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Instructions to Islamic Banks on Legal Liquidity

No. (40/2008)

Issued by the Central Bank of Jordan Pursuant to the Provisions of Article (45/a) of Central Bank of Jordan Law and Articles (42/a/1), (42/b) and (99/b) of Banking Law

In line with the Central Bank of Jordan's keenness that the legal liquidity ratio reflects the liquidity situation of Islamic banks more clearly, and in order to consider the specificity of Islamic banks' business, I hereby decide the following:

First: Each bank operating in accordance with the provisions of Islamic Sharia shall always maintain liquid assets in the minimum of (100%) of its total weighted liabilities, provided that its liquid assets in Jordanian dinars are not less than (70%) of its weighted liabilities in the Jordanian dinar. The legal liquidity ratio is calculated as follows (and according to the attached table):

A. The Numerator of the ratio: which consists of the following items:

1. Cash in registry.
2. Net of balances with the Central Bank.
3. Net of balances and investment accounts with local banks and other banking institutions.
4. Net of balances and investment accounts with foreign banks, headquarter and foreign branches.
5. International Murabaha/ self and joint (after being weighted by the weights shown beside each item):
 - A residual maturity of one month or less, while the debtor or guarantor has a rating no less than the investment grade: 100%.
 - A residual maturity of more than one month and up to six months, while the debtor or guarantor has a rating no less than the investment grade: 75%.
 - A residual maturity of more than six months and up to one year, while the debtor or guarantor has a rating no less than the investment grade: 50%.

- A residual maturity of one month or less, while the debtor or guarantor has a rating lower than the investment grade or it is unclassified: 50%.
 - A residual maturity of more than one month and up to a year, while the debtor or guarantor has a rating lower than the investment grade or it is unclassified: 25%.
6. Government securities (the government of the Hashemite Kingdom of Jordan).
 7. Securities guaranteed by the Government of the Hashemite Kingdom of Jordan.
 8. Islamic Sukuk with a residual maturity of one year or less and is issued by countries with a credit rating of no less than the investment grade, provided that the rating should be by rating companies approved by the Central Bank.
- **The following are subtracted from the numerator:**
 1. Any pledged or retained securities.
 2. Balances allocated to meet the foreign branches' capital.
 3. Balances and investment accounts retained with the Central Bank, local banks and other banking institutions and/or foreign banks, headquarter and external branches.
- B. The denominator of the ratio is the total of the following items after being weighted by the weights shown beside each item:**
1. Total customer deposits (current and absolute investment accounts): 30%.
 2. Deposits of banks and other banking institutions with a residual maturity of one year or less: 100%.
 3. Deposits of banks and other banking institutions with a residual maturity of more than one year: 30%.
 4. Deposits of headquarter and foreign branches according to residual maturities as follows:
 - Less than one month: 75%.
 - One month to six months: 65%.
 - More than six months up to a year: 50%.
 5. Bills payable: 30%.
 6. Un-utilized credit facilities ceilings: 30%.
 7. Issued letters of credit, acceptances and payable guarantees: (30%).
 8. Other guarantees: 3%.

Second: The proceeds of subscriptions in companies' stock are excluded from the numerator and denominator of the legal liquidity ratio. It should be noted that the display of these proceeds must be in an independent line on the side of liabilities in the monthly assets and liabilities statement of the bank, numbered (2/11) and titled (Subscriptions Trusts).

Third: For the purposes of implementing these instructions, the margin referred to in Article (42/b) of Banking Law is set at an annual rate of (3%).

Fourth: This ratio is calculated daily according to the attached table, and must be submitted to the Central Bank weekly, on the following business day of each weekend. In case of a fall from the required minimum legal liquidity ratio in all currencies or in the Jordanian Dinar referred to in Paragraph (First) above, the bank must submit the table daily and for the dates set by the Central Bank.

Fifth: These instructions shall come into force as of date, and the Instructions on Legal Liquidity No. (37/2007) Dated 11 November 2007 shall be cancelled for the banks licensed to operate in accordance with the provisions of Islamic Sharia.

Attached: Legal Liquidity Ratio Form for Islamic Banks

Governor

Dr. Umayya Touqan

<p>more than six months and up to one year, while the debtor or guarantor has a rating no less than the investment grade.</p>											
<p>A residual maturity of one month or less, while the debtor or guarantor has a rating lower than the investment grade or it is unclassified.</p>	50%										
<p>A residual maturity of more than six months and up to one year, while the debtor or guarantor has a rating lower than the investment grade or it is unclassified.</p>	25%										
<p>Government securities (the government of the Hashemite</p>	100%										

and payable guarantees												
Other guarantees	3%											
Total of denominator												
Ratio = total of numerator / total of denominator												

*Calculated individually and per customer.

- 1- The total of non-resident private sector deposits reached.....Jordanian Dinar as of the ending of the last working day in the week.
- 2- The total deposits of governmental own-budget and budgetary bodies reached.....Jordanian Dinar as of the ending of the last working day in the week.
- 3- The minimum set for this ratio is (100%) for all currencies and (70%) for Jordanian Dinar.