

## Net Stable Funding Ratio Disclosure – 30 September 2020

### 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 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 banking subsidiaries (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 calculated on a total currency level and is calculated for Level (A) and Level (C).

### 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.

**Net Stable Funding 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 Available Stable Funding (ASF) as of 30 September 2020, was KD 4,411 million (after applying factors) against Required Stable Funding (RSF) of KD 3,609 million resulting in a Net Stable Funding Ratio of 122%.

ASF primarily comprise of capital as per CBK's Basel III regulations (15% of ASF), retail and SME funding (56%), and other wholesale funding (28%).

RSF is primarily comprised of financing assets (83% of RSF), investments and off-balance sheet items.

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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 2020 \*

		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	644,152	-	-	-	644,152
3	Other Capital Instruments	-	-	-	-	-
<b>4</b>	<b>Retail deposits and deposits from small business customers:</b>					
5	Stable deposits	-	32,898	-	-	31,253
6	Less stable deposits	-	2,143,413	287,689	254,775	2,442,767
<b>7</b>	<b>Wholesale funding:</b>					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	2,364,576	176,850	259,577	1,220,913
<b>10</b>	<b>Other liabilities:</b>					
11	NSFR Shari'ah-compliant hedging contract liabilities	29,072	105	-	309	
12	All other liabilities not included in the above categories	19,073	106,268	11,893	53,146	72,219
<b>13</b>	<b>Total ASF</b>					<b>4,411,304</b>
<b>Required Stable Funding (RSF):</b>						
<b>14</b>	<b>Total NSFR Shari'ah-compliant high-quality liquid assets (HQLA)</b>					<b>60,390</b>
<b>15</b>	<b>Deposits and investment accounts held at other financial institutions for operational purposes</b>	-	-	-	-	-
<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	-	462,228	169	5,385	74,804
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:	-	2,285,140	398,485	1,856,221	2,919,601
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>	-	-	-	102,595	87,206
<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	-	-	-	-	-
28	NSFR Shari'ah-compliant hedging contract liabilities before deduction of variation margin posted	5,814	-	-	-	5,814
29	All other assets not included in the above categories	276,934	99,485	136,039	18,674	396,280
<b>30</b>	<b>Off-balance sheet items</b>	-	1,290,530	-	-	64,526
<b>31</b>	<b>Total RSF</b>					<b>3,608,621</b>
<b>32</b>	<b>NSFR (%)</b>					<b>122%</b>

\* Quarterly statement.