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.

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.

Results Analysis and Main Drivers

The Bank's HQLA during the three months ended 31 March 2019, was averaging at KD 498 Million (post-haircut) against an average liquidity requirement of KD 318 Million. Hence, the LCR averaged 158% during the first quarter of 2019.

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 71% of the total HQLA.

Liquidity Coverage Ratio Disclosure – 31 March 2019

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 January 2019 and 31 March 2019 for the Bank.

SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**498,031**
Cash Outflows			
2	Retail deposits and small business		
3	· Stable deposits	**-**	**-**
4	· Less stable deposits	**923,576**	**139,273**
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)	**700,632**	**390,252**
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	**-**	**-**
13	Other contingent funding obligations	**1,375,891**	**68,039**
14	Other contractual cash outflows obligations	**104,570**	**103,421**
15	**Total Cash Outflows**		**700,984**
Cash Inflows			
16	Secured lending transactions	**-**	**-**
17	Inflows from the performing exposures (as per the counterparties)	**592,501**	**386,287**
18	Other cash Inflows	**-**	**-**
19	**Total Cash Inflows**	**592,501**	**386,287**
LCR			
20	Total HQLA (after adjustments)		**498,031**
21	Net Cash Outflows		**314,698**
22	LCR		**158%**