

Introduction

The Central Bank of Kuwait (CBK) approved at its meeting held on 25 October 2015 the Net Stable Funding Ratio in its final form for local Islamic banks. The issuance of the NSFR guidelines comes as part of the steps taken by the CBK to implement Basel III reforms.

The objective of this ratio is to promote resilience of banks' liquidity risk profiles and more resilient banking sector. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure can mitigate the risk of erosion of a bank's liquidity position due to disruptions in its sources of funding. 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.

Definition

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "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) is calculated as follows:

Available amount of stable funding
$$Required$$
 amount of stable funding ≥ 100

Regulatory Scope of Reporting and Consolidation

The NSFR is calculated on a total currency level and is calculated for Level (A).

Liquidity Policy and Contingency Funding Plan

The Bank's liquidity management is guided by its Liquidity Policy which is reviewed annually and approved by the Board of Directors. The Liquidity Policy document specifies the main goals, policies and procedures for managing liquidity risk. The Liquidity Policy outlines procedures to identify, measure and monitor liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The Liquidity Policy also encompasses the bank's Contingency Funding Plan (CFP), which is approved by the Board of Directors, charts the course to be followed under stressed conditions.

Funding Strategy and Liquidity Management

While the operational aspect of day-to-day cash flow and liquidity management rests with Treasury, other groups such as Consumer Banking Group (CBG), Corporate Banking Group (COR), and Risk Management Department (RMD), and Financial Control Group (FCG) plays a key role in managing and monitoring the longer-term funding profile of the bank under the oversight of the Asset Liability Management Committee (ALCO).

Net Stable Funding Ratio Disclosure – 31 December 2018



The Bank's long-term strategy has been to maintain a strong and diversified liabilities profile. The bank has embraced a robust funding profile through its wide domestic retail customer base and the diversified wholesale funding customers. The bank's major wholesale funding counterparties comprise mostly of Kuwaiti government and quasi-sovereign agencies with which the Bank has established a strong and long-term relationship.

Results Analysis and Main Drivers

The Bank's Available Stable Funding (ASF) as of 31 December 2018, was KD 2,986 Million (after applying factors) against Required Stable Funding (RSF) of KD 2,528 Million resulting in a Net Stable Funding Ratio of 118%.

ASF primarily comprise of capital as per CBK's Basel III regulations (16% of ASF), retail and SME funding (50%), and other wholesale funding (34%).

RSF is primarily comprised of financing assets (87% of RSF), investments and off-balance sheet items.

Net Stable Funding Ratio Disclosure – 31 December 2018



The table below sets forth the Net Stable Funding Ratio for the Bank as at 31 December 2018.

Table 4: NSFR Common Disclosure Template

4 Retail deposits and decustomers: 5 Stable deposits 6 Less stable deposits 7 Wholesale funding: 8 Operational deposits and 9 Other wholesale funding 10 Other liabilities: 11 NSFR Sharī'ah-compl. 12 All other liabilities not 13 Total ASF Required Stable Funding (RSF) 14 Total NSFR Sharī'ah- (HQLA) 15 Deposits and investment institutions for operated institutions for operated performing financing to the liabilities not institutions for operated performing financing to sovereign financial institutions 19 Performing financing financing to sovereign financing		Unweighted Values (i.e. before applying relevant factors)				
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	deduction of variation margin posted					
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	Off-balance sheet items	-	1,320,768	-	-	66,038
31 Total RSF 32 NSFR (%)						2,527,972 118%