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**Instructions for Managing Banks' Assets/Liabilities in Foreign Currencies**
**No. (32/2006)**
**Issued by the Central Bank of Jordan**
**Pursuant to the Provisions of Article (99/B) of the Banking Law**

In order to improve and enhance the ability of banks operating in the Kingdom to manage their assets and liabilities in foreign currencies, and in order to develop the banks' ability to manage banking risks, I hereby decide the following:

First: The following phrases herein these Instructions shall have the meaning assigned to them hereunder:

1. Money Market Instruments: include deposits, certificates of deposits, treasury bills and bonds, commercial papers, banking acceptance, re-purchase agreements and their reverse provided their maturity does not exceed one year, investment funds in fixed income instruments provided that the average maturity of the products in the fund does not exceed one year, and any other instrument of a similar nature. For the purposes of these Instructions, long-term bonds with a remaining maturity of one year or less shall be treated as money market instruments.
2. Capital Markets Instruments: which include the fixed income instruments, equity instruments, and alternative investments, as follows:
   - Fixed Income instruments/Debt instruments: include bonds, bonds` funds, syndicated loans, debt purchase, and any other credit instrument. For the purposes of these instructions, mutual investment funds that are entirely or at least 80% of which are made up from debt instruments shall be treated as fixed income instruments.
   - Equity Instruments: include company shares, main stock indexes like NASDAQ and S&P and others, mutual investment funds that invest entirely or partially in equity instruments only.
   - Alternative Investments: include investment funds (hedge funds) of all types and various strategies.
3. For the purposes of these Instructions, shareholders' equity shall include the following:
   - Paid in capital.
   - Issue premium (discount).
   - Legal reserve.
   - Optional reserve.
   - Special reserve.
   - General banking risks reserve.
   - Any other reserves if applicable.
   - Retained earnings/ losses excluding deferred tax assets.
   - (45%) of the cumulative change in the positive fair value (the whole negative change).

- Profits proposed for distribution to shareholders or period profits if any, or any other restricted profits shall not be taken into consideration.

4. Net sources of foreign currencies funds: total of sources of foreign currencies funds less mandatory cash reserves in foreign currencies at the Central Bank.

Second: The bank must provide the Central Bank of Jordan with a prudent investment policy related to its investments in foreign currencies, approved by its board of directors. The bank's management must, upon the implementation of this policy, maintain the bank's sound and strong financial position and preserve the value of its investments in foreign currencies, and in a manner whereby that policy should be consistent with the provisions of the Banking Law in effect and its pursuant instructions and regulations, and includes the following as a minimum:

1. Types of permitted investments in foreign currencies, provided that they, as well as the investment instruments' targeted rates, and methods of risk measurement are all specified, and that the maximum permitted limit of loss at the level of entire portfolio and at the level of each type of the bank's investment of its foreign currencies funds are specified.
2. The limits of the bank's foreign currencies investments in terms of geographic distribution, economic sectors, currency and permitted deviations (if any).
3. The sensitivity of prices of credit instruments to changes in interest rates (interest rate risks) and the performance indicators of various credit instruments.
4. Internal instructions of daily and overnight positions and their coverage means.
5. Matching the bank's liabilities and assets in foreign currencies.
6. The concentration limits of foreign currencies investments, so that total limits for trading in foreign currencies are specified as a percentage of the net of the bank's sources of foreign currencies funds in each of the money market, the capital markets instruments, and the credit facilities extended for export purposes, in addition to specifying the maximum limit for each of the following:
    - The percentage of investment in each of the targeted issues.
    - The percentage of outlays at any of the correspondent banks or financial institutions (including the center, the branches, and subsidiaries) from the net of the bank's sources of foreign currencies funds.
    - The percentage of outlays outside the Kingdom in countries whose credit rating is less than the investment grade as issued by well-known international rating agencies.
    - The volume of trading in equity instruments and alternative investments and with a percentage that does not exceed (10%) of the net of the bank's sources of foreign currencies funds.
    - The permitted limits of using market derivatives for trading purposes in terms of trading limits and permitted loss.

7- The risk management policy related to investment, such as credit risk, market risk, operational risk, liquidity risk, and legal risk.

8- The administrative and financial authorities and responsibilities at the bank for implementing the investment policy.

9- Procedures for monitoring the implementation of the bank's investment policy.

Third: The bank's board of directors must review and assess the policies stated in the Second item above, at least once a year, and must provide the Central Bank of Jordan with the results of every review and assessment carried out.

Fourth: In implementation of policies stated in the Second item above, the bank's management must abide by the following:

1. In the area of extending direct credit facilities in foreign currencies:
   - A. Extending these facilities, including the bank's syndicated loans, shall be restricted to export economic entities that export commodities and services according to sound loan-related banking rules.
   - B. Extending these facilities shall also be restricted to clients operating in the Kingdom, including areas established according to valid provisions of laws governing the Free Zones Corporation, the Aqaba Special Economic Zone and any other free zone established in line with the provisions of any other law.
   - C. Considering an activity by any client as export-related needs to be based on the following:
     1. The presence of foreign currencies cash flows for that activity in the Kingdom and in a manner that exceeds the repayment of installments and credit interest that could be granted in foreign currency.
     2. Companies that undertake the remanufacturing or altering of imported goods prior to re-exporting them must have available a national certificate of origin for these goods issued by specialized parties in line with relevant laws and regulations.
   - D. Extending these facilities shall be subject to the provisions of valid credit concentration instructions.

2. In the area of open foreign currencies positions:
   - A. Licensed banks may take open positions (long or short) in major foreign currencies, provided their value does not exceed (5%) of the banks' shareholders equity per currency, and provided the total overnight position for all currencies does not exceed (15%) of the banks' shareholders equity. (The dollar is excluded from the first percentage as it is considered a base currency for this purpose).
   - B. The bank's contributions to capitals of subsidiary banks and external branches are excluded from the aforementioned percentages.

Fifth: General Conditions:

- The bank must, prior to beginning the implementation of the policies stated in the Second item of these Instructions, abide by the following:
  1. The management of these foreign currencies investments shall be entrusted to technically qualified personnel operating according to clear instructions authorized by the bank.
  2. There must be an independent and effective risk management function.
  3. The presence of an independent and effective back office to handle accounting activities and settlement activities, in addition to another independent middle office (attached are international best practices related to tasks assigned to this

division), and both divisions shall be completely separate from the trading room and treasury division.

4. Setting of detailed procedures for monitoring the implementation of the investment policy at the bank, including monitoring investment limits in the various foreign currencies investments and permitted violations.
5. Setting the bases for preparing the reports and its frequency and the need to include therein events of violations and procedures adopted to rectify them.
6. Specifying alternative plans that need to be followed in cases of emergency.

Sixth: The bank must abide by the following:

1. Compliance with policies stated in the Second item above, and as approved by its board of directors subject to penalties stipulated in the Banking Law in effect or any orders issued by the Central Bank of Jordan in this regard.
2. Refrain from investing in countries that impose restrictions on transfer of foreign investment capitals and profits abroad.
3. The need to avoid high-risk operations or operations whose potential risks are difficult to estimate.
4. Setting an effective internal audit program and filing audit reports on a regular basis to the audit committee, as well as presenting them to the bank's board of directors in order to take the necessary procedures with regard to any violations or negative aspects, and holding the bank management accountable for them.
5. Providing the Central Bank of Jordan, on monthly basis, with detailed reports of investment in foreign currencies, duly prepared on the attached forms along with other monthly reports. These reports must include a calculation of the value of funds at risk using the pricing methods marked-to-market or marked-to-model for investment instruments that do not have market prices.

Seventh: The provisions of these Instructions shall apply to licensed banks operating in the Kingdom, while the external branches of these banks shall not be subject to these provisions.

Eighth: Banks shall continue to work according to the provisions of memorandum number (179/2000) dated 5/7/2000 until all the documents and requirements stated in these Instructions are fulfilled and until they receive letters from the Central Bank of Jordan informing them that all such documents and requirements have been fulfilled.

Respectfully,

The Governor
Dr. Umayya Toukan

Attachments: - International best practices related to tasks assigned to the middle office division/ unit.

-Monthly reports (10)

Division/Unit Tasks:

1. Preparing the annual investment plan for the bank's sources of foreign currencies funds, including the following aspects:
   - Identifying cash inflows and outflows of foreign currencies resulting from investments in order to conclude the bank's needs and requirements of liquidity.
   - Matching the bank's foreign currencies assets and liabilities in order to conclude an asset liability management mechanism.
   - Preparing investment scenarios/distribution of foreign currency assets to the permitted investing instruments (asset allocation) in order to specify the structure and components of the bank's portfolio of investment instruments.
   - Risk management.

2. Evaluating and managing investment risks associated with the bank's investments by monitoring credit risks, market risks, trading limits, payback periods, and deviations from adopted investment principles and rules.

3. Evaluating and measuring the performance of the basic investment portfolio and the individual active investment portfolios by carrying out financial analyses and comparing results with adopted benchmarks.

4. Monitoring foreign currencies open positions.

5. Monitoring margin trading operations in foreign currencies and precious metals.

6. Monitoring the stop-loss limits and the profits realized by the bank as a result of its investments in foreign currencies.

7. Preparing studies and proposals for developing the management of the bank's foreign currencies assets.

8. Analyzing and studying various investment offers to invest and manage the bank's foreign currencies assets.

9. Collecting statistical information and data related to economic, financial and monetary indicators for countries of major currencies and working on establishing a database to support tasks undertaken by the department.

10. Establishing a benchmark through which the performance of the main portfolio and the individual active investment portfolios are compared and measured, and developments occurring to them are monitored, in

order to ultimately propose the necessary amendments to that benchmark, and in a manner that achieves the goals of the annual investment plan.

11. Setting the general frameworks on which amendments to the benchmark or some of its components will be based, and in a manner that achieves the goals of the annual investment plan.

12. Setting an investment risk management plan for the bank's investments, including the following elements:
    A. Risk measurement.
    B. Risk sources.
    C. Risk monitoring.

13. Preparing periodic studies on developments in world capital markets and carrying out technical analyses on exchange rate trends, interest rates, bonds prices, and prices of precious metals, especially as related to the following:
    A. Significant economic, monetary and financial situations and developments.
    B. Credit risks and market risks.
    C. Market developments of international financing instruments.
    D. Investment strategies.
    E. Any other studies.

14. Preparing the necessary studies about correspondent banks by following their status, and analyzing their financial statements and their annual reports.