

## **Net Stable Funding Ratio**

Central Bank of Kuwait had adopted at its meeting convened on 25/10/2015 the Net Stable Funding Ratio (“NSFR”) for local Islamic banks. The objective of the NSFR is to promote resilience of banks’ liquidity risk profiles. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-and off-balance sheet items, and promotes funding stability.

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The ratio was, in view of the COVID 19 situation, revised to 80% on 2<sup>nd</sup> April 2020 from 100% and should now be equal to at least 90% on an ongoing basis for the year 2022. “Available stable funding” is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. “Required stable funding” is defined as the portion of assets and off-balance sheet (OBS) exposures expected to be funded on an ongoing basis over a one-year horizon. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.

The NSFR (as a percentage) shall be calculated as follows:

$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 90$
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## **Governance of Liquidity Risk Management and Funding**

The banks liquidity management is guided by its Assets Liability Management (ALM) Policy which is reviewed periodically and approved by the Board of Directors. The ALM Policy specifies the main goals, roles and responsibilities and related processes for managing liquidity risk. Specifically, the Policy outlines approaches for identifying, measuring and monitoring of liquidity risk parameters in line with regulatory and internal limits. ALCO and the Board Risk Management Committee (BRMC) oversees the liquidity risk management functions. ALCO reviews periodically the liquidity conditions and recommends in terms of immediate targets of liquidity mix and maturity profiles /mismatches. BRMC periodically reviews the adherence to the internal / regulatory liquidity ratios and limits established.

Liquidity risk is measured primarily using the residual maturity approach and bank manages its gaps within the limits. In addition to prudent liquidity ratios, NSFR and LCR, the bank also monitors periodically multiple deposits and funding concentration limits established to ensure better diversification of funding. The Bank’s maturity profile and related maturity mismatches are also subjected to stress testing on a periodical basis. Liquidity gaps are monitored on a daily basis and again reviewed on a monthly basis by ALCO. To limit the liquidity risk, funding concentrations are constantly monitored, funding sources diversified and long term funds sourced.

### **Analysis of the results for the quarter ended 31<sup>st</sup> March 2022**

As per CBK instructions, banks should maintain NSFR with effect from 1<sup>st</sup> January 2018 at or above 100%. It has been revised from 2<sup>nd</sup> April 2020 and extended on 16<sup>th</sup> February 2021, 22<sup>nd</sup> June 2021 and 11<sup>th</sup> October 2021 to be maintained at or above 90% for the year 2022. Bank has complied with revised ratio on all days of the quarter.

The weighted values of the financing assets, investments and other assets requiring 100% weight was the main component of the RSF representing 50% of the total RSF. ASF was mainly supported by capital (26% of ASF), retail funding (29% of ASF) and other wholesale funding.

The following table sets forth the Net Stable Funding Ratio (NSFR) for the quarter ending on 31.03.2022.

“Values in KWD 000”

Sr.	Item	Unweighted Values (Before applying relevant factors)				Total Weighted Value
		No Specified Maturity	Less than 6 Months	More than 6 Months and less than one Year	Over One Year	
	<b>Available Stable Funding (ASF):</b>					
<b>1</b>	<b>Capital:</b>					
2	<i>Regulatory Capital</i>	426,502	-	-	90,827	517,329
3	<i>Other Capital Instruments</i>	-	-	-	-	-
<b>4</b>	<b>Retail deposits and deposits and investment accounts from small business customers:</b>					
5	<i>Stable deposits</i>	-	-	-	-	-
6	<i>Less stable deposits</i>	-	645,364	-	-	580,828
<b>7</b>	<b>Wholesale funding:</b>					
8	<i>Operational deposits and investment accounts</i>	-	-	-	-	-
9	<i>Other wholesale funding</i>	-	2,043,974	212,748	4,713	910,755
<b>10</b>	<b>Other liabilities:</b>					
11	<i>NSFR Sharī'ah-compliant hedging contract liabilities</i>	-	-	-	-	-
12	<i>All other liabilities not included in the above categories</i>	62,187	177	-	-	-
<b>13</b>	<b>Total ASF</b>					<b>2,008,911</b>
	<b>Required Stable Funding (RSF):</b>					
<b>14</b>	<b>Total NSFR Sharī'ah-compliant high-quality liquid assets (HQLA)</b>					<b>29,812</b>
<b>15</b>	<b>Deposits and investment accounts held at other financial institutions for operational purposes</b>	-	-	-	-	-
<b>16</b>	<b>Performing financing and securities:</b>					
17	<i>Performing financing to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
18	<i>Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions</i>	-	423,307	15,919	15,277	86,732
19	<i>Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:</i>	-	1,049,514	487,602	728,569	1,497,127
20	<i>With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines</i>	-	-	-	-	-
21	<i>Performing residential financing, of which:</i>	-	-	-	-	-
22	<i>With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines</i>	-	-	-	-	-
23	<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	-	-	-	108,340	92,089
<b>24</b>	<b>Other assets:</b>					
25	<i>Physical traded commodities, including gold</i>					-
26	<i>Assets posted as initial margin for Sharī'ah-compliant hedging contracts and contributions to default funds of CCPs</i>		-	-	-	-
27	<i>NSFR Sharī'ah-compliant hedging contract assets</i>		-	-	-	-
28	<i>NSFR Sharī'ah-compliant hedging contract liabilities before deduction of variation margin posted</i>		-	-	-	-
29	<i>All other assets not included in the above categories</i>	217,973	3,587	2,541	49,661	268,923
<b>30</b>	<b>Off-balance sheet items</b>		312,621	366,951	356,486	51,803
<b>31</b>	<b>Total RSF</b>					<b>2,026,485</b>
<b>32</b>	<b>NSFR (%)</b>					<b>99.13%</b>