

**BBK Kuwait**  
**Liquidity Coverage Ratio – Qualitative Disclosure**  
**December 2020**

17 JAN 2021

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In line with the international developments in the field of banking supervision and application of the relevant best practices, and within the framework of finalization of Basel III Set of Reforms, the Board of Directors of Central Bank of Kuwait (CBK) has resolved in its session held on 23/12/2014 application of Liquidity Coverage Ratio "LCR" Regulations to the local conventional banks.

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The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet liquidity needs for a 30 calendar day liquidity stress scenario.

The LCR is calculated by dividing the amount of unencumbered HQLA by the estimated net outflows over a stressed 30 calendar day period. The net cash outflows are calculated by applying the CBK prescribed outflow factors.

Comparative Figures

For the quarter ended 31 December 2020, the average LCR was at 273 % based on simple average of daily LCR values for all days in the quarter. For the quarter ended 31 December 2019 the average LCR was at 448 % based on simple average of daily LCR values for all days in the quarter. Full comparative figures are provided at the end of this report.

Key Drivers

The main driver of the LCR results and the evolution of the contribution of inputs to the LCR's calculation over time is:

The structure and nature of deposits inside the 30 day window is a key driver. This weighted cash outflows are primarily driven by unsecured funding which is determined by the customer type of liabilities falling into the 30 day contractual bucket. As at 31 December 2020, top 25 depositors comprised around 76 % of total deposits while other contingent funding obligations including LCs, LGs and undrawn commitments constituted about 52 % of total cash outflows of KD 247 Mill. before application of run-off rate and 7 % of total cash outflows of KD 88 Mill. after application of run-off rates.

The composition of HQLA

The HQLA comprises primarily of Kuwait sovereign and CBK debt instruments all of which are eligible for CBK repo. The average HQLA for the quarter ended 31 December 2020 was KD 120 Mill.. As at 31 December 2020, HQLA was KD 84 Mill. where Kuwait Government / CBK debt securities constituted ~ 73 %.

Currency Mismatch on LCR

Customer assets are as far as possible funded in the same currency. Where mismatch arise, they are controlled by limits on the amount

Most of the Bank's customer deposits are denominated in KWD and USD. However the bank holds more KWD denominated HQLA due to its significant market depth and the ease of conversion into other currencies in the event of liquidity stress.

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Centralized Liquidity Management

BBK employs a centralized liquidity management policy. All of the procedures and reports for liquidity management are prepared on a centralized basis and includes all branches.

Concentration Limits on collateral pools and sources of funding

BBK's strategy is to have a diversified source of funds. We obtain funds from 3 main sources:

- Retail Deposits
- Wholesale Deposits
- Interbank Deposits

We monitor the top 10 sources of funding on a regular basis with the objective of increasing the diversification of our current funding. In addition the consolidated liquidity positions are monitored and compared to the limits set.

| <u>Liquidity (BBK Consolidated)</u>           | <u>Limit</u> |
|---|--------------|
| Net Loans (Customer Deposits+Bank Deposits)   | 75%          |
| Net Loans (Customer Deposits+Term Borrowings) | 75%          |
| Net Loans/Customer Deposits                   | 75%          |
| Liquid Assets/Total Assets                    | 25%          |
| Liquid Assets/Customer Deposits               | 25%          |
| Net Loan/Stable Funds                         | 100%         |

Liquidity Exposures and Funding Needs

Liquidity exposures are monitored on a per branch basis and on a bank-wide level. Limits are in place in the event that liquidity needs to be transferred from head office.

Governance of Liquidity Risk Management

BBK has an annual Liquidity/Funding Strategy that is planned by the executive team and approved by the Board. BBK consolidated liquidity is managed and monitored through a weekly/monthly liquidity reports. Assumptions are used for scenario analysis and are reviewed on a semi-annual basis at ALMC and reflect our perception on the liquidity of each product type. A conservative approach is taken to the assumptions at all times and historical analysis is used.

Bank's funding strategy

BBK has a funding strategy in place to make sure the following objectives are met:

- A reasonable amount of liquid assets are maintained.
- Measurement and projection of funding requirements.
- Management of access to funding sources.

Liquidity Risk Mitigation Techniques

Various risk mitigation techniques are employed including credit analysis, counterparty limits, and tenor limits.



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Liquidity Stress Testing

Liquidity stress testing is done on a monthly basis on the following basis:

- Normal assumptions
- Stress assumptions
- IRR Assumptions

Contingency Funding Plans

BBK has a contingency funding plan in place in the event of a crisis. This plan is integrated with other contingent planning activities such as the continuity of business planning. It provides for frequent communication among the Crisis Management Team, the board of directors, management, and other interested parties. This communication aims to optimize the effectiveness of the contingency plan by ensuring that business decisions are well coordinated to reduce the impact on the bank's liquidity position.

In addition, there is an Economic Crisis Management Team (ECMT) which is a sub-committee of the Crisis Management Team. The ECMT is constituted and chaired by the GM Treasury, Investment and Institutional Banking. One of the functions of the ECMT is to create enhanced communication between BBK and several key constituents- our Regulators, our Shareholders, our Board, our Clients, local media, and our funding sources. The committee meets monthly and more frequently if required and assesses domestic, regional and global economic, financial and other developments from BBK risk point of view. An assessment score sheet is developed for this purpose. This score sheet is presented to ALMC and the Board Risk Committee on a quarterly basis. In the event of a crisis the CMT will activate the Contingency Funding Plan.

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| BBK - Kuwait                             |   | 31-Dec-19   |  | 31-Dec-20   |  |
|--|---|---|--|---|--|
| Sr.                                      | Description   | TOTAL UNWEIGHTED Value before applying factors (average)* | TOTAL WEIGHTED Value after applying Factors <sup>1</sup> (average)** | TOTAL UNWEIGHTED Value before applying factors (average)* | TOTAL WEIGHTED Value after applying Factors <sup>1</sup> (average)** |
| <b>High-Quality Liquid Assets (HQLA)</b> |   |   |  |   |  |
| 1  | Total HQLA (before adjustments)   |   | 135,618  |   | 120,220  |
| <b>Cash Outflows</b>                     |   |   |  |   |  |
| 2  | Retail deposits and Small business  | 10,783  | 773  | 7,410   | 1,527  |
| 3  | • Stable deposits   |   |  |   |  |
| 4  | • Less stable deposits  | 10,783  | 773  | 7,410   | 1,527  |
| 5  | Unsecured wholesale funding excluding the deposits of small business customer.                            | 213,877   | 109,475  | 137,479   | 80,167   |
| 6  | • Operational deposits  |   |  |   |  |
| 7  | • Non-Operational deposits (other unsecured commitments)  | 213,877   | 109,475  | 137,479   | 80,167   |
| 8  | Secured funding   |   |  |   |  |
| 9  | Other cash outflows, including :  |   |  |   |  |
| 10                                       | • Resulting from Derivatives  |   |  |   |  |
| 11                                       | • Resulting from assets-backed securities and commercial paper (assuming that re-funding is not possible) |   |  |   |  |
| 12                                       | • Binding credit and liquidity facilities   |   |  |   |  |
| 13                                       | Other contingent funding obligations  | 126,516   | 6,326  | 139,157   | 6,958  |
| 14                                       | Other contractual cash outflows   |   |  |   |  |
| 15                                       | <b>Total Cash Outflows</b>  | <b>344,589</b>  | <b>116,574</b>   | <b>283,751</b>  | <b>88,653</b>  |
| <b>Cash Inflows</b>                      |   |   |  |   |  |
| 16                                       | Secured lending transactions  |   |  |   |  |
| 17                                       | Inflows from fully performing loans   | 136,075   | 133,598  | 42,389  | 40,581   |
| 18                                       | Other cash Inflows  |   |  |   |  |
| 19                                       | <b>Total Cash Inflows</b>   | <b>136,075</b>  | <b>133,598</b>   | <b>42,389</b>   | <b>40,581</b>  |
| <b>Liquidity Coverage Ratio (LCR)</b>    |   |   | <b>Total Adjusted Value <sup>1</sup></b>                             |   | <b>Total Adjusted Value <sup>1</sup></b>                             |
| 20                                       | Total HQLA (after adjustments)  |   | 135,618  |   | 120,220  |
| 21                                       | Net Cash Outflows   |   | 30,094   |   | 49,563   |
| 22                                       | LCR (%)   |   | 448%   |   | 273%   |

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| 5  | Unsecured wholesale funding excluding the deposits of small business customer:                            | 137,479   | 80,167   |
| 6  | • Operational deposits  |   |  |
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| 8  | Secured funding   |   |  |
| 9  | Other cash outflows, including :  |   |  |
| 10                                       | • Resulting from Derivatives  |   |  |
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| 12                                       | • Binding credit and liquidity facilities   |   |  |
| 13                                       | Other contingent funding obligations  | 139,157   | 6,958  |
| 14                                       | Other contractual cash outflows   |   |  |
| 15                                       | <b>Total Cash Outflows</b>  | <b>283,751</b>  | <b>88,653</b>  |
| <b>Cash Inflows</b>                      |   |   |  |
| 16                                       | Secured lending transactions  |   |  |
| 17                                       | Inflows from fully performing loans   | 42,389  | 40,581   |
| 18                                       | Other cash Inflows  |   |  |
| 19                                       | <b>Total Cash Inflows</b>   | <b>42,389</b>   | <b>40,581</b>  |
| <b>Liquidity Coverage Ratio (LCR)</b>    |   |   | <b>Total Adjusted Value<sup>1</sup></b>                              |
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