

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:

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

Banks should maintain the minimum floor of LCR requirements on a continuous basis and at all times. However, during a period of stress and exceptional circumstances, banks may use their stock of HQLA, thereby falling below the minimum floor. Bank has started computing and reporting to CBK this ratio with effect from January 2015 in all currencies, KWD and USD. The following table sets forth the average (simple) for the quarter ending on 31.12.2015 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)		278,838
Cash Outflows			
2	Retail deposits and small business	284,794	50,287
3	* Stable deposits	-	-
4	* Less stable deposits	284,794	50,287
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	385,543	262,132
6	* Operational deposits	-	-
7	* Non-operational deposits (other unsecured commitments)	385,543	262,132
8	Secured Funding	-	-
9	Other cash outflows, including:	172,753	17,013
10	* Resulting from Sharia compliant hedging contracts	-	-
11	* Resulting from assets-backed Sukuk and other structured funding instruments	-	-
12	* Binding credit and liquidity facilities	172,753	17,013
13	Other contingent funding obligations	238,354	11,918
14	Other contractual cash outflows obligations	-	-
15	Total Cash Outflows	1,081,443	341,351
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	166,100	121,480
18	Other cash inflows	-	-
19	Total Cash Inflows	166,100	121,480
LCR			Total Adjusted Value
20	Total HQLA (after adjustments)		278,838
21	Net Cash Outflows		219,871
22	LCR		126.82%

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

There are two categories of assets included in the stock of High Quality Liquids Assets (HQLAs), viz. Level 1 and Level 2 assets. Level 1 HQLAs are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut. Of the Total HQLA, Level I assets can be included without limit, Level 2 assets can only comprise up to 40% of the stock of total HQLA. The total net cash outflows is the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments and investment accounts by the prescribed run off rates at which they are expected to be run off. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

Based on the simple average of all days of the reporting period the bank's LCR is 126.82% (All currencies). A significant portion representing 99% the total HQLA comprise of Level I assets, mainly supported by CBK deposits, which has been a consistent component over the reporting period. The main constituent of the cash outflows (values after run off) was other legal entity customers (Banks, Financial Institutions) representing a concentration of 53% of the outflows. Consistent HQLA in the form of CBK deposits was the main driver of a strong HQLA during the reporting period.