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# Liquidity Coverage Ratio (LCR)

## Disclosures

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For the half-year ended June 30, 2020

(Translation: Please refer to the Thai text for the official version)

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## Liquidity Coverage Ratio (LCR) Disclosures

### 1. Liquidity Risk Management Framework

To ensure the efficiency of the liquidity risk management to generate sufficient liquidity for debt repayment and various obligations upon maturity or being called under normal and extreme circumstances, the Bank has clearly established the liquidity risk management framework to be able to manage and control such risk in accordance with its policy and strategy and maintain such risk within its liquidity risk tolerance approved by the Board of Directors.

- o **To manage and control liquidity risk from Funding Sources & Concentration**

The Bank analyses funding concentration to ensure that funding sources are well-diversified by customer type, deposit type, and maturity. To control risks from funding concentration, the Bank has set up a concentration trigger level.

For currency mismatch, the Bank has prepared and considered the appropriate strategy to manage the liquidity in THB and major foreign currencies to ensure the liquidity sufficiency for current and future needs.

- o **Liquidity Risk Measurements**

The Bank realizes the importance of adequate measuring tools for the size and complexity of transactions both on- and off-balance sheet.

From maturity mismatches of cash flows from assets, liabilities and off-balance sheet, the Bank employ liquidity risk measurement tools such as liquidity gap analysis by assets, liabilities, and contingent liabilities both to normal and crisis situations, LCR ratio (applied to short-term liquidity management to ensure maintenance of adequate liquid assets) and Net Stable Funding Ratio: NSFR (applied to long-term liquidity management to ensure maintenance of stable funding).

In addition, the Bank has a liquidity contingency plan that outlines early-warning indicators together with an action plan that allows the Bank to promptly prepare and manage the crisis events and successfully survive under the crisis events.

## 2. Liquidity Risk Management under LCR

According to BOT notification, LCR is designed to promote more short-term resilience of banking sector by ensuring that the adequate level of HQLA are maintained to support the liquidity needs under a 30-calendar day liquidity stress scenario. LCR has been officially implemented in Thailand since 1 January 2016 at a minimum requirement of 60%. Thereafter, the requirement will rise by 10% each year to reach 100% in 2020.

$$\text{LCR} = \frac{\text{High Quality Liquid Asset (HQLA)}}{\text{Total net cash outflows over the next 30 calendar days under liquidity crisis (Net Cash Outflows)}}$$

### o Strategic Liquidity Management under LCR

The Bank has applied such liquidity measurement as part of the liquidity risk management and controlling framework. The Bank had a pro-active liquidity ratio management by mainly focusing on assessing the projected liquidity ratios expected in the future based on the most likely business growth scenarios in order to ensure compliance with the Bank's risk appetite.

### o Managed Funds

The Bank prepares the liquidity for the asset management company under financial business group from the expected cash outflows based on BOT guidelines and specified LCR template to alleviate the severity and impact from the situations or factors causing the business disruption.

### o Maintenance of LCR for the half-year ended June 30, 2020

The average LCR as of 2Q/2020 was 129% which was still well above the Bank's internal trigger level and the BOT minimum requirement. The Bank emphasizes managing and controlling liquidity risk consistent with the risk appetite and reasonable operating costs. The Average LCR is calculated based on the data at each month-end in the specified quarter and primarily comprised of two major factors as follows:

1. **HQLA is unencumbered high-quality liquid asset** that can be easily and immediately converted into cash at little or no loss of value even in times of stress. The value of HQLA is subject to a haircut based on quality of each asset level such as 0% haircut for Level 1.

The average weighted HQLA was approximately THB 384,048 million as of 2Q/2020. Most of HQLA is level 1 asset, 98.5% of total HQLA, including government bonds, central bank bonds, PSEs bonds guaranteed by Ministry of Finance, and cash, etc.



2. **Net cash outflows** are defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. However, total expected cash inflows are capped at 75% of total expected cash outflows.

As of 2Q/2020, the average weighted net cash outflows were THB 297,301 million. Since the Bank deposit are from Wholesale customers 49.9% and Retail customers 50.1% of total deposit balance, the Bank continuously encourages the corporate customers having deposits account to facilitate clearing, custody or cash management service in order to boost operational deposit. Meanwhile, most of expected cash inflows were from money market operations and the payment of performing loans which continuously expand.



3. With the HQLA and Net cash outflows, the Bank's average weighted HQLA increased by THB 65,686 million or 20.6% compared to Q2/2019 due mainly to an increase in level 1 asset. While the net cash outflows in 30 days increased by THB 63,803 million or 27.3% came mainly from an increase in interbank borrowing due in the next 30 days. As a result, LCR decreased from 136% in Q2/2019 to 129% in Q2/2020.

3. Maintenance of LCR for the half-year ended June 30, 2020

Unit: THB million

|  | 2Q/2020<br>(Monthly Average) | 2Q/2019<br>(Monthly Average) |
|--|------------------------------|------------------------------|
| (1) Total HQLA                             | 384,048                      | 318,362                      |
| (2) Total net cash outflows in 30 days     | 297,301                      | 233,498                      |
| (3) LCR <sup>1</sup> (percentage)          | 129                          | 136                          |
| LCR – BOT minimum requirement (percentage) | 100                          | 90                           |

Remark: <sup>1</sup> The LCR (3) is computed as an average ratio of month-end LCR in the quarter which may not be equal to LCR computed with the average values of HQLA (1) and Net COF (2).

4. Comparison of LCR

Unit: Percentage

|           | 2020<br>(Monthly Average) | 2019<br>(Monthly Average) |
|-----------|---------------------------|---------------------------|
| Quarter 1 | 140                       | 112                       |
| Quarter 2 | 129                       | 136                       |