

**Achievement of Market-Friendly Initiatives and Results Program
(AMIR 2.0 Program)**

Funded By U.S. Agency for International Development

**Translation of Framework of the Prompt Corrective Actions
to be Adopted by the Central Bank of Jordan**

Final Report

**Deliverable for FMD Component, Work Plan Activity No. 634.06
Consultancy Agreement No. 278-C-00-02-00210-00**

January 2004

This translation was prepared by International Business Legal Associates (IBLAW), in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

Data Page

Name of Component: Financial Markets Development

Author: International Business Legal Associates (Prompt Corrective Actions Framework)

Practice Area: Financial Sector

Service Offering: Bank and other Financial Institution Strengthening

List of Key Words Contained in Report:

Administrative Orders

Banking Law

Banking Supervision Department

Bank's Solvency

CAMEL Rating System

Cease and Desist Orders

Central Bank

Corrective Actions

Foreign Banks

Foreign Deposits

Supervisory Authorities

Unsafe or Unsound Practice

Unsound Banking Practices

Abstract

This report includes the translation of the Central Bank of Jordan's draft Prompt Corrective Actions Framework.

Executive Summary

This report includes a translation of the Central Bank of Jordan's draft Prompt Corrective Actions Framework. The translation enables consultants from the Federal Deposit Insurance Agency (FDIC) and others to evaluate Jordan's existing and future policies of banking supervision and criteria for imposing corrective or enforcement actions on banking institutions.

Table of Contents

Topic	Page Number
1: Introduction to the framework of Prompt Corrective Actions	3
2: Cases in which prompt corrective actions will be taken	4
3: Actions that will be taken in the previous cases:	6
3.a. Fines	6
3.b. Actions that deal with the decline in the rating of the bank in accordance with the CAMEL (ROCA) system or evidence of unsafe or unsound banking practices	7
3.b.1. Actions pertaining to the decline in the rating of the bank to CAMEL (ROCA) 3 A- Board Resolutions B- Memorandum of Understanding between the bank and the Central Bank	7
3.b.2 The prompt corrective actions that shall be taken in the cases where the bank's CAMEL (ROCA) rating is 4 or 5, or failure of the bank to comply with the Memorandum of Understanding, or failure to introduce, in general, the necessary corrective actions, or if the bank engages in unsafe or unsound banking practices. A. Cease and Desist Orders B. Suspension of any of its administrative officers, who are non-members of the Board of Directors, from work on temporary basis or dismissal from their jobs depending on the seriousness of the violation, or the dismissal of the Board of Directors or any of the members thereof. C. To request the branch of the foreign bank to deposit its capital with the Central Bank or to constrain the bank's foreign deposits with the main center or the corresponding banks.	8
A. Cease and Desist Orders	9
B. Suspension of any of its administrative officers, who are non-members of the Board of Directors, from work on temporary basis or dismissal from their jobs depending on the seriousness of the violation, or the dismissal of the Board of Directors or any of the members thereof.	9
C. To request the branch of the foreign bank to deposit its capital with the Central Bank or to constrain the bank's foreign deposits with the main center or the corresponding banks.	10
3.b.3. Administrative actions related to the application of cease or desist orders or orders to dismiss or discharge some administrative officers or bank employees and to prohibit them from the exercise of some activities, or deposit the capital of the foreign bank with the Central Bank or constrain the deposits of the foreign banks	10

Topic	Page Number
3.c. The actions related to the decline of the bank's solvency from acceptable levels:	12
3.c.1. The criteria of the classification of banks according to the degree of solvency or capital adequacy.	12
3.c.2. The actions that shall be taken according to the level of solvency or efficiency of capital A. The banks within the first category (Well capitalized and adequately capitalized): B. The banks within the second category (undercapitalized) C. The banks within the third category (Significantly undercapitalized): D. Banks within the fourth category (critically undercapitalized)	13
3.c.3. Administrative actions pertaining to the application of the prompt corrective actions regarding the decline of the bank's solvency below the acceptable levels.	16
4: Final Remarks	17
Summary Table of Corrective Actions	18
Appendix 1: Examples of the unsafe and unsound banking actions and practices	21
Appendix 2: The Supervisory Committee	23

1: Introduction to the Framework of Prompt Corrective Actions

The **aim** of this framework is to ensure the compliance of the banks with the Banking Law, and the supervisory instructions that seek to safeguard the soundness and strength of the condition of the banking institution and also to avert any unsound and unsafe banking practices. The **aim** of the framework **also** is to rectify at an early stage the condition of banking institutions that suffer from weakness in their performance or decline in their solvency that may result in harming the interests of the shareholders, depositors, clients of the bank, or the guaranteeing parties for the funds of the depositors or the banking system in general.

The examining and monitoring of the financial condition of the banks by the supervisory authorities and the in-depth understanding by these authorities of the banks' problems is not sufficient unless this analysis is translated into clear and specific actions that shall be taken by the supervisory authorities to correct the condition of the banks in order to secure confidence in the banking system and the protection of depositors and the deposit insurer. In fact, this is one of the requirements of economic stability and growth.

The proposed framework establishes, with at a high degree of clarity and transparency, the **standards** which the Central Bank will use when imposing any of the prompt corrective actions or sanctions stipulated in Article 88 of the Banking Law No. (28) for the year 2000. It also **specifies** the **actions that will be taken** according to these standards, including those relevant to the removal of the banking institution¹ from the banking system.

The importance of adopting clear, specific, and publicized prompt corrective actions by the Central Bank (including fines) arises from the fact that the clarity and specificity of these actions can lead to the following:

- 1- The banking institution can avoid violating the banking laws and regulations and avert the investment or credit policies or practices that might lead to corrective actions such as increasing their capital, restraining their activity, or dismissing some of their administrative officers, or imposing a fine thereon.
- 2- The banking institutions that are suffering from a decline in their performance and solvency should take the initiative to introduce appropriate prompt corrective actions and not wait for the Central Bank to request them to do so, because their failure to introduce these actions will entail additional obligations thereon.
- 3- Weaknesses can be rectified and decline in the performance of the banking institution can be stopped at an early stage and at the appropriate time, averting what may lead to delay in introducing the prompt corrective actions in terms of the aggravation of the decline or the attempt by the banking

¹ A banking institution is the institution that is engaged in the banking business in accordance with the definition of the banking business mentioned in the Banking Law.

institution to compensate their losses or enhance their capital accounts by applying high-risk investment and credit policies.

- 4- To ensure that the prompt corrective actions are based on uniform and objective standards.

These actions are not an alternative to moral suasion that the Central Bank of Jordan uses with the banking institutions, but are additional methods that the Central Bank may use in the cases where moral suasion is not enough. Furthermore, these actions enhance the effectiveness of moral suasion.

The framework of the proposed prompt corrective actions takes into account the increasing severity of these actions and the **proportionality** of the action taken with the severity of the violation or the decline in the performance of the banking institution. For example, fines shall take into account factors of deliberation, the repetition of the violation and the material effect of the violation, etc. whenever determining the amount of the fine. Moreover, the other prompt corrective actions are escalated depending on the level of the decline of the evaluation of the bank's performance on the basis of the rating system of CAMEL (or ROCA for the foreign bank branches), or according to the level of solvency.

Since there is always a difference in the nature of the problems that the banking institutions face, the framework provides a degree of **flexibility** to the supervisory authorities in application thereof, which takes into account the circumstances of the banking institution and the position in the banking system.

This framework also **explains the nature of the relationship** between the **Central Bank of Jordan** as a major supervisory authority of the banks and the **Deposit Insurance Corporation** as guarantor of the funds of the depositors (collectively, the supervisory authorities) in rectifying the position of the weak banks.

Although these actions are included in different categories, it does not mean that there is a contradiction in these actions. Actions can be taken from these different categories or the stricter actions would suffice as is deemed appropriate. In all cases, the supervisory authorities can take other actions as they deem fit, which are not included in this framework.

2: The Cases in which Prompt Corrective Actions Are Taken:

The cases in which the prompt corrective actions will be taken may be divided into four main cases:

- A- Non-compliance with the Banking Law or any of the regulations, instructions, and orders issued in accordance therewith.
- B- The decline of the condition of the bank based upon an evaluation (**examination**) done in accordance with the CAMEL or ROCA rating systems.

- C- If the bank or any of its subsidiaries engages in unsafe or unsound practices.
- D- The decline of the solvency of the bank from acceptable levels.

A- Non-compliance with the Banking Law or any of the regulations, instructions and orders issued according to it:

The banking law, regulations, instructions, and orders issued in accordance therewith include constraints on banking operations which aim at protecting the soundness of the banking institutions and the banking system in general. Therefore, the Central Bank as a supervisory authority shall take the necessary actions to make sure that the banks comply with the Banking Law, regulations, instructions and orders issued according thereto.

B- The decline of the condition of the bank based upon an evaluation done in accordance with the CAMEL or ROCA rating system.

In cases where the bank is rated 3, the supervisory authorities still believe that the condition of the bank in general is strong, although there are points of weakness and problems (which may reflect unsafe or unsound practices) that may significantly affect the condition of the bank if they are not rectified. This requires the intervention of the supervisory authorities. However, if the bank is given a rating of 4 or 5, it means that the prompt corrective actions are more urgent.

C- If the bank or any of its subsidiaries carries out unsafe or unsound practices:

Although the previous two cases (A and B above) may be associated with this case, it is possible to find a banking institution that has not committed any violations of the banking law, or the instructions and regulations issued by the Central Bank and which is rated 2 or 1. However, there is a high probability that this banking institution may be exposed to high risks due to some unsafe or unsound banking measures or practices by the banking institution directly or by some of its subsidiary companies. Appendix 1 provides examples of unsafe and unsound banking practices, and clarifies the extent of the comprehensiveness of the concept of the unsafe and unsound banking practices.

D- The decline of the solvency of the bank from acceptable levels:

Unless the previous cases discussed in A, B and C above are rectified, they will undoubtedly, over time, lead to the decline to some degree in the solvency of the bank. Therefore, it is necessary to adopt actions to rectify a solvency problem that is viewed as the most serious problem among the problems facing banks.

The criteria mentioned in cases (B) and (D) represent more objective measurements of unsafe or unsound banking condition or practices. Therefore, the Central Bank believes that the actions pertaining thereto shall be identified separately in light of their importance and common use.

From the foregoing, it is clear that the four above-mentioned cases may be interrelated with one another when rectifying the condition of some banks. This forces the supervisory authorities to take a comprehensive look at the prompt corrective actions that shall be taken concerning the bank or the banking institution so that there is complete consistency among these actions.

3: Actions that will be taken in the previous cases:

a) Fines:

These fines are applied whenever a bank violates the banking law or the instructions issued by the Central Bank or any written directions send to the bank or agreements or memoranda of understanding held between the bank and the Central Bank.

These fines may be used separately or with other actions that are taken by the Central Bank to adjust the condition of the banks in case the criteria pertaining to these actions applied to the banks concerned.

The aim of these fines is to charge the banks a certain amount of money for their violations mentioned in (A) above so that the bank would stop these violations, would not repeat them in the future, and finally forestall these violations in order to keep the condition of the bank safe and sound.

The Central Bank will take the following factors into consideration when determining the size of the fine (see the instructions pertaining to the money fines for details):

- 1- Evidence that the violation was committed deliberately.
- 2- Repetition and duration of the violations.
- 3- Continuation of the violation after being warned that the violation was committed or the bank was penalized for it.
- 4- Failure to cooperate with the Central Bank in rectifying these violations.
- 5- Evidence that the bank tried to conceal the violation.
- 6- The size of the damage or loss to the bank caused by the violation, including the damage done to the confidence of the clients of the bank.
- 7- That the violation led to financial benefits or preferential treatment (for those who committed the violation or those who are related thereto).
- 8- The history of the bank concerning the violations.
- 9- The presence or the non-presence of a corrective program and the effectiveness thereof.

10- The inclination of the bank to adopt unsafe or unsound banking practices or to violate the instructions.

11- Other factors.

The manual of the fines explains how these fines are imposed and the mechanism of determining the amounts of the fines.

3.b. The actions that deal with the decline in the evaluation of the bank in accordance with the CAMEL (ROCA) rating systems or the unsafe or unsound banking practices:

Banks with a CAMEL (ROCA) rating of 3 means that they are suffering from weakness and problems which, if not rectified, will lead to further weaknesses or the aggravation of outstanding problems in a way that may lead to further decline in the level of the bank's rating or its solvency.

Banks rated 4 or 5, or if the bank engages in unsafe or unsound banking practices, means that there is an urgent need to adjust the condition of the bank by adopting firmer actions compared with the actions taken in case the bank was rated 3 according to the rating system of CAMEL (ROCA).

It is important to explain here that the concept of the unsafe or unsound banking practices is a comprehensive concept that includes the various activities of the bank. Appendix I provides examples of unsafe or unsound banking practices. The examples listed in the Appendix of the unsafe or unsound banking practices are only examples. There are other practices that may be considered as unsafe or unsound banking practices. Furthermore, these examples shall not be necessarily considered unsafe or unsound banking practices in all cases. But we shall take into account all the relevant facts, including the condition of the bank in general. *An unsafe or unsound practice embraces any action, or lack of action, which is contrary to generally accepted standards of prudent operation, the possible consequences of which, if continued, would result in abnormal risk of loss or damage to an institution, its shareholders, or the insurance fund administered by the Deposit Insurance Corporation.*

3.b.1. Actions pertaining to the decline in the evaluation of the bank to level 3 according to the evaluation system of CAMEL (ROCA)

A- Board Resolutions:

This action is usually applied to the Jordanian banks that are rated 3 according to the CAMEL system. The decisions made by the bank's board of directors includes directions to the executive departments to take the necessary prompt corrective actions to rectify the points of error, while taking into account that the Supervisory Committee² will review these decisions, approve them and evaluate the implementation thereof.

² See, Appendix (2) on the concept and role of the proposed Supervisory Committee.

B- Memorandum of Understanding between the Bank and the Central Bank:

This Memorandum is usually used with the banks that have a CAMEL (ROCA) rating of 3, **provided that the action taken with any bank rated 3 shall not be less than a memorandum of understanding unless otherwise directed by a decision of the Board of Directors of the Central Bank of Jordan.** This memorandum shall be drafted in a way that rectifies the problems of the bank. The clarity of the language used in the memorandum is very important. All the parties shall understand from the memorandum what is required and expected of them to do. It is also important that the actions to be taken are realistic and measurable and correct the cause of the weakness or decline, not only the symptoms thereof.

It should be noted that stricter actions may be taken with the bank in the event there is conviction that the previous actions aimed at rectifying the aspects of weakness at the bank were not sufficient or appropriate. Moreover, the memorandum of understanding may be used in other cases, i.e. the bank's evaluation for example shall be (4) according to the evaluation system of CAMEL (ROCA) whenever it is believed that the MOU will be effective

This memorandum shall be signed by the Supervisory Committee, by the members of the bank's board of directors, and by the general manager of the Jordanian bank or by the general manager of the branch of the foreign bank in Jordan and the management of the foreign branch or the regional management.

Prior to the signing of a memorandum of this kind, it is advisable to hold a meeting with the bank's Board of Directors (or the management of the foreign bank) to discuss the aspects of weakness and the actions that should be taken to rectify these aspects.

Failure of the bank to comply with the content of the memorandum of understanding will constitute a good reason for adopting stricter actions that may be taken against the bank or any of its administrative officers. However, the compliance of the bank with the correction of the violations and the points of weakness will serve as a good reason for canceling the memorandum of understanding that was concluded between the bank and the Central Bank.

3.b.2. The prompt corrective actions that shall be taken in the cases where the bank's rating was 4 or 5 according to the evaluation system of CAMEL (ROCA), or failure of the bank to comply with the memorandum of understanding, or failure to introduce, in general, the necessary prompt corrective actions, or if the bank or any of its subsidiaries carries out unsafe or unsound banking practices or operations.

To apply the following actions, the executive director of the Banking Supervision Department (BSD), on the strength of the inspection reports submitted to him or of the supervisory information available thereto, shall refer to the Supervisory Committee the reasons why the following actions shall be taken and the recommended actions that shall be taken, from the list of the actions that shall be identified, for the purpose of rectifying the situation of the bank.

It is important that the report of the executive director of BSD should include information pertinent to the results of the inspection, the documentation of the violations, the bank's reply to the remarks mentioned in the report, and any previous correspondence by the bank in this regard. The report should also include the results of the inspection in earlier years. Generally speaking, the report should be accurate, supported with evidence, clear. It should not contain personal views or an exaggeration of the facts and should in general specify proposals to the Board of Directors for rectifying the situation.

In the previous cases, the actions that may be taken by the supervisory authorities shall include the following:

A- Cease and Desist Orders

The aim of these orders is to stop the violation, or the unsafe or unsound banking practices or conditions, to adjust the consequences thereof, and to forestall further decline in the performance of the bank because of the violation.

These orders do not include only the bank as one single unit, but may include managers or officials or employee managing the bank.

It is very important to specify the reasons that led to the imposition of such actions. Moreover, in case of non-compliance with these actions, the Central Bank may impose stricter actions (discussed below), or impose fines on the bank.

In addition to determining the reasons justifying these actions, the bank shall be given an opportunity to explain its point of view before these actions are applied. The evaluation of the bank's compliance with these actions shall be done by fixing a timetable for the bank to do what it was requested to do in this regard, to submit reports thereon, or through inspection.

As for the activities that may be suspended or restrained, this primarily depends on the condition of the bank. They may include, for example, the credit facilities granted to certain entities, or the growth of credit facilities, or the acceptance of deposits, or restrictions on the interest rates. These examples are discussed in more detail in the section on actions associated with the decline of solvency.

If the bank is a branch of a foreign bank, it is important to notify the bank's General or Regional Management with the actions taken against the bank, to notify the supervisory authorities of the home country, and to make sure that the bank's General or Regional Management has been acquainted with the results of the Central Bank inspection.

B- To request the bank to suspend any of its administrative officers, who are non-members of the Board of Directors, from work on temporary basis or to request that they be dismissed depending on the seriousness of the violation, or the dismissal of the Board of Directors or any of the members thereof.

The most prominent reasons or justifications that deem it appropriate for the supervisory authorities to adopt such action are the following:

- 1- The violation of the laws, regulations, instructions or cease and desist orders, discussed above, by the party intended to be dismissed or its activity suspended, or of any agreement or written memorandum between the bank or the Central Bank, or if the said party performs unsafe or unsound banking activities or practices that are not consistent with the role expected thereof.
- 2- By reason of the violation,... in provision (1) above the bank has suffered or will probably suffer financial loss or other damage; the interests of the depositors have been or could be prejudiced; OR the violated party has received financial gain or other benefit.
- 3- The violation referred to in provision (1) above was carried out by the party intended to be dismissed or discharged because of lack of trustworthiness toward the administrative responsibilities entrusted thereto or because he/she did it deliberately or was indifferent to the impact thereof on the soundness and strength of the bank's position.

The Central Bank will work for guaranteeing the non-participation by any of the bank's dismissed administrative officers in any banking institution in the future.

C- To request the branch of the foreign bank to deposit its capital with the Central Bank or to constrain the bank's foreign deposits with the main center or the corresponding banks.

These actions are taken to make sure that the capital of the foreign bank branch may be used to absorb any losses which might be incurred by the branch of the foreign bank operating in the Kingdom and to guarantee that any deposits of the foreign bank's branch are not subject to a high risk as a result of the risk pertaining to the bank's condition in general or the risk involving the corresponding banks. Therefore, these actions take into account the position of each of the foreign bank's branch and its general management if the bank, as a whole, is suffering problems.

3.b.3 Administrative actions related to the application of cease or desist orders or orders to dismiss or discharge some administrative officers or bank employees and to prohibit them from some activities, or deposit the capital of the foreign bank with the Central Bank or constrain the deposits of the foreign banks.

- 1- The executive director of the BSD, shall, on the strength of the inspection reports or the supervisory information available, referred to him, submit to the Supervisory Committee a report recommending that action be taken against any banking institution on which any of the conditions stipulated in **3.b.2** applies. The Supervisory Committee shall be entitled to discuss these actions and propose any amendments thereto.

- 2- The Central Bank shall address a letter to the bank explaining that it intends to impose the aforementioned prompt corrective actions. The letter shall include the following:
 - A. The reasons justifying the imposition of the actions.
 - B. The actions and restrictions intended to be applied.
 - C. When the application of these actions and restrictions begin.
 - D. The notice period given to the bank to provide the Central Bank with its reply. Such period shall be sufficient to enable the bank to prepare an appropriate reply. The period of one month shall be regarded as a suitable period for this purpose.
- 3- The bank may reply to the Central Bank letter within the time given and the reply shall include the following:
 - A. Why does the bank believe that the actions intended to be taken or restrictions to be imposed are not compatible with the law or the instructions that have been issued.
 - B. Any proposals for the amendment of the actions or restrictions.
 - C. Any documents or clarification showing the condition of the bank.
- 4- A meeting shall be held by the Supervisory Committee with the bank's Board of Directors (the Management of the foreign bank's branch, the Supervisory Committee may request the attendance of a representative of the General or Regional Management of the foreign bank.) Any employee of the BSD or others which the Management of the Central Bank believes that their attendance is important, or any administrative officer or employee of the bank against whom action is to be taken, or the bank's major shareholders, may attend the meeting. During the meeting, the views of the two parties shall be discussed and the bank shall be given an opportunity to fully explain its viewpoint and to answer any inquiries by the Central Bank and the Supervisory Committee.
- 5- Reviewing the bank's answer and replying to it by the Central Bank:
 - Issuing the actions and restrictions as they are or amending them on the strength of the bank's reply and the results of the meeting through the decision of the Central Bank Board of Directors in accordance with the recommendation of the Supervisory Committee.
 - Canceling these actions if it becomes evident from the bank's reply that there were not enough justifications to apply these actions.

- Requesting the bank to provide the Central Bank with further recommendations on certain matters.

During the period of time needed for these actions, the Central Bank (His Excellency the Governor at the recommendation of the Executive Director of the Banking Supervision Department) may issue temporary orders to cease or desist the activity or to prohibit some of the administrative officers or bank employees from certain activities pending the issuance of the Board of Directors' decisions in this regard.

Such temporary actions may be imposed in the cases in which the Central Bank management assesses that the condition of the bank may significantly decline or is vulnerable to many risks that dictate rapid intervention by the Central Bank. In these cases, the Central Bank inspectors shall refer their recommendations and reports in this regard, even before the conclusion of the on-site inspection.

3.c. The actions related to the decline of the bank's solvency from the acceptable levels:

These are viewed as being some of the most important actions that the Central Bank shall take because the most serious issue that a bank may face is the decline of its solvency.

The principle underlying the actions related to the decline of the solvency of the bank below the acceptable levels is based on two basic things. The first is the classification of the banks into five categories according to the degree of solvency. The second is to specify the actions that shall be taken accordingly.

3.c.1 The criteria of the classification of banks according to the degree of solvency or capital adequacy.

The proposed framework specifies more than one criterion for the measurement of the bank's solvency, which includes a Total risk-based Capital ratio and Tier 1 risk-based Capital ratio in addition to the ratio of the capital to the total assets (Leverage Ratio). On the basis of these criteria, banks were classified into five categories according to the degree of solvency as is evident from Table 1 which sums up the basis of classification.

Table 1: Classification of the Banks into Five Categories According to the Degree of Solvency and Capital Adequacy

Category of Solvency or Capital Adequacy	Total risk-based Capital ratio	Tier 1 risk-based Capital ratio	Leverage ratio	Expected changes on the previous measurements ³
Well Capitalized	14% or more and	7% or more and	7% or more and	Likely decline of previous measurements because of low quality assets
Adequately Capitalized	12% or more and	6% or more and	6% or more and	Likely decline of previous measurements because of low quality assets
Undercapitalized	Less than 12% or	Less than 6% Or	Less than 5% and	Likely decline of previous measurements because of low quality assets
Significantly Undercapitalized	Less than 8% or	Less than 4% Or	Less than 3% and	Likely decline of previous measurements because of low quality assets
Critically Undercapitalized	The bank shall be classified within a category of critically undercapitalized if the ratio of tangible equity to total assets is equal to or less than 2%			

The rise in the degree of the bank's solvency according to the measurements referred to in Table 1 means that the possibility that depositors may incur losses is low. However, this possibility increases with the decline of capital or regulatory capital in light of the fact that it is the buffer between the bank losses and the depositors' funds. The great significance of the level of solvency of the bank dictates that we view not only the present level, but also the future level, and this is reflected in the last column of Table 1.

3.c.2. The actions that shall be taken according to the level of solvency or capital adequacy

Based on the classification of the bank, a set of mandatory actions shall be taken by the Central Bank to adjust the bank's position. The Central Bank was left with the freedom of imposing other actions as dictated by the interest and condition of the bank. It shall be noted that the proposed actions are recommended by the Supervisory Committee and are approved by the Central Bank Board of Directors.

Category 1: Banks that are Well Capitalized and Adequately Capitalized

These banks shall comply with refraining from making distributions from the capital accounts or paying rewards to any administrative body in the bank or to the members of the Board of Directors if these distributions and compensation result in the classification of the bank as (undercapitalized).

³ The Central Bank is entitled to reclassify any bank at a lower category in terms of the level of solvency or capital adequacy rate taking into account the impact of the losses which may arise in the future (as a result of the decline of the quality assets) visa-vis the level of the bank's solvency or the rate of the capital adequacy.

Category 2: Banks that are Undercapitalized

- The bank concerned shall provide the Central Bank with a Capital Restoration Plan within a period of no more than 45 days. The plan shall include direct steps to strengthen the solvency of the bank.
- The bank shall not be permitted to distribute any profits to the shareholders.
- The Central Bank may lay down restrictions on the growth of the bank's assets or some of the components thereof.
- The Central Bank may lay down a position that the bank shall obtain a prior approval before owning some of the assets or creating new banking services, in addition to other activities specified by the Central Bank.
- The bank may be subject to any of the additional actions imposed on any of the banks classified with the fourth category (Significantly undercapitalized).
- Any other actions that the Central Bank believes that they are necessary to achieve the goals of rectifying the decline in the level of solvency or capital adequacy.

Category 3: Banks that are Significantly Undercapitalized

- The bank shall be subject to all the actions imposed on the classified banks within the category of undercapitalized.
- Restricting the allowances and rewards to the top executive management,
- The bank shall be subject to at least one of the following additional methods:
 - 1- To arrange to merge with another bank if the bank is unable to raise its capital.
 - 2- The Central Bank may place restrictions on the bank's deposits and assets that are deposited with the main office or with foreign correspondent banks or local banks.
 - 3- To control the interest rate on the deposits so as to make it as the same interest rate prevailing in the market.
 - 4- To refrain from accepting deposits from Counterpart banking institution.
 - 5- To strictly restrain the growth of the bank's assets or some of the components thereof or to request the reduction of the size thereof.
 - 6- To cancel or retrain some activities which may cause enormous risks to the bank.

- 7- To dismiss some of the bank's employees or some administrative officers or to change the Board of Directors.
- 8- To request the bank to get rid of or liquidate any subsidiary company which there is a danger that this company may become insolvent and consequently, adds significant material risks to the bank.
- 9- To request the bank to get rid of or liquidate any affiliate company which there is a danger that this company may become insolvent and consequently, adds significant material risks to the bank.
 - Any other actions which the Central Bank deems necessary to achieve the goals of rectifying the decline of the level of solvency or capital adequacy.

Category 4: Banks that are Critically Undercapitalized

In addition to any of the foregoing actions:

- The bank's Administrative Committee shall be appointed within 90 days, unless the Supervisory Committees decides otherwise. The Administrative Committee shall include representatives of each of the Central Bank and the Deposit Insurance Corporation.
- The bank shall be prohibited to pay interest or installments of subordinated debts without the prior approval of the Central Bank.
- The bank's activity shall be restrained to the furthest extent possible.
- Prior Central Bank approval shall be secured before the following is done:
 - ? Any important activities other than the bank's ordinary activities.
 - ? Grant credit to a party that is highly indebted.
 - ? Introduce any material change to the accounting methods.
 - ? Pay high compensation or bonuses.
 - ? Pay an interest rate on deposits and borrowings that makes the weighted average cost of funds higher than the average cost prevailing in the market.
- Any other actions that the Central Bank deems necessary to achieve the goals of the prompt corrective actions

3.c.3 Administrative actions pertaining to the application of the prompt corrective actions regarding the decline of the bank's solvency below the acceptable levels.

These actions can be summed up in the following:

- 1- The Central Bank shall send a letter to the bank explaining that it intends to impose prompt corrective actions in light of the decrease of the capital thereof or the decline of the bank's solvency. The letter shall include the following:
 - The level of capital.
 - The actions and restrictions intended to be applied.
 - When the application of these actions and restrictions will take place.
 - The time given to the bank to supply the Central Bank with the reply thereto.
- 2- The bank's reply to the Central Bank letter within the period given, and the reply may include the following:
 - Why does the bank believe that the Central Bank actions are inconsistent with the laws or instructions that have been issued.
 - Proposals to amend the actions and restrictions.
 - Any other matters or documents explaining the bank's position,
- 3- A meeting shall be held between the bank's Board of Directors and the Supervisory Committee. It is possible for the meeting to be attended by any employee of the Banking Supervision Department, persons whom the Central Bank Management believes that it is important that they attend, and any of the administrative officers, employees, or major shareholders against whom the actions are intended to be taken.

During the meeting, the viewpoints of the two sides shall be discussed and the bank shall be given an opportunity to fully explain its point of view and to answer any inquiries by the Supervisory Committee.

- 4- Reviewing the bank's reply and the answer thereto by the Central Bank:
 - Deciding on the actions and restrictions as they are or amending thereof on the strength of the bank's reply by a recommendation that is submitted by the Supervisory Committee to the Central Bank Board of Directors.
 - Canceling these actions if it becomes evident from the bank's reply that these actions are unjustifiable.
 - Requesting the bank to supply the Central Bank with clarifications on certain matters.

In case the bank fails to answer within the period given thereto, these orders shall become final. Moreover, it is noteworthy that an amendment of the actions may be introduced in light of the development of the bank's condition.

4: Final Remarks:

- The proposed framework takes into account the fact that the condition of banks does not decline suddenly. On the contrary, weakness and problems accumulate with time. Therefore, the answer by the supervisory authorities shall keep pace with this development in an appropriate way that reduces or attempts in the final analysis, to stop the decline and to minimize the cost thereof.
- The final step of the prompt corrective actions is the removal of the banking institution from the banking system. This option shall be taken seriously always because the cost of keeping a weak institution in the banking system may be higher than the cost of its removal.
- The decision to remove the banking institution from the banking system would be easy and less costly whenever this decision is made at an early stage, not after the shareholders' capital is diminished. The reason for this is that making the decision after depletion of shareholders' capital will mean that there is a cost that shall be incurred by the depositors, the Deposit Insurance Corporation, or public funds.
- The Supervisory Committee shall recommend this action on the strength of the facts that are available thereto about the condition of the bank and its estimation of the direct or indirect cost at present and in the future.
- The decision to remove the banking institution from the banking system is an important decision because it sends an important message to each of the shareholders, administrative officers and major borrowers from the bank to the effect that they will bear the consequences of their inappropriate decisions that have led to the decline of the bank's condition. Moreover, the decision to remove the banking institution from the banking system before bank's capital is depleted reduces the chances that the bank's administrative officers or shareholders might exploit the bank for their personal interests because they know that the loss will eventually be incurred by the Deposits Insurance Corporation or by the tax payers.

Summary Table of Prompt Corrective Actions

Who Approves It	Who Recommends It	Actions	Criteria
His Excellency the Governor	Banking Supervision Department	Fines according to the proposed system	Bank's non-compliance with Banking Law instructions or failure to accordance the
Supervisory Committee, members of the Board of Directors of the Jordanian bank, its general manager, the director of the branch in Jordan and the General or Regional Management of the foreign bank's branch	Supervisory Committee and the bank concerned	1- Board Resolutions. 2- Memorandum of Understanding between the bank and the Central Bank	Decline of the bank's rating on the evaluation of CAMEL or RBC to level 3. May be taken if the Supervisor determines that they would
Central Bank Board of Directors	Supervisory Committee	1- Cease and desist orders. 2- To request the bank to suspend any of its administrative officers who are not members of the Board of Directors from work on temporary basis or dismissing them depending on the seriousness of the violation or to discharge the Board of Directors or any of its members. 3- To request the branch of the foreign bank to deposit its capital with the Central Bank and to constrain the bank's foreign deposits with the main center or the corresponding banks	Cases in which the bank was warned according to the system or notified the bank with Memorandum of Understanding necessary corrective actions or if the bank's subsidiaries or companies carry out unsound practices
Central Bank of Jordan	Central Bank of Jordan	Not to make any distributions of the capital accounts or pay any compensation to any administrative body in the bank or to any members of the Board of Directors which may lead to the classification of the bank as Undercapitalized	Level of solvency of the bank. Well Capitalized or Undercapitalized
Central Bank Board of Directors	Supervisory Committee	<ul style="list-style-type: none"> - the bank concerned shall provide the Central Bank with a Capital Restoration Plan within a period not beyond 45 days. The plan shall include direct step to strengthen the solvency of the bank - The bank may not distribute any profits to the shareholders. - The Central Bank may place restrictions on the growth of the bank's assets or some of its components. 	Level of solvency of the bank. Undercapitalized

Translation of Framework of the Prompt Corrective Actions to be Adopted by the Central Bank of Jordan

Who Approves It	Who Recommends It	Actions	Criteria
		<ul style="list-style-type: none"> - The Central Bank may place a condition that prior approval shall be secured before owning some of the assets or introducing new banking services, in addition to other activities to be determined by the Central Bank. - The bank may be subject to any of the additional actions imposed on any of the banks classified Significantly Undercapitalized - Any other actions which the Central Bank deems necessary for achieving the goals of rectifying the decline in the level of solvency or capital adequacy. 	
Central Bank Board of Directors	Supervisory Committee	<ul style="list-style-type: none"> - The bank shall be subject to all the actions imposed on the banks that are classified within the category of undercapitalized banks. - Constraining the allowances and rewards paid to the top executive management. - The bank shall be subject to at least one of the following additional actions: <ol style="list-style-type: none"> 1- To arrange a merger with another bank if the bank may not raise its capital. 2- The Central Bank may place restrictions on the bank's deposits and assets deposited with the main center or foreign correspondent banks or local banks. 3- Control the interest rate of the deposits so as to make it the same as the interest rate prevailing in the market. 4- To refrain from accepting deposits from counterpart banking institution. 5- To severely retrain the growth of the bank's assets or some of their components or to request the reduction of their size. 6- To cancel or restrain some of the activities which make the bank vulnerable to major risks. 7- To dismiss some of the bank's employees or some administrative officers therein. 8- To request the bank to get rid of or liquidate any subsidiary company if the 	Level of solvency Significantly u

AMIR Program

Translation of Framework of the Prompt Corrective Actions to be Adopted by the Central Bank of Jordan

Who Approves It	Who Recommends It	Actions	Criteria
		<p>continuation of this company may pose significant material risks to the bank.</p> <p>9- To request the bank to get rid of or liquidate any allied company as the continuation of this company may pose significant material risks for the bank.</p> <ul style="list-style-type: none"> - any other actions which the Central Bank believes are important for achieving the goals of rectifying the decline in the level of solvency or capital adequacy. 	
Central Bank Board of Directors	Supervisory Committee	<p>In addition to the foregoing actions:</p> <ul style="list-style-type: none"> - An administrative Committee shall be appointed for the bank within 90 days unless the Supervisory Committee deems otherwise. - Prohibiting the bank from paying interest or debt installments without the prior approval of the Central Bank. - Restraining the activities of the bank to the furthest possible limits. - Central Bank approval shall be conditional to the following: <ul style="list-style-type: none"> - Any important activities other than the bank's ordinary activities. - Granting credit to a party that is highly indebted. - Introducing any material changes in the methods of accountancy. - Paying high compensations or commissions. - Paying an interest rate on debts that make the average cost on the debts higher than the average cost prevailing in the market. - Any other measures which the Central Bank deems necessary to achieve the goals of the prompt corrective actions.. 	Level of undercapitalization

Appendix 1:

Examples of Unsafe and Unsound Banking Actions and Practices

A- Lack Of Action Deemed "Unsafe Or Unsound

- 1- Non-existence of a sufficient internal control system that would prevent the bank employees from carrying out unsafe or unsound banking practices or violating the regulations, laws and instructions.
- 2- Failure to build an adequate provisions for non-performing loans.
- 3- Failure to undertake correct accountancy procedures or lack of documented and accurate data of the accounts, clients, or the guarantees for facilities that are granted.
- 4- Failure to impose appropriate settlement program to collect non-performing assets.

B- Actions Deemed "Unsafe Or Unsound":

- 1- To maintain capital that is less than the acceptable level, while taking into account the types of the bank's assets.
- 2- To carry out unsafe practices related to the granting, follow-up, and collection of the facilities. This includes the following as an example, but not exclusively:
 - Granting facilities without suitable guarantees.
 - Granting facilities before securing full and updated information on the party that is requesting the facilities.
 - Granting facilities on the strength of the balance sheet without sufficient controls.
 - Concentration in granting the facilities.⁴
- 3- The exercise of the banking activity without sufficient liquidity.
- 4- The exercise of the banking activity without internal control and supervisory regulations that can guarantee the following, as an example but not exhaustively:
 - Control and supervision of checks and non-issued depository certificates.
 - Separation of powers in the bank.

⁴ Including concentration in specific sector, specific state, or specific client, and any other form of concentration.

- 5- Following an investment policy that includes speculation and high-risk practices.

C- Conditions that are regarded as unsafe and unsound banking practices:

- 1- Keeping a margin of a clearly low interest rate.
- 2- High overhead compared to the volume of the bank's activity.
- 3- Rise in the rate of the non-performing loans or loans under supervision compared with the over-all loans or capital of the bank.
- 4- Rise in the rate of bad loans.
- 5- Rise in the rate of non-performing assets.
- 6- Concentration in the sources of funds.

D- Violation of the banking law or the instructions and orders issued by the Central Bank.

Appendix 2:
The Supervisory Committee

- The idea of the Supervisory Committee arises from the important role which each of the Central Bank of Jordan and the Deposit Insurance Corporation plays in rectifying the position of weak or stumbling banks (banking institutions) as the two institutions are concerned about the soundness and safety of the banking system because this is in harmony with the role assigned thereto.
- The role of the Central Bank in supervising the banks is clear and specific. It is specified by the Central Bank law and the Banking Law. Meanwhile, the role of the Deposits Insurance Corporation is primarily focused on rectifying the position of weak banks by taking these banks out of the banking system at the least possible cost and without this leading to shaking confidence in the banking system. Therefore, the two institutions are playing a supplementary role.
- In order to achieve the foregoing goal, namely, to take out the weak banks out of the banking system at the least possible cost and in a way that would not shake confidence in the banking system, there shall be a role to be played by the main supervisory institution, namely, the Central Bank in the process of rectifying the bank and in the timing of taking it out of the banking system. Needless to say, this would significantly affect the cost of taking the banking institution out of the banking system. In view of the nature of its role, the Deposits Insurance Corporation is the more qualified body to estimate this cost and because the size of the cost may affect confidence in the banking system, if the cost is too large.
- In light of the foregoing, there is a need to find a mechanism for cooperation between the two institutions in rectifying the position of weak banks in a way that serves the interests of the banking system.
- The proposed mechanism is to form a Supervisory Committee consisting of the Deputy Governor of the Central Bank in charge of Supervision, the director general of the Deposit Insurance Corporation, the executive director of the Banking Supervision Department. His Excellency the Governor of the Central Bank shall chair the committee. This committee shall be assigned the role of taking the prompt corrective actions or recommending these actions to the Central Bank Board of Directors.

- The proposed framework for cooperation between the two institutions⁵ in rectifying the position of weak banks is compatible with the principles of the Basel Committee on the effective supervision that governs cooperation between the banking supervisory authorities and the law of each of the Deposit Insurance Corporation and the Banking Law.
- The concept of the Supervisory Committee does not mean the interlocking of roles in each of the two institutions, but means an integration and coordination of the roles at an important stage, namely, the stage in which the banking institution is in a state of weakness and decline.

⁵ Among the proposals made in this connection is the signing of a Memorandum of Understanding or an agreement between the two institutions for cooperation in the field of banking supervision.