Directive on large exposures to a group of connected clients by virtue of Section 13 of the State Ordinance on the Supervision of the Credit System (AB 1998 no. 16) (SOSCS) for credit institutions licensed by the Central Bank of Aruba (the Bank).

1. **Introduction**
The objective of the “large exposure rule” is to limit the concentration of risk, i.e., the risk - on a consolidated basis - incurred in respect of a single client, or a group of connected clients or in respect of other (non-client-driven) business, such as investments in bonds, stocks, participating interests etc. Exposures are understood to be the assets, as well as the off-balance sheet items of the credit institutions.

2. **Definitions**
A group of connected clients consists of:

- either two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other(s); or

- two or more natural or legal persons between whom there is no relationship of control as referred to above but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment problems.

Interconnection may be evident in the case of:
- common shareholders or partners;
- common director(s);
- cross-guarantees;
- direct commercial interdependence which cannot be undone at short term.

3. **Directive**
Exposures to any one client or a group of connected clients may not exceed 25% of the institution’s “Test Capital” (Tier 1 + Tier 2 capital). Only in exceptional cases and under the strict conditions that 1. it concerns an A-1 client with an excellent financial position and track record, and 2. the loan is well collateralized, the management of a credit institution may decide to exceed this limit. However, under no circumstances the individual exposure to a client or a group of clients may exceed 35% of a credit institution’s test capital.

Exposures to the local Government, as well as short term (≤ 1 year) investments with financial institutions are exempted from this rule, under the conditions that subject financial institutions have a solid financial position and fall under effective
supervision. The banks are required to periodically evaluate the financial position of these institutions.

As of January 1, 2003 the Bank’s prior approval is no longer required for exceeding the 25% limit, because the responsibility for granting large loans should explicitly remain with the management of the credit institution, who is also accountable for keeping within the limits as indicated in this directive. To enable the Bank to make an evaluation of the credit institution’s policy in this respect, all loans exceeding the 25% limit should be tagged with the letter A in appendix 3.

Moreover, the total of all large loans reported under Appendix 3 of the monthly statement, comprising of loans in excess of 15% of a credit institution’s test capital, may not exceed 600% of a credit institution’s test capital.