

### 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 the Liquidity Coverage Ratio (LCR) 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: Level (A) - Boubyan Kuwait and 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.

### **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 Sukuk (GMTN) program.

### **Results Analysis and Main Drivers**

The Bank's HQLA during the three months ended 30 June 2020, was averaging at KD 564 Million (post-haircut) against an average liquidity requirement of KD 283 Million. Hence, the LCR averaged 199% during the second 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 75% of the total HQLA.

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 April and 30 June 2020 for the Bank.

value in KD '000s			
SL.	Description	Value before applying flow rates	Value after applying flow rates
		(average)**	(average)**
<b>High-Quality Liquid Assets (HQLA)</b>			
1	Total HQLA (before adjustments)		563,606
<b>Cash Outflows</b>			
2	<u>Retail deposits and small business</u>		
3	· Stable deposits	10,716	542
4	· Less stable deposits	1,319,818	199,567
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)	1,043,904	677,899
8	Secured Funding		-
9	Other cash outflow s, 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	28,200	2,852
13	Other contingent funding obligations	1,277,175	64,576
14	Other contractual cash outflow s obligations	55,262	55,883
15	<b>Total Cash Outflow s</b>		1,001,319
<b>Cash Inflows</b>			
16	Secured lending transactions	-	-
17	Inflow s from the performing exposures (as per the counterparties)	1,078,569	718,769
18	Other cash Inflow s	-	-
19	<b>Total Cash Inflow s</b>	1,078,569	718,769
<b>LCR</b>			
20	Total HQLA (after adjustments)		563,606
21	Net Cash Outflow s		282,549
22	LCR		199%