

Memorandum of Understanding between The Central Bank of Jordan and the Deposit Insurance Corporation

First Item: The Objective and Scope of the Memorandum:-

1. The Central Bank of Jordan Law no (23) of the Year 1971 and its amendments states that one of the objectives of the Central Bank of Jordan (referred to hereinafter as the Central Bank) is to maintain the monetary stability in the Kingdom, and to encourage continuous economic growth per the public economic policy of the government. The Central Bank shall seek to attain its goal through various means stated by the law and include "the monitoring of licensed banks so as to ensure the safety of their financial position and guarantee the rights of the depositors and shareholders."
2. The Deposit Insurance Corporation (referred to hereinafter as the Corporation) was established per the Deposit Insurance Corporation law no (33) of the year 2000. The Corporation law determines its purpose in "the protection of banks' depositors by insuring their deposits with banks per the provisions of this law, in order to encourage saving and to promote confidence in the banking sector in the Kingdom." Furthermore, the Corporation law authorizes it to conduct all operations that guarantee the achievement of this goal including the insuring of deposits with licensed banks within the limits set by the law, and functioning as a liquidator for any bank that the Central Bank decides to liquidate.
3. This Memorandum seeks to promote coordination and cooperation between the Central Bank and the Corporation (referred to hereinafter as the two Parties) in relation to licensed banks in the Kingdom for the purpose of attaining their objectives and performing their duties in line with laws that govern and determine the responsibilities and obligations of both Parties.
4. The Two Parties agree that each will cooperate with the other Party and help them perform their legal duties through optimal use of their available resources, coordinating their efforts, exchanging information in duly time, and thereby contributing to the enhancement of the financial positions of licensed banks and confidence in the Jordanian banking system.

Second Item: Exposure to Supervisory Information:

A- The need for coordination and cooperation:

1. So that the Corporation may be able to perform its duties per the law, it needs full exposure to supervisory information that enables it to do so as an insurer of deposits and liquidator of banks that the Central Banks decides to liquidate.
2. The Corporation's law states that it may be exposed to the final financial statements of banks and the outcomes of their business available with the Central Bank. The Central Bank's Governor, the Chairman of the Corporation's Board, may inform the Board of Directors of any information and financial statements related to the conditions of any of the banks if he finds it necessary. The Corporation's law also clarifies that it is permitted that "in accordance with the Corporation's request and the

approval of the Central Bank to form a joint inspection team from the employees of the Corporation and the Central Bank to review or test the activities of any bank as well as its records and data.

B- To exchange supervisory information between the two Parties, they shall agree to the following:

1. The Central Bank shall provide the Corporation regularly of the following information concerning licensed banks and in due time, including data for previous years and as of 2000:-
 - The final annual and semiannual financial statements.
 - A quarterly report regarding the components of the capital Adequacy Ratio.
 - Monthly reports regarding the components of the legal liquidity, and the quarterly statements of liquidity according to the maturity ladder.
 - The regulations and decrees issued by the Central Bank to licensed banks.
 - The declared and actual interest rates at banks (Monthly).
2. The Corporation shall exchange with the Central Bank any results it reached through the analysis of information obtained by it through the usage of its risks' analysis approaches.
3. The Central Bank shall seek to confirm the existence of information systems with licensed banks that enable each bank to set daily internal reports that demonstrate the net financial position of the customer of the bank, whereas these reports show net debit and/ or credit amount of the bank's customer after clearance is conducted between all the customer's deposits and his/ her various guarantees, on one hand, and all his/ her liabilities (whether on or off balance sheets), on the other hand. The Central Bank examiners shall confirm the existence of the proper information systems and their effectiveness.
4. The Central Bank shall notify the Corporation of its decree to grant final licensing of any new bank.
5. Should the Corporation wish to perform a joint inspection of any licensed bank, then:
 - The two Parties agree to the objectives and scope of the inspection, its timeline, and the necessary human resources to conduct the inspection.
 - The Central Bank and the Corporation shall conduct the inspection per the procedures undertaken by the Central Bank, and the joint inspection team shall be headed by one of the Central Bank employees.

Third Item: Auditing of Data Related to the Annual Subscription Fees:

A- The Need for Coordination and Cooperation:

The Corporation is mainly funded by the annual subscriptions paid by the banks included in the law of the Corporation. The annual subscription fees shall be calculated on the basis of the total of deposits with the bank subscribing in the Corporation (With few exceptions mentioned in the law) as on the thirty first day of December of the previous financial year. The law of

the Corporation obliges the banks subject to the insurance to submit an annual statement of the total of deposits with them to the Corporation and the Central Bank for the purposes previously mentioned. The law also authorizes the Corporation to request that the Central Bank verifies the validity of these data.

B- Agreed Upon Procedures:

The Central Bank reviews the data submitted by the banks subject to the insurance in line with the general outlines agreed upon by the two Parties, and the data shall be presented per a form set for this purpose in agreement with the two Parties.

The Fourth Item: Cooperation to Ensure the Readiness of the Corporation to Manage and Liquidate any Bank that the Central Bank Decides to Liquidate:

1. The two Parties shall form a list that contains the banks that may sharply deteriorate in terms of solvency or liquidity unless their positions are addressed (Watchlist banks). The considerations to be taken once it is prepared include, among others, qualitative and quantitative standards including the examiners' evaluation of a bank. The two parties shall agree that maintaining continuous and immediate communication tools between them concerning the banks listed as "Watchlist" is a vital matter to ensure that the Corporation is aware of possible problems. The early identification of the problems and taking immediate corrective action shall lead in most cases to treatment of weaknesses without burdening the Corporation financially.
2. With consideration to what is mentioned in Clause (1) of this Item, the bank rated by the Central Bank with (4) or less per the CAMEL standard or with any equal rating under any other rating system approved by the Central Bank shall be placed in the "Watchlist" immediately and directly.
3. Dealing with banks listed as "Watchlist" and addressing their conditions:
 - A- The Central Bank shall provide the Corporation with the main outcomes of the inspection reports, as well as a briefing of the outcomes of the CAMEL rating or of any other rating system applied by the Central Bank in relation to the banks listed as "Watchlist."
 - B- The Central Bank shall notify the Corporation of material changes and/or important supervisory developments that occur to a bank, as well as of vital corrective actions taken by the Central Bank with the bank. Should the central Bank take any of these actions, it will provide the Corporation with any development that occurs on that procedure and the level of the bank's response towards it.
 - C- Should the Central Bank deem it necessary to perform an inspection or special auditing for a bank on the list, a meeting will be held between the

two Parties to discuss the reasons of conducting the inspection or the special auditing and its goals and scope.

- D- The Corporation may request the Central Bank to undertake a joint inspection per the procedures mentioned in the Second Item of this Memorandum.
- E- The Corporation may- per Item (20) of its law- increase the annual subscription fee paid by any bank if the Central Bank finds that this bank sustains risks to an unacceptable degree. Thus, the Corporation will notify the Central Bank of its intention to raise the annual subscription fee for that bank.
- F- In light of the importance of the pre- planning for dealing with results arising from any crisis in the banking system and the possible negative repercussions that arise or accompany them, the two parties will work to set contingency plans to deal with crises to which the licensed banks may be exposed. They will also provide each other regularly with the names of people who should be contacted and how to contact them in case a crisis occurs to a bank.

Fifth Item: Placing a Bank under the Management of the Central bank or Revoking a Bank's license and/or Liquidating a Bank:

A- Placing a bank under the management of the Central Bank:

The Central Bank- under certain circumstances- may- per the Banking Law- dissolve the licensed bank Board of Directors and assume its management. The Central bank may also involve the Corporation in the membership of any committee formed to manage that bank.

B- Revoking the license of a bank:

The Central Bank- per the Banking Law- may revoke the license of any bank subject to certain conditions. In this case, the Central Bank shall notify the Corporation of its intention to revoke the license of the bank, and give the Corporation an adequate grace period to provide the Central Bank with its recommendations or suggestions unless in the case which the Central Bank deems it necessary to take a prompt action considering the threat that might occur on the banking system as a result of not doing so.

C- Liquidation:

1. If the Central Bank intends to liquidate a bank, it shall notify the Corporation of such immediately. It will also per the request of the Corporation or its own request conduct an inspection or a preparatory examination of the concerned bank for the aim of evaluating its assets and liabilities, and understanding its information and accounting systems in detail so that a plan to pay the insurance funds with the least cost and as quickly as possible is set. In this regard, the Central bank shall notify the corporation with the progress that occurs on the preparatory examination, and provide it with a copy of any report related to the bank. It will also discuss the reached results. In light of this, the two Parties shall agree on the stages of liquidation and its decisions.

Sixth Item: Ministerial or Parliamentary Reports:

In the case that any governmental entity or the Parliament requests information regarding licensed banks, whereas the provision of the information by one of the two Parties would affect or is related to the tasks and obligations of the other Party, the two Parties thereby will:

- Notify each other of the request.
- Wherever appropriate, they will cooperate and coordinate with each other to answer the request.

Seventh Item: Training and development of Human Resources:

The Central Bank and the Corporation will- wherever appropriate- do the following:

- Coordinate the holding of courses, conferences, and seminars as well as any other training opportunities.
- Invite the other Party's employees to participate in internal training and development.
- Encourage joint researches concerning banking supervision topics, and exchange the results of these researches and participate in them.

Eighth Item: Confidentiality:

Per related laws, the pieces of information related to a bank or any person dealing with it which are obtained by or submitted to the Central Bank and/ or the Corporation are deemed generally confidential and should be seen as so. The Central Bank and the Corporation realize the necessity for treating any information obtained by any of them from the other as confidential, and shall agree not to disclose them for any other party unless forced by the provisions of any law that permits such, or with the consent of the party which provided the information. If any one of them is requested by the law to disclose these pieces of information to a particular party, the two parties shall notify each other prior to doing so.

Ninth Item: The Joint Coordination Committee:

The Central Bank and the Corporation shall form a joint committee that seeks to coordinate the implementation of the items of this Memorandum, and to generally promote an effective working relation between them.

The Tenth Item: General Provisions:

1. Exceptions: the Central Bank may withhold providing the Corporation with information related to any licensed bank per this Memorandum if it deems that this provision may affect the course of any investigation conducted by the Central Bank or any other competent party, or if it affects the efforts of the Central Bank or the procedures it might take in addressing related issue/s.

2. Amendments

This Memorandum may be amended at any time with the agreement of both Parties.
The amendment is not valid unless it is made in writing.

Issued in Amman on Tuesday 8/2/2005.

The Central Bank of Jordan
Umayya Toukan

The Deposit Insurance Corporation
Dr. Mohammed Al-Jaafari