PILLAR 3 LIQUIDITY COVERAGE RATIO (LCR) DISCLOSURE

Based on Basel 3 Guidelines

20 March 2021

March 20, 2021

DISCLOSURE MAP

March 20, 2021

1. LCR REQUIREMENTS AND DISCLOSURES

In November 2010, the Basel committee introduced the liquidity coverage ratio (LCR) as part of their guidelines to improve banks' ability to withstand temporary stressed liquidity conditions. The LCR requires banks to hold high quality liquid assets (HQLA) consisting of cash and assets that can be easily converted into cash, in order to meet their projected liquidity needs over a 30-day stress scenario. Implementation of the LCR provides banks a cushion of cash in the event of a financial crisis and allows their national supervisors time to take corrective action to resolve the liquidity crisis in an orderly manner. Expressed as a percentage, the LCR is calculated by dividing the bank's HQLA with the projected net cash outflows over a stressed 30-day timeframe.

For more information regarding liquidity analysis and management, see the Financial Statements:

- Liquidity ratios table within note 51-4-5-2
- Asset/liability maturity analysis within note 51-4-5-3
- Analysis of contractual maturities of financial liabilities within note 51-4-5-4
- Maturity breakdown of FX liabilities within note 51-4-5-4-2
- The Bank's liquidity crisis management strategy is explained within note 51-4-6

2. KEY COMPONENTS OF THE LCR

The key components of the Bank's LCR include the amount and composition of HQLA assets, as well as cash inflows and outflows, stemming primarily from changes in deposits, credit facilities and the Bank's securities portfolio.

The Bank's LCR was 95% for the financial year ending 20 March 2021, as per the table below.

Financial Year Ending 20 March 2020 In millions of IRR		Unweighted Amount	Weighted Amount
HIGH-QUALITY LIQUID ASSETS			
1	Level 1 Assets	49,151,612	49,151,612
2	Level 2A Assets	-	-
3	Level 2B Assets	-	-
4	**TOTAL HQLA**	**49,151,612**	**49,151,612**
CASH OUTFLOW AMOUNTS			
5	Retail Deposits	23,251,493	3,730,950
6	Wholesale Deposits	256,032,134	36,461,288
7	Other dues within 30 days	16,386,834	10,792,560
8	Other Funding and Commitments	91,689,396	17,802,189
9	**TOTAL CASH OUTFLOW**	**387,359,857**	**68,786,987**
CASH INFLOW AMOUNTS			
10	Retail and Wholesale Cash Inflows	22,015,795	7,000,819
11	Other inflows from CBI (stat. res.)	7,114,978	7,114,978
12	Other inflows from Banks and financial institutes	16,876,060	-
13	Other inflows	5,944,754	2,972,377
14	**TOTAL CASH INFLOW**	**51,951,587**	**17,088,174**
15	**HQLA AMOUNT**		**49,151,612**
16	**TOTAL NET CASH OUTFLOW AMOUNT(incl. 75% cap on inflows)**		**51,698,813**
17	**LCR**		**95%**
1. The amount reported for Level 1 assets above include the net amount of inter-bank loans extended/received by the Bank on an overnight basis.			

3. COMPOSITION OF HQLA

MEB identifies HQLA in accordance with Basel 3 guidelines, which classify HQLA into three groups: Level 1 assets, Level 2A assets and Level 2B assets.

- Level 1 assets include cash, qualifying central bank reserves and certain qualifying marketable securities by sovereigns and central banks.
- Level 2A assets are subject to a 15% haircut and (together with Level 2B assets) may not exceed 40% of total HQLA. These assets include certain securities issued by government-sponsored enterprises and other government/central bank securities that do not qualify for Level 1 HQLA.
- Level 2B assets include certain corporate debt securities and publicly traded common equities. These assets are subject to a 50% haircut and may not exceed 15% of total HQLA.

For more information, refer to "*Liquidity Risk"* within notes 51-4 of the Financial Statements.

4. FUNDING SOURCES

The Bank funds its assets primarily through retail and wholesale customer deposits. We consider the majority of our deposits to be a stable, low-cost and consistent source of funding. The Finance Department manages the Bank's day-to-day financing needs and may under stressed market conditions resort to fund its liquidity requirements through interbank loans or by borrowing against its statutory reserves with the CBI. The Bank's government and corporate bond portfolio acts as a secondary source of funding. The Bank can sell such securities on the secondary market to generate additional liquidity in times of distress. For more information regarding funding sources, see note 51-4-5-1 of the Financial Statements.

5. FOREIGN CURRENCY MANAGEMENT

Due to the prevailing economic environment in Iran, both our HQLA and net cash outflows are mainly in Iranian Rial.

- For information regarding the Bank's term investment deposits based on currency, see note 25-1 of the Financial Statements.
- For details concerning the movements of foreign currency investment deposits, see note 25-1-4 of the Financial Statements.
- For maturity breakdown of the bank's foreign-currency denominated liabilities, see note 51-4-5-4-2 of the Financial Statements.
- Note 51-5-5 of the Financial Statements illustrates the status of the Bank's assets and liabilities denominated in foreign currency as of 20 March 2019.

6. LIQUIDITY MANAGEMENT

The Bank takes a comprehensive approach to liquidity management to ensure it can sustain higher-than-expected net cash outflows, even under stressed conditions. The Finance Department monitors and manages the Bank's liquidity position on a day-to-day basis whilst the Bank's ALCO committee governs liquidity risk as a whole. The committee members meet on a weekly basis to update senior management and provide recommendations on liquidity related matters, including weekly fluctuations in the LCR. The Bank's liquidity risk framework comprises policies and practices, valuation procedures and stress-testing models maintained by the Risk Management Department. For more information on the Bank's various liquidity ratios apart from the LCR, see the "Liquidity ratios" table within note 51-4-5-2 of the Financial Statements.