

## Liquidity Coverage Ratio (“LCR”) common disclosure template -quarter ended June 2018

In line with the disclosure requirements of the Guideline on Liquidity Risk Management, the table below presents LCR information as simple averages of monthly observations over the quarter ended 30 June 2018.

<b>LCR common disclosure template</b>			
<i>(Consolidated USD)</i>		TOTAL UNWEIGHTED VALUE (quarterly average of monthly observations)	TOTAL WEIGHTED VALUE (quarterly average of monthly observations)
<b>HIGH-QUALITY LIQUID ASSETS</b>			
1	Total high-quality liquid assets (HQLA)		383,321,084
<b>CASH OUTFLOWS</b>			
2	Retail deposits and deposits from small business customers, of which:		
3	<i>Stable deposits</i>		
4	<i>Less stable deposits</i>		
5	Unsecured wholesale funding, of which:	1,522,122,788	903,141,259
6	<i>Operational deposits (all counterparties)</i>	741,603,251	185,400,813
7	<i>Non-operational deposits (all counterparties)</i>	0	-
8	<i>Unsecured debt</i>		
9	Secured wholesale funding		
10	Additional requirements, of which:	5,530,664	5,530,664
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	5,530,664	5,530,664
12	<i>Outflows related to loss of funding on debt products</i>		
13	<i>Credit and liquidity facilities</i>		
14	Other contractual funding obligations		
15	Other contingent funding obligations	122,192,801	19,981,225
16	<b>TOTAL CASH OUTFLOWS</b>		<b>928,653,148</b>
<b>CASH INFLOWS</b>			
17	Secured funding (e.g. reverse repos)		
18	Inflows from fully performing exposures	664,770,004	568,501,112
19	Other cash inflows		
20	<b>TOTAL CASH INFLOWS</b>		<b>568,501,112</b>
			TOTAL ADJUSTED VALUE
21	<b>TOTAL HQLA</b>		<b>383,321,084</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>360,152,036</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>106%</b>
24	<b>QUARTERLY AVERAGE OF DAILY HQLA</b>		<b>384,352,396</b>

## Liquidity Risk Management

The Liquidity Coverage Ratio ('LCR') is a regulatory requirement set to ensure that the Bank has sufficient unencumbered high quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquid stress scenario.

The LCR is a Pillar 1 regulatory requirement calculated by applying standardized haircuts, outflow and inflow factors to HQLA, liabilities and assets respectively.

### High Quality Liquid Assets ("HQLA")

HQLA eligible securities, as defined under LCR Delegated Act rules, fall into three categories: Level 1, Level 2A, and Level 2B liquid assets.

Level 1 liquid assets, which are of the highest quality and deemed the most liquid (e.g. central bank reserves or securities issued by the U.S. Treasury Department), are subject to no or little discount (or haircuts) to their market value and may be largely used without limit in the liquidity buffer.

Level 2A and 2B securities are recognised as being relatively stable and reliable sources of liquidity, but not to the same extent as Level 1 assets. LCR rules therefore set a 40% cap on the combined amount of Level 2A and Level 2B that firms may hold in their total eligible liquidity buffer.

Level 2B liquid assets, are considered less liquid and more volatile than Level 2A liquid assets, and are subject to larger and varying haircuts and which may not exceed 15 % of the total eligible HQLA.

To be recognised as HQLA eligible, securities must also meet various operational and general requirements designed to ensure that such assets have robust liquidity characteristics and can be freely converted into cash within a short timeframe, without significant loss in value.

### Outflows

Expected outflows are generally calculated as a percentage outflow on-balance sheet items such as funding received and off-balance sheet commitments. This outflow varies typically by counterparty. For example, the outflow expected on retail deposits is lower than the outflow expected on deposits provided by corporates or financial institutions.

Standard Chartered Bank Mauritius operates in the corporate and not in the retail segment.

### Inflows

Expected inflows are also generally calculated as a percentage inflow on-balance sheet items and include inflows that will be repaid within 30 days. To ensure a minimum level of liquid asset holdings, and to prevent banks from relying solely on anticipated inflows to meet their liquidity coverage ratio, the prescribed amount of inflows that can offset outflows is capped at 75 per cent of total expected outflows.

SCBM implemented the LCR requirements as from Nov-17 and has maintained its liquidity position above the prudential requirement.

The actual LCR reported was 64% as at November 2017 and has now improved to 190% as at June 2018. For the 3 months ending 30 June 2018, the LCR for the Bank was 106%.

### **Main drivers and changes in LCR**

The Bank continues to maintain a strong average LCR position over the reporting period with a prudent surplus over the bank internal trigger and regulatory requirements.

The Bank average LCR increased to 190% as at end of Q2 2018 driven by higher average HQLA holdings and lower net cash outflows.

Most of our deposit growth came in the form of corporate deposits and Transaction banking customer deposits with high liquidity and regulatory value, thereby having a positive impact on our LCR position.

LCR increased from 64% in November 2017 to 190% end of June 2018. This was due to the prudential investment in HQLA1 as it was projected that new non-operational deposits (25% of total non-contractual deposits) would be received at any point in time but this did not materialise. Instead around US\$100m deposits were run off. The daily data points are now being closely monitored to ensure that the bank has an adequate and optimum level of HQLA.

### **HQLA composition**

The HQLA figures reported are daily simple averages over the second quarter of 2018. The average weighted HQLA over the quarter ending June 2018 was US\$384m.

The composition of HQLA as at end of June 2018 was central bank reserves of US\$15m (HQLA1), US\$200m of US Treasury bills (HQLA 1) invested as from November 2017 and around US\$143m Indian Government bonds (HQLA 2A) for which the inclusion is capped at 40% of total HQLA.

### **Concentration of funding and liquidity sources**

The Bank funding strategy is largely driven by its policy to maintain adequate liquidity at all times and in all currencies, and hence to be in a position to meet all obligations as they fall due. The main funding sources for the Bank are current account deposits from Financial Institutions, Custody business and International corporates, out of which 75% has been assessed as Operational deposits in line with the relevant segments categories and client historical behavioral patterns over the last years.

Our funding profile over the reporting period was well diversified. Customer assets were largely funded out of customer deposits, which are considered a stable source of funding and also from group borrowings. Customer deposits are primarily sourced from Current Account out of which a large portion is considered as operational deposits.

The concentration is closely monitored and the bank has put in place key metrics to ensure that there is no undue concentration on specific clients or group.

### **Derivative exposures and potential collateral calls**

The Bank deals in the several derivatives instruments and exclusively with group and on an uncollateralized basis.

Trades are taken primarily to facilitate client activity or for hedging our own risk exposures; as such, derivatives are not generally held for position-taking.

The bank running a low derivative exposure with negligible impact on liquidity.

### **Currency mismatch in the LCR**

The Bank LCR is calculated and reported in US dollars and MUR and not required to meet minimum LCR requirements in other currencies as they are considered not material.

To minimise currency mismatch risk, the Bank fund assets in the same currency. The implementation of liquidity metrics such as advance to deposit ratio ensures that a large portion of assets is funded out of liabilities raised in the same currency. We also monitor closely, against set limits, the amount of foreign currency that can be swapped to local currency, and vice versa, in addition to currency mismatches by different tenor buckets.

For the period under review the Bank has no material currency mismatch in the LCR as the INR governments bonds are perfectly hedged with INR/USD cross currency swaps and eligible for inclusion in the USD LCR.

### **Liquidity risk Management**

The Bank manages liquidity risk both on a short-term and medium-term basis. In the short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring that the statement of financial position remains structurally sound.

Daily liquidity management is performed by Treasury markets with support and oversight by group treasury. Assets and Liabilities Committee (“ALCO”) is responsible for ensuring that the Bank is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the set liquidity limits. It also has primary responsibility for compliance with regulations and Bank policy and maintaining a liquidity crisis contingency plan.

The Bank liquidity risk management framework requires limits to be set for prudent liquidity management. These limits are on:

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Bank’s operations;
- commitments, both on and off the statement of financial position, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- the amount of medium term funding to support the asset portfolio; and the amount of local currency funding sourced from foreign currency sources.