



The Commercial Bank of Kuwait Group

Public Disclosures on

Liquidity Coverage Ratio

31 March 2018

The following qualitative and quantitative public disclosures on Liquidity Coverage Ratio (LCR) are being provided in accordance with Central Bank of Kuwait (CBK) circular no. 2/BS /345/2014 dated December 23, 2014. This disclosure will enable and allow market participants to assess key pieces of information about the short-term resilience of the Bank's liquidity risk profile, and stock of high quality liquid assets to meet its liquidity needs for a 30 days liquidity stress scenario.

The LCR is a global minimum standard for bank liquidity. It aims to ensure that a bank has an adequate stock of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its 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 CBK prescribed outflow factors to the various categories of liabilities (deposits, unsecured and secured wholesale borrowings), as well as to undrawn commitments and derivative-related exposures, partially offset by inflows (after application of inflow factors) from assets maturing within 30 days.

The Bank's average LCR is at 193% for the quarter ended 31 March 2018. The average HQLA, cash inflows and cash outflows are amounted to KD 543,076 thousand, KD 1,058,717 thousand and KD 1,125,900 thousand respectively for the quarter ended 31 March 2018.

A strong and diversified liabilities profile has been at the helm on Bank's growth strategy. The Bank has consistently maintained a robust funding profile with a significant portion of funding coming through deposits. The liquidity of the Bank has been comfortable and the Bank expects the same going forward given the liquidity profile of the Bank. The Bank does not foresee any legal or regulatory constraints that may limit the Bank's ability to meet its liabilities.

The Bank has a liquidity risk management policy in place approved by the Board of Directors. The Bank has an internal governance system wherein Asset Liability Committee (ALCO) oversees the liquidity management function. Roles of different divisions with respect to liquidity risk management are clearly specified in the Bank's liquidity risk management policy.

The Bank has specific internal limits in place to ensure that the funding sources of the Bank are diversified. These include limits on deposits taken from significant counterparties, deposits taken from high risk and very high risk significant counterparties, deposits sourced through significant products / instruments, deposits sourced through highly sensitive and very highly sensitive significant products/instruments etc. The Bank periodically identifies significant counterparties and products as those that exceed 1% of the liabilities and does an internal scoring based on various factors that impact the liquidity of these funding sources in a scale of 1 to 4 with 1 indicating very low sensitive funding source and 4 indicating very high sensitive funding source. The Bank also has internal limits for liquidity gaps and other liquidity based limits (like LCR & NSFR) that are more conservative than the regulatory limits.

The Bank has sufficient funding lines with various counterparties which are periodically reviewed. The Bank also ensures that it maintains sufficient capital by computing internal capital for liquidity risk.

The Bank conducts liquidity stress tests on a half yearly basis and the results are extensively discussed in the ALCO. The liquidity stress tests ensure that the Bank has sufficient funding sources to be able to counter its short term cash outflows under mild, moderate and severe stress scenarios and also assess the cost involved in the same. The liquidity stress test results are used in the enterprise wide stress test for assessing the stressed Capital Adequacy Ratio.

The Bank has a liquidity contingency plan approved by the Board of Directors. A significant feature of the same is an internally developed Early Warnings Indicator of a liquidity crisis that considers all possible factors (both external and internal factors) that lead to a liquidity crisis, which is monitored on a weekly basis.



Table (6): LCR disclosure form during the quarter ended 31 March 2018 (*)

| Sr | Item | Value before implementing the Flow Rate (average) (**) KD 000's | Value after implementing the Flow Rate (1) (average) (**) KD 000's |
|------------------------------------|--|--|---|
| High Quality Liquid Assets (HQLA): | | | |
| 1 | Total HQLA (before adjustments) | | 543,076 |
| Cash Outflows: | | | |
| 2 | <u>Retail Deposits and Small Businesses</u> | 1,015,741 | 133,474 |
| 3 | * Stable Deposits | 0 | 0 |
| 4 | * Less Stable Deposits | 1,015,741 | 133,474 |
| 5 | <u>Unsecured wholesale deposits and funding with the exception of the small business customer deposits</u> | 951,512 | 566,318 |
| 6 | * Operational Deposits | 0 | 0 |
| 7 | * Non-Operational Deposits (Other unsecured liabilities) | 951,512 | 566,318 |
| 8 | <u>Secured Funding</u> | | 0 |
| 9 | <u>Other Cash Outflows including:</u> | 433,957 | 314,668 |
| 10 | * Resulted from Derivatives | 288,859 | 288,859 |
| 11 | * Resulted from securities and commercial papers backed by assets (assuming inability to re-finance) | 0 | 0 |
| 12 | * Credit lines and committed liquidity | 145,098 | 25,809 |
| 13 | Other future contingent funding liabilities | 2,144,120 | 107,206 |
| 14 | Other contractual cash outflows | 4,235 | 4,235 |
| 15 | Total Cash Outflows | | 1,125,900 |
| Cash Inflows: | | | |
| 16 | Secured Lending Transactions | 0 | 0 |
| 17 | Cash Inflows resulted from performing loans | 889,033 | 769,704 |
| 18 | Other cash inflows | 289,014 | 289,014 |
| 19 | Total Cash inflows | 1,178,046 | 1,058,717 |
| LCR | | | Value after Amendments (2) |
| 20 | Total of HQLA (after adjustments) | | 543,076 |
| 21 | Net Cash Outflows | | 281,475 |
| 22 | LCR % | | 193% |

* Quarterly Statement.

** Simple Average for all days during the quarter ended 31 March 2018.

1 Is the value after applying the HQLA haircuts and Cash Outflows and Inflows.

2 Is the value after applying the HQLA haircuts and Cash Inflows and Outflows, and calculation of the maximum limits of Level 2 Assets and cash inflows.

