

Net Stable Funding Ratio Disclosure – 31 March 2021

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.

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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

Available Stable Funding at Boubyan Group level as of end of 31 March 2021, was **KD 4,445 million** (after applying the relevant weights) against Required Stable Funding (RSF) of **KD 3,857 million** (after applying the relevant weights) resulting in Net Stable Funding Ratio of **115.3%**.

The main drivers behind the Available Stable Funding are the adequate capital base, sizable Retail deposit base, and long-term funding. The Available Stable Funding primarily comprise of regulatory capital as per Central Bank of Kuwait Basel III regulations around 15%, retail deposits (including deposits from small-sized business customers) formed 58%, and wholesale funding formed 26% of the total Available Stable Funding, after applying the relevant weights.

The Required Stable Funding comprised primarily financing to companies, businesses, corporations and retail clients.

The stock of High-Quality Liquid Assets (HQLA), which includes cash and reserve balances with the Central Bank of Kuwait (CBK) and other central banks, sovereign debt issuances as well as debt issuances by highly-rated companies stood at **KD 733 million** (before applying the RSF factors). Due to their high quality and liquid characteristic, these assets require no or low amount of stable funding. Accordingly, the HQLA's constituted only 1.5% of the Required Stable Funding after applying the relevant weights.

"Performing" loans constituted 85% of the total RSF after applying the relevant weights.

Non-HQLA investments, contingent funding obligations, such as committed credit facilities, guarantees and letters of credit (LCs), and other assets, constituted the remaining 14% of the Required Stable Funding, after applying the relevant weights.

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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 31 March 2021 *

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	
value in KD '000s						
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	665,887	-	-	-	665,887
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	28,550	-	-	27,123
6	Less stable deposits	-	2,242,960	308,287	239,927	2,536,050
7	Wholesale funding:					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	2,600,902	189,004	345,928	1,146,363
10	Other liabilities:					
11	NSFR Shari'ah-compliant hedging contract liabilities		332	-	17,790	
12	All other liabilities not included in the above categories	19,898	195,610	13,395	50,216	70,114
13	Total ASF					4,445,537
Required Stable Funding (RSF):						
14	Total NSFR Shari'ah-compliant high-quality liquid assets (HQLA)					57,831
15	Deposits and investment accounts held at other financial institutions for operational purposes					
16	Performing loans and securities:					
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	-	695,606	19,958	88,607	202,927
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:					
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
21	Performing residential mortgages, of which:					
22	- With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	104,432	88,767
24	Other assets:					
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		-	-	3,513	-
29	All other assets not included in the above categories	292,089	127,317	162,002	8	382,314
30	Off-balance sheet items		1,285,248	-	-	64,262
31	Total RSF					3,857,296
32	NSFR (%)					115.3%

* Quarterly statement.