

### 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:

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

### Regulatory Scope of Reporting and Consolidation

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

### 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.

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

The Bank's Available Stable Funding (ASF) as of 30 September 2018, was KD 2,800 Million (after applying factors) against Required Stable Funding (RSF) of KD 2,461 Million resulting in a Net Stable Funding Ratio of 114%.

ASF primarily comprise of capital as per CBK's Basel III regulations (15% of ASF), retail and SME funding (51%), and other wholesale funding (34%).

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

The table below sets forth the Net Stable Funding Ratio for the Bank as at 30 September 2018.

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>						
1	<b>Capital:</b>					
2	Regulatory Capital	432,023	-	-	-	432,023
3	Other Capital Instruments	-	-	-	-	-
4	<b>Retail deposits and deposits from small business customers:</b>					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	1,228,269	182,805	144,224	1,414,191
7	<b>Wholesale funding:</b>					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	1,693,405	388,579	81,986	947,148
10	<b>Other liabilities:</b>					
11	NSFR Sharī'ah-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	69,584	-	6,931	6,931
13	<b>Total ASF</b>					<b>2,800,293</b>
<b>Required Stable Funding (RSF):</b>						
14	Total NSFR Sharī'ah-compliant high-quality liquid assets (HQLA)	534,276	-	-	-	41,284
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
16	<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	-	319,517	5,446	11,899	62,549
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:	-	1,551,518	303,430	1,270,537	2,007,430
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
21	<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	-	-	-	-	-
23	<b>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</b>	-	-	-	82,706	70,300
24	<b>Other assets:</b>					
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for Sharī'ah-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Sharī'ah-compliant hedging contract assets	-	-	-	-	-
28	NSFR Sharī'ah-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	203,859	26,666	9,346	-	215,357
30	<b>Off-balance sheet items</b>					
31	<b>Total RSF</b>	-	1,270,159	-	-	<b>63,508</b>
32	<b>NSFR (%)</b>					<b>114%</b>