

The LCR regulation was introduced to Thailand in 2016 as one of the guidelines to strengthen country financial system. This ratio aims to ensure that financial institutions maintain an adequate liquidity buffer to cover the net liquidity outflow under gravely stressed conditions over a period of 30 days. The minimum requirement of the LCR was equally step up 10% each year to reach 100% in 2020. LCR has helped commercial banks to maintain sufficient liquid assets to support outflow from external factors with ability to absorb shocks arising from financial and economic stress. SMBC Bangkok keep close monitoring on daily LCR to assure liquidity risk is well managed and comply with regulatory requirement.

The LCR requires internationally active banks to hold a stock of HQLA at least as large as estimated total net cash outflows over the stress period, as summarized in the following formula

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

The summary of comparative quarterly LCR are as followed

Table 1 Unit : Mil THB

LCR components

	Q2 2023 (Average)	Q2 2022 (Average)
(1) Total HQLA	133,638	98,996
(2) Total net cash outflows	57,538	70,229
(3) LCR (%)	234	140
Minimum required LCR (%)	100	100

Table 2 (%)

Comparative LCR

	2023 (Average)	2022 (Average)
Q1 LCR	247	142
Q2 LCR	234	140

In the second quarter of FY 2023, the average LCR is maintained at 234%. It is higher than the minimum required in Bank of Thailand's regulation. The number is calculated as simple averages of month-end LCR as of July, August and September 2023 with 230%, 251% and 220% respectively. The two components in LCR calculation are as follow

1. High-quality liquid assets (HQLA). HQLA as described in BIS Executive summary are cash or assets that can be converted into cash quickly through sales (or by being pledged as collateral) with no significant loss of value. A liquid asset can be included in the stock of HQLA if it is unencumbered, meets minimum liquidity criteria and its operational factors demonstrate that it can be disposed of to generate liquidity when needed. HQLA include Level 1 assets, which can be included without limit, and Level 2 assets, which cannot exceed 40% of the liquidity reserve. Level 2 assets are themselves subdivided into

Level 2A assets, whose value is subject to a 15% haircut, and Level 2B assets, which are subject to higher haircuts but cannot exceed 15% of the stock of HQLA.

In the second quarter of FY 2023, the average HQLA is THB 133,638 million. The calculation is taken from the averages of HQLA as of end of July, August and September 2023. SMBC Bangkok hold a pool of unencumbered HQLA that are readily available to meet cash flow obligation under stress scenarios, as defined in the LCR rules. 83% of HQLA is level 1 assets comprising of cash, balance with central banks and highly rated bonds issued by Thai governments or Bank of Thailand. The other portion that applied in HQLA calculation is head office committed line as allowed by Bank of Thailand to foreign bank's branch to count the undrawn committed line from its head office as liquid asset up to 40% of the minimum requirement.

2. Estimated net cash outflows (Net COF). Total net cash outflows are defined as the total expected cash outflow minus the total expected cash inflows arising in the stress scenario for the subsequent 30 calendar days. The total expected outflows are determined by multiplying the outstanding balances of various categories of liabilities and off-balance sheet commitments by the supervisory rates at which they are expected to run off or be drawn down. Total expected cash inflows are estimated by applying inflow rates to the outstanding balances of various contractual receivables. The difference between the stressed outflows and inflows is the minimum size of the HQLA stock. The amount of inflows that can offset outflows is capped at 75% of total expected cash outflows.

The average of estimated net cash outflows in the second quarter of FY 2023 is THB 57,538 million. The number is calculated as the average of the monthly amount of Estimated net cash outflow as end of July, August and September 2023. Bank pays full attention to customer deposit, customer loans including Intra-group transactions which have significant impact to LCR management. All items are weighted by Bank of Thailand rates as prescribed in the regulation.

As set forth in the table above, we continued to maintain a strong average LCR position well above the 100% of regulatory minimum required. The average LCR as of 2Q23 increased to 234% versus 140% as of 2Q22 from higher HQLA and reduction of Net COF.

SMBC Bangkok has strong policy to monitor our liquidity status via risk management tools such as Liquidity gap, liquidity ratios including funding concentration to assure sound and smooth liquidity risk management.

More information of SMBC group is reachable at <http://www.smfg.co.jp/english/investor>