LIQUIDITY RISK MANAGEMENT MODULE

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LM-2.1 Liquidity Metrics and Measurement Tools (continued)

LM-2.1.4 **Banks must use metrics and tools that are appropriate for their business mix, complexity and risk profile. In addition to liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'), the following liquidity indicators must be monitored:**

(a) Maturity mismatch analysis, based on contractual maturities, as well as behavioural assumptions of cash inflows and outflows. Such metrics provide insight into the extent to which a bank engages in maturity transformation and identify potential funding needs that may need to be bridged;
(b) Information on the level of concentration of funding from major counterparties (including retail and wholesale fund providers);
(c) Major funding instruments (e.g. by issuing various types of securities);
(d) Information on the size, composition and characteristics of unencumbered assets included in a bank's liquidity cushion for assessing the bank's potential capacity to obtain liquidity, through sale or secured borrowing, at short notice from private markets or CBB in times of stress; and
(e) LCR in individual currencies.

LM-2.1.5 In addition to the above, banks should adopt other metrics, as considered prudent or necessary to supplement their liquidity risk management, such as:

(a) Medium-term funding ratio[1], stable or core deposit ratio, or any similar ratio that reflects the stability of a bank's funding;
(b) Loans to deposit ratio (See LM-13), or any similar ratio that reflects the extent to which a major category of asset is funded by a major category of funding[2]; and
(c) Metrics tracking intragroup lending and borrowing.

[1] A medium-term funding ratio is a ratio of liabilities to assets, both with a contractual maturity of, say, more than 1 year. This ratio focuses on the medium-term liquidity profile of a bank and is intended to highlight the extent to which medium-term assets are being financed by the roll-over of short-term liabilities.
[2] A bank, depending on its business profile, may decide to adopt different breakdowns of the loan-to-deposit ratio such as, by way of example, loan-to-retail customers/retail customer deposits; loan to corporate customers/corporate customer deposits; loan/retail (or corporate) customer deposits. To complement the analysis provided by these indicators, the bank may consider assessing other funding risk indicators such as customer deposits/total liabilities or deposits from credit institutions/total liabilities to provide a notion of the bank's funding profile and take a closer look at the share of wholesale funding. Depending on its foreign activities and the related relevance, the bank may decide to assess the share of deposits in non-domestic markets.

LM-13.1 Loans to Deposit Ratio

LM-13.1.1 This section is applicable to all conventional retail bank licensees. The loans to deposit ratio is an important micro prudential and a countercyclical, macro prudential measure which:

a) Helps banks determine the level of reliance on short term or more volatile source of funding for lending purposes;
b) Helps banks ascertain the level of credit growth; and
c) Acts as a broad measure of liquidity.

LM-13.1.2 **Conventional retail bank licensees must ensure that their loans to deposit (LTD) ratio does not exceed 75 percent at all times. The ratio is computed as follows:**

$$\frac{\textbf{Net Loans}}{\textbf{Nonbank deposits}} \leq 75\%$$

LM-13.1.3 **For the purpose of the computation of the LTD ratio, net loans means the aggregate gross amount of credit portfolio (loans and advances) other than to banks less aggregate provisions attributable to such loans and advances. Nonbank deposits include deposits from individuals, corporates, government and other nonbank entities but excluding interbank balances and deposits. The values of collaterals must not be used to reduce the book value of loans and advances for the purposes of LTD calculation.**

LM-13.1.4 **Bahraini conventional retail bank licensees must compute the ratios on a "solo" basis and on a "consolidated" basis. Branches of foreign banks must compute this ratio for the Bahrain operations (i.e. on a "branch level" basis). The ratios must be computed using the month end balances.**

LM-13.1.5 **Conventional retail bank licensees must not extend new or additional credit if their LTD ratios reached 75%.**

LM-13.1.6 **If a breach of the LTD ratio is observed due to unexpected withdrawals of nonbank deposits, the conventional retail bank licensee must notify CBB immediately and present a plan within 14 calendar days describing the measures it will take to restore the LTD ratio to be within 75%.**

LM-13.1 Loans to Deposit Ratio (continued)

LM-13.1.7 **<u>Conventional retail bank licensees</u> must report their LTD ratios on a quarterly basis in their PIR reports.**

LM-13.1.8 **<u>Conventional retail bank licensees</u> must establish the required policies, procedures, processes and systems to ensure accurate computations and timely reporting of the LTD ratios.**

LM-13.1.9 **<u>Conventional retail bank licensees</u> must disclose their LTD ratios in their interim and year-end financial statements.**