

BBK Kuwait
Table 6: LCR Disclosure Template
For the Quarter Ended 30 September 2016

Sr.	Description	TOTAL UNWEIGHTED Value before applying factors (average)*	TOTAL WEIGHTED Value after applying Factors ¹ (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		72,743
Cash Outflows			
2	Retail deposits and Small business	10,903	781
3	• Stable deposits		
4	• Less stable deposits	10,903	781
5	Unsecured wholesale funding excluding the deposits of small business customer:	240,807	158,204
6	• Operational deposits		
7	• Non-Operational deposits (other unsecured commitments)	240,807	158,204
8	<u>Secured funding</u>		
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	<u>Other contingent funding obligations</u>	128,281	6,411
14	Other contractual cash outflows		
15	Total Cash Outflows	373,831	349,164
Cash Inflows			
16	Secured lending transactions		
17	Inflows from fully performing loans	148,456	144,900
18	Other cash Inflows		
19	Total Cash Inflows	148,456	144,900
Liquidity Coverage Ratio (LCR)			Total Adjusted Value ¹
20	Total HQLA (after adjustments)		72,743
21	Net Cash Outflows		48,942
22	LCR (%)		165%

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Liquidity Coverage Ratio – Qualitative Disclosure
September 2016

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

While local implementation of Basel III LCR standard only took effect of from 1st of January 2015, the requirements of LCR disclosure should be complied with effective from the end of 2015. Therefore there is no prior period comparative information on LCR.

For the quarter ended 30 September 2016, the average LCR was at 165 % based on simple average of daily LCR values for all days in the quarter.

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 2016, top 25 depositors comprised around 75 % of total deposits while other contingent funding obligations including LCs, LGs and undrawn commitments constituted about 38 % of total cash outflows of KD 331 Mill. before application of run-off rate and 7 % of total cash outflows of KD 93 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 2016 was KD 73 Mill. As at 30 September 2016, HQLA was KD 84 Mill where Kuwait Government / CBK debt securities constituted about 64 %.

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

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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.

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.

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Liquidity Risk Mitigation Techniques

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

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.