

**BBK Kuwait**  
**Liquidity Coverage Ratio – Qualitative Disclosure**  
**September 2021**

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.

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 30 September 2021, the average LCR was at 279 % based on simple average of daily LCR values for all days in the quarter. For the quarter ended 30 September 2020 the average LCR was at 367 % 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 30 September 2021, top 25 depositors comprised around 72 % of total deposits while other contingent funding obligations constituted about 9 % of total cash outflows of KD 186 Mill. before application of run-off rate and 1 % of total cash outflows of KD 71 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 30 September 2021 was KD 76 Mill.. As at 30 September 2021, HQLA was KD 56 Mill. where Kuwait Government / CBK debt securities constituted ~ 98 %.

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 include 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 plan 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		30-Sep-20		30-Sep-21	
Sr.	Description	TOTAL UNWEIGHTED Value before applying factors (average)*	TOTAL WEIGHTED Value after applying Factors' (average)**	TOTAL UNWEIGHTED Value before applying factors (average)*	TOTAL WEIGHTED Value after applying Factors' (average)**
<b>High-Quality Liquid Assets (HQLA)</b>					
1	Total HQLA (before adjustments)		178,508		76,364
<b>Cash Outflows</b>					
2	Retail deposits and Small business	8,793	1,683	5,916	1,122
3	• Stable deposits				
4	• Less stable deposits	8,793	1,683	5,916	1,122
5	Unsecured wholesale funding excluding the deposits of small business customer:	231,641	114,801	129,146	74,973
6	• Operational deposits				
7	• Non-Operational deposits (other unsecured commitments)	231,641	114,801	129,146	74,973
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	125,506	6,275	18,218	911
14	Other contractual cash outflows				
15	<b>Total Cash Outflows</b>	<b>364,900</b>	<b>122,760</b>	<b>230,414</b>	<b>85,851</b>
<b>Cash Inflows</b>					
16	Secured lending transactions				
17	Inflows from fully performing loans	76,964	75,452	63,710	63,144
18	Other cash Inflows				
19	<b>Total Cash Inflows</b>	<b>76,964</b>	<b>75,452</b>	<b>63,710</b>	<b>63,144</b>
<b>Liquidity Coverage Ratio (LCR)</b>			<b>Total Adjusted Value '</b>		<b>Total Adjusted Value '</b>
20	Total HQLA (after adjustments)		178,508		76,364
21	Net Cash Outflows		52,158		28,916
22	LCR (%)		367%		279%



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<b>High-Quality Liquid Assets (HQLA)</b>			
1	Total HQLA (before adjustments)		76,364
<b>Cash Outflows</b>			
2	Retail deposits and Small business	5,916	1,122
3	• Stable deposits		
4	• Less stable deposits	5,916	1,122
5	Unsecured wholesale funding excluding the deposits of small business customer:	129,146	74,973
6	• Operational deposits		
7	• Non-Operational deposits (other unsecured commitments)	129,146	74,973
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		
12	• Binding credit and liquidity facilities		
13	Other contingent funding obligations	18,218	911
14	Other contractual cash outflows		
15	<b>Total Cash Outflows</b>	<b>230,414</b>	<b>85,851</b>
<b>Cash Inflows</b>			
16	Secured lending transactions		
17	Inflows from fully performing loans	63,710	63,144
18	Other cash inflows		
19	<b>Total Cash Inflows</b>	<b>63,710</b>	<b>63,144</b>
<b>Liquidity Coverage Ratio (LCR)</b>			<b>Total Adjusted Value *</b>
20	Total HQLA (after adjustments)		76,364
21	Net Cash Outflows		28,916
22	LCR (%)		279%

