Al Ahli Bank of Kuwait Group

Liquidity Coverage Ratio Disclosure – 31 MARCH 2020

Basel III Liquidity Coverage Ratio:

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 objective of LCR is to enhance the management of liquidity risks in banks by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

The LCR is reported and monitored at three organizational levels: Local level ABK Kuwait (Al Ahli bank of Kuwait) excluding its overseas branches, Bank-wide level including ABK Kuwait & its overseas branches, and Group Level including all overseas branches and subsidiaries (ABK Group).

Result analysis

The Bank maintained a comfortable HQLA at Group level during the business days in the **three months** ending **MARCH 31, 2020**, averaging **KD 651 million** (post-haircut) against an average net cash-outflow of **KD 212 million**. Accordingly, the average LCR for the period was **308%** against the CBK minimum requirement of 100%.

The HQLA comprised primarily "Level 1" assets which included balances with Central banks, treasury bills and Government bonds to support the LCR ratio.

The cash-outflows were primarily driven by unsecured wholesale funding. The unsecured wholesale funding constituted **64%** of the total weighted cash-outflows.

Retail deposits (including deposits from small-sized business customers) and other contingent funding obligations (Guarantees, LCs, revocable credit and liquidity facilities, etc) contributed **18%** and **3%** of the total weighted cash-outflows, respectively.

Cash-flows related to derivatives mainly comprised interest rate swaps and foreign exchange contracts.

Liquidity Risk

Liquidity risk is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates.

The Bank's projected liquidity needs are analysed and optimum alternatives to manage the liquidity risk are recommended. The Risk Management division identifies liquidity at risk, which is monitored and reported daily. Liquidity management policies and a contingency liquidity plan have been established, which is intended to provide a framework for effective responses to any potential liquidity crisis.

A liquidity stress test is conducted quarterly to assess the impact of the withdrawal of deposits and crystallisation of contingent liabilities in mild, medium and severe scenarios, under both Bank-specific and systemic scenarios. The concentration in deposits is monitored on a regular basis and reviewed by ALCO (Assets and Liability Committee).

Liquidity risk appetite has been put in place with the following parameters – liquid assets, total assets, loans to deposits; cumulative negative maturity mismatch; funding source diversification; stress testing under severe scenario; and capital consumption. These appetite parameters are used for driving liquidity risk and the exposure the Bank would be willing to take, and to manage risk levels within appetite levels.

Liquidity risk is further reduced by the Bank's adherence to the CBK's liquidity requirements, which comprise:

- Maturity ladder mismatch limits for specific time periods: 10 per cent. For seven days or less; 20 per cent. For one month or less; 30 per cent. For three months or less; and 40 per cent. for six months or less;
- A requirement to hold 18 per cent. of KD customer deposits booked in the Bank, in Kuwaiti government treasury bills and bonds, current account/deposit balances with the CBK and/or any other financial instruments issued by CBK; and
- A requirement to keep sufficient funding against loan generation, as required by the CBK under its loan to deposit ratio requirements.

Under Pillar II, liquidity risk is assessed for Bank-specific and general market scenarios, and capital is provided to manage the risk.

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 **1 JANUARY 2020** and **31 MARCH 2020** for the Bank.

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Table No (6): LCR Disclosure Form			
		"KD thousand"	
Sr	Statement	Value before applying the flow rates (average)**	Value after applying the flow rates (average)**
High Quality Liquid Assets (HQLA):			
1	**Total HQLA (before adjustments)**		**651,869**
Cash Outflows:			
2	Retail Deposits and small businesses	1,507,802	156,255
3	* Stable Deposits	-	-
4	* Less Stable Deposits	1,507,802	156,255
5	Unsecured wholesale deposits and funding with the exception of the small business customer deposits	1,053,601	541,691
6	* Operational Deposits	-	-
7	* Non-Operational Deposits (Other unsecured liabilities)	1,053,601	541,691
8	Secured Funding		-
9	Other Cash Outflows Including:	116,296	116,296
10	* Resulted from derivatives	116,296	116,296
11	* Resulted from securities and commercial papers backed by assets (assuming inability to re-finance)	-	-
12	* Credit lines and committed liquidity	-	-
13	Other future contingent funding liabilities	592,011	29,601
14	Other contractual cash outflows	-	-
15	**Total cash outflows**		**843,842**
Cash Inflows:			
16	Secured Lending Transactions	-	-
17	Cash inflows resulted from performing loans	654,839	567,813
18	Other cash inflows	116,561	116,561
19	**Total cash inflows**	**771,400**	**684,374**
	LCR		**Value after adjustments (22)**
20	Total of HQLA (after adjustments)		651,869
21	Net of cash outflows		**210,960**
22	LCR		**309%**

** Quarterly Statement.*

*** Simple Average for all the working days during the period for which the form is prepared.*