National Bank of Kuwait Group

Liquidity Coverage Ratio Disclosure – 30th September 2020

Introduction

In December 2014, the Central Bank of Kuwait (CBK) issued a directive (2/RB/345/2014) to banks operating in Kuwait on the adoption of the Liquidity Coverage Ratio (LCR) as part of the Central Bank's implementation of the Basel III reforms.

The main objective of the Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of up to 30 days.

The LCR is reported and monitored at three organizational levels: *Local level* (NBK Kuwait excluding its overseas branches), *Bank-wide* level including NBK Kuwait and its overseas branches (NBK SAKP), and *Group Level* including all overseas branches and its banking subsidiaries (NBK Group).

Governance of Liquidity Risk Management

NBK Group 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, roles and responsibilities, processes and procedures for managing liquidity risk. Specifically, the Policy outlines procedures for identifying, measuring and monitoring of liquidity risk parameters in line with regulatory and internal limits, under normal and stress scenarios.

The day-to-day cash-flows and liquidity management are handled by 'local' Treasuries at the Head Office and international locations, and the longer-term liquidity and funding profile of the Group are monitored and managed by Group Treasury under the oversight of the Asset and Liability Executive Committee (ALEC).

The Liquidity Policy also encompasses the Group's Contingency Funding Plan (CFP) which is intended to provide a framework for effective responses to any potential liquidity crisis, whether triggered by Bank-specific or by market-wide (systemic) liquidity disturbances. The CFP incorporates a set of actions which serve to enhance the liquidity position of the Bank depending on the phase and severity of the crisis. The plan also outlines the decision-making process in times of crisis.

NBK Group's Funding Strategy

NBK Group's long-term strategy has been to maintain a strong and diversified liabilities profile. The Group has embraced a robust funding profile through its wide base of domestic retail and corporate customers and diversified wholesale funding through its international network of branches and subsidiaries, i.e., a "Yankee" CD program at its New York branch and a Multi-Currency CD program at its London subsidiary. 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.

NBK Group's international network of branches and subsidiaries offers well-diversified funding sources in terms of geography and client types. The Group's major funding counterparties comprise government and quasi-sovereign agencies (Kuwaiti, GCC and international) and central banks, as well as major international companies, with which NBK has established a strong and long-term relationship.

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Results Analysis and Main Drivers

Despite the impact of COVID-19 lockdown on the global economy and financial markets, the Bank maintained a comfortable liquidity position. The HQLA buffer at Group level during the three months ending September 30th, 2020 averaged KD 6.797 billion (post-haircut) against an average net cash-outflow of KD 4.480 billion. The daily-average LCR for the observed period was 152.21%.

The HQLA comprised primarily "Level 1" assets which represent cash and reserve balances with the Central Bank of Kuwait (CBK) and the central banks of countries where the Bank has branches and subsidiaries, as well as government debt issuances in domestic and foreign currencies.

The cash-outflows were driven primarily by unsecured wholesale funding and inter-bank borrowings. The unsecured wholesale funding constituted 60.80% of the total weighted cash-outflows.

Retail deposits (including deposits from small-sized business customers) and other contingent funding obligations contributed 15.29% and 7.79% of the total weighted cash-outflows, respectively. Contingent funding obligations primarily include committed credit facilities to non-financial corporates and sovereigns, and guarantees and letters of credit (LCs) issued on behalf of the Bank's clients.

As part of the COVID-19 relief package to troubled sectors, the Bank postponed the repayments of loan instalments to the Retail and SME sectors by six months in April 2020. As a result, inflows from loans to both sectors were excluded from the Cash Inflows in the calculation of the ratio.

Cash-flows related to financial derivatives mainly comprised interest rate swaps and foreign exchange contracts. NBK primarily uses linear derivatives to hedge its own exposures, therefore not having a major impact on Bank's net cash-flows. Collateral used to mitigate credit risk arising from derivatives exposures are managed through applicable Credit Support Annexes (CSA) agreements and daily cash margining.

Quantitative information on the Liquidity Coverage Ratio is provided in the table below. The values are calculated as the simple average of daily observations over the period between July 1st and September 30th 2020 for NBK Group.

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TABLE 6 : LCR Disclosure *

			"KWD '000s"
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)		6,796,687
Cash Outflows		-	-
2	Retail deposits and small business	9,585,469	1,227,357
3	• Stable deposits	16,883	1,529
4	• Less stable deposits	9,568,586	1,225,828
5	Unsecured wholesale funding excluding the deposits of small business customers:	7,786,485	4,879,460
6	• Operational deposits	1,149,761	287,440
7	• Non-operational deposits (other unsecured commitments)	6,636,724	4,592,020
8	Secured Funding	-	-
9	Other cash outflows, including:	4,362,049	1,562,446
10	• Resulting from Derivatives	1,206,713	1,206,713
11	• Resulting from assets-backed securities and commerical paper (assuming that re-funding is not possible)	-	-
12	• Binding Credit and Liquidity facilities	3,155,336	355,733
13	Other contingent funding obligations	5,392,820	269,641
14	Other contractual cash outflow obligations	85,971	85,971
15	**Total Cash Outflows**		**8,024,876**
Cash Inflows:			
16	Secured lending transactions		
17	Inflows from fully performing loans	3,711,445	2,311,676
18	Other cash inflows	1,233,089	1,233,089
19	**Total Cash Inflows**	**4,944,534**	**3,544,765**
	Liquidity Coverage Ratio (LCR)		**Total Adjusted Value[2]**
20	Total HQLA (after adjustments)		6,796,687
21	Net Cash Outflows		4,480,111
22	LCR (%)		**152.21%**

* Quarterly Statement.

** Simple Average for all business days of the template reporting period.

1 Weighted values must be calculated after the application of respective haircuts (for HQLA) and inflow and outflow rates.

2 Adjusted values must be calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e. cap on Level 2B and level 2 assets for HQLA and cap on inflows).