

### 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, overseas branches (NBK SAKP), and *Group Level* including all overseas branches and subsidiaries (NBK Group).

### Governance of Liquidity Risk Management

The Bank's 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 Bank are monitored and managed by Group Treasury under the oversight of Group Asset and Liability Executive Committee (ALEC).

The Liquidity Policy also encompasses the Bank'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 defines a number of quantitative and qualitative triggers and corresponding actions which serve to enhance the liquidity of the Bank in the very early stages of an impending funding crisis. The plan also defines the decision-making process in times of crisis by assigning the relevant authority with a menu of actions depending on the phase and severity of the crisis.

### Bank's Funding Strategy

NBK's long-term strategy has been to maintain a strong and diversified liabilities profile. The Bank has embraced a robust funding profile through its wide base 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 European Commercial Paper (ECP) program at NBK Kuwait. Given its strong and consistent credit rating, the Bank is able to obtain a longer term funding from the debt market.

NBK's international network of branches and subsidiaries offers well-diversified funding sources in terms of geography and client types. The Bank'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.



### Results Analysis and Main Drivers

The Bank maintained a comfortable HQLA buffer at Group level during the three months ending December 31, 2015, averaging KD 5.244 billion (post-haircut) against an average net cash-outflow of KD 4.026 billion. The average LCR (130.54%) exhibited stability with standard deviation of daily values in a range of 5% for the observed period (Q4 2015).

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 sovereign debt issuances in domestic and foreign currencies.

The cash outflows were primarily driven by unsecured wholesale funding and inter-bank borrowings. The unsecured wholesale funding constituted 71% of the total weighted cash outflows.

Retail deposits (including deposits from small-sized business customers) and other contingent funding obligations contributed 9.6% and 6.3% of the total weighted cash outflows, respectively. Contingent funding obligations primarily include committed credit facilities to non-financial corporates, sovereigns and central banks, guarantees and letters of credit (LCs) issued on behalf of the Bank's clients. Cash flows related to derivatives mainly comprised the interest rate swaps and foreign exchange contracts.

NBK primarily uses linear derivatives with low volatility to hedge its books in corresponding cash-flows. Collateral used to mitigate credit exposures related to derivatives are managed through applicable Credit Support Annexes (CSA) agreements and daily cash margining on mutual basis, therefore not having a major impact or contributing to the volatility of Bank's overall cash-flows.

## Liquidity Coverage Ratio Disclosure - 31<sup>st</sup> December 2015

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 October 1<sup>st</sup> and December 31<sup>st</sup> 2015 for NBK Group.

"KWD '000s"			
Sr.	Description	TOTAL UNWEIGHTED Value before applying factors (average)*	TOTAL WEIGHTED Value after applying factors <sub>1</sub> (average)**
<b>High-Quality Liquid Assets (HQLA)</b>			
1	Total HQLA (before adjustments)		5,243,517
<b>Cash Outflows</b>			
2	Retail deposits and small business	5,701,030	798,957
3	Stable deposits	11,748	1,163
4	Less stable deposits	5,689,282	797,794
5	Unsecured wholesale funding excluding the deposits of small business customers:	8,104,825	5,877,525
6	Operational deposits	607,735	151,934
7	Non-operational deposits (other unsecured commitments)	7,497,089	5,725,591
8	<b>Secured Funding</b>	-	-
9	Other cash outflows, including:	3,787,169	1,342,738
10	Resulting from Derivatives	1,046,901	1,046,901
11	Resulting from assets-backed securities and commercial paper (assuming that re-funding is not possible)	-	-
12	Binding Credit and Liquidity facilities	2,740,268	295,836
13	Other contingent funding obligations	4,460,093	223,005
14	Other contractual cash outflow obligations	40,946	40,946
15	<b>Total Cash Outflows</b>		<b>8,283,171</b>
<b>Cash Inflows:</b>			
16	Secured lending transactions		
17	Inflows from fully performing loans	4,460,390	3,202,255
18	Other cash inflows	1,054,609	1,054,609
19	<b>Total Cash Inflows</b>	<b>5,514,999</b>	<b>4,256,864</b>
<b>Liquidity Coverage Ratio (LCR)</b>			<b>Total Adjusted Value<sub>2</sub></b>
20	Total HQLA (after adjustments)		5,243,517
21	Net Cash Outflows		4,026,307
22	LCR (%)		130.54%

\* Quarterly Statement.

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

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

2 Adjusted values are 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).