

CENTRAL BANK OF THE UAE

Circular No. 19/97

Date : 04/11/97

To : Banks, Finance Companies and Investment Companies

Subject : **Loans extended to Finance purchase of company shares**

In order to systemize lending against pledge of shares of companies, for the benefit of the banking and financial system in the country, the Board of Directors of the Central Bank has resolved to establish the following rules:

- 1) No loans should be extended to purchase shares except against tangible securities, among which shares of joint stock public companies, newly established or those under establishment.

- 2) Loans extended to the founders of companies against the pledge of their allotted shares should not exceed 50% of the nominal value of those shares. This position continues until the expiry of the legal period required to maintain ownership of these shares as per companies law, thereafter, they will be treated at in (4) below:

- 3) Loans extended to subscribers in the public subscription of companies under establishment against an undertaking to pledge their allotted shares should not exceed 10% of the nominal value of the subscribed shares, except in case where the issuing company or the bank receiving the subscription funds (subscription bank) undertakes to refund excess funds directly to the lending bank (or lending party). In this case, the percentage may be raised to 50% of the nominal value of the subscribed shares.

- 4) Loans extended against the pledge of allotted shares in the public subscription of newly established companies should not exceed 70% of the book value of these shares. The limitation shall remain valid until these companies have been in operation for 5 years.

- 5) Loans extended against pledge of shares of companies which have been in operation for more than 5 years should not exceed 70% of the market value of these shares.

- 6) Banks and other financial institutions operating in the country may extend loans to purchase shares of companies established in the other AGCC countries, as per paragraphs (2), (3), (4) and (5) above, but with a maximum, in all cases, of 40% (the 10% in (3) above remains as it is in similar cases), and on condition that they must comply with all local laws prevailing in the country of origin of the company.

In case borrowers pledged other assets (such as deposits, shares of other companies, property, bonds) or their applications included submitting various securities, priority should be given to securities according to quality and degree of liquidity.

Please withdraw and cancel the Notice 311/96 of 04/06/1996.

Mohammed Bin Eid Al Meriekhy
Chairman, Board of Directors