

## **Public Disclosure Requirements - Liquidity Coverage Ratio**

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Liquidity Coverage Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS /346/2014) dated 23/12/2014.

### ***Qualitative disclosure on LCR***

The Liquidity Coverage Ratio (LCR) is a global standard for assessing bank liquidity. It aims to ensure that a bank has adequate unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

LCR has been defined as 
$$\frac{\text{Stock of high quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}}$$

Liquid assets comprise of high-quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut.

The total net cash outflow is the total expected cash outflows minus total expected cash inflows for the upcoming 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

The Bank's focus has been to ensure diversified funding sources in addition to its core deposit base. The Treasury of the Bank manages liquidity by constant monitoring of future cash flows and liquidity needs. This incorporates an assessment of expected cash flows and the availability of high-quality assets which could be used to secure additional funding if required. The bank also conducts stress tests to assess impact of stress on liquidity under various scenarios. Furthermore, the bank has established a Contingency Funding Plan to manage liquidity during stressed conditions.

The average HQLA for the quarter ended 30 September 2021 was KD 395.9 Million of which Central Bank reserves constituted about 59%. Average cash outflows over a 30-day horizon amounted to KD 506.8 Million while average inflows from assets were KD 246.0 Million.

Bank's LCR of 152% (based on average of last three months' position) was above the minimum 80% prescribed by CBK for 2021. Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

**Quantitative information on Liquidity coverage ratio (LCR) is given below:**

**LCR common disclosure template for the quarter ending on 30 September 2021**

In KD '000s

S.No	Description	Value before applying inflows rates	Value after applying inflows rates[1]
		(average)**	(average)**
<b>High-Quality Liquid Assets (HQLA)</b>			
1	Total HQLA (before adjustments)		395,919
<b>Cash Outflows</b>			
2	Retail deposits and small business	641,620	120,255
3	• Stable deposits	0	0
4	• Less stable deposits	641,620	120,255
5	Unsecured wholesale funding excluding the deposits of small business customers:	622,617	356,031
6	• Operational deposits	0	0
7	• Non-operational deposits (other unsecured commitments)	622,617	356,031
8	Secured Funding		0
9	Other cash outflows, including:	0	0
10	• Resulting from Shari'ah compliant hedging contracts	0	0
11	• Resulting from assets-backed sukuk and other structured funding instruments	0	0
12	• Binding credit and liquidity facilities	0	0
13	Other contingent funding obligations	609,326	30,466
14	Other contractual cash outflows obligations	0	0
15	<b>Total Cash Outflows</b>		506,752
<b>Cash Inflows</b>			
16	Secured lending transactions	0	0
17	Inflows from fully performing exposures (as per the counterparties)	248,541	246,015
18	Other cash Inflows	0	0
19	<b>Total Cash Inflows</b>	248,541	246,015
<b>Liquidity Coverage Ratio (LCR)</b>		Total Adjusted Value[2]	
20	Total HQLA (after adjustments)		395,919
21	Net Cash Outflows		260,737
22	LCR		152%

\*Simple Average for all days of the reporting period.