

Eskan Bank B.S.C (c)

Liquidity Disclosures - Basel III

31-Dec-21

Introduction:

In August 2018, the Central Bank of Bahrain (CBB) issued its regulations on Liquidity Risk Management (LM). Amongst other things, the LM regulations mandate banks to implement Liquidity Coverage Ratio (LCR) by end of June 2019. The main objective of the LCR is to promote short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLAs) to honor net cash outflows and survive a significant stress scenario lasting for a period of up to 30 days. As per CBB LM regulations, banks must meet the minimum LCR of not less than 100 percent on a daily basis*.

The below table provides information on Eskan Bank Consolidated LCR for the quarter ended 31st December 2021

Licensee Name: Eskan Bank

Period ended (31/12/21):

		BD '000/ US '\$'000	
Consolidated LCR		Total Unweighted Value (average)	Total Weighted Value (average)
HIGH-QUALITY LIQUID ASSETS			
1	Total HQLA		57,995
CASH OUTFLOWS			
2	Retail Deposits		
3	Stable deposits		-
4	Less stable – retail deposits*	982	98.24
5	Unsecured Wholesale Funding, of which:		
6	Deposits from Financial Institutions and other legal entity corporations.	1,476	1,476
7	Secured Funding		
8	Other Cash Outflow		
9	Credit and liquidity facilities given by bank to retail and small business customers	3,500	175.00
10	Other contractual cash outflows	9,973	9,973.33
11	Total Cash Outflow		11,723
CASH INFLOWS			
12	Secured lending		
13	Other inflows by		
14	Retail and small business customer	1,901	950
15	Financial institutions and central banks	1,589	1,589
16	Other contractual cash inflows	492	492
17	Total Cash Inflows		3,031
		TOTAL ADJUSTED VALUE	
18	TOTAL HQLA		57,995
19	TOTAL NET CASH OUTFLOW		8,692
20	LIQUIDITY COVERAGE RATIO (LCR)		667%

*As part of COVID 19 stimulus measures, the LCR limit was reduced by the CBB from 100% to 80% starting March 2020 until June 2022.

*As per CBB LM Module, the consolidated LCR of 667% reported above in line 20 is the simple average of daily LCR during Q4 2021.

Results Analysis and Main Drivers:

Eskan Bank has consistently maintained a robust portfolio of High Quality Liquid Assets (HQLAs) and diversified funding sources to honor all its obligations on a timely basis. During the Fourth quarter of 2021, the average HQLAs amounted to BD 58 million. Eskan Bank's HQLAs portfolio consists primarily of "Level 1" assets, which represent the highest quality HQLAs, and consists of cash and balances with the Central Bank of Bahrain.

Introduction:

The CBB's Net Stable Funding Ratio (NSFR) regulations became effective on 31st December 2019. The objective of the NSFR is to promote the resilience of banks' liquidity risk profile and to incentivise a more resilient banking sector over a longer time horizon. The NSFR requires banks to maintain a stable funding profile in relation to assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood of disruptions to a bank's regular sources of funding that will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability. Banks are required to meet a minimum NSFR of 100% on a continuous basis. This ratio was relaxed to 80% due to the pressures within the banking sector following the COVID pandemic, However, Eskan Bank still seeks to maintain the original higher 100% requirement.

The below table provides information on Eskan Bank Consolidated NSFR as of 31st December 2021:

Level: Local / Bank-wide / Consolidated		BHD '000				BHD '000
Sr.	Item	Unweighted Values (before applying factors)				Total Weighted Value
		No Specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF)						
1	Capital:					
(a)	Common equity tier 1	352,477				352,477
(b)	Additional tier 1 capital					-
(c)	Tier 2 Capital				1,958	1,958
2	Stable Deposits:					
3	Less stable deposits:					-
(a)	Demand deposits and saving deposits that are not fully-insured and provided by retail customers		8,459			7,613
(b)	Demand deposits and saving deposits that are not fully-insured and provided by small business customers		88			79
4	Secured and unsecured funding:					
(d)	Other deposits and funding from:					
	1. Central Banks					-
	2. Financial Institutions		10,000	-	75,000	75,000
	3. Other					-
5	Other liabilities (not included in the categories above):					
(c)	Other liabilities and equity not included in the above categories		12,791	20,000	445,010	445,010
6	Total ASF					882,137
Required Stable Funding (RSF)						
7	Coins and banknotes	111				-
8	All claims on central banks		67,209			-
9	Unencumbered Level 1 HQLA					-
(a)	Marketable securities that are unencumbered (or encumbered for a period of less than 6 months) representing claims on or guaranteed by:					-
	1. Government of Bahrain or the Central Bank of Bahrain	3,593				180
10	Loans:					
(a)	Unencumbered Loans to non-financial corporate clients					-
(b)	Unencumbered Loans to retail and small business customers, and loans to sovereigns and PSEs		15,430	15,854		15,642
(c)	Unencumbered residential mortgages with a risk weight of less than or equal to 35%				726,866	472,463
(d)	Other unencumbered loans and deposits with a risk weight of less than or equal to 35%					-
(e)	Other unencumbered performing loans and not included in the above categories, excluding loans to financial institutions, with a risk weight of than or equal to 35%				4,215	3,583
(f)	Unencumbered loans to and deposits with financial institutions.		8,104			1,216
11	Unlisted investments not included in the above categories					
(a)	Investment in Subsidiaries	8,401				8,401
(b)	Investment in Associates	4,189				4,189
(c)	Other unlisted investments	3,630				3,630
12	Listed investments not included in the above categories					-
13	Non-performing loans	17,639				17,639
14	All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities.	78,919				78,919
Off-Balance Sheet exposures						
30	Irrevocable and conditionally revocable credit and liquidity facilities					-
31	Unconditionally revocable credit and liquidity facilities					-
32	Trade finance-related obligations (including guarantees and letters of credit)					-
15	Guarantees and letters of credit unrelated to trade finance obligations	-				-
16	All other off-balance sheet exposures not included above	31,269				1,563
17	Total RSF					607,425
18	NSFR(6/17)					145%

*As part of COVID 19 stimulus measures, the NSFR limit was reduced by the CBB from 100% to 80% until June 2022, starting March 2020

Results Analysis and Main Drivers:

Eskan Bank NSFR was at a very comfortable level during the fourth quarter of 2021. As end of December 2021, the Available Stable Funding (ASF) stood at BD 882 million compared to the Required Stable Funding (RSF) of BD 607 million, resulting in a NSFR of 145%. The main drivers behind the Eskan bank strong available stable funding (ASF) are the healthy capital base (40% of the Bank ASF), stable Government account balances and long term borrowing (60% of the Bank ASF). The NSFR ratio of 145% at 31 December 2021 increased from 143% at 31 December 2020, due to the increase in long term borrowing and a consistently strong capital base.