



**Regulatory Liquidity Disclosures
30 September 2020**

Bank ABC Islamic

Regulatory Liquidity Disclosures

Liquidity Coverage Ratio (LCR) for the period 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.

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'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.

Quantitative Disclosure

The Bank 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 Bank's average LCR was 202% in the third quarter of 2020 (comparative last quarter of 2019: 357%) driven by high HQLA holdings and net cash outflows, reflecting the Group's focus on high-quality liquid assets and aligned with overall growth in the Group's balance sheet and external liquidity environment.

Bank ABC Islamic

Regulatory Liquidity Disclosures

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

Quantitative Disclosure (continued)

All figures in US\$ 'millions

		30 September 2020		31 December 2019	
		Total unweighted value (average)**	Total weighted value (average)**	Total unweighted value (average)**	Total weighted value (average)**
High-quality liquid assets					
1	Total HQLA		3,375		3,111
Cash outflows					
2	Retail deposits and deposits from small business customers, of which:				
3	Stable deposits			-	-
4	Less stable deposits	54	5	59	5
5	Unsecured wholesale funding, of which:				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	4,719	2,628	4,039	2,323
8	Unsecured debt	-	-	-	-
9	Secured wholesale funding		44		11
10	Additional requirements, of which:				
11	Outflows related to derivative exposures and other collateral requirements	15	15	13	13
12	Outflows related to loss of funding on debt products	-	-	-	-
13	Credit and liquidity facilities	10	1	-	-
14	Other contractual funding obligations	5	5	-	-
15	Other contingent funding obligations	404	20	425	21
16	Total Cash Outflows		2,719		2,374
Cash inflows					
17	Secured lending (eg. reverse repos)	40	25	55	50
18	Inflows from fully performing exposures	1,431	986	2,073	1,491
19	Other cash inflows	40	40	126	126
20	Total Cash Inflows	1,511	1,051	2,254	1,668
	Cap on cash inflows	75%	2,039	75%	1,780
	Total cash inflows after applying the cap		1,051		1,668
			Total adjusted value		Total adjusted value
21	Total HQLA		3,375		3,111
22	Total net cash outflows		1,668		706
23	Liquidity Coverage Ratio (%) Average		202%		441%

** 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 Q4 2019 respectively.

The above ratio is reported at Domestic Liquidity Group (DLG), ie, at aggregate level for Bank ABC Parent and ABC Islamic Bank.

The DLG LCR ratio as at 30th September 2020 was 271% (31st December 2019: 445%).

Bank ABC Islamic

Regulatory Liquidity Disclosures

Net Stable Fund Ratio (NSFR) for the period 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 of Covid 19, the CBB provided banks with additional reliefs in Q1 2020 by reducing the minimum NSFR requirement from 100% to 80%, and by reducing the regulatory reserve requirements.

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 Bank's NSFR was 107% (Dec 19 : 106%), above the regulatory minimum. Available Stable Funding as of 30 September 2020 was around US\$ 8.9 billion (Dec 19: 9.5 billion) as against US\$ 8.3 billion (Dec 19: US\$ 9.0 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.

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

Quantitative Disclosure (continued)

All figures in US\$ 'millions

	30 September 2020					31 December 2019				
	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	3,764				3,764	4,038			4,038
3	Other Capital Instruments				84	84			92	92
4	Retail deposits and deposits from small business customers:									
5	Stable deposits									
6	Less stable deposits	44	5	0		44	42	3	2	43
7	Wholesale funding:									
8	Operational deposits									
9	Other wholesale funding	980	8,401	261	2,688	5,034	781	8,024	397	2,874
10	Other liabilities:									
11	NSFR Shari'a-compliant hedging contract liabilities	228	-				35			
12	All other liabilities not included in the above categories	294				-	165			-
13	Total ASF					8,926				9,539
Required Stable Funding (RSF):										
14	Total NSFR high-quality liquid assets (HQLA)	3,602	1,632	-	-	302	1,335	2,752	-	-
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	-	47	-	-	5	-	346	-	-
18	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-					-			
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:									
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	1,930	708	2,505	3,410	216	4,116	965	3,361
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	-	66	167	1,435	1,336	-	247	76	1,151
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 shari'a-compliant hedging assets	46				46	7			7
28	NSFR derivative liabilities before deduction of variation margin posted									
29	All other assets not included in the above categories		1,654	595	1,961	3,114		21		1,862
30	OBS items		1,194	251	1,122	128		1,273	321	1,269
31	Total RSF					8,341				8,985
32	NSFR (%)					107%				106%