Introduction

The Central Bank of Kuwait (CBK) approved at its meeting held on 23 December 2014 and issued a directive (2/IBS/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 this ratio 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: *Local level (Level A)* - Boubyan Kuwait and *Group Level (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 reported on a consolidated basis, banking group including the branches and subsidiaries inside and outside Kuwait.

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), US Dollar (USD) and British Pound Sterling (GBP) 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-Term Note (GMTN) program.

Results Analysis and Main Drivers

The HQLA buffer at Boubyan Group level during the three months ending 30 September 2023 averaged **KD 975 million** (post-haircut) against an average net cash-outflow of **KD 459 million**. The daily-average LCR for the observed period was **212.3%.**

The HQLA comprised primarily Level 1 assets which represent cash and reserve balances with the Central Bank of Kuwait, as well as debt issuances by sovereign and development banks in domestic and foreign currencies. Average level 1 assets comprise of **75%** of the average total HQLA.

The cash-outflows were driven primarily by unsecured wholesale funding and inter-bank borrowings. The average unsecured wholesale funding constituted **58%** of the average total weighted cash-outflows.

Average retail deposits (including deposits from small-sized business customers) contributed **24%** of the average total weighted cash-outflows.

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 July and 30 September 2023 for the Boubyan Group.

Table 6: LCR disclosure for the period ending on 30 September 2023 *

value in KD '000s

SL.	Description	Value before applying flow rates (average)**	Value after applying flow rates[1] (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**975,413**
Cash Outflows			
2	Retail deposits and small business	**1,850,216**	**288,260**
3	· Stable deposits	6,193	310
4	· Less stable deposits	1,844,023	287,950
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:	**1,109,470**	**703,125**
6	· Operational deposits	-	-
7	· Non-operational deposits (other unsecured commitments)	1,109,470	703,125
8	Secured Funding		-
9	Other cash outflows, including:	**122,397**	**12,240**
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	122,397	12,240
13	Other contingent funding obligations	**1,442,892**	**72,145**
14	Other contractual cash outflows obligations	**127,134**	**127,134**
15	**Total Cash Outflows**		**1,202,903**
Cash Inflows			
16	Secured lending transactions	-	-
17	Inflows from the performing exposures (as per the counterparties)	**1,183,282**	**720,197**
18	Other cash Inflows	**23,279**	**23,279**
19	**Total Cash Inflows**	**1,206,561**	**743,476**
	LCR		**Total Adjusted Value [2]**
20	Total HQLA (after adjustments)		**975,413**
21	Net Cash Outflows		**459,427**
22	LCR		**212.31%**

* Quarterly statement.
**Simple Average for all business days of the template reporting period.
1 Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.
2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and Level 2 assets for HQLA and cap on inflows).