

## Basel III Net Stable Funding Ratio (NSFR):

### Introduction

In October 2015, the Central Bank of Kuwait (CBK) issued a directive (2/BS/356/2015) to banks operating in Kuwait on the adoption of the Net Stable Funding Ratio (NSFR) as part of the Central Bank's implementation of the Basel III reforms.

The main objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have sufficient level of stable funding in relation to their assets and off-balance sheet activities.

NSFR is defined as the amount of available funding relative to the required stable funding. This ratio should be maintained at least 100% on an ongoing basis.

Available Stable Funding (ASF) figure is measured according to the relative stability of Capital & Liabilities based on their duration and behavioral characteristics of funding sources.

Required Stable Funding (RSF) is defined as the portion of assets and off-balance sheet (OBS) exposures expected to be funded on an ongoing basis over a one-year horizon. The amount of such stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures.

Central Bank require banks to prepare NSFR report on daily basis to be reported on monthly for all business days based on the position at the end of the month and the average of daily ratio for all business days during the month for which reports are reported.

The NSFR 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 stable funding buffer at Group level during the business days in the **three months** ending **JUNE 30, 2020**.

Available Stable Funding (ASF) at ABK Group level as of end of **JUNE 2020** was around **KD 3,523 Million** against **KD 3,243 Million** of Required Stable Funding (RSF), resulting in NSFR of **108.44%** against CBK minimum requirement of 100%.

The Available stable Funding comprises mainly adequate capital base, Retail deposit base and long-term funding from non-financial corporate, PSEs and institutional clients.

The capital base formed around **21%**, retail deposits (including deposits from small-sized business customers) formed **38%**, and wholesale funding formed **30%** of the total Available Stable Funding after applying the relevant weights.

The Required Stable Funding comprised primarily lending to companies, businesses, corporates, retail clients and financial institutions and the off balance sheet exposures.

Performing loans comprised almost **83%** of the total Required Stable funding and rest of the components include High Quality Liquid Assets (HQLA), Non HQLA qualifying investments, commitment, off-balance sheet exposures, Other Assets and Intangibles which constitute remaining **17%** of the total Required Stable Funding for the Bank after applying relevant weights.

Quantitative information on Net Stable Funding Ratio as on **JUNE 2020** is provided in the table below:

Table 4: NSFR Disclosure Form during the period ending **JUNE 2020**

KWD '000

Sr.	Item	Values (before applying factors) according to residual maturity				Value after applying NSFR factors
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
<b>Available Stable Funding (ASF):</b>						
1	<b>Capital:</b>					
2	• Regulatory capital	735,257	0	0	0	735,257
3	• Other capital instruments	0	0	0	0	0
4	<b>Deposits provided by retail &amp; SME customers</b>					
5	• Stable deposits:	0	0	0	0	0
6	• Less stable deposits:	0	1,138,290	267,133	85,665	1,350,545
7	<b>Deposits provided by other than retail customers</b>					
8	• Operational deposits	-	14,813	-	-	7,406
9	• Other deposits provided by other than retail customers	-	2,057,340	196,475	54,232	1,059,334
10	<b>Other liabilities</b>					
11	• Net derivative liabilities	239	0	0	0	0
12	• Other liabilities (not included in the categories above):	89,356	791	257	370,507	370,928
13	<b>Total ASF (sum of items 1 to 7)</b>	<b>824,852</b>	<b>3,211,233</b>	<b>463,864</b>	<b>510,404</b>	<b>3,523,470</b>
<b>Required Stable Funding (RSF):</b>						
14	<b>Total HQLA</b>	595,995	0	0	7,219	35,030
15	<b>Deposits held at other financial institutions for operational purposes</b>	0	0	0	0	-
16	<b>Performing loans and securities</b>					
17	• Performing loans to financial institutions where the loan is secured by Level 1 HQLA	0	0	0	0	0
18	• Performing loans to financial institutions where the loan is secured by HQLA other than Level 1, and non-secured performing loans to financial institutions	-	308,323.78	48,748.13	84,713.08	155,335.72
19	• Performing loans to non-financial institutions, loans to retail and SME customers, loans to government entities, central banks, and public sector entities including:	-	1,098,829	432,997	1,874,183	2,512,171
20	– Loans with a risk weight of less than or equal to 35% as per Basel III CAR	-	-	-	7,475	4,859
21	• Performing residential loans including:	-	-	-	-	-
22	– Loans with a risk weight of less than or equal to 35% as per Basel III CAR	-	-	-	-	-
23	• Unencumbered securities that are not in default and exchange-traded equities in cases where the issuer is not in default	0	0	0	0	0
24	<b>Other Assets:</b>					
25	Physical traded commodities, including gold	0	0	0	0	-
26	Assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP	0	0	0	0	-
27	<b>Derivative assets</b>	201	-	-	-	2,364
28	<b>20% of derivative liabilities before deducting variation margin posted</b>	47.8663701	0	0	0	47.87
29	Other assets not included in the above categories	257,571	32,929	5,932	194,287	471,289
30	<b>Off-balance sheet items</b>	419,618	421,516	199,681	230,569	63,569
29	<b>Total RSF</b>	<b>1,273,432</b>	<b>1,861,598</b>	<b>687,358</b>	<b>2,398,446</b>	<b>3,242,502</b>
32	<b>NSFR (%)</b>	<b>64.774%</b>	<b>172.499%</b>	<b>67.485%</b>	<b>21.281%</b>	<b>108.67%</b>