



Liquidity Coverage Ratio

Central Bank of Kuwait had adopted at its meeting convened on 23/12/2014 the Liquidity Coverage Ratio (“LCR”) for local Islamic banks, to promote resilience of banks liquidity risk management by ensuring that they have sufficient High Quality Liquid Assets (HQLA) to survive a significant stress scenario lasting for one month. At minimum, such stock of liquid assets should enable the bank to survive until 30 days of the stress scenario. Liquidity Coverage Standard (as a percentage) is calculated as follows:

$$\frac{\text{Stock of Islamic Shari'ah Compliant HQLA}}{\text{(Net Cash Outflows over the Next 30 Calendar Days)}}$$

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 30.09.2020

As per CBK instructions banks should maintain LCR with effect from 1st January 2019 onwards at above 100% and in view of the COVID -19 situation revised on 2nd April 2020 to be maintained 80% till the end of the year 2020. Bank has complied with revised ratio on all days of the quarter.

The Bank maintained an average LCR (All Currencies) during the quarter at 143.59%. The HQLA comprised primarily “Level 1” assets which represent cash and reserve / excess balances with the Central Bank of Kuwait (CBK). The cash-outflows were primarily driven by unsecured wholesale funding and inter-bank borrowings. The weighted unsecured wholesale funding constituted 72% of the total weighted cash-outflows. The weighted value of Retail deposits (including deposits from small-sized business customers) contributed 18% of the total weighted cash-outflows. Consistent HQLA in the form of CBK deposits was the main driver of a strong HQLA during the reporting period.

The average LCR (All currencies) increased in the current quarter to 143.59% from 124.21% in the previous quarter.



The following table sets forth the average (simple) for the quarter ending on 30.09.2020 for all business days of the reporting period.

Values in KD 000			
S.No	Description	Value Before Applying Flow Rates (average) **	Value After Applying Flow Rates (Average) **
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		229,059
Cash Outflows			
2	<u>Retail deposits and small business</u>	569,105	91,962
3	* Stable deposits	-	-
4	* Less stable deposits	569,105	91,962
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	673,614	395,470
6	* Operational deposits	-	-
7	* Non-operational deposits (other unsecured commitments)	673,614	395,470
8	Secured Funding		-
9	Other cash outflows, including:	394,941	46,633
10	* Resulting from Sharia compliant hedging contracts	-	-
11	* Resulting from assets-backed Sukuk and other structured funding instruments	-	-
12	* Binding credit and liquidity facilities	394,941	46,633
13	Other contingent funding obligations	280,001	14,000
14	Other contractual cash outflows obligations	-	-
15	Total Cash Outflows		548,066
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	541,700	388,543
18	Other cash Inflows	-	-
19	Total Cash Inflows	541,700	388,543
LCR			Total Adjusted Value
20	Total HQLA (after adjustments)		229,059
21	Net Cash Outflows		159,523
22	LCR		143.59%

** Simple Average for all business days of the reporting period.