The banks may not issue banking guarantees with an indeterminate value or maturity.
3. All exposures in foreign currency are subject to the maximum limits stated in these instructions, provided that other instructions related to the credit facilities in foreign currency are taken into account.
4. The bank shall refer to the Central Bank of Jordan if it is unable to determine the exposure value of any of the on - and off - balance items.
5. The bank must adhere to the limits and percentages determined in these instructions and not to exceed them on any day of the month, and in case of exceeding any of these limits and percentages, the Central Bank must be informed immediately of the justifications for the violation and the procedure taken by the bank to rectify that violation.
6. The bank must provide us with data related to large exposures (where the total exposure before taking into account any mitigation techniques is equal to or more than (10%) of the capital base) on a monthly basis according to the forms prepared by the Central Bank of Jordan, and at all the levels mentioned in item (Secondly) of these instructions no later than the 15th of the month following the month to which the data belong.
7. The following instructions and circulars shall be cancelled as of the effective date of these instructions:

* Instructions of Credit Limits "Credit Concentrations" No. (9/2001) dated 1/8/2001.
* Circular No. (10/2/3/3/11020) dated 16/10/2005.
* Circular No. (10/2/3/3/11647) dated 27/11/2007.
* Circular No. (10/3/12745) dated 26/11/2008.
* Circular No. (10/3/3956) dated 31/3/2011.
* Circular No. (10/3/21) dated 2/1/2014.
* Circular No. (10/3/12103) dated 8/10/2014.
* Circular No. (10/1/12255) dated 12/9/2017.

Appendix (1)

**Eligible Financial Collaterals**

1. (100%) of the value of the cash collaterals.
2. (100%) of certificates of deposit or comparable instruments issued by the lending bank and are duly mortgaged in favor of the lending bank.
3. (100%) of the value of facilities guarantees securities of all types issued by foreign banks whose credit rating is not less than investment grade according to credit rating institutions recognized by the Central Bank, provided that the value of these guarantees does not exceed (25%) of the capital base of the bank.
4. (50%) of the market value of debt securities or Islamic Sukuk rated by a recognized credit rating institutions and whose rating is no less than:

BB- if issued by governments or public sector establishments and companies that are treated as government.

BBB- if issued by other parties (including banks and financial companies).

A-3/P-3 for short-term debt bonds.

1. (50%) of the market value of traded shares (including convertible bonds) included in the main market index, provided that those shares are not issued by the borrowing person or any person related to him.
2. (100%) of the guarantees issued by the Jordan Loan Guarantee Corporation.
3. The amounts refinanced by the Jordan Mortgage Refinance Company, up to the maximum value of the agreement signed between the bank and the Company, are considered eligible financial collaterals that mitigate the value of the bank's investment in the bonds issued by the company to refinance the mortgage.

Appendix (2)

1. Direct Credit Substitutes that receive a credit conversion factor of (100%), comprising:

* 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 supplying guarantees (which are issued upon the 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 types.
* Standby letters of credit (SBLC) serving as the above letters of credit.

1. Performance Related Contingencies that receive a credit conversion factor of (50%), comprising:

* Bid entry guarantees.
* Performance guarantees.
* Maintenance guarantees
* Shipping guarantees (according to the maximum value of the goods).
* Compliance with legislation and laws guarantees.
* Warranties.

1. Trade Related Contingencies that receive a credit conversion factor of (20%), comprising:

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

1. Direct unutilized binding credit Commitments

* Direct unutilized binding credit commitments are given (20%) credit conversion factor if its original maturity is one year or less.
* Direct unutilized binding credit commitments are given (50%) credit conversion factor if its original maturity exceeds one year.

Appendix (3)

1. **The calculation mechanism of the maximum credit limit granted by the bank (Jordan branches) for real estate’s construction or purchase.**

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| **The numerator of the ratio:** |
| Total direct credit granted by the bank (Jordan branches) for real estate’s construction or purchase |
| minus: |
| The impairment provisions for the credit granted (Jordan branches) for real estate’s construction or purchase |
| Suspended interest and commissions (if any) |
| **The denominator of the ratio:** |
| The total clients’ deposits (Jordan branches) in Jordanian Dinars. |

1. **The calculation mechanism of the maximum credit limit granted by the bank (Jordan branches) in the form of overdraft.**

|  |
| --- |
| **The numerator of the ratio:** |
| Total credit balance in the form of overdraft that is granted by the bank (Jordan branches) |
| minus: |
| The impairment provisions for credit in the form of overdraft granted by the bank (Jordan branches) |
| Suspended interest and commissions (if any) |
| **The denominator of the ratio:** |
| The total direct credit granted by the bank (Jordan branches) |

1. **The calculation mechanism of the maximum direct credit limit granted to the largest ten persons of the bank’s clients inside the Kingdom (Jordan branches)**

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| --- |
| **The numerator of the ratio:** |
| Total direct credit balance granted to the largest ten persons of the bank’s clients inside the Kingdom (Jordan branches) |
| Minus |
| The impairment provisions for credit granted to the largest ten persons of the bank’s clients inside the Kingdom (Jordan branches) |
| Suspended interest and commissions (if any). |
| Eligible financial collaterals as stated in Appendix No. (1) of these instructions against the direct credit granted to the largest ten persons of the bank’s clients in the Kingdom (Jordan branches). |
| **The denominator of the ratio:** |
| Total direct credit granted by the bank (Jordan branches). |

1. The major shareholder definition is as stated in the Instructions of Corporate Governance for Banks No. (63/2016) dated 1/9/2016 and the Amended Instructions of Corporate Governance for Islamic Banks No. (64/2016) [↑](#footnote-ref-1)