No. 10/1/10457

Date: 1/7/2024

Circular to licensed banks

After Greetings,

As part of the Central Bank of Jordan's continuous endeavor to keep pace with international best practices and the issuance of the instructions for classifying credit exposures and calculating impairment provisions No. (8/ 2024) dated June 30, 2024, it was decided to amend a number of clauses of the instructions for applying IFRS (9) No. (13/ 2018), which are detailed in the attached annex no. (1). This is in addition to amending a number of the clauses of the instructions for the application of financial accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) No. (6/ 2020), the details of which are shown in the attached annex attached No. (2), and these amendments will be effective as of 1/1/2025.

Respectfully,

Governor,

Dr. Adel Sharkas.

Annex No. (1)

Instructions for applying IFRS (9) No. (13/ 2018) dated 6/6/2018

Clause/ article	Instructions before the amendment	Instructions after the amendment
Item (II/4) of our letter No. (10/1/7702) dated 6/6/2018.	“Instructions No. (47/ 2009) dated 10/12/2009 and their amendments shall continue to be implemented, and the more stringent results shall be taken into consideration [where the results for the calculated provisions are compared at each of the second and third stages separately (the total of each stage)]. Such procedure is done by mapping the results calculated based on IFRS (9) requirements (of the second stage and the third stage) with the provisions calculated based on the above mentioned instructions (of the watch- list credits and NPLs, respectively,).”	"Complying with the provisions of Article (6/k) of the Instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024."
Page (4), clause (2) of the Governance Requirements.	“As depicted throughout these instructions, the calculation of the ECL, according to the requirements of IFRS 9, requires automated systems. Therefore, such systems should be of good and reliable quality which can be depended on in terms of the inputs, processes, or the outputs and results. Thus, the management of the bank shall adhere not to amend any outputs resulted from the systems regarding the process of calculating and measuring ECL and their related variables unless such amendment is done within the policy approved by the board of directors, where such	"As depicted throughout these instructions, the calculation of Expected Credit Loss (ECL) in accordance with the requirements of IFRS 9 requires automated systems. Therefore the systems must be of high quality and reliable in terms of inputs, operations, and results."

	policy shall specify the exceptions and the justifications to override the outputs resulted from the systems. Such policy shall also specify the independent party in the bank who has the authorization to make the decisions for such exceptions or amendments provided that such cases shall be presented to the board or its related committees in the upcoming meeting to obtain their approval.”	
Page (16) of The General Framework for Implementing the Standard.	“In addition to the above, the Central Bank of Jordan instructions No. (47/ 2009) dated 10/12/2009 included a set of indicators (second clause/ C) indicating an effective increase in credit risk that must also be complied with [Provided that the period having receivables for (60) days is used as a clear indication for listing in this stage, noting that this period will be decreased by (10) days per year to become (30) days during the upcoming (3) years from the date of implementation].”	"In addition to the above, the Instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024 included a set of indicators indicating a significant increase in credit risk that must also be adhered to, and the period of having receivables for (30) days should be used as a clear indicator for listing in this stage."
Page (16) of The General Framework for Implementing the Standard.	“If there is an evidence of a significant increase in credit risk from the above conditions, the debt instrument/ credit exposure will be listed in Stage Two. In case there is an overlap between the available indicators (items 1-19) and the items contained in Central Bank of Jordan Instructions (No. 47/ 2009) dated 10/12/2009 (second clause/	" In case there is evidence of a significant increase in credit risk from the above conditions, the debt instrument/ credit exposure shall be listed in the second stage."

	C), the more stringent of them shall be taken.”	
Page (17) of The General Framework for Implementing the Standard.	In addition to the above, the Central Bank of Jordan instructions No. (47/ 2009) dated 10/12/2009 (second clause/ D) included a number of indicators indicating that there is a default situation which must also be adhered to.	"In addition to the above, the instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024 included a number of indicators indicating the existence of a default situation that must also be adhered to."
Page (17) of The General Framework for Implementing the Standard.	“If one or more of the above conditions is met in an indication of a significant increase in credit risk (default), debt instrument/ credit exposure shall be listed in Stage Three. In case there is an overlap between the available indicators (items 1-6) and items in the Central Bank of Jordan instructions No. (47/ 2009) dated on 10/12/2009 (second clause/ D), the more stringent of them shall be taken.”	"If one or more of the above conditions is met in an indication of a significant increase in credit risk (default), the debt instrument/ credit exposure is listed in Stage 3."
Page (18) of the General Framework for Implementing the Standard, paragraph (7).	“New credit exposures may be increased/ granted for no more than 25% of the outstanding exposure balance of the client whose exposures, or any of them, have been classified as Stage Two, provided that this happens only after an in-depth study for the risks of the exposure/ client. Furthermore, the increase/ grant shall not be used for paying the outstanding/ due exposures on the client or clients related to him/ her”.	"New credit exposures may be granted for no more than (25%) of the outstanding credit exposure balance of the client whose exposures, or any of them, have been classified as Stage 2 if the bank is convinced based on an in-depth study of the expected cash flows based on documented evidence that the client's financial condition is likely to improve. This increase shall not be used to pay off existing credit exposures held by the client or his/ her related parties, but is used exclusively for the purpose of financing the client's activities and enabling

		him/ her to rectify the status of his/ her existing exposures. "
Page (18) of the General Framework for Implementing the Standard, paragraph (9).	“When an improvement in the quality of credit is made and sufficient and documented reasons are provided to make it possible to transfer credit exposures from Stage three to Stage Two or from Stage Two to Stage One, the transfer should only take place after the credit status of the exposure is proven to have improved and a commitment to repay, at least, (3) monthly installments or two quarterly installments or one semi-annual installment on time has been achieved; that is, the early payment of the installments for the purpose of transferring the debt to a better stage is not considered. This applies to the provisions of the “rescheduling” set forth in instructions No. (47/ 2009) and their amendments; after so, the transfer can take place.”	"The bank is required to harmonize the classification of the three stages set forth in these instructions and the classification of the three categories contained in the instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024, provided that credit exposures as defined in Article (2.c) of those instructions shall be subjected to the terms and conditions of transfers between credit exposures' rating categories and probationary periods mentioned in Article (5) of the aforementioned instructions for the purpose of transferring the credit exposure rating to a better category, and it is left to the bank to determine the necessary criteria to allow improving the rating of any of the credit exposures that are not covered by the provisions of Article (5) above within its credit policy."
Page (21) of Measuring Credit Risk and Expected Credit Loss (ECL).	“The principle of measuring the credit risk and expected credit loss may be applied on an aggregate basis for one or more credit exposures, provided that the size of the credit exposure for each component of the portfolio does not exceed JD 250,000 (or equivalent) in the bank. [In limited cases, where the bank has certain credit products/ exposures and their ECL’s are calculated on a	"The principle of measuring credit risk and expected credit loss may be applied on an aggregate basis for one or more groups of credit exposures, provided that the size of a single credit exposure for any component of the portfolio does not exceed (150) thousand JOD (or its equivalent) at the bank."

	portfolio basis and the amount of any individual exposure/ component exceeds 250,000 JD; the bank shall apply to the Central Bank for its approval]."	
Page (24) of Measuring Credit Risk and Expected Credit Loss (ECL).	"The deduction rates specified in the Debt Classification Instructions No. (47/ 2009) dated 10/12/2009 shall be applied as a minimum. The time period and the time value of the money shall be taken into account for the purposes of calculating the expected credit loss by adding additional deduction rates representing the time period during which the guarantee will be converted into cash, provided that the bank has sufficient information that documents and supports the calculation process."	"Deduction rates shall be applied to eligible guarantees specified in the instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024 as a minimum and the time period and time value of money shall be taken into account for the purposes of calculating the expected credit loss by adding additional deduction rates representing the time period during which the guarantee will be converted into cash, provided that the bank has sufficient information that documents and supports the calculation process."

Appendix No. (2)

Instructions for the Application of Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) No. (6/ 2020) dated 5/7/2020

Clause/article	Instructions before the amendment	Instructions after the amendment
Item (V/3) of our letter No. (10/1/7859) dated 5/7/2020.	“The instructions of the Central Bank no. (47/ 2009) dated 10/12/2009 and their amendments as well as our instructions no. (60/ 2014) dated 17/11/2014 will continue to be enforced. The more stringent outcomes are to be taken into consideration [provided that the results for calculated provisions are compared for each of the second and third stages separately (the total of each stage)] through a mapping between the second and third stages as per the requirements of Standard (30) with monitored credit claims and non- performing credit claims, respectively, as stipulated in the instructions no. (47/ 2009).”	"Complying with the provisions of Article (6/k) of the Instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024."
Page (5), clause (2) of the Governance Requirements.	“As demonstrated in the body of these instructions, the calculation of the expected credit loss per the requirements of standard (30) requires implementation of automated systems, and therefore they should be of high quality and reliable whether in terms of inputs, operation processes, or extracted results. Consequently, the bank’s management may not conduct	"As explained in the body of these instructions, the calculation of the expected credit loss in accordance with the requirements of Standard (30) requires the implementation of automated systems, and therefore the systems must be of high quality and reliable in terms of inputs, operation processes, or extracted results."

	any amendments to the outcomes and results of the systems regarding the operations of calculating and measuring expected credit losses as well as calculated variables, except in line with a policy adopted by the board of directors which identifies the exceptional and justifiable cases where the amendment is made to the systems' outputs. An independent entity should be appointed with the jurisdiction to make a decision for exceptions or amendments; these cases should be presented to the board of directors and its committees during their first subsequent meeting and gain their approval."	
Page (14) of The General Framework for Applying Financial Accounting Standard.	"In addition to the above mentioned, Central Bank Instructions no (47/ 2009) dated 10/12/2009 included a set of indicators (Item Second/ C) that shows an effective increase in credit risks that should also be adhered to (provided that the period having receivables for (60) days is used as a clear indication for listing within this stage, noting that this period will be lowered by 15 days annually to become (30) days during two years as of the date of implementation). In case the bank started to lower the period per our instructions no (13/ 2018) dated 6/6/2018, the mentioned instructions will continue to be enforced."	"In addition to the above, the Instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024 included a set of indicators indicating a significant increase in credit risks that must also be adhered to, and the period of having receivables for (30) days should be used as a clear indicator for listing in this stage."
Page (14) of The General Framework for Applying	"In case there is evidence of a significant increase in credit	"In case there is evidence of a significant increase in credit

Financial Accounting Standard.	risks from the above conditions, the debt instrument/ credit exposure is listed in the second stage. Should the available indicators (Items 1- 17) overlap with the Items in Central Bank Instructions no (47/ 2009) dated 10/12/2009 (Item Second/ c), the more stringent is applied.”	risk from the above conditions, the debt instrument/ credit exposure shall be listed in the second stage."
Page (15) of The General Framework for Applying Financial Accounting Standard.	“In addition to the above, the Central Bank of Jordan instructions No. (47/ 2009) dated 10/12/2009 (second clause/ D) included a number of indicators indicating that there is a default situation which must also be adhered to.”	"In addition to the above, the instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024 included a number of indicators indicating the existence of a default situation that must also be adhered to."
Page (15) of The General Framework for Applying Financial Accounting Standard.	“If one or more of the above conditions is met in an indication of a significant increase in credit risk (default), debt instrument/ credit exposure shall be listed in Stage Three. In case there is an overlap between the available indicators (items 1-6) and items in the Central Bank of Jordan instructions No. (47/ 2009) dated 10/12/2009 (second clause/ d), the more stringent of them shall be taken.”	"If one or more of the above conditions indicate a significant increase in credit risk (default), the debt instrument/ credit exposure is listed in Stage 3."
Page (16) of The General Framework for Applying Financial Accounting Standard, paragraph (7).	“New credit exposures may be increased/ granted for no more than (25%) of the outstanding exposure balance of the client whose exposures, or any thereof, have been classified as Stage Two, provided that this happens only after an in-depth study for risks of the exposure/ client. Furthermore,	"New credit exposures may be granted for no more than (25%) of the outstanding credit exposures balance of the client whose exposures, or any thereof, have been classified as Stage 2 if the bank is convinced based on an in- depth study of the expected cash flows based on

	the increase/ grant shall not be used for paying the outstanding/ due exposures on the client or clients related to them.”	documented evidence that the client's financial condition is likely to improve. This increase is not to be used to pay off existing credit exposures held by the client or his/ her related parties, but is used exclusively for the purpose of financing the client's activities and enabling him/ her to rectify the status of his/ her existing exposures. "
Page (16) of The General Framework for Applying Financial Accounting Standard, paragraph (9).	“When an improvement in the quality of credit is made and sufficient and documented reasons are provided to make it possible to transfer credit exposures from Stage three to Stage Two or from Stage Two to Stage One, the transfer should only take place after the credit status of the exposure is proven to be improved and a commitment to repay, at least, (3) monthly installments or two quarterly installments or one semi-annual installment on time has been achieved; that is, the early payment of the installments for the purpose of transferring the debt to a better stage is not considered. This applies to the provisions of the “rescheduling” in instructions No. (47/ 2009) and their amendments; after so, the transfer can take place.”	"The bank is required to harmonize the classification of the three stages set forth in these instructions with the classification of the three categories set forth in the instructions for Classifying Credit Exposures and Calculating Impairment Provisions No. (8/ 2024) dated 30/6/2024, provided that the credit exposures as defined in Article (2.c) of those instructions are subjected to the terms and conditions of transfers between credit exposures' rating categories and probationary periods mentioned in Article (5) of the aforementioned instructions for the purpose of transferring the credit exposure rating to a better category, and it is left to the bank to determine the necessary criteria to allow improving the rating of any of the credit exposures that are not covered by the provisions of Article (5) above within its credit policy. "
Pages (17) and (18) of the Measurement of Credit Risk and Expected Credit Losses.	“The principle of measuring the credit risks and expected credit loss may be applied on	"The principle of measuring credit risks and expected credit loss may be applied on

	an aggregate basis for one or more credit exposures, provided that the size of the credit exposure for each component of the portfolio does not exceed JD 250,000 (or equivalent) in the bank. [In limited cases, where the bank has certain credit products/ exposures and their ECLs are calculated on a portfolio basis and the amount of any individual component exceeds 250,000 JD; the bank shall apply to the Central Bank for its approval].”	an aggregate basis for one or more groups of credit exposures, provided that the size of a single credit exposure for any component of the portfolio does not exceed JD 150,000 (or its equivalent) in the bank."
Page 20 Measurement of Credit Risk and Expected Credit Loss.	“The deduction rates specified in the Debt Classification Instructions No. (47/ 2009) dated 10/12/2009 shall be applied as a minimum. The time period and the time value of the money shall be taken into account for the purposes of calculating the expected credit loss by adding additional deduction rates representing the time period during which the guarantee will be converted into cash, provided that the bank has sufficient information that documents and supports the calculation process.”	"The deduction rates on eligible guarantees specified in the Instructions for Classifying Credit Exposures and Calculating Impairment provisions No. (8 /2024) dated 30/6/2024 shall be applied as a minimum and the time period and time value of money shall be taken into account for the purposes of calculating the expected credit loss by adding additional deduction rates representing the time period during which the guarantee will be converted into cash, provided that the bank has sufficient information that documents and supports the calculation process."