



Regulatory Liquidity Disclosures
30 September 2020

Bank ABC (Arab Banking Corporation B.S.C.)

Regulatory Liquidity Disclosures

Liquidity Coverage Ratio (LCR) for the year ended 30th September 2020

Introduction

In June 2019, the Central Bank of Bahrain (CBB) issued the regulations to banks operating in Bahrain on the reporting of the Liquidity Coverage Ratio (LCR) as part of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLA) to cover net outflows and survive a significant stress scenario lasting for a period of up to 30 calendar days. Under the requirements, the Bank is required to maintain an LCR requirement of at least 100% on a daily basis.

To partially counteract the impact of the delayed loan settlements, the CBB provided banks with additional reliefs in Q1 2020 by reducing the minimum LCR requirement from 100% to 80%, and by reducing the regulatory reserve requirements. Bank ABC continued to meet the original minimum LCR, as shown in note 11 of the condensed consolidated interim financial statements.

High Quality Liquid Assets (HQLA) Portfolio

HQLA eligible securities, 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 is 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 per cent composition cap on the combined amount of Level 2A and Level 2B securities that firms may hold in their total eligible liquidity buffer. Level 2B liquid assets, which are considered less liquid and more volatile than Level 2A liquid assets, are subject to large and varying haircuts and may not exceed 15 per cent of the total eligible HQLA.

Bank ABC Group's HQLA comprised primarily "Level 1" securities (85%) with the Central Bank of Bahrain (CBB) and the sovereign and central banks of countries where the Bank has branches and subsidiaries, and also include highly rated corporate debt issuances.

Outflows & Inflows

Expected outflows are generally calculated as a percentage outflow of on-balance sheet items (e.g. funding received) and off-balance sheet commitments (e.g. credit and liquidity lines) made by firms. The % of outflow varies typically by counterparties per the liquidity rules.

Expected inflows are also generally calculated as a percentage inflow on-balance sheet items and include inflows (e.g. from corporate or retail loans) that will be repaid within 30 days. To ensure a minimum level of liquid asset holdings, and to prevent firms 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.

The cash-outflows were driven primarily by unsecured wholesale funding and inter-bank borrowings.

The Bank utilises internal Risk Appetite Statement thresholds ("RAS") which act as early warning indicators and safeguards to ensure LCR is maintained above the regulatory minimum requirements at all times.

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Regulatory Liquidity Disclosures

Quantitative Disclosure

The Group continued to maintain a strong average LCR position over the reporting period with a prudent surplus to both Board approved risk appetite and regulatory requirements. The Group's average LCR was 215% in the third quarter of 2020 (compared to June 2020: 212%) driven by stable HQLA holdings and lower net cash outflows, reflecting the Group's focus on high-quality liquid assets across our units and aligned with overall growth in the Group's balance sheet and external liquidity environment. Bank ABC also holds adequate liquidity across all its footprint to meet all local prudential LCR requirements, where applicable.

Liquidity Coverage Ratio (LCR) for the year ended 30th June 2020 (continued)

Quantitative Disclosure (continued)

All figures in US\$ '000

| | | 30 September 2020 | | 30 June 2020 | |
|-----------------------------------|---|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
| | | Total unweighted value (average)** | Total weighted value (average)** | Total unweighted value (average)** | Total weighted value (average)** |
| High-quality liquid assets | | | | | |
| 1 | Total HQLA | | 3,979 | | 4,183 |
| Cash outflows | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | | | | |
| 3 | Stable deposits | | | - | - |
| 4 | Less stable deposits | 979 | 98 | 940 | 94 |
| 5 | Unsecured wholesale funding, of which: | | | | |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | - | - | - | - |
| 7 | Non-operational deposits (all counterparties) | 6,833 | 3,868 | 6,984 | 3,827 |
| 8 | Unsecured debt | - | - | - | - |
| 9 | Secured wholesale funding | | 45 | | 161 |
| 10 | Additional requirements, of which: | | | | |
| 11 | Outflows related to derivative exposures and other collateral requirements | 26 | 26 | 34 | 34 |
| 12 | Outflows related to loss of funding on debt products | - | - | - | - |
| 13 | Credit and liquidity facilities | 50 | 6 | 40 | 5 |
| 14 | Other contractual funding obligations | 44 | 44 | 188 | 188 |
| 15 | Other contingent funding obligations | 1,163 | 58 | 965 | 48 |
| 16 | Total Cash Outflows | | 4,145 | | 4,358 |
| Cash inflows | | | | | |
| 17 | Secured lending (eg. reverse repos) | 881 | 25 | 802 | 4 |
| 18 | Inflows from fully performing exposures | 3,309 | 2,211 | 3,355 | 2,144 |
| 19 | Other cash inflows | 62 | 62 | 232 | 232 |
| 20 | Total Cash Inflows | 4,252 | 2,297 | 4,389 | 2,380 |
| | Cap on cash inflows | 75% | 3,109 | 75% | 3,268 |
| | Total cash inflows after applying the cap | | 2,297 | | 2,380 |
| | | | Total adjusted value | | Total adjusted value |
| 21 | Total HQLA | | 3,979 | | 4,183 |
| 22 | Total net cash outflows | | 1,848 | | 1,978 |
| 23 | Liquidity Coverage Ratio (%) Average | | 215% | | 212% |

** In accordance with the CBB liquidity module, LCR presented above is a simple average of daily LCR of all working days during Q3 2020 and Q2 2020 respectively.

The Consolidated Group LCR ratio as at 30th September 2020 was 266% (30th June 2020: 215%).

Bank ABC (Arab Banking Corporation B.S.C.)

Regulatory Liquidity Disclosures

Net Stable Fund Ratio (NSFR) for the year ended 30th September 2020

Introduction

In August 2018, the Central Bank of Bahrain (CBB) issued the regulations to banks operating in Bahrain on the reporting of the Net Stable Funding Ratio (NSFR) effective 31 December 2019. The purpose of this disclosure is to provide the information pursuant to CBB's Liquidity Risk Management module LM 12.5 "General Disclosure Requirements".

The NSFR is a balance sheet metric which requires institutions to maintain a stable funding profile in relation to the characteristics of their assets and off-balance sheet activities over a one-year horizon. It is the ratio between the amount of available stable funding (ASF) and the amount of required stable funding (RSF). ASF factors are applied to balance sheet liabilities and capital, based on their perceived stability and the amount of stable funding they provide. Likewise, RSF factors are applied to assets and off-balance sheet exposures according to the amount of stable funding they require. As per the CBB liquidity disclosure requirement, the Consolidated NSFR is to be published on a quarterly basis. At the last reporting date, the Group NSFR remained above 100 per cent.

To partially counteract the impact on the banks arising from Covid 19, the CBB provided banks with additional reliefs in Q1 2020 by reducing the minimum NSFR requirement from 100% to 80%. Bank ABC continued to meet the original minimum NSFR ratio, as shown in note 11 of the condensed consolidated interim financial statements.

The Bank utilises internal Risk Appetite Statement thresholds ("RAS") which act as early warning indicators and safeguards to ensure NSFR is maintained above the regulatory minimum requirements.

Quantitative Disclosure

At 30 September 2020, the Consolidated Group NSFR was stable at 120% (Jun 20 : 121%), well above the regulatory minimum. Available Stable Funding at Group level as of 30 September 2020 was around US\$ 15.3 billion (Jun 20: US\$ 15.4 billion) as against US\$ 12.8 billion (Jun 20: US\$ 12.7 billion) of Required Stable Funding.

The drivers of available stable funding include Bank ABC's robust capital base, substantial and reliable wholesale funding from customers and a retail deposits in MENA units. Required stable funding include financing various customers including non-financial corporates, sovereigns, PSE's , financial institutions and retail and small business customers. Bank ABC's HQLA requires minimal funding mainly due to the significant component of Level 1 assets in the portfolio.

Bank ABC (Arab Banking Corporation B.S.C.)

Regulatory Liquidity Disclosures

Net Stable Fund Ratio (NSFR) for the year ended 30th September 2020 (continued)
Quantitative Disclosure (continued)

All figures in US\$ '000

| | 30 September 2020 | | | | | 30 June 2020 | | | | | |
|--|---|--------------------|--------------------------------------|---------------|----------------------|---|--------------------|--------------------------------------|---------------|----------------------|---------------|
| | Unweighted Values (i.e. before applying relevant factors) | | | | Total weighted value | Unweighted Values (i.e. before applying relevant factors) | | | | Total weighted value | |
| | No specified maturity | Less than 6 months | Over 6 months and less than one year | Over one year | | No specified maturity | Less than 6 months | Over 6 months and less than one year | Over one year | | |
| Available Stable Funding (ASF): | | | | | | | | | | | |
| 1 | Capital: | | | | | | | | | | |
| 2 | Regulatory Capital | 3,944 | | | 3,944 | 3,963 | | | | 3,963 | |
| 3 | Other Capital Instruments | 78 | | | 304 | 83 | | | 186 | 268 | |
| 4 | Retail deposits and deposits from small business customers: | | | | | | | | | | |
| 5 | Stable deposits | | | | | | | | | | |
| 6 | Less stable deposits | | 1,307 | 260 | 250 | 1,660 | 1,250 | 258 | 152 | 1,509 | |
| 7 | Wholesale funding: | | | | | | | | | | |
| 8 | Operational deposits | | | | | | | | | | |
| 9 | Other wholesale funding | | 13,958 | 2,924 | 4,514 | 9,356 | 13,713 | 3,315 | 4,530 | 9,635 | |
| 10 | Other liabilities: | | | | | | | | | | |
| 11 | NSFR derivative liabilities | | 65 | | | | - | | | | |
| 12 | All other liabilities not included in the above categories | | 866 | | | | 1,385 | | | | |
| 13 | Total ASF | | | | 15,265 | | | | | 15,376 | |
| Required Stable Funding (RSF): | | | | | | | | | | | |
| 14 | Total NSFR high-quality liquid assets (HQLA) | 6,915 | 182 | - | - | 505 | 6,747 | 163 | - | - | 531 |
| 15 | Deposits held at other financial institutions for operational purposes | - | - | - | - | - | - | - | - | - | - |
| 16 | Performing loans and securities: | | | | | | | | | | |
| 17 | Performing loans to financial institutions secured by Level 1 HQLA | - | - | - | - | - | - | - | - | - | - |
| 18 | Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions | - | 3,301 | 1,046 | 659 | 1,641 | - | 3,347 | 1,056 | 657 | 1,649 |
| 19 | Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which: | | 4,908 | 2,000 | 5,237 | 7,905 | | 5,030 | 1,685 | 5,245 | 7,816 |
| 20 | - With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines | - | - | - | 192 | 125 | - | - | - | 194 | 126 |
| 21 | Performing residential mortgages, of which: | - | - | - | - | - | - | - | - | - | - |
| 22 | With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines | - | - | - | - | - | - | - | - | - | - |
| 23 | Securities that are not in default and do not qualify as HQLA, including exchange-traded equities | - | 170 | 188 | 1,705 | 1,628 | - | 303 | 215 | 1,858 | 1,838 |
| 24 | Other assets: | | | | | | | | | | |
| 25 | Physical traded commodities, including gold | | | | | | | | | | |
| 26 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | | | | | | | | | |
| 27 | NSFR derivative assets | | - | | | - | | 93 | | | 93 |
| 28 | NSFR derivative liabilities before deduction of variation margin posted | | 13 | | | 13 | | | | | |
| 29 | All other assets not included in the above categories | 1,160 | 365 | 12 | 354 | 580 | 1,417 | 17 | 146 | 229 | 319 |
| 30 | OBS items | | 7,281 | | | 364 | | 6,748 | | | 337 |
| 31 | Total RSF | | | | | 12,762 | | | | | 12,709 |
| 32 | NSFR (%) | | | | | 120% | | | | | 121% |