

Liquidity Coverage Ratio Disclosure – 30 September 2020**Introduction**

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/346/2014) to Islamic banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the central bank's implementation of the Basel III reforms.

The main objective of this ratio is to ensure the short-term resilience of the liquidity risk management of banks by ensuring that they have sufficient high quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of 30 days.

The LCR is reported and monitored at two organizational levels: *Local level (Level A)* - Boubyan Kuwait and *Group Level (Level C)* including all banking subsidiaries (Boubyan Group).

Definition

The LCR is defined as a ratio of Islamic Sharia'a compliant HQLA to the total net cash outflows estimated for the next 30 'calendar' days. HQLA are classified into two categories: "Level 1" and "Level 2" with a cap on "Level 2" assets to the total HQLA. "Level 2 HQLA" are calculated after applying the hair cut provided by the Central Bank of Kuwait on their market values. The net cash outflows are calculated by applying cash outflow and inflow run off factors assigned by the Central Bank of Kuwait. These factors apply to the various categories of liabilities (outflows relating to retail and wholesale deposits, contingent funding obligations and undrawn commitments) and assets (inflows from retail and corporate financing receivables) maturing within 30 days.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30-day period.

Regulatory Scope of Reporting and Consolidation

The LCR is calculated on a total currency level. For follow up purposes only the LCR is prepared on a stand-alone basis for significant currencies. Significant currencies are defined as those whose aggregate liabilities (on- and off- balance sheet) constitute more than 5% of the bank's total aggregate liabilities. Accordingly, the Bank reports the LCR for Kuwaiti Dinar (KWD) and US Dollar (USD) denominated balances in addition to the total currency level.

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.

Liquidity Coverage Ratio Disclosure – 30 September 2020

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).

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. Moreover, given its strong and consistent credit rating, the Bank is able to obtain longer-term funding from the debt market through its Global Medium-Term Note (GMTN) program.

Results Analysis and Main Drivers

The Bank's HQLA during the three months ended 30 September 2020, was averaging at KD 753 million (post-haircut) against an average liquidity requirement of KD 195 million. Hence, the LCR averaged 308% during the third quarter of 2020.

The HQLA is primarily comprised of Level 1 assets which represent cash and balances with the CBK as well as debt issuances by sovereign and development banks in domestic and foreign currencies. Level 2 assets comprises of debt issuances of International Organisations and other non-financial institutions in domestic and foreign currencies. Level 1 assets comprise of 76% of the total HQLA.

Liquidity Coverage Ratio Disclosure – 30 September 2020

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between 1 July and 30 September 2020 for the Bank.

Table 6: LCR disclosure for the period ending on 30 September 2020 *

value in KD '000s			
SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates ¹ (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		753,239
Cash Outflows			
2	<u>Retail deposits and small business</u>		
3	· Stable deposits	11,336	567
4	· Less stable deposits	1,469,885	218,831
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:		
6	· Operational deposits	-	-
7	· Non-operational deposits (other unsecured commitments)	999,044	603,842
8	Secured Funding		-
9	Other cash outflows, including:		
10	· Resulting from Shari'ah compliant hedging contracts	-	-
11	· Resulting from assets-backed sukuk and other structured funding instruments	-	-
12	· Binding credit and liquidity facilities	25,638	2,564
13	Other contingent funding obligations	1,313,733	65,687
14	Other contractual cash outflows obligations	85,745	85,745
15	Total Cash Outflows		977,236
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	1,140,813	722,132
18	Other cash Inflows	25,942	25,942
19	Total Cash Inflows	1,166,754	748,073
LCR			Total Adjusted Value²
20	Total HQLA (after adjustments)		753,239
21	Net Cash Outflows		244,309
22	LCR		308%

* Quarterly statement.

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

1 Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.

2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).