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## **Instructions for Liquidity based on the Maturity Ladder**

**No. (41/2008)**

**Issued by the Central Bank of Jordan in the Virtue of the Provisions of Article (45/A) of the Central Bank Law and the Article (99/B) of the Banking Law**

In line with the desire of the Central Bank to enhance the capability of the banks to meet all of their commitments at maturity, and to ensure that the banks keep a sufficient level of liquidity in a way that maintains the soundness of their financial position, I have decided the following:

### **First: General Provisions to Implement Liquidity based on the Maturity Ladder:-**

1. The bank has to keep sufficient amounts of cash and quasi cash balances to meet the matured liabilities at any time.
2. The bank has to prepare a matching future policy for the cash flows, taking into account the possibility that some customers may fail to meet their commitments towards the bank on due dates.
3. The bank has to diversify the investments of its funds in a manner that comes in line with the structure of these funds with regards to maturities, taking into consideration the structure of depositors.
4. The necessity of having sufficient liquidity on both local and external levels, noting that it is not allowed for the bank's management to depend on the assets of the cross-border establishments to meet the local liabilities. Therefore, the management should balance between the nature of assets and liabilities concerning the place and the currency.
5. Given the importance of differentiating between the liquidity in the Jordanian Dinar and other currencies, the study of the bank's liquidity based on the

liquidity ladder will be on two levels, the first: as it is in the Jordanian Dinar only, and the second: as it is with all currencies.

6. This mechanism is different from the traditional methods in measuring liquidity by its emphasis on the maturities of cash inflows and outflows more than the liquid assets available at the time of the study.
7. The bank has to reach, at least, a level of equilibrium in the cumulative liquidity starting from fifth category, which reflects the situation of the maturities of the bank's liquid assets and liabilities.

### **Second: Implementation of the Maturity Ladder:-**

To implement this method, three sheets have been prepared (attached) as follows:

- Sheet No. (1) which represents the details of assets
- Sheet No. (2) which represents the details of liabilities
- Sheet No. (3) which represents the liquidity position based on the maturity ladder

Each one of the aforementioned sheets is divided into (6) time categories as follows:-

Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year

The time categories displayed above will be used for the purposes of calculating the liquidity of the bank and the soundness of the investments of its funds. The ratios calculated for this purpose are:-

1. The coverage ratio of assets to liabilities for each time category; this ratio is called "the ratio of surplus or deficit for the category"
2. The coverage ratio of assets to liabilities for more than one time category; this ratio is called "the cumulative ratio of surplus or deficit "

### 1. **The Assets Sheet**

The following assets are included in this sheet:

- a. Cash, balances and cash deposits (including the legal reserve balances at the Central Bank).
- b. Government securities (The Jordanian Government)
- c. Securities guaranteed by the Jordanian Government
- d. Other financial assets: which include, for the purpose of these instructions, all the assets of the bank which have an active market. Consequently they can be liquidated at any moment at fair price and without losses.

For monitoring purposes, the assets displayed in the items (a, b, c, and d) above will be classified, according to the maturity ladder within category (1), as long as they will generate immediate cash inflow when needed. However, due to the element of risk, these assets will be subject to different discount rates before including them in the above-mentioned category. Listed below is a description of the assets which are classified in category (1), with the discount rates for some items for this purpose:

The Assets	Discount Rate
1- Cash, balances and cash deposits (including the legal reserve at the Central Bank).	0%
2- Government securities (The Jordanian Government)	0%
3- Securities guaranteed by the Jordanian Government	0%
4- Debt Instruments classified within the financial assets for trading: <ul style="list-style-type: none"> <li>a. With credit rating (AAA) as per the rating of Standard &amp; Poors or the equivalent from Moodys or Fitch or any other credit rating company accredited by the Central Bank</li> <li>b. With a credit rating not less than (Investment Grade) with the exception of the debt instruments mentioned in sub-item (a) above.</li> <li>c. With a credit rating less than (Investment Grade) or not rated</li> </ul>	0%  5%  10%
5- Debt Instruments classified within the financial assets available for sale or the financial assets held to maturity, according to the remaining period for maturity, as follows: <ul style="list-style-type: none"> <li>a. One year or less</li> <li>b. More than one year and less than five years</li> <li>c. More than five years</li> </ul>	10% 15% 20%
6- Trading Stocks	25%

e. Credit facilities:-

The credit facilities (excluding overdraft accounts) shall be included in the assets sheet according to the maturity dates in an effort to know the expected repayments which represent future cash flows for the bank.

As for the overdraft accounts, they shall be distributed as follows:-

Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
5%	10%	15%	20%	50%

f. Assets under collection, these are classified within the time category at which the bank becomes able to liquidate or collect them.

g. Accrued interests which have not been received according to their maturities

h. Other banks' commitments:

These represent the commitments and the pledges of other banks to provide the bank with liquidity (if available), and they are subject to one of the following treatments:

1. If the committed bank is adhered to provide the bank (under consideration) with a specified amount on a specified date, the latter should display this amount within its assets in the appropriate time category.
2. If the committed bank is adhered to provide the bank (under consideration) with a specified amount when the latter needs that after a prior notice from the latter, then it should display this amount within its assets in the appropriate time category based on the required notice period.

3. If the committed bank will provide the bank (under consideration) with a specified amount when needed and without a prior notice, the latter should display this amount within its assets in category no. (1).

In this regard, it should be noted that the committed bank should display its commitments in cases (1), (2) and (3) above in accordance with the same time classification in the liabilities sheet.

- i. The following are excluded from the items of assets for the purposes of calculating liquidity according to the maturity ladder:-
  1. Any item of assets included in the calculation of liquidity and it is withheld, constrained or mortgaged against certain commitments or constrained with a condition or deterrent which prohibits its liquidation when needed.
  2. Non-performing loans and the interests in suspense in accordance with the instructions of the Central Bank of Jordan.
  3. Any sold securities with a commitment to re-purchase them at later dates (repurchase agreements).

## **2. The Liabilities Sheet**

- a) Liabilities include any item that could represent a commitment for payment on the side of the bank at any time, either directly or indirectly.
- b) These liabilities include the following:-
  1. Deposits of all kinds (customer deposits, banks and financial institutions deposits, deposits of the head office and the cross-border branches).
  2. Cash margins
  3. Borrowed amounts (all kinds)

4. Debt bonds
5. Secondary loans
6. Accrued interests according to maturities
7. Any other commitments

c) These liabilities are classified in general within the table according to the appropriate time categories taking into account their actual dates of maturity. However, as for time and demand deposits, which have no identified maturity date and available for withdrawal at request, and due to the fact that such deposits are not practically withdrawn during the period of category (1), such deposits have been distributed amongst the time categories at certain ratios as follows:

**1. Time and demand deposits (in Jordanian Dinar):-**

Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
20%	17%	14%	11%	8%	30%

**2. Time and demand deposits (in foreign currencies):-**

Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
26%	13%	20%	17%	14%	10%

d) As for facilities which have been extended but not utilized, and not subject to cancellation, and represent a commitment for payment on the side of the bank without specified maturity, they shall be distributed amongst the liability sheets at the following ratios:

Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
40%	30%	20%	10%	-	-

- e) As for the off-balance sheet accounts, in case it has been found some of them will represent a direct commitment for payment and will be a burden of the bank's liquidity, such accounts shall be included in the appropriate time category in the liability sheet.
- f) The shareholders equity and provisions are not included in the liability sheet, however, the proposed profits for distribution and the tax provisions and any other items of the same nature such as the provision for end of service allowances, the provision for legal cases against the bank, the provision for R&D, university fees, rewards for the board members, etc, because they will represent a cash outflow; such liabilities shall be classified within the category in which the cash outflow is expected to take place.
- g) The following are excluded from the liabilities for the purposes of calculating the liquidity according to the ladder of maturity:
  - 1. Cash margins against non-performing facilities
  - 2. The amounts borrowed from the Jordan Mortgage Refinance Company.
  - 3. The amount of liabilities against repurchase agreements.

### **Calculating the Result:-**

To calculate the result, the following steps should be followed:

1. Moving the balances of total assets and liabilities as they are and in accordance to the various time categories from sheets (1) and (2) to sheet (3).
2. Subtracting the liabilities of each category from its assets; the result would represent the net deficit in the category if it was negative and the net surplus in the category if it was positive.
3. To calculate the ratio of deficit or surplus for each category, the net deficit or net surplus in the category shall be divided by its liabilities and the result shall



be multiplied by (100%) to get the percentage ratio (the ratio of deficit or surplus for the category), taking into consideration the positive or negative sign.

4. To calculate the cumulative ratio of deficit or surplus, the following shall be taken into account:
  - a. The liabilities of the current category are added to the liabilities of the previous categories to reach the cumulative liabilities of the current category.
  - b. Adding the net positions of the previous categories to net position of the current category to reach the gross position of the category.
  - c. Dividing the gross position of the category by its cumulative liabilities and multiplying the result by (100%) to get the cumulative ratio of deficit or surplus.

For the purpose of explaining the method of calculating the aforementioned ratios, we attach herewith a sheet showing by symbols how to do the calculation.

**Third:** The bank has to provide the Central Bank with the attached liquidity sheets in accordance with the liquidity ladder filled according to the rules on a quarterly basis, noting that they should be received by the Central Bank no later than the 15<sup>th</sup> day of the following month.

**Fourth:** These instructions shall come into force as of date, and the Central Bank circular No. (10/2/2/6641) dated 25/4/2000 shall be cancelled.

Sincerely,

**Governor**  
**Dr. Umayyah Toukan**

-Attachment

**Sheet No. (1/1)**  
**Details of Total Assets (in Jordanian Dinar and Foreign Currencies) for**  
**.....Bank, As of ( / /200 )**

		Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
		From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Cash, balances and cash deposits (including the legal reserve at the Central Bank in Jordanian dinar and foreign currencies).							
Government securities (The Jordanian Government)							
Securities guaranteed by the Jordanian Government							
Other Financial Assets	Debt Instruments classified within the financial assets for trading: a. With credit rating (AAA) as per the rating of Standard & Poor's or the equivalent from Moody's or Fitch or any other credit rating company accredited by the Central Bank b. With a credit rating not less than (Investment Grade) with the exception of the debt instruments mentioned in sub-item (a) above. c. With a credit rating less than (Investment Grade) or not rated						
	Debt Instruments classified within the financial assets available for sale or the financial assets held to maturity, according to the remaining period for maturity, as follows: a. One year or less b. More than one year and less than five years c. More than five years						
	Trading Stocks						
Credit Facilities	Loans and advances						
	Discounted bills						
	Overdraft						
Other Assets	Receivable assets						
	Accrued interests (according to due dates)						
Banks' obligations to support the bank liquidity when needed							
Total Assets of the Category							

**Sheet No. (1/2)**

**Details of Total Assets in Jordanian Dinar for .....Bank, As of ( / /200 )**

		Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
		From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Cash, balances and cash deposits (including the legal reserve at the Central Bank in Jordanian dinar and foreign currencies).							
Government securities (The Jordanian Government)							
Securities guaranteed by the Jordanian Government							
Financial Assets	Debt Instruments classified within the financial assets for trading: a. With credit rating (AAA) as per the rating of Standard & Poor's or the equivalent from Moody's or Fitch or any other credit rating company accredited by the Central Bank b. With a credit rating not less than (Investment Grade) with the exception of the debt instruments mentioned in sub-item (a) above. c. With a credit rating less than (Investment Grade) or not rated						
	Debt Instruments classified within the financial assets available for sale or the financial assets held to maturity, according to the remaining period for maturity, as follows: a. One year or less b. More than one year and less than five years c. More than five years						
	Trading Stocks						
Credit Facilities	Loans and advances						
	Discounted bills						
	Overdraft						
Other Assets	Receivable assets						
	Accrued interests (according to due dates)						
Banks' obligations to support the bank liquidity when needed							
Total Assets of the Category							

**Sheet No. (2/1)**  
**Details of Total Liabilities (in Jordanian Dinar and Foreign Currencies) for**  
**.....Bank, As of ( / /200... )**

		Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
		From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
<b>Customer Deposits</b>	Demand						
	Saving						
	Time						
	Certificates of Deposits						
	<b>Total</b>						
Deposits of Banking System							
Cash margins							
Borrowed amounts (all kinds)							
Bonds							
Secondary loans							
Accrued interests according to due dates							
Facilities extended but not utilized, and not subject to cancellation							
Banks' obligations to support the Bank liquidity when needed							
Obligations of ordinary accounts which will represent a direct commitment							
Any other commitments							
Total Liabilities of the Category							
Cumulative total of the category							

**Sheet No. (2/2)**  
**Details of Total Liabilities (in Jordanian Dinar and Foreign Currencies) for**  
**.....Bank, As of ( / /200 )**

		Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
		From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
<b>Customer Deposits</b>	Demand						
	Saving						
	Time						
	Certificates of Deposits						
	<b>Total</b>						
Deposits of Banking System							
Cash margins							
Borrowed amounts (all kinds)							
Bonds							
Secondary loans							
Accrued interests according to due dates							
Facilities extended but not utilized, and not subject to cancellation							
Banks' obligations to support the Bank liquidity when needed							
Obligations of ordinary accounts which will represent a direct commitment							
Any other commitments							
Total Liabilities of the Category							
Cumulative total of the category							

**Sheet No. (3/1)**  
**The Form of Calculating the Ratio of Deficit or Surplus in the Total Funds**  
**of.....Bank**  
**According to the to the Maturity Ladder as of / /200**

	Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
	From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Total assets of the category						
Total liabilities of the category						
The cumulative total of liabilities for the preceding category						
The cumulative total of liabilities for the category						
Net position of the category						
The ratio of deficit or surplus for the category						
Total position of the previous category						
Total position of the current category						
The cumulative ratio of deficit or surplus						

**Sheet No. (3/2)**  
**The Form of Calculating the Ratio of Deficit or Surplus in the Total Funds in**  
**Jordanian Dinar for.....Bank**  
**According to the to the Maturity Ladder as of / /200**

	Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
	From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Total assets of the category						
Total liabilities of the category						
The cumulative total of liabilities for the preceding category						
The cumulative total of liabilities for the category						
Net position of the category						
The ratio of deficit or surplus for the category						
Total position of the previous category						
Total position of the current category						
The cumulative ratio of deficit or surplus						

**The Method for Calculating the Ratio of Deficit or Surplus for each Category and Cumulatively in Jordanian Dinar**

	Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
	From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Total assets of the category	M1	M2	M3	M4	M5	M6
Total liabilities of the category	T1	T2	T3	T4	T5	T6
The cumulative total of liabilities for the preceding category	Zero	K1	K2	K3	K4	K5
The cumulative total of liabilities for the category	K1=T1	K2=K1+T2	K3=K2+T3	K4=K3+T4	K5=K4+T5	K6=K5+T6
Net position of the category	N1=M1-T1	N2=M2-T2	N3=M3-T3	N4=M4-T4	N5=M5-T5	N6=M6-T6
The ratio of deficit or surplus for the category	G1/K1	G2/K2	G3/K3	G4/K4	G5/K5	G6/K6
Total position of the previous category	Zero	G1	G2	G3	G4	G5
Total position of the current category	G1=N1	G2=G1+N2	G3=G2+N3	G4=G3+N4	G5=G4+N5	G6=G5+N6
The cumulative ratio of deficit or surplus	G1/K1	G2/K2	G3/K3	G4/K4	G5/K5	G6/K6

Total assets of the category = M	
Total liabilities of the category = T	
Cumulative total of liabilities for the category = K	Represents the "Total liabilities of the category + The cumulative total of liabilities for the preceding categories"
Net position of the category = N	Represents the difference between the assets and liabilities for the category
Total position of the current category = G	Represents the " Net position of the current category + Net position of the previous categories"



**A Hypothetical Example to Demonstrate the Method of Calculating the Ratio of Deficit or Surplus According to the Maturity Ladder**

	Category (1)	Category (2)	Category (3)	Category (4)	Category (5)	Category (6)
	From one day to (7) days	From (8) days to one month	More than one month to (3) months	More than (3) months to (6) months	More than (6) months to one year	More than one year
Total assets of the category	50	100	150	250	350	100
Total liabilities of the category	350	200	125	100	50	25
The cumulative total of liabilities for the preceding category	0	350	550	675	775	825
The cumulative total of liabilities for the category	350	550	675	775	825	850
Net position of the category	-300	-100	25	150	300	75
The ratio of deficit or surplus for the category	-85.7%	-50.0%	20.0%	150.0%	600.0%	300.0%
Total position of the previous category	0	-300	-400	-375	-225	75
Total position of the current category	-300	-400	-375	-225	75	150
The cumulative ratio of deficit or surplus	-85.7%	-72.7	-55.6	-29.0%	9.1%	17.6%