Liquidity Coverage Ratio (LCR)

Disclosures

For the half-year ended June 30, 2019

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

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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.

The Board of Directors delegates the authority to manage and control liquidity risk consistent with the Bank's policies to the relavants committees. The Bank also reviews risk policies and limits to ensure that they are commensurate with changing business and market conditions.

Liquidity risk is overseen by the Risk Management Committee (RMC) and managed by Asset and Liability Management Committee (ALCO). The Bank's organizational structure clearly segregates the responsibilities and duties of the units responsible for executing transactions and risk management to avoid conflicts of interest. The Market Risk Management Division provides strategic risk management options, while the Global Markets Group analyses the Bank's and competitors' balance sheet management, including our liquidity risk and funding strategic options, and manages daily liquidity positions under risk limits approved by the Board.

The Bank regularly conducts and analyzes Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), the liquidity gap under normal and crisis scenario, funding concentration, early warning indicators, etc. In addition, the Bank has a liquidity contingency plan that outlines the roles and responsibilities of management and relevant departments, and has 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. Strategic Liquidity Management under LCR

From the adoption of the Bank of Thailand's regulation on Liquidity Coverage Ratio (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. This allows the Bank to have a broader view of the level of liquidity and to trigger any necessary strategies for managing liquidity to be sufficient not only at present, but for the upcoming period as well.

Apart from pro-active liquidity management, the Bank also conducts scenario analysis based on both business and non-business factors. Business factors such as big changes in the funding or lending product; whereas non-business factors such as regulatory changes on definition or assumption of calculated components to ensure the adequacy of high-quality liquid asset (HQLA) to meet the BOT regulation as well as internal trigger. HQLA held by the Bank consisted mostly of level 1 asset which has high liquidity.

3. 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 to be in line with the loan growth and volatility in global economic.

4. 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.

5. Liquidity Risk Management under LCR as of 2Q/19

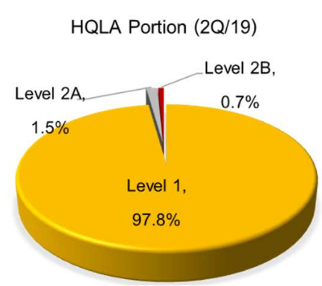
According to BOT notification, LCR is designed to promote more short-term resilience of banking sector by ensuring that the adequate level of HQLA are maintained to support the liquidity needs under a 30-calendar day liquidity stress scenario. LCR has been officially implemented in Thailand since 1 January 2016 at a minimum requirement of 60% and prepare for the incremental in regulatory limit from 90% to 100% on 1 January 2020.

The Bank manages and closely monitors LCR on a daily basis and frequently conducts the LCR simulation to efficiently manage and promptly response to the liquidity risk.

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

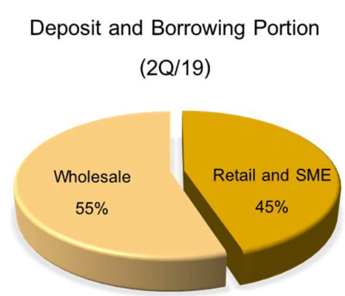
Average LCR as of 2Q/19 was 136% which was still well above the 90% minimum requirement of BOT in 2019 and the Bank's internal trigger level. The Bank emphasizes managing and controlling liquidity risk consistent with the risk appetite and reasonable operating costs. Average LCR is calculated based on the data at each month-end in the specified quarter and primarily comprised of two drivers 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 318,362 million as of 2Q/19. Most of HQLA is level 1 asset, 97.8% of total HQLA, including government bonds, central bank bonds, PSEs bonds guaranteed by Ministry of Finance, and cash, etc. HQLA is maintained to facilitate the continuous growth of loan business.

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/19, the average weighted net cash outflows were THB 233,498 million. The expected cash outflows were predominantly from wholesale deposit. Since wholesale deposit is a main deposit portion, the Bank continuously encourages the corporate customers having deposits account to facilitate clearing, custody or cash management service in order to boost operational deposit and ensure that the Bank's LCR is consistently above the BOT minimum requirement.

Other outflows include borrowing from MUFG considered as a funding source from our great partnership which is one of the world's largest banks. Meanwhile, most of expected cash inflows were from money market operations and the payment of performing loans which continuously expand.

Liquidity Coverage Ratio: LCR

Unit: THB million

	2Q/19 (Monthly Average)	2Q/18 (Monthly Average)
(1) Total HQLA	318,362	288,341
(2) Total net cash outflows in 30 days	233,498	221,462
(3) LCR[1] (percentage)	136	130
LCR – BOT minimum requirement (percentage)	90	80

Comparison of LCR

Unit: Percentage

	2019 (Monthly Average)	2018 (Monthly Average)
Quarter 1	112	145
Quarter 2	136	130

Remark:

1 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).