

**Introduction**

The Central Bank of Kuwait (CBK) approved at its meeting held on 25 October 2015 and issued a directive (2/IBS/357/2015) to Islamic banks. The issuance of the Net Stable Funding Ratio (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.

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

**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:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

**Regulatory Scope of Reporting and Consolidation**

The NSFR is reported on a consolidated basis, banking group including the branches and subsidiaries inside and outside Kuwait

**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 Group, 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, medium term financing and perpetual Tier 1 sukuk.

**Results Analysis and Main Drivers**

Available Stable Funding at Boubyan Group level as of end of 30 September 2024, was **KD 6,034 million** (after applying the relevant weights) against Required Stable Funding (RSF) of **KD 5,219 million** (after applying the relevant weights) resulting in Net Stable Funding Ratio of **115.62%**.

The main drivers behind the Available Stable Funding are the adequate capital base, sizable Retail deposit base, and long-term funding. The Available Stable Funding primarily comprise of regulatory capital as per Central Bank of Kuwait Basel III regulations around **16.2%**, retail deposits (including deposits from small-sized business customers) formed **56.6%**, and wholesale funding formed **25.7%** of the total Available Stable Funding, after applying the relevant weights.

The Required Stable Funding comprised primarily financing to companies, businesses, corporations and retail clients.

The stock of High-Quality Liquid Assets (HQLA), which includes cash and reserve balances with the Central Bank of Kuwait (CBK) and other central banks, sovereign debt issuances as well as debt issuances by highly-rated companies stood at **KD 1,108 million** (before applying the RSF factors). Due to their high quality and liquid characteristic, these assets require no or low amount of stable funding. Accordingly, the HQLA's constituted only **1.7%** of the Required Stable Funding after applying the relevant weights.

"Performing" loans constituted **79.3%** of the total RSF after applying the relevant weights.

Non-HQLA investments, contingent funding obligations, such as committed credit facilities, guarantees and letters of credit (LCs), and other assets, constituted the remaining **19.0%** of the Required Stable Funding, after applying the relevant weights.

**NET STABLE FUNDING RATIO DISCLOSURE – 30 SEPTEMBER 2024 (CONTINUED)**

Quantitative information on the Net Stable Funding Ratio is provided in the table below.

Table 4: NSFR disclosure for the period ending on 30 September 2024

value in KD '000s						
Sr.	Item	Unweighted Values (i.e. 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	Regulatory Capital	977,396	-	-	-	977,396
3	Other Capital Instruments	-	-	-	-	-
<b>4</b>	<b>Retail deposits and deposits from small business customers:</b>					
5	Stable deposits	-	48,846	14,217	24,729	84,639
6	Less stable deposits	-	3,048,970	472,763	161,683	3,331,243
<b>7</b>	<b>Wholesale funding:</b>					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	3,292,898	510,557	267,450	1,550,270
<b>10</b>	<b>Other liabilities:</b>					
11	NSFR Shari'ah-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	23,193	174,001	-	67,184	90,377
<b>13</b>	<b>Total ASF</b>					<b>6,033,925</b>
<b>Required Stable Funding (RSF):</b>						
<b>14</b>	<b>Total NSFR Shari'ah-compliant high-quality liquid assets (HQLA)</b>					<b>87,129</b>
<b>15</b>	<b>Deposits and investment accounts held at other financial institutions for operational purposes</b>					
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
<b>16</b>	<b>Performing loans and securities:</b>					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	-	742,450	16,303	37,510	157,029
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	3,470,575	385,865	2,416,571	3,982,305
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
<b>21</b>	<b>Performing residential mortgages, of which:</b>					
22	With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines	-	-	-	-	-
<b>23</b>	<b>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</b>					
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	260,734	221,624
<b>24</b>	<b>Other assets:</b>					
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'ah-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'ah-compliant hedging contract assets		-	-	1,269	-
28	NSFR Shari'ah-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	530,526	88,562	266,944	-	665,260
<b>30</b>	<b>Off-balance sheet items</b>					
30	Off-balance sheet items		2,109,156	-	-	105,458
<b>31</b>	<b>Total RSF</b>					<b>5,218,805</b>
<b>32</b>	<b>NSFR (%)</b>					<b>115.62%</b>