2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

C) Circular to all banks and the domestic and external branches thereof with regard to the application of instructions concerning the liquidity system based on the maturity ladder approach.

D) Circular No (2/BS/162/2004) issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004 , amending the instructions issued to all local banks on 14/10/1997 concerning the liquidity system according to the maturity ladder approach.

E) Circular concerning Central Bank of Kuwait intervention in the money market to withdraw surplus liquidity through the monetary instruments deems appropriate.

F) Circular No.(2/BS/234/2008) concerning Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the approach and ratio of customers KD deposits to be held by banks in the form of balances with Central Bank of Kuwait (current or deposits), along with Kuwait Treasury Bills and Bonds or other financial instruments issued by Central Bank of Kuwait.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

THE GOVERNOR

Jumada Al-Akhir 13, 1418 H
October 14, 1997

The Chairman,

Circular to the local banks
No. (2/BS/49/1997)

I would like to advise you that the Board of Directors of the Central Bank of Kuwait has endorsed, at its regular meeting held on October 12, 1997, the following instructions:

1) "Rules and Regulations concerning the Liquidity System according to the Maturity Ladder Approach"[(1)]

2) Local banks are required to maintain 20%[(2)] of their KD customer deposits[(3)] in the form of balances with Central Bank of Kuwait (current account or deposits) in addition to Kuwaiti Treasury bills and bonds, or any other financial instruments issued by the Central Bank.[(4)]

In this regard, I would like to attach herewith a copy of the "Rules and Regulations concerning the Liquidity System according to the Maturity Ladder Approach". Your bank shall adhere to the enclosed instructions as effective from this date, and has to cancel all the previous directives issued in respect of the liquidity system along with any other guidelines contradictory therewith. Furthermore, the relevant formats of tables designed for this purpose are annexed with the instructions. Your bank shall complete such formats and has to furnish the Central Bank of Kuwait therewith pursuant to such instructions.

Besides, your bank shall provide the external auditors with a copy of these instructions and enclosures thereof.

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(1) The amendment was introduced according to the Maturity Ladder Approach by virtue of circular No. (2/BS/162/2004) issued on 8/6/2004.

(2) The ratio was reduced to 18% pursuant to circular No. (2/BS/234/2008) issued on 4/12/2008.

(3) KD deposits received by local banks from government and semi-government agencies and institutions within the framework of financing the investment companies to rectify their liquidity positions, were excluded from total customers KD deposits when calculating the subject ratio, pursuant to circular No. (2/BS/234/2008).

(4) This Paragraph was amended by virtue of the Central Bank of Kuwait Board's approval on 6/6/2004, as mentioned in circular No (2/BS/162/2004) issued on 8/6/2004

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

Each local bank that exceeds the gap limits set out in these instructions should justify to the Central Bank of Kuwait the reasons behind its inadherence to such gap limits. Correspondingly, the Central Bank shall be provided with the time schedule indicating the measures to be taken by each bank for gradual adjustment of its own positions to accomplish the determined limit ratio.

With my best regards,

THE GOVERNOR
SALEM ABDUL-AZIZ AL-SABAH

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

THE GOVERNOR

Instructions No. (2/BS/49/1997) The Liquidity System according to The Maturity Ladder Approach

Introduction

It is known that responsibility for drawing up a sound liquidity management policy rests with each bank. In this connection, all banks are required to take into account the relevant laws and supervisory regulations issued for liquidity management, in order to maintain adequate liquidity, so as to adjust profile between maturities of assets and liabilities, having regard to distribution of risks through asset diversification. By virtue of Article (71) of Law No. 32 of the year 1968 concerning Currency, The Central Bank of Kuwait & the Organization of Banking Business and amendments thereto, stipulating that "**The Central Bank may issue to the banks such instructions as it deems necessary to realize its credit or monetary policy, or to ensure the sound progress of banking business", AND**

Pursuant to provisions of Article (72) thereof, stating that "**The Board of Directors of the Central Bank may - whenever necessary - draw up rules and regulations to which all banks shall adhere in order to ensure their liquidity and solvency, particularly with regard to the ratios which must be maintained between the bank's liquid funds on the one hand and the aggregate of its term and demand liabilities on the other."**

Hereby, the Central Bank of Kuwait issued the following rules and regulations concerning the liquidity system at banks according to the maturity ladder approach.

FIRST: DEFINITIONS

A **bank's liquidity** is defined to be the ability of a bank to accommodate decreases in liabilities and to fund increases in assets. Liquidity profile or position of a bank is deemed to be adequate if its funding capacity is assured, at a suitable market cost, to fund its asset growth requirements in addition to meet expected (or unexpected) decline in liabilities.

In general, liquidity basically depends on the principle of matching between maturities of liabilities on one side and maturities at assets on the other, in such a manner to avoid timely or potential funding pressures. Mismatching, whether wholly or partially, threatens the bank's own liquidity position and endangers its solvency .

As far as banks and financial institutions are concerned, the volatile nature of their liabilities structure, the sensitive response to impact of monetary and economic developments on their operations, along with their diligent efforts to accomplish profitable earnings are altogether able to make the ideal matching between each bank maturities of liabilities and assets an extremely difficult target to be attained.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

Responsibility to realize such ideal matching rests with the bank's own management, due to its daily and immediate capacity to identify and monitor the volume of cash flows, volume of funds available from internal and external sources, beside current and potential obligations that should be addressed by the bank .

As far as the Central Bank of Kuwait is concerned, its responsibility in this connection is virtually directed toward monitoring capacity of banks under its supervision, to meet their obligations when they fall due, and inducing them to enhance their capabilities to address any contingencies resulting from adverse conditions.

For the purpose of meeting the immediate obligations, particularly the contingent, banks are hence required to maintain a minimum limit of liquid funds, or those encashable or liquefiable assets, or the funds to be employed as security for borrowing loans. Furthermore, each individual bank should maintain minimum matching level or profile between assets and liabilities maturities, having regard to distribution of risk in assets through asset diversification. Assets with short-term maturities, unlike those of the long-term, are normally characterized with low risk ratio, or low level of risks.

The Maturity Ladder Approach allocates future cash inflows to future cash outflows over a series of specified time bands from a starting point, usually begin with the immediate maturities of liabilities and assets matured but not paid (Overdue period). Cash inflows arise from maturing assets, unmaturing liquefiable or encashable assets, and established credit lines extended to the bank, which can be tapped for its benefit. Cash inflows can be classified according to asset maturity dates, or discreet projection of dates for drawing down the credit lines granted to the bank.

SECOND: ASPECTS OF THE LIQUIDITY SYSTEM PURSUANT TO THE MATURITY LADDER APPROACH

A: Determination of the Maturity Ladder (Time Bands)

According to the maturity ladder system as an approach for the measurement of liquidity, the future cash inflows of the bank's assets are compared with the future cash outflows of its liabilities over a series of specified time periods. Cash outflows of the bank's liabilities shall encompass its payable obligations and contingent liabilities, particularly the committed lines of credit that can be drawn down. (Cash outflows can be classified according to liabilities maturity dates, or the earliest dates when contingencies can be called). Correspondingly, cash inflows encompass any inflows, which the bank can collect in future. Overdraft limits extended to the concerned bank from other banks are to be included under this conception .

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

Moreover, the bank's assets and liabilities are included in maturity ladder, and then to calculate the net position between cash inflows and cash outflows for each period, whether the difference be surplus or deficit. Such net difference is defined as "liquidity mismatch", where maturities of assets and liabilities are not matching in accordance with **time bands** to be determined as follows:

1- Sight, matured yet not paid (overdues) at the date of reporting.

2- Next day.

3- 7 days & under (apart from next day) .

4- Over 7 days up to one month .

5- Over 1 month up to 3 months .

6- Over 3 months up to 6 months .

7- Over 6 months up to 1 year .

8- Over 1 year .

Additionally, the net accumulative position shall be calculated over these time bands. Meanwhile, the maximum limit of mismatch ratios of assets and liabilities cash flow for each time band - called Mismatch Ratios of Maturities - should be determined.

B: Determination of the rules used for classifying assets and liabilities according to the Maturity Ladder Approach (The Basis of Measurement):

1- LIABILITIES

a- Include deposits of all types (such as: current, savings and term deposits), placed according to residual maturity in an ascending order.

b- Known Commitments in respect of which the necessary funds are to be made available on a particular date. They are included according to residual maturity at their full value. For example: the funds required to meet obligations in respect of extending loans already granted to the client and which the bank knows in advance that the concerned client will draw down.

c- Unknown Commitments which are not due to be met, or will not be actually called, on a specific date. For example, meeting obligations regarding "**Overdraft Facilities**" and "**Contractual Standby Facilities**", and other undrawn facilities, which are unlikely to be utilized in full. For example: the limits granted against guarantee of promissory notes or goods.

As for "**Contractual Standby Facilities**", they shall be included in the item of Other Commitments under the "Next Day" time band.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

In respect of **Overdraft Facilities**, a discount factor at 30% shall be calculated for the unutilized part. The remaining 70% shall be distributed into two equal divisions. The first division shall be included within liabilities maturing in the course of the time band of " 7 days & under ". The second division is to be included within liabilities maturing in the course of the "Over 7 days up to 1 month " time band. Such ratio has been set out in view of the studies undertaken regarding analysis of data forwarded by the local banks according to a specific time series.

On the other hand, the other part expected to be utilized from such Overdraft Facilities (representing 70% of the unutilized part of these facilities) shall be included in Assets side, on the assumption that it will be collected within the time band of "Over 6 months - 1 year ".

d- Contingent liabilities which the bank is expected to repay; (for example: letters of guarantee that would be cashed, court adjudication whereby the bank is obliged to pay a certain amount) shall be included within the time band of "Over 7 days - 1 month".

2- ASSETS

a- Assets are to be stated at their net value, excluding the outstanding defined provisions already specified from such assets.

b- Assets are to be placed according to residual maturity. For example: cash and current accounts, accounts that are temporarily overdrafted and to be covered immediately next day are to be included under Next Day column of the attached table. Furthermore, Kuwaiti Treasury Bills and Bonds are to be included in the same time band, regardless of maturities thereof.

c- As for financial investments of no contractual maturity, which are marketable in the Stock Exchange, such as shares, will be included within the time band of "7 days & under ". In this regard, local and foreign securities will be subject to a discount factor of 5%.

Determination of such discount factor for securities has taken into consideration possible potential securities price fluctuation, besides unfavorable sale conditions at the time when the bank liquefies securities, when necessary.

d- Some Marketable Securities may be excluded from being placed according to their maturity time band, and can be included within " 7 days & under " time band according to the following terms and conditions:

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

- having immediate convertibility into cash at lowest cost;
- having no high investment or credit risks that might significantly affect their values;
- calculation of a discount factor for each type of these assets according to nature and marketability of each as follows:

Serial	Item / Description	Discount factor
1	Certificates of Deposit with less than 6 months remaining term to maturity issued by prime banks *, AND Securities issued by GCC & OECD governments or guaranteed by them with less than 5 years remaining term to maturity	***5%***
2	Certificates of Deposit & FRN's (Floating Rate Notes) with less than 5 years remaining term to maturity issued by prime banks & GCC* governments AND Securities issued by GCC & OECD governments of over 5 years remaining term to maturity	***10%***
3	FRN's with more than 5 years remaining term to maturity issued by GCC & OECD governments or by prime banks or other institutions of high quality creditworthiness(*)	***15%***

e- Regarding the interbank Contractual Standby Facilities, which allow the concerned bank to obtain immediate credit facilities upon request through money market, they shall be classified in the "Next Day" time band.

f- As for the Debt Bonds issued against purchased debts in pursuance of the Law No. (41) of 1993 and amendments thereto, and taking into consideration that a portion of such bonds amortize according to the cash collections or receivables from such debts for the manager banks, when such bonds gradually amortized at the amount of such cash collections. Accordingly, and when considering inclusion of amount expected to be collected from the payment maturing in the same year, the determination of amounts that might be entered from the payment maturing during the year for each individual bank shall be implemented in light of actually accomplished ratios of payments that already matured and repaid in respect of all local banks on consolidated basis. (The remaining balance of payment shall be entered within the Assets related to the "Over 1 year" time band). Banks can be guided by the average of payment ratios that mature at date of preparing the statement. Such average is deemed to be the amount expected to be collected from the payment that matures during the year. Banks shall be notified of such ratios on periodic basis.

(*) For the purpose of defining prime banks and financial institutions that issue such Notes, their definition is limited, as minimum, to the banks and institutions rated at "A" or equivalent by International Rating Agencies (For example: Standard & Poor, Moodys, IBCA).

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

3- OTHER ITEMS

Under collection or payment items should be taken into consideration. In such a case, net position of these items should be calculated and be placed into the "Next Day" time band, according to their nature (whether assets or liabilities).

C: Maximum Limits of Bank Mismatch

The maximum mismatch limits for the net difference between the cash flows of assets and liabilities, have been set out on an accumulative basis for the time bands between "Sight" (include overdue, next day) to "Up to 6 months". These maximum mismatch limits are to be abided by for all currencies as a whole (Kuwaiti dinar and foreign currencies), as well as for foreign currencies[(1)].

The funding gap shall be measured as a percentage of total liabilities on the basis that it constitutes the denominator since it represents the future payable obligations. These limits will be determined on a unified measure for all the local banks.

Hereunder, the maximum limits for the cumulative gaps during the four time bands from "Sight" to "Up to 6 months" shall be strictly observed by banks, as follows:

Time Band	Maximum Limit of the Cumulative gap
1) 7 days & under	10%
2) 1 month and under	20%
3) 3 months and under	30%
4) 6 months and under	40%

However, the Central Bank of Kuwait may specify gap limits less than those mentioned hereinabove for any of the local banks in view of the concerned bank's financial position and circumstances. Correspondingly, the attached table illustrates the technique to be adopted for liquidity measurement under the Maturity Ladder Approach. Further, such table provides the method to be observed for calculation of gap between assets and liabilities, whether absolute or cumulative.

D: Banks' Internal Liquidity Policy

Banks shall be held responsible for enhancing their own abilities to follow up their liquidity positions. Banks have to ensure that arrangements and internal controls for liquidity management are fully adequate to generate the necessary resources to cover potential outflows, both in normal circumstances and in times of systematic problems. Thereby, the Central Bank of Kuwait envisages that the local banks have to design and prepare their own internal liquidity policies based on the maturity ladder approach.

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(1) This Paragraph was amended by virtue of the Central Bank of Kuwait Board's approval on 6/6/2004, as mentioned in circular (2/BS/162/2004) issued on 8/6/2004.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

Such policies should be in agreement with the following minimum limits:

1- Availability of effective computer systems to provide all necessary information. Such systems are of paramount importance in providing each bank management with all accurate updated and revised data in order to feasibly measure and manage cash flows and liquidity requirements.

2- Taking into consideration the minimum limits set out by the Central Bank of Kuwait in respect of liquidity system, each individual bank should establish its own internal liquidity policy (possibly as a part of an overall policy for Treasury Department thereof). Such policy statement should be endorsed by the concerned bank Board of Directors.

Each bank liquidity policy should include the following as minimum limits:

a) Definition of liquidity concept;
b) Principles adopted for the measurement of liquidity;
c) Time bands assumed by liquidity policy;
d) Mismatch limits or gaps for different time bands, and the basis used for setting these limits. (Are they based on the relationship between the deposit base or total liabilities?)

e) Executives or staff authorized and entitled to set out these limits, and frequency of review thereof;

f) Regarding cash flows, liquidity policy should include the following points:

- volatility and diversity of deposits and other liabilities;
- rollover of deposits and other liabilities under normal conditions or circumstances;
- treatment of deposits at maturity, particularly larger deposits.

g) In respect of cash and liquid assets, liquidity policy should include:

- what assets to be deemed liquid in accordance with type of currencies;
- what minimum balances of such assets that must be maintained.

h) In as far as contingency planning is concerned, liquidity policy needs to outline procedures to ensure that information flows remain uninterrupted in adverse conditions. Similarly, the senior management should be provided with the accurate feedback it requires for making prudent quick decisions, when necessary. In addition, there must be a clear and specific division of responsibility so that all personnel fully understand their duties and what is expected from each of them during abnormal conditions.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

In this connection, the contingency plan should address the following major points:

- Personnel having overall responsibility for liquidity management in abnormal conditions.
- Scenarios to be adopted in abnormal conditions that the bank might encounter.
- Maturing liabilities between bank and clients; and liabilities with non-contractual maturities that can be expected to run off at the break of crisis or contingency.
- Sources of funding expected to run off gradually in time of crisis, and what the rate would be, in addition to sources of funding which are likely to remain with the bank under any circumstances, and extent of increase thereof; and the procedures established by bank management for accessing cash in time of emergency.
- Back up facilities that a bank can draw down therefrom, when necessary.
- The treatment of sight liabilities, such as balances of demand, current and savings deposits.
- The treatment of overdrafts, particularly their potential collectability and usual level of drawdowns.
- The treatment of assets, which fail to mature according to plan.
- The normal level of increase in the new loans and facilities.
- The normal growth of deposits volume.
- The presence of concentrations in the deposit base.
- The impact of off-balance sheet items and derivative obligations (FRA's, Swap Contracts, Letters of Credit, ... etc.)
- Whether there are any seasonal factors to be taken into account.
- Whether the cash flow measurement system includes different scenarios to encounter worst and best cases.

i) As far as the Borrowing Capacity, "Credit Lines", the policy should include:

- The capacity of borrowing from other banks;
- Maximum limit of credit lines for borrowing;
- The nature of normal interbank funding (Overnight, One month. etc.).

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

THIRD:

The liquidity position shall be measured daily. Forms, designed for this purpose (to report the aggregate value of all currencies, as well as the separate values in Kuwaiti dinar and each foreign currency)[1] **shall be presented to the Central Bank of Kuwait at end of each week. Additionally, each bank is required to submit a quarterly liquidity report, audited by the bank's external auditors.**

FOURTH:

Banks exceeding the limits related to the above mentioned gaps are required to gradually adjust their conditions in such a manner to conform to such limits during a period not later than 6 months from date of implementing these instructions.

FIFTH:

Previous instructions concerning rules and regulations on the liquidity system and other directives contrary to these instructions shall be repealed.

SIXTH:

These instructions shall be enforceable from date of notification thereof.

Issued on October 12, 1997

[1] This paragraph was amended by virtue of the circular No. (2/BS/162/2004) issued on 8/6/2004.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

A) Rules and Regulations No.(2/BS/49/97) concerning the Liquidity System according to the Maturity Ladder Approach.

THE GOVERNOR

Directives concerning completion of the tables related to the Liquidity System according to the Maturity Ladder Approach issued according to Instructions No. (2/BS/49/1997)

Broadly speaking, local banks are required to take into consideration that the items and terms mentioned in the tables pertaining to the Liquidity System according to the Maturity Ladder Approach shall fully correspond with the meanings and guidelines detailed in the "Explanatory Note" regarding completion of financial position data forms (BS's), which had been dispatched to banks on February 13, 1978.

Items included in the table shall be classified according to maturity time bands, taking into account the following points:

FIRST: ASSETS

1- **Cash and Cash items** shall be stated at their book value in the "Next Day" maturity time band.

2- **Deposits with the Central Bank of Kuwait**:

Such deposits are usually structured in the form of current accounts. They shall be included in the "Next Day" maturity time band. However, if such deposits are in the form of Time Deposits, they shall be included according to their maturity.

3- Kuwaiti Treasury Bills & Bonds:

They shall be included at full value in the "Next Day" maturity time band, regardless of their maturity dates.

4- Deposits with resident and foreign banks:

These Deposits shall be distributed or classified according to their maturity dates at preparing the related statement. Such deposits should be included according to remaining term to maturity; (residual term).

5- Certificates of Deposit:

Certificates of Deposit shall be included according to remaining term to maturity at preparing the related statement.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

Banks are requested to consider the contents of Paragraph "d" of item 2 "ASSETS", Section, "B" Clause "SECOND" of the instructions. This paragraph refers to exclusion of some Marketable Securities from being placed according to their maturity time band. However, the same can be included within the "7 days & under" time band according to certain conditions. Banks must observe such conditions mentioned in these instructions taking into account calculation of related discount factor, as illustrated in detail hereafter in the instructions.

6- Claims on other financial institutions and investment companies:

They shall be stated at net value, excluding the defined provisions according to maturities.

7- Lending to residents and non-residents:

They shall be included at net value, excluding the defined provisions, and to be classified according to related maturity.

8- Financial Investments:

They shall be placed at net value, excluding the defined provisions, taking into consideration the following points:

A- Purchased Debt Bonds shall be included into the " Over 1 year " maturity time band. As for the payment therefrom that matures during the year, the receivable part expected to be collected shall be placed according to the specified maturity time band at preparing the statement. The amount expected to be received is calculated on basis of average of actual collection ratio of such payments that already matured and collected by the bank. Banks shall be notified of such ratio on the basis of which the banks should calculate the payment, which is expected for collection during the year.

B- As for the other Bonds (whether related to foreign governments, banks or financial institutions), they shall be placed according to their maturity time band at preparing the statement. It is possible to include the bonds having certain specific conditions after calculating relevant discount factor, as illustrated in the Instructions in respect of the " 7 days & under " maturity time band.

C- As for shares listed in Kuwait Stock Exchange or international capital markets, they shall be included in the "7 days & under" maturity time band, provided a discount factor of 5% shall be considered.

As for shares unlisted in Kuwait Stock Exchange or international capital markets, they shall be included at full value (without taking any discount factor) within the "Over 1 year" time band.

9- Contractual Standby Facilities:

They shall be included in the table under the item of "Other Commitments" in the "Next Day" maturity time band.

10- Fixed Assets:

They shall be included at net value in the "Over 1 year" time band, after taking depreciation.

11- Other Assets:

They shall be included at net value, excluding the defined provisions, according to maturity dates.

SECOND: LIABILITIES & SHAREHOLDERS EQUITY

1- All types of Deposits and Certificates of Deposit shall be included according to the remaining term to maturity. Banks are required to take into account the placing of current, demand and savings deposits at full value in the "Next Day" time band.

2- "**Other Commitments**" are represented in the following items:

a- Known Commitments. They are the commitments on which the necessary funds are to be made available on particular dates.

Example: Term loans granted to the customer, which the bank knows before hand that the customer will draw down in the specific dates. They shall be included according to maturity bands at full value.

The same value of such type of liabilities shall be reflected or reversed under the item "Other Commitments" according to maturity dates specified in loan contracts.

b- Unknown Commitments

They are commitments which are not due to be met, or will not be actually called, on a specific date, such as: "Overdraft Facilities," and "Contractual Standby Facilities".

In the case of Overdraft Facilities, a discount factor shall be established for the unutilized part of 30%. The second remaining part representing 70% shall be distributed into two equal divisions. The first division shall be entered under liabilities maturing in the course of the "7 days & under" time band. The second division shall be entered under liabilities maturing in the course of the "Over 7 days- 1 month" time band.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

On the other hand, the other part expected to be utilized from such Overdraft Facilities (representing 70% of the unutilized part of such facilities) shall be included in Assets side under the item of "Other Commitments" in Over 6 months - 1-year" time band. Regarding the "Contractual Standby Facilities", they shall be placed in the item of "Other Commitments" under the Next Day time band.

3- Shareholders' Equity

Shareholders equity shall be entered into the "Over 1 year" time band.

4- Other Liabilities

Such liabilities shall be entered according to their maturity time bands. Banks are requested to observe that Other Liabilities shall include profit for the period, which shall be placed in accordance with expected maturity date, as well. Additionally, they shall include the general provisions to be placed into the "Over 1 year" time band.

THIRD: CALCULATION OF GAPS

Mismatches or gaps shall be calculated on absolute and cumulative basis (for each time band) as a percentage of eligible liabilities. The denominator of such percentage shall be the liabilities (under "Total" column in the liquidity tables), excluding equities. Further, this will be the case with the cumulative gap.

Issued on October 12, 1997

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

Central Bank of Kuwait
Off-site Supervision Department

Liquidity Report

KD 000's

	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS– 1 MONTH	OVER 1 MONTH– 3 MONTHS	OVER 3 MONTHS– 6 MONTHS	OVER 6 MONTHS– 1 YEAR	OVER 1 YEAR
ASSETS **Liquid & Semi Liquid Assets**									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.(Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
Maturing Assets **1-Clamis on other fin. institutions & inv. co's**									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
Liabilities **1-Deposits**									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
TOTAL LIABILITIES (4)									

Absolute Mismatch (T3 – T4)									
Cumulative Mismatch (T3–T4) + Previous time per									
Absolute Mismatch %(T3–T4)/(TT4–Capital Base)									
Cumulative Mismatch %(C.M. /T T4–Capital Base)									

Central Bank of Kuwait
Off-site Supervision Department

Liquidity Report

FC 000's

	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS– 1 MONTH	OVER 1 MONTH– 3 MONTHS	OVER 3 MONTHS– 6 MONTHS	OVER 6 MONTHS– 1 YEAR	OVER 1 YEAR
ASSETS **Liquid & Semi Liquid Assets**									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.(Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
Maturing Assets **1-Clamis on other fin. institutions & inv. co's**									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
Liabilities **1-Deposits**									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
TOTAL LIABILITIES (4)									

Absolute Mismatch (T3 – T4)									
Cumulative Mismatch (T3–T4) + Previous time									
Absolute Mismatch %(T3–T4)/(TT4–Capital Base)									
Cumulative Mismatch %(C.M. /T T4–Capital Base)									

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

Central Bank of Kuwait
Off-site Supervision Department

Liquidity Report

Total 000's

	TOTAL	OVERDUE	NEXT DAY	7 DAYS & UNDER (EXCLUDING NEXT DAY)	OVER 7 DAYS– 1 MONTH	OVER 1 MONTH– 3 MONTHS	OVER 3 MONTHS– 6 MONTHS	OVER 6 MONTHS– 1 YEAR	OVER 1 YEAR
ASSETS **Liquid & Semi Liquid Assets**									
1-Cash & Cash Item									
2-Deposits with Central Bank of Kuwait									
3-Kuwait T.(Bills + Bonds) & CBK bills									
4-Deposits with resident banks									
5-Deposits with foreign banks									
6-CD'S									
TOTAL(1)									
Maturing Assets **1-Clamis on other fin. institutions & inv. co's**									
2-Lending to Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
3-Lending to Non Residents									
A) Loans									
B) Bills Discounted									
C) Overdrafts									
4-Investments									
A) Bonds& Debentures (Govt.)									
B) Bonds& Debentures (Non Govt.)									
C) Shares									
D) Floating Rates Notes									
E) Other Investments									
5-Other Commitments									
6-Fixed Assets									
7-Other Assets									
TOTAL(2)									
TOTAL (3) ie. (1+2)									
Liabilities **1-Deposits**									
A) Private Deposits									
B) Deposits from Banks									
C) Deposits from Central Bank of Kuwait									
D) Deposits from financial inst.									
E) Government Deposits									
2-CD'S Issued & other short term papers issued									
3-Other Commitments									
4-Capital Base									
5-Other Liabilities									
TOTAL LIABILITIES (4)									

Absolute Mismatch (T3 – T4)									
Cumulative Mismatch (T3–T4) + Previous time									
Absolute Mismatch %(T3–T4)/(TT4–Capital									
Cumulative Mismatch %(C.M. /T T4–Capital									

B) Directives in respect of preparing the tables connected with the Liquidity System according to the Maturity Ladder Approach.

THE EXECUTIVE DIRECTOR

Rajab 10, 1418 H
November 10, 1997

The General Manager,

Circular to all local banks

With reference to letter of His Excellency the Governor of the Central bank of Kuwait dated 14/10/1997, addressed to the Chairman of your bank's Board of Directors, regarding the instructions for the liquidity system based on the maturity ladder approach, we wish to inform you that the mentioned instructions are applicable to banks and their branches in the country and abroad.

Consequently, your bank shall present periodic data on the liquidity with the main office and local branches in the State of Kuwait, along with other data at the bank's level, taken as one organizational unit including its domestic and external branches and excluding its subsidiary companies. These instructions regarding liquidity data shall apply from end of October 1997.

Best Regards,

Dr. Nabeel A. Al-Mannae
The Executive Director for Monetary Policy

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

C) Circular to all banks and the domestic and external branches thereof with regard to the application of instructions concerning the liquidity system based on the maturity ladder approach.

THE GOVERNOR

Rabi Al-Akhir 20, 1425H
June 8, 2004

The Chairman,

Circular No. (2/BS/162/2004) to Local Banks*

I would like to advise you that the Board of Directors of the Central Bank of Kuwait has endorsed, in its regular meeting held on 6/6/2004, the following instructions:

1) Amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder Approach, by obligating banks to abide by the maximum limits of aggregate negative gaps set out by virtue of these instructions for foreign currencies, as well as abiding by these instructions regarding aggregate balances as a whole (Kuwaiti dinar and foreign currencies), while allowing a period of four months from this date for regularizing their positions in this regard. Banks shall abide by these instructions as of the end of the first week of October, 2004.

2) Allowing local banks to maintain 20%(1) of their KD customer deposits(2) as provided for by virtue of the decision of the Board of Directors of the Central Bank of Kuwait in its meeting held on 12/10/1997, deposits in the form of balances with the Central Bank of Kuwait (current account or deposits) in addition to Kuwaiti Treasury Bills and Bonds, or any other financial instruments issued by the Central Bank.

Annexed to these instructions is the Form designed for this purpose. Your bank shall complete this form and submit it to the Central Bank of Kuwait on a weekly basis, according to the liquidity data, as of the week ending on 10/6/2004.

With my best Regards,

THE GOVERNOR
SALEM ABDUL-AZIZ AL-SABAH

* Excluding Islamic banks.

(1) The ratio was reduced to 18% pursuant to circular No. (2/BS/234/2008) issued on 4/12/2008.

(2) KD deposits received by local banks from government and semi-government agencies and institutions within the framework of financing the investment companies to rectify their liquidity positions, were excluded from total customers KD deposits when calculating the subject ratio, pursuant to circular No (2/BS/234/2008) issued on 4/12/2008.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

D) Circular No. (2/BS/162/2004), issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004, amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder approach.

Central Bank of Kuwait
Supervision Sector
Offsite Supervision Department
Banking and Financial Statistics Section

Ratio of Balances with the Central Bank of Kuwait (current and deposits), Government Treasury Bills and Bonds or any other financial instruments issued by Central Bank of Kuwait to customers' KD-deposits on _____/____/____

Bank'sName

In thousand KD

Item	Value
1 - Balances with the Central Bank of Kuwait - Balance of current account in KD - Balance of time deposits in KD	
2 - Balance of Kuwaiti Treasury Bills	
3 - Balance of Kuwaiti Treasury Bonds	
4 - Any other financial instruments issued by the Central Bank of Kuwait - - -	
5 - Total (1+2+3+4)	
6 - Customers' deposits in KD	
7 - Ratio (5/6)	

General Manager

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

D) Circular No. (2/BS/162/2004), issued by decision of the Board of Directors of the Central Bank of Kuwait on 6/6/2004, amending the instructions issued to all local banks on 14/10/1997 concerning the Liquidity System according to the Maturity Ladder approach.

THE DEPUTY GOVERNOR

Rajab 05, 1416 H
August 10, 2005

The Chairman,

Circular to all local Banks

Banking indicators show liquidity surpluses within the banking system with the result of generating downward pressures on the KD interest rates in the market, and accordingly on the rates of interests paid by banks on private sector KD deposits, with the consequent emergence of a shifting trend in the margin between interest rates on KD deposits and interest rates on FC deposits, particularly the US dollar, to the favor of the latter. This trend is increasing and expanding.

Given the potential negative implications of this trend on the national economy if it persists, Central Bank of Kuwait has decided to interfere in the money market towards withdrawing the liquidity surpluses through the monetary instruments it deems appropriate.

Central Bank of Kuwait will closely and constantly follow-up banks' manner of pricing KD deposits in the light of the intervention rates it is going to implement in this respect. Central Bank of Kuwait will stop intervening and dealing with any bank that does not re-price its KD deposits consistently with the official interest rates, particularly interest rates on money market instruments which Central Bank of Kuwait will be using to absorb liquidity surpluses.

With my best regards,

THE DEPUTY GOVERNOR
DR. NABEEL A. AL-MANNAE

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

E) Circular concerning Central Bank of Kuwait intervention in the money market to withdraw surplus liquidity through the monetary instruments deems appropriate.

THE GOVERNOR

Thul-Hijja 06,1429H
December 04, 2008

The Chairman,

Circular No. (2/BS/234/2008) to all local Conventional Banks

This has reference to Central Bank of Kuwait circulars dated 14/10/1997 and 8/6/2004, obliging local banks to maintain 20% of their KD customer deposits in the form of balances with Central Bank of Kuwait (current or deposits), in addition to Kuwaiti treasury bills and bonds, or any other financial instruments issued by Central Bank of Kuwait.

I would like to advise you that on 2/12/2008 the Board of Directors of Central Bank of Kuwait resolved as follows:

1) Reducing the above ratio to become 18%.

2) Excluding the KD deposits received by banks from government and semi-government institutions, within the framework of the investment companies' financing program to rectify their liquidity positions, from the total KD customer deposits, when calculating the above ratio.

With my best regards,

THE GOVERNOR
SALEM ABDUL-AZIZ AL-SABAH

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

F) Circular No.(2/BS/234/2008) concerning Central Bank of Kuwait Board of Directors' resolution of 2/12/2008 on amending the approach and ratio of customers KD deposits to be held by banks in the form of balances with Central Bank of Kuwait (current or deposits), along with Kuwait Treasury Bills and Bonds or other financial instruments issued by Central Bank of Kuwait.

THE GOVERNOR

Rabi Al-Awal 01, 1436 H
December 23, 2014

The Chairman,

Circular No. (2/BS/345/2014) to All Local Conventional Banks regarding Application of Liquidity Coverage Ratio

In line with the international developments in the field of banking supervision and application of the relevant best practices, and within the framework of finalization of Basel III Set of Reforms, we would like to inform you that the Board of Directors of Central Bank of Kuwait (CBK) has resolved in its session held on 23/12/2014 application of liquidity coverage ratio "LCR" Regulations to the local conventional banks, where such application aims to strengthen the banks' abilities to address the liquidity risk on the short term and ensure that banks have sufficient High Quality Liquid Assets (HQLA) to meet the liquidity needs that may arise in a stress scenario lasting for 30 days.

In this respect, we would like to allude that the experimental application of the said ratio should be done over a transitional period of one year (i.e. 2015) during which your bank should provide us with LCR statements on a monthly basis based on the position at the end of each month, and on a daily basis for all business days during the reporting month, within 14 days from the end of the respective reporting period. Such reports should be signed by your bank's Chief Executive Officer "CEO" and reviewed by your external auditors for the monthly periods and audited for the closing period. As for the months of January and February 2015, banks shall be granted a grace period to provide CBK with an electronic copy of such statements via email: SV.OSS.BASEL3@CBK.GOV.KW .

Find enclosed herewith a copy of the LCR regulations, which contain the related reports required from banks.

As for requirements of LCR disclosure, they should be complied with effective from the end of 2015.

With my best regards,

THE GOVERNOR
DR. MOHAMMAD Y. AL-HASHEL

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

The Liquidity Coverage Ratio Guidelines for Conventional Banks

These instructions have been translated from Arabic into English language. If there is any conflict or ambiguity between the two versions, Arabic version shall prevail.

23/12/2014

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2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

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2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

List of Abbreviations

Abbreviation	Description
BCBS	Basel Committee on Banking Supervision
CBK	Central Bank of Kuwait
ECAI	External Credit Assessment Institutions
HQLA	High Quality Liquid Assets
KWD	Kuwaiti Dinar
MDB	Multilateral development bank
PSE	Public sector entity
LCR	Liquidity Coverage Ratio
SPV	Special purpose vehicle

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

Section One: The Liquidity Coverage Ratio Guidelines

First: Introduction

1. As part of the Central Bank of Kuwait's (CBK) continued efforts to update its guidelines in line with global regulatory standards and to advance its supervisory tools, the CBK Board of Directors approved at its meeting held on December 23/12/2014 the Liquidity Coverage Ratio (LCR) in its final form for local conventional banks, including branches of foreign banks operating in Kuwait. The issuance of the LCR Guidelines comes as part of the steps taken by the CBK to implement Basel III reforms and these Guidelines are complementary to the existing liquidity guidelines.

2. The importance of the LCR stems from the far reaching repercussions of the global financial crisis of 2008, which highlighted the weaknesses of banks and financial institutions in liquidity management on an international level. In the aftermath of the crisis, the importance of liquidity risk management to the proper functioning of the banking sector and money markets has become more prominent.

3. To complement its "Principles for Sound Liquidity Risk Management and Supervision", issued in 2008, the Basel Committee on Banking Supervision (BCBS) has developed additional standards for funding liquidity within its Basel III framework. These standards include the LCR. The objective of LCR is to promote short-term resilience of a bank's liquidity risk profile by ensuring that it has sufficient high quality liquid assets (HQLA) to survive a significant stress scenario for a period of one month. The guidance in this document provides the calculation requirements for the LCR and the minimum ratio that banks are expected to comply with.

Second: Scope of Application

4. Banks shall calculate the LCR separately for each of the following levels:

   a. Level (A): the LCR for the bank on the local level (inside Kuwait), including head office and its branches inside Kuwait.

   b. Level (B): the LCR for the bank on a bank-wide level, including the head office and its branches inside and outside Kuwait.

   c. Level (C): the LCR on a consolidated basis (banking group, including branches and subsidiaries inside and outside Kuwait).

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

5. When applying the requirements included in these Guidelines on a consolidated basis, the run-off rate assumptions of the host supervisor for subsidiaries outside Kuwait are applied for calculating cash outflows from retail and small business customer deposits.

6. Banks that have subsidiaries operating in jurisdictions that do not apply the BCBS global framework for liquidity risk shall apply the cash flow assumptions outlined in these Guidelines in calculating the LCR on a consolidated basis.

7. **Treatment of liquidity transfer restrictions**: In case of the presence of restrictions or reasonable doubt about the capability of banks, which have foreign branches and subsidiaries, to dispose and/or transfer the surplus of liquidity within these branches and subsidiaries to the parent entity (such as currency conversion restrictions, and minimum floors for local use in the host country), the bank shall exclude this surplus liquidity from the calculation of the LCR on a consolidated basis. In all cases, banks may include stock of HQLA of any of its branches or subsidiaries in the calculation of the LCR on consolidated basis up to the amount of net cash outflows of the branch or the subsidiary. The excess HQLA over the net cash outflows that is subject to restrictions on disposal and transferability shall be excluded from the calculation of the LCR on a consolidated basis.

8. **LCR in significant currencies**: A currency is considered 'significant' if the aggregate liabilities (on- and off-balance sheet) denominated in that currency amount to 5% or more of the bank's aggregate liabilities (on-balance sheet and off-balance sheet) in all currencies. In the case of concentration in one currency, excluding the Kuwaiti Dinar and the US Dollar, the bank shall prepare the LCR in that significant currency for the bank and its branches inside and outside of Kuwait separately and report it to the CBK for monitoring purposes only.

Third: The LCR Requirements and Calculation Method

9. This standard aims to ensure that a bank has an adequate stock of unencumbered HQLA (not be pledged- either explicitly or implicitly- to secure, collateralize or credit-enhance any transaction, nor be designated to protect against any type of risk) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management to find the necessary solutions to the liquidity crisis.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

10. The LCR (as a percentage) shall be calculated as follows:

$$\frac{\text{Stock of HQLA}}{\text{Net Cash Outflows over the next 30 calendar days}}$$

a. Numerator: Value of the stock of HQLA in stressed conditions.

b. Denominator: Net Cash outflows calculated according to the scenarios outlined in these Guidelines.

11. Banks shall maintain the minimum LCR requirements on a regular basis and at all times. However, during periods of stress, banks may use their stock of HQLA, thereby falling below the minimum LCR requirement. In cases where the LCR falls below the minimum requirement or the bank expects such a fall, the bank shall report this immediately to the CBK and shall present a contingency plan that shows the measures that the bank plans to take to address the fall in the LCR requirements.

12. The CBK shall assess the liquidity contingency plan submitted by the bank and identify the restrictions and measures that the bank shall comply with.

13. The stress scenarios assumed in these Guidelines should be viewed as a minimum supervisory requirement for banks. Banks are expected to construct their own scenarios that are proportionate to their size, business model and complexity of operations to assess the level of liquidity they should hold beyond this minimum level. Such internal stress scenarios should incorporate longer time horizons than the one mandated by these Guidelines.

Fourth: The LCR Components

A) Stock of HQLA

14. Banks must hold a stock of unencumbered HQLA to cover the total net cash outflows over a 30-day period under the prescribed stress scenario outlined in these Guidelines.

15. Assets are generally qualified as HQLA if they can be easily and immediately converted into cash at little or no loss of value under stress circumstances.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

Operational Requirements of HQLA

16. All assets in the stock of HQLA are subject to the following operational requirements. Banks must ensure that no operational restrictions exist on the availability of HQLA that can prevent timely monetization during a stress period. Banks also have to demonstrate that they can immediately use the stock of HQLA as a source of available liquidity that can be converted into cash (through outright sale or repo), to fill funding gaps between cash inflows and outflows at any time during stress periods. Banks shall ensure that they have internal policies and measures in place in line with the following operational requirements:

    a. A bank should periodically monetize a representative proportion of the assets in its stock of HQLA through repurchase agreements or outright sale in order to test its access to the market, the effectiveness of its process for monetization, and the availability of the assets, and to minimize the risk of negative signaling during a period of actual stress.

    b. All assets in the stock should be unencumbered. "Unencumbered" means free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell or transfer these assets. The assets in the stock should not pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries).

    c. Assets received in reverse repo and securities financing transactions that are held at the bank, which have not been re-hypothecated, and which are legally and contractually available for the bank's use can be considered as part of the stock of HQLA.

    d. Assets which qualify for HQLA that have been pre-positioned or deposited with, or pledged to, the central bank or a public sector entity (PSE) but have not been used to generate liquidity may be included in the stock of HQLA.

    e. A bank should exclude from the stock those assets that, although meeting the definition of "unencumbered" specified in paragraph (b) above, if the bank would not have the operational capability to monetize to meet outflows during the stress period. A bank's operational capability to monetize assets requires having procedures and appropriate systems in place, including providing the function identified in paragraph 16 (g) with access to all necessary information to execute monetization of any asset at any time.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

f. The stock of HQLA should be under the control of the function charged with managing the liquidity of the bank (e.g. the treasury department), meaning the function has the continuous authority, and legal and operational capability, to monetize any asset in the stock. The authority of this function charged with the control over liquidity and HQLA must be clearly and explicitly demonstrated in the bank's policies and procedures. The control of this function over these assets is indicated either by maintaining assets in a separate pool managed by the function with the sole intent for use as a source of contingent funds, or by demonstrating that the function can monetize the asset at any point in the 30-day stress period and that the proceeds of doing so are available throughout the stress period without a direct conflict between the business or risk management strategy.

g. A bank is permitted to hedge the market risk associated ownership of the stock of HQLA and still include the assets in the stock. In this case, if the banks chooses to hedge the market risk, the bank should take into account the cash outflow that would arise while calculating the market value applied to the assets if the hedge were to be closed out early, in the event of the asset being sold.

h. The bank should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held. In addition, the bank should determine whether any such assets should be excluded for operational reasons and therefore, have the ability to determine the composition of its stock on a daily basis.

i. The bank should identify whether there are regulatory, legal, or accounting impediments to the transfer of these assets to the banking group level, and only include within its stock of HQLA the assets that are freely transferrable. The bank should have a documented framework in place for ensuring that assets within its HQLA stock are free from any such restrictions at all times.

j. The bank should exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements, or requirements to hold such assets.

k. Banks should not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of re-hypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

17. Banks should include into the stock of HQLA the assets held during the reporting period irrespective of the residual maturity of these assets. There are two categories of assets that can be included in the stock of HQLA: "Level 1" and "Level 2". Level 1 assets can be included without limit, while Level 2 assets can only comprise up to 40% of total HQLA (sum of Levels 1 and Level 2 assets).

18. Level 2 assets are divided into two categories: Level 2A assets and Level 2B assets according to the qualifying conditions identified in these Guidelines.

19. As part of Level 2 assets, banks may include Level 2B assets up to 15% of total HQLA. These assets are also taken into account when calculating the cap for Level 2 assets so that total Level 2 assets (sum of Level 2A and 2B assets) does not exceed the overall 40% cap on Level 2 assets.

20. The caps applied on Level 2 assets and Level 2B assets should be determined after the application of required haircuts, and after taking into account the unwind of short-term securities financing transactions maturing within 30 calendar days that involve the exchange of HQLA.

21. Banks should ensure that they maintain appropriate systems and policies to control and monitor potential risks (such as market risk and credit risk) that the bank may face while maintaining these assets.

22. Annex (B) demonstrates the calculation of the caps and haircuts.

23. The conditions identified in the following paragraphs should be satisfied by Levels 1 and 2 assets.

1) Level 1 Assets

24. Level 1 assets are included in their applicable market value and can comprise an unlimited share of the pool, and are not subject to haircuts.

25. Level 1 assets are limited to:

    a. Coins and banknotes.

    b. Assets with central banks in the countries in which the liquidity risk is being taken (including cash reserves[(1)]) to the extent that allows banks to draw down these assets in times of stress.

(1) In this context, CBK reserves would include demand deposits, overnight deposits and term deposits with the central bank that: (i) are repayable within 30 day or are explicitly and contractually repayable on notice from the depositing bank; or (ii) that the bank can use to obtain financing on a term basis or on an overnight basis. Other term deposits with central banks are not eligible for the stock of HQLA.

c. Debt securities / Sukuk issued by the CBK or the Government of the State of Kuwait.

d. Debt securities / Sukuk issued or guaranteed by sovereigns, central banks, PSEs, the International Monetary Fund, the Bank for International Settlements, the European Central Bank and European Commission, or multilateral development banks and satisfying all of the following conditions:

1. assigned a 0% risk-weight as shown in Annex (D).

2. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

3. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.

4. not an obligation of a financial institution or any of its subsidiary entities[2].

e. Where the sovereign has a non-0% risk weight, debt securities/ Sukuk issued in domestic currency by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country.

f. Where the sovereign has a non-0% risk weight, debt securities/ Sukuk in foreign currencies issued by the sovereign or central bank up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken.

2) Level 2 Assets

26. Level 2 assets are subject to the 40% cap of the overall stock of HQLA (total Level 1 and 2 assets) after haircuts have been applied.

a. Level 2A Assets

27. A 15% haircut is applied to the current market value of each Level 2A asset held in the stock of HQLA.

([2]) This requires that the holder of the security must not have recourse to the financial institution or any of the financial institution's affiliated entities. In practice, this means that securities, such as government-guaranteed issuance during the financial crisis, which remain liabilities of the financial institution, would not qualify for the stock of HQLA. The only exception is when the bank also qualifies as a PSE under the Capital Adequacy Standard applicable in Kuwait where securities issued by the bank could qualify for Level 1 assets if all necessary conditions are satisfied.

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G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

28. Level 2A assets are limited to the following:

    a. Debt securities/Sukuk issued or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy all of the following conditions[3]:

        1. assigned a 20% risk weight as per Annex (D).

        2. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

        3. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or the increase in haircut not exceeding 10% over a 30-day period during a relevant period of significant liquidity stress).

        4. not an obligation of a financial institution or any of its affiliated entities[4].

    b. Debt securities/ Sukuk that can be monetised (including commercial paper[5]) and covered bonds[6] that satisfy all of the following conditions:

        1. not issued by an Islamic bank/financial institution or any of its affiliated entities.

        2. in the case of covered bonds: not issued by the bank itself or any of its affiliated entities.

        3. either have a long-term credit rating from a recognized external credit assessment institution (ECAI) of at least (AA-) or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating.

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(3) Paragraphs 25 (e) and 25 (f) may overlap with paragraph 28 (a) in terms of sovereign and central bank securities with a 20% risk weight. In such a case, the assets can be assigned to the Level 1 category according to the Paragraphs 25(e) or (f), as appropriate.

(4) Refer to footnote 1 in page 35 from this chapter.

(5) Corporate debt securities (including commercial paper) do not include complex structured products or subordinated debt.

(6) Covered bonds are bonds issued and owned by a bank or mortgage institution and are subject by law to special public supervision designed to protect bond holders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

4. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

5. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or the increase in haircut not exceeding 10% over a 30-day period during a relevant period of significant liquidity stress).

b. Level 2B Assets

29. Level 2B assets are limited to the following:

a. Debt securities/ Sukuk (including commercial paper[7]) issued by non-financial institutions, subject to a 50% haircut, that satisfy all of the following conditions:

1. Debt securities/ Sukuk issued by non-financial institutions or one of their subsidiaries and have a long-term credit rating between A+ and BBB- or the equivalent, or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating.

2. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

3. have a proven record as a reliable source of liquidity in the markets even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or the increase in haircut not exceeding 20% over a 30-day period during a relevant period of significant liquidity stress).

b. Common equity shares that satisfy all of the following conditions, subject to a 50% haircut:

1. not issued by a financial institution or any of its affiliated entities.

2. exchange traded and centrally cleared.

3. a constituent of the major stock index in Kuwait or where the liquidity risk is taken.

4. denominated in Kuwaiti Dinar or in the currency of the jurisdiction where the liquidity risk is taken.

5. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

[7] Refer to footnote No. 3 of this page.

6. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, (i.e. a maximum decline of share price not exceeding 40% or increase in haircut not exceeding 40% over a 30-day period during a relevant period of significant liquidity).

30. If a bank wishes to include other assets under Level 2B assets, prior approval must be obtained from the CBK.

31. Banks have to demonstrate their ability to monitor the concentration of the assets in their stock of HQLA and they should have in place adequate policies for monitoring the concentration of these assets and ensuring their distribution.

B) Net Cash Outflows

32. The term total net cash outflows is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments with the run-off rates[8], as shown in these Guidelines. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75% of total expected cash outflows.

Total net cash outflows over the next 30 calendar days = Total expected cash outflows – Min {total expected cash inflows : 75% of total expected cash outflows}

33. Annex (C) includes a summary of the run-off rates of cash outflows/inflows for all categories.

34. If an asset is included as part of the "stock of HQLA" (i.e. the numerator), the associated cash inflows cannot also be counted as cash inflows (i.e. part of the denominator). Where there is a potential that an item could be counted in multiple outflow categories, the bank only has to assume up to the maximum contractual outflow for that item.

[8] Run-off rates express drawdown and inflow rates under stress scenarios for the different categories of assets and liabilities. When calculating the outflows, these ratios express assumed ratios expected to be drawn down from the liabilities. When calculating the inflows, the ratios express the volume of the inflows expected to be realised under the determined stress scenarios.

1) Cash Outflows

A. Retail Deposits

35. Retail deposits are defined as deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories. For the purpose of calculating the LCR, retail deposits include demand deposits, saving accounts and term deposits.

36. Retail deposits are divided into "stable" and "less stable" portions of funds as described below, with minimum run-off rates listed for each category:

1. Stable Deposits

37. Stable deposits are the amount of the deposits that are fully insured[(9)] by a deposit insurance scheme, and where:

    a. the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or

    b. the deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited) .

    Stable deposits and accounts are subject to a run-off rate of 5%. All other deposits and accounts that do not satisfy these criteria shall be treated as less stable deposits.

38. The presence of deposit insurance alone is not sufficient to consider a deposit "stable" if it does not satisfy all of the aforementioned conditions.

2. Less Stable Deposits

39. Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflows if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR, or if early withdrawal results in a significant penalty (penalty is materially greater than the loss of profits payable on the account)[(10)].

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(9) "Fully insured" means that 100% of the deposit amount is covered by an effective deposit insurance scheme. Deposit balances up to the deposit insurance limit can be treated as "fully insured" and shall be subject to a run-off rate of 5%. However, any amount in excess of the deposit insurance limit is to be treated as "less stable". For example, if a depositor has a deposit of KWD 150,000 that is covered by a deposit insurance scheme, which has a limit of KWD 100,000, where the depositor would receive at least KWD 100,000 from the deposit insurance scheme if the bank were unable to pay, then KWD 100,000 would be considered "fully insured" and treated as stable deposits, and be subject to run-off rate of 5% while KWD 50,000 would be treated as less stable deposits.

(10) If a portion of the term deposit can be withdrawn without incurring such a penalty, only that portion should be treated as a demand deposit. The remaining balance of the deposit should be treated as a term deposit.

40. The CBK may, upon its discretion, apply run-off rates on these deposits if there are concerns that depositors would withdraw their deposits in a similar manner as demand deposits during either normal or stress times, or if there are concerns that banks may repay such deposits early in stressed times for reputational reasons.

41. If a bank is not able to readily identify which retail deposits would qualify as "stable" according to the above definition, it should place the full amount in the "less stable" buckets as established.

42. Run-off rates shall be applied to less stable deposits, as follows:

Table 1: Run-Off Rates to Less Stable Deposits

Deposit Type[11]	Run-off Rates for Deposits in Local Currency (%)	Run-off Rates for Deposits in Foreign Currency (%)
Fully Insured and Non-Transactional	8%	10%
Other Less Stable Deposits		
KWD 50,000 or less	10%	12%
>50,000 up to 150,000	15%	17%
> 150,000 up to 250,000	20%	22%
>250,000	25%	27%

Unsecured Wholesale Funding

43. Unsecured wholesale funding is defined as those liabilities and general obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships) and are not collateralized by legal rights to specifically designated assets owned by the bank in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are excluded from this definition.

44. When calculating the LCR, banks must include all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor's discretion within the 30 calendar day horizon. For funding with options exercisable at the bank's discretion where there is a possibility of not exercising the option (e.g. for reputational reasons), banks should include these liabilities as outflows.

(11) On an aggregated level at the customer level.

45. Callable deposits[12] which have notice period exceeding 30 days are not included in the calculation of the LCR.

46. For the purposes of the LCR, deposits and unsecured wholesale funding are to be categorised as detailed in paragraphs 47 to 63, based on the assumed sensitivity of the funds providers to the rate offered and the credit quality and solvency of the borrowing bank. These deposits shall be treated as shown in the following paragraphs.

1. Unsecured Wholesale Funding Provided by Small Business Customers

47. This category includes deposits and other funds provided by small business customers (other than financial institutions). For the purpose of these Guidelines, small business customers deposits are defined as the deposits which have the same characteristics of retail accounts, provided total aggregated funding[13] raised from one small business customer is less than KWD 250,000 (on consolidated basis where applicable).

48. The following run-off rates shall be applied to these deposits.

Table 2: Run-off Rates of Unsecured Wholesale Funding provided by Small Business Customers

Deposit Type	Run-Off Rates for Deposits in Local Currency (%)	Run-Off Rates for Deposits in Foreign Currency (%)
Fully insured transactional accounts	5%	7%
Fully insured non-transactional	8%	10%
Other Less Stable Deposits		
KWD 50,000 or less	10%	12%
> 50,000 up to 250,000	15%	17%
> 250,000 up to 500,000	20%	22%
> 500,000	25%	27%

49. Term Deposits provided by small business customers are treated the same way as retail deposits.

2. Operational deposits generated by clearing, custody and cash management activities

[12] This takes into account any embedded options linked to the funds provider's ability to call the funding before contractual maturity.

[13] "Aggregated Funding' means the gross amount (no netting against credit loans/facilities/etc. is allowed). In addition, aggregation is applicable to a group of affiliated customers that may be considered as a single creditor such that the limit is applied to the total funding received by the bank from these group of customers.

50. Certain banking activities lead to financial and non-financial customers needing to place, or leave, deposits with a bank in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. . These funds may receive a 25% run-off factor only if the customer has a substantive dependency with the bank and the deposit is required for such activities. Banks should seek the CBK's prior approval on the accounts that would receive the aforementioned treatment and the CBK may choose not to permit banks to use the operational deposit run-off rates in certain cases.

51. Qualifying activities in this context refer to clearing, custody or cash management activities that meet the following criteria:

    a. The customer is reliant on the bank to perform these services as an independent third party intermediary in order to fulfill its normal banking activities over the next 30 days. For example, this condition would not be met if the bank is aware that the customer has adequate back-up arrangements.

    b. These services must be provided under a legally binding agreement to customers.

    c. The termination of such agreements shall be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

52. Qualifying operational deposits generated by such activities are ones where:

    a. The deposits are by-products of the underlying services provided by the bank and are not sought out in the wholesale market.

    b. The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer.

53. Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody and cash management activities do not qualify for the 25% run-off rate. In other words, only that part of the deposit balance with the service provider that is proven to serve a customer's operational needs can qualify as stable. Excess balances should be treated in the appropriate category for non-operational deposits. If the bank is unable to determine the amount of the excess balance, then the entire deposit should be considered non-operational.

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54. Banks must determine the methodology for identifying excess balances in operational accounts. The methodology should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress. The methodology should take into account relevant factors such as the average balances in advance of specific payment needs.

55. If the deposit arises out of correspondent banking or from the provision of prime brokerage services, it will be treated as if there were no operational activity for the purpose of determining run-off factors(14).

56. The portion of the operational deposits generated by clearing, custody and cash management activities that is fully covered by deposit insurance can receive the same treatment as "stable" retail deposits and thus can be subject to the a 5% run-off rate factor.

57. A clearing relationship refers to a service arrangement, granted by the bank as a direct participant in settlement systems, that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, overdraft and settlement.

58. A custody relationship refers to the provision of safekeeping , reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the receipt of dividends and other income, transfer of funds and stocks and agency services, including payment and settlement services (excluding correspondent banking).

59. A cash management relationship refers to the provision of cash management and related services to customers. Cash management services refers to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer's operational activities. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

(14) Correspondent banking refers to arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g. so-called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent bank for the provision of clearing and settlement of payments). Prime brokerage is a package of services offered to large active investors, particularly institutional hedge funds. These services usually include: clearing, settlement and custody; consolidated reporting; financing (margin, repo or synthetic); securities lending; capital introduction; and risk analytics.

3. Unsecured wholesale funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks and PSEs

60. This category comprises all deposits and other extensions of unsecured funding from non-financial corporate customers (that are not categorised as small business customers) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes. The run-off factor for these funds is 40%, and in case the deposit is fully insured, the run-off factor shall be 20%.

4. Unsecured wholesale funding provided by other legal entity customers

61. This category consists of all deposits and other funding from other institutions (including banks, securities firms, insurance company, etc.), fiduciaries(15), beneficiaries(16), special purpose vehicles, affiliated entities of the bank(17) and other entities that are not specifically held for operational purposes and not included in the prior three categories. The run-off factor for these funds is 100%.

62. All notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts (including small business customer accounts treated as retail per paragraphs 47 and 48), in which the instruments can be treated in the appropriate retail or small business customer deposit category. To be treated in this manner, it is not sufficient that the debt instruments are specifically designed and marketed to retail or small business customers rather there should be limitations placed such that those instruments cannot be bought and held by parties other than retail or small business customers.

63. Customer cash balances arising from the provision of prime brokerage services as defined in paragraph 55 should be considered separate from any balances related to client protection regimes imposed by the regulatory authorities, and should not be netted against other customer exposures included in this standard.

(15) Fiduciary is defined in this context as a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles.

(16) Beneficiary is defined in this context as a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

(17) Outflows on unsecured wholesale funding from affiliated entities of the bank are included in this category unless the funding is part of an operational relationship, a deposit with an affiliated entity of a non-financial corporate.

B. Secured Funding

64. Secured funding is defined as those liabilities and general obligations that are collateralized by legal rights to specifically designated assets owned by the bank in the case of bankruptcy, insolvency, liquidation or resolution.

65. Table 3 below summarizes the run-off rates applicable to secured funding:

Table 3: Run-Off Rates Applicable to Secured Funding

Categories for Outstanding Maturing Secured Funding Transactions	Run-off rates (%)
Backed by Level 1 assets or with central banks	0%
Backed by Level 2A assets.	15%
Secured funding transactions with domestic sovereign, PSEs or multilateral development banks that are not backed by the above Level 1 or 2A assets. (PSEs, in this context, refer to those that have risk weight of 20% or lower)	25%
Backed by other Level 2B assets (The counterparty is not a sovereign, PSE or a multilateral development bank)	50%
All others	100%

C. Other Cash Outflows

66. **Derivatives cash outflows**: the sum of all net cash outflows will receive a 100% factor. Banks should calculate, in accordance with their existing valuation methodologies, expected contractual derivative cash inflows and outflows. Cash flows may be calculated on a net basis (i.e. inflows can offset outflows) by counterparty, only where a valid master netting agreement exists. The banks should exclude from such calculations those liquidity requirements that would result from increased collateral needs due to market value movements or falls in value of collateral posted. Options should be assumed to be exercised when they are 'in the money' to the option buyer.

67. Where derivative payments are collateralized by HQLA, cash outflows should be calculated net of any corresponding cash or collateral inflows or arising from collateral received for derivatives or that would result from contractual obligations for cash or collateral to be provided to the bank, if the bank is entitled to re-use the collateral in new transactions.

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68. The below run-off rates apply in the following cases:

    a. Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts: Banks should review these contracts in detail and identify the clauses that require the posting of additional collateral or early repayment upon the bank's credit rating downgrade by up to and including 3-notches. A 100% run-off rate will be applied to the amount of collateral that would be posted for, or contractual cash outflows associated with, the credit rating downgrade.

    b. Increased liquidity needs related to the changes in the market value of the banks' posted collateral: a run-off rate of 20% shall apply to cover the possibility of the changes in the value of the collaterals posted by the bank in the derivative contracts as well as other transactions. This rate shall apply to all collaterals excluding Level 1 assets after offsetting the collaterals posted by the same counterparty, which can be used again without any restrictions. This rate will be calculated based on the notional amount of the asset after any other haircuts applicable.

    c. A run-off rate of 100% will be applied to the non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements.

    d. A run-off rate of 100% will be applied to the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.

    e. A run-off rate of 100% will be applied to the amount of HQLA collateral that can be substituted for non-HQLA assets without the bank's consent.

    f. Banks should calculate the liquidity needs to face potentially substantial liquidity risk exposures to valuation changes of derivative contracts. This should be calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The net flows of collaterals should be calculated by offsetting the collaterals inflows and outflows. This should be executed using the same Master Netting Agreement.

69. **Asset-backed securities, covered Bonds and other structured financing instruments:** Such transactions are subject to a run-off rate of 100% of the funding transaction maturing within the 30-day period, when these instruments are issued by the bank itself (this assumes that the re-financing market will not exist).

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70. **Asset-backed commercial paper, securities investment vehicles and other such financing facilities:** A run-off rate of 100% shall apply to the payments due within a 30-day period. In cases where assets are returnable, a run-off rate of 100% shall apply to the returned assets when there are derivatives or derivative-like components contractually written into the documentation associated with the structure, allowing the "return" of assets in a financing arrangement (as this assumes that the re-financing market will not exist).

71. **Drawdowns on committed credit and liquidity facilities:** These facilities include contractually irrevocable ("committed") or conditionally revocable agreements to extend funds. Unconditionally revocable facilities that are unconditionally cancellable are excluded from this section and included in "Other Contingent Funding Liabilities" for the purpose of these Guidelines.

72. When calculating the facilities mentioned in the preceding paragraph, the currently undrawn portion of these facilities is calculated net of any HQLA if the HQLA have already been posted as collateral by the counterparty to secure the facilities or are contractually obliged to be posted when the counterparty will draw down the facility if the bank is entitled to re-use the collateral, and there is no undue correlation between the probability of drawing the facility and the market value of the collateral. In such cases, the assets posted as collateral can be netted to the extent that this collateral is not already counted in the stock of HQLA as per these Guidelines.

73. For the purpose of these Guidelines, a liquidity facility is defined as any committed,, undrawn (unused) back-up facility that would be utilized to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets. To calculate the LCR, an amount equivalent to the currently outstanding debt issued by the customer maturing within a 30 day period is taken, while excluding the portion of the backing debt within this period. General working capital facilities for corporate entities will not be classified as liquidity facilities, but as credit facilities. Any other undrawn facilities will be classified as credit facilities.

74. Any facilities provided to hedge funds and special purpose funding vehicles or other vehicles used to finance the banks own assets, should be captured in their entirety as a liquidity facility to other legal entities.

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75. The following run-off rates shall apply to all drawdowns from revocable committed credit and liquidity facilities[18] within the 30-day period:

    a. Committed credit and liquidity facilities to retail and small business customers: 5% drawdown of the undrawn portion of these facilities.

    b. Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks: 10% drawdown of the undrawn portion of these credit facilities.

    c. Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and multilateral development banks: 30% drawdown of the undrawn portion of these liquidity facilities.

    d. Committed credit and liquidity facilities extended to banks subject to prudential supervision: 40% drawdown of the undrawn portion of these facilities.

    e. Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries[19], and beneficiaries[20]: 40% drawdown of the undrawn portion of these credit facilities.

    f. Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries: 100% of the undrawn portion of these liquidity facilities.

    g. Committed credit and liquidity facilities to other legal entities (including SPEs, special purpose vehicles, and other entities not included in the prior categories): 100% drawdown of the undrawn portion of these facilities.

76. **Contractual obligations to extend funds within a 30-day period:** Any contractual lending obligations to financial institutions not captured elsewhere in these Guidelines should be captured here at a 100% run-off rate.

77. If the total of all contractual obligations to extend funds to retail and non-financial corporate clients within the next 30 calendar days (not captured in the prior categories) exceeds 50% of the total contractual inflows due in the next 30 calendar days from these clients, the difference should be reported as a 100% outflow (i.e., the excess above 50% of the total inflows of these clients within a period of 30 days).

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[18] Committed facilities refer to those which are irrevocable.

[19] Refer to footnote 1 for definition of fiduciaries in page 45 from this chapter.

[20] Refer to footnote 2 for definition of beneficiaries in page 45 from this chapter

78. **Other contingent funding obligations:** The below list shows the cash outflows for other contingent funding obligations:

Table 4: Run-Off Rates for Other Contingent Funding Obligations

Type of Contingent Funding	Run-off Rates (%)
Revocable and unconditional financing and liquidity facilities "uncommitted"	5%
Non-contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities	5%
Obligations related to trade financing (including letters of guarantee and letters of credit)	5%
Guarantees and letters of credit unrelated to trade finance obligations	5%
Non-contractual commitments related to customers' short positions covered by other customers' collateral	50%
Outstanding debt securities / Sukuk (more than 30 days maturity)	5%
Any other non-contractual obligations not captured above	5%

79. Lending commitments, such as direct import or export financing for non-financial corporate firms, are excluded from this treatment and banks will apply the run-off rates specified in paragraph 75.

80. A 100% run-off rate shall apply for any other contractual cash outflows within the next 30 calendar days not captured above, other than the operational expenses which are not covered by this standard.

2) Cash Inflows

81. When considering its available cash inflows, the bank should only include contractual inflows from outstanding exposures that are fully performing and for which the bank has no reason to expect a default within the 30-day time horizon. Contingent inflows are not included in total net cash inflows.

82. Banks need to monitor the concentration of expected inflows across wholesale counterparties in the context of the banks' liquidity risk management in order to ensure that liquidity position is not overly dependent on the arrival of expected inflows from one or a limited number of wholesale counterparties.

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83. The amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in the standard for the purpose of calculating the net cash outflows.

A. Secured lending, including reverse repos and securities borrowing

84. A bank should assume that maturing financing transactions secured by Level 1 assets will be rolled-over and will not give rise to any cash inflows therefore, an inflow factor of 0% will be applied to this kind of transaction. While maturing financing transactions secured by Level 2 HQLA will lead to cash inflows equivalent to the relevant haircut for the specific assets. A bank is assumed not to roll-over maturing secured financing transactions secured by non-HQLA assets, and can assume to receive back 100% of the cash related to those agreements (i.e. an inflow factor of 100%).

85. Maturing secured lending transactions backed by different asset categories will receive different factors provided that the collateral obtained through reverse repo, or securities borrowing which matures within the 30-day horizon is not used to cover short positions. A summary of the factors is shown in the table below:

Table 5: Cash Inflow Rates for Secured Financing Transactions

Maturing secured lending transactions backed by the following asset category	Inflow rate (if collateral is not used to cover short positions)
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets	50%
Margin lending backed by all other assets	50%
Other collateral	100%

86. If the collateral obtained through reverse repo or securities borrowing matures within the 30-day horizon, and is re-used to cover short positions that could be extended beyond 30 days, a bank should assume that such reverse repo or securities borrowing arrangements will be rolled-over and will not give rise to any cash inflows (0%).

In the case of a bank's short positions, if the short position is being covered by an unsecured security borrowing, the bank should assign a 100% outflow of either cash or HQLA to secure the borrowing, or cash to close out the short position by buying back the security. This should be assigned a 100% run-off rate under the other contractual cash outflows described in paragraph 80.

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If, however, the bank's short position is being covered by a collateralized securities financing transaction, the bank should assume the short position will be maintained throughout the 30-day period and receive a 0% outflow.

B. Committed Facilities

87. No cash inflows are assumed from credit facilities or liquidity facilities that the bank holds at other institutions for its own purposes. Thus, these transactions shall receive a 0% cash inflow rate, meaning that this scenario does not consider inflows from committed credit or liquidity facilities.

C. Other inflows by counterparty

88. For all other types of transactions, either secured or unsecured, the bank should apply inflow rates according to the counterparty category as explained in the following paragraphs.

89. When considering loan payments, the bank should only include inflows from fully performing loans. For revolving credit facilities, this assumes that the existing loan is rolled over and that any remaining balances (undrawn) are treated in the same way as a committed facility according to paragraph 75.

90. Inflows from loans that have no specific maturity (i.e. have non-defined or open maturity) should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, commission or interest associated with an open maturity financing transaction, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed in the below paragraphs (articles a and b).

91. Banks should apply the below rates to the cash inflows maturing within 30 calendar days by counterparty:

    a. Cash inflows from retail customers and small business customers: 50% of the contractual amount.

    b. Other wholesale inflows:

        1. 100% for financial institutions and central bank counterparties.
        2. 50% for non-financial wholesale counterparties.

    c. Operational deposits: Deposits held at other financial institutions for operational purposes will receive a 0% inflow rate.

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92. Inflows from securities maturing within 30 days not included in the stock of HQLA should be treated in the same category as inflows from financial institutions (i.e. 100% inflow). Banks may also recognize in this category inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA. Liquid assets from Level 1 and Level 2 securities maturing within 30 days should be included as HQLA, provided that they meet all operational and definitional requirements, as laid out in paragraphs 14-31.

D. Other Cash Inflows

93. **Derivatives cash inflows**: the sum of all net cash inflows should receive a 100% inflow factor. The amounts of derivative cash inflows and outflows should be calculated in accordance with the methodology described in paragraph 66.

94. Where derivative contracts are collateralized by HQLA, cash inflows should be calculated net of any corresponding cash or contractual collateral outflows that would result, all other things being equal, from contractual obligations for cash or collateral to be posted by the bank, given these contractual obligations would reduce the stock of HQLA. This is in accordance with the principle that banks should not double-count liquidity inflows or outflows.

95. **Other contractual cash inflows**: Other contractual cash inflows should be captured here, with explanation given to what comprises this bucket; they should receive a 100% inflow rate. Cash inflows related to cash flows that are not pertinent to the bank's primary activities are not taken into account in the calculation of the net cash outflows for the purposes of calculating the LCR.

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Section Two: Liquidity Monitoring Tools

96. In addition to the LCR, banks shall develop their own liquidity monitoring systems and tools. Methodologies and tools used by banks will be reviewed by the CBK to determine the banks' efficiency in managing liquidity risk. In this regard, the banks shall comply with the minimum following liquidity monitoring tools:

    a. Banks shall comply with the rules related to the liquidity system and to the instructions issued in relation to liquidity in the banking system within the regulations and supervisory controls issued by the CBK including the regulations related to liquidity risk management in the "Capital Adequacy Ratio – Basel III for Conventional Banks" Guidelines.

    b. Banks shall also comply with the additional regulations related to the deposit concentration reports and the statement of unencumbered assets. These reports shall be prepared on the local level (including head office and branches inside Kuwait) and the consolidated level, as illustrated in the following paragraphs.

97. Banks shall develop tools to monitor market indicators that have a direct or indirect impact on their liquidity positions. This requires banks to expand their databases and available information as relates to such indicators.

Deposits Concentration Report

98. The purpose of this report is to identify and analyze deposit concentration at the level of the bank's customers including individuals, corporates (including PSE, non-banking financial institutions) and government entities. The report shall cover the largest 25 depositors at the bank.

99. In addition, the bank shall include within the report customer deposits in cases when total customer deposits exceed 1% of the bank's total assets.

100. Deposits shall be aggregated at the customer level. For individual customers, total deposits are to be aggregated on the individual customer level, including customer's share in joint deposits. This excludes the individual customer's share in any corporate or legal entities, including partnerships, joint ventures or similar entities. As for corporate customers, customer deposits are to be aggregated, including deposits of subsidiaries and affiliates.

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Unencumbered Assets Report

101. Banks shall submit a report of their unencumbered assets, which have the potential to be used as collateral to raise HQLA or secured funding in secondary market at a reasonable cost.

102. Assets that can be listed in this report are limited to those that are covered by documented operating policies and procedures that govern the management and monetization thereof and that allow the use of these assets for the aforementioned purposes.

103. Required Reports:

Banks shall provide the CBK with the following reports:

a. The LCR, as per Template No. (1) attached to these Guidelines, on a monthly basis based on the position at the end of the month based on daily data for all business days during the month for which the data are reported.

b. Deposit Concentration Report, as per Template No. (2) attached to these Guidelines, on a quarterly basis based on the position at the end of the period for which the data are reported.

c. Unencumbered Assets Report, as per Template No. (3) attached to these Guidelines, on a quarterly basis based on the position at the end of the period for which the data are reported.

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Section Three: General Disclosure Requirements

104. Banks shall disclose quantitative information about the LCR on a consolidated basis as per the template below (Table No. 6).

105. Banks must disclose the information about the LCR on a quarterly basis, and concurrently with, the publication of their quarterly and year-end financial statements, on average basis for all business days of the reporting period. The banks must also make available on their websites the historic series of their LCR.

106. The value of items must be disclosed before and after the application of the run-off rates and disclosure must be made on the total HQLA after adjustments are applied (i.e. after application of both haircuts and any applicable caps on Level 2B and total Level 2 assets). The net cash outflows are to be disclosed after the cap on inflows is applied.

107. In addition to the disclosure template hereunder, banks should provide sufficient qualitative discussion relevant to the LCR to facilitate understanding of the results and data disclosed, which may include the following:

    a. Analysis of the main drivers of the LCR results and the important inputs to the LCR calculation.

    b. Changes during the period for which the data is prepared or compared to the date of the last disclosure.

    c. The components of HQLA.

    d. Concentration of funding sources.

    e. Derivatives and callable deposits exposures that may occur to collaterals.

    f. Currency mismatch in the LCR:

    g. A description of the methodology of centralized liquidity management at the banking group; and

    h. Other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which have impacts on the bank liquidity profile.

108. In addition to the LCR which measures banks' liquidity risk, disclosure of other quantitative and qualitative information will provide a broader picture of the banks' liquidity risks. The following are other basic quantitative and qualitative information that banks should disclose:

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a. Concentration limits on collateral pools and sources of funding (products and counterparties).

b. Liquidity exposures and funding needs at the local level, bank-wide level and on a consolidated basis, taking into account legal and regulatory limitations on the transferability of liquidity.

c. Governance of liquidity risk management at the bank, which may include: risk appetite, structure and responsibilities for liquidity risk management, internal liquidity reporting, and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors.

d. Bank's funding strategy, which may include policies on diversification in the sources and tenor of funding, and whether the bank is applying centralized approaches for provision of funding sources.

e. Liquidity risk mitigation techniques.

f. An explanation of how liquidity stress testing is used by the bank: and

g. An outline of contingency funding plans.

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Table 6: LCR Disclosure Template*

"KWD '000"

Sr.	Description	TOTAL UNWEIGHTED Value before applying factors (average) **	TOTAL WEIGHTED Value after applying Factors(21) (average)**
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		
Cash Outflows			
2	Retail deposits and small business		
3	• Stable deposits		
4	• Less stable deposits		
5	Unsecured wholesale funding excluding the deposits of small business customers:		
6	• Operational deposits		
7	• Non-operational deposits (other unsecured commitments)		
8	Secured Funding		
9	Other cash outflows, including:		
10	• Resulting from Derivatives		
11	• Resulting from assets-backed securities and commercial paper (assuming that re-funding is not possible)		
12	• Binding credit and liquidity facilities		
13	Other contingent funding obligations		
14	Other contractual cash outflow obligations		
15	**Total Cash Outflows**		
Cash Inflows:			
16	Secured lending transactions		
17	Inflows from fully performing loans		
18	Other cash Inflows		
19	**Total Cash Inflows**		
Liquidity Coverage Ratio (LCR)			**Total Adjusted Value(22)**
20	Total HQLA (after adjustments)		
21	Net Cash Outflows		
22	LCR (%)		

* Quarterly statement.

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

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

(22) 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).

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Table 7: References of the Table 6

Sr.	Description	Row in LCR (Template 1)
1	**Total HQLA (before adjustments)**	24
2	Retail deposits and small business	From 32 to 56
3	• Stable deposits	32,33, 38, 44, 45, 50, 51
4	• Less stable deposits	From 34 to 37, from 39 to 43, from 46 to 49, from 52 to 56
5	Unsecured wholesale funding excluding the deposits of small business customers:	From 57 to 61
6	• Operational deposits	57, 58
7	• Non-operational deposits (other unsecured commitments)	From 59 to 61
8	Secured Funding	From 62 to 66
9	Other cash outflows, including:	From 67 to 76
10	• Resulting from Derivative contracts	67
11	• Resulting from assets-backed securities and commercial paper (assuming that re-funding is not possible)	68, 69
12	• Binding credit and liquidity facilities	From 70 to 76
13	Other contingent funding obligations	From 77 to 80
14	Other contractual cash outflow obligations	81
15	**Total Cash Outflows**	82
16	Secured lending transactions	From 83 to 87
17	Inflows from fully performing exposures (as per the counterparties)	From 89 to 92
18	Other cash Inflows	88, 93, 94
19	**Total Cash Inflows**	95
20	Total HQLA (after adjustments)	31
21	Net Cash Outflows	97
22	LCR	98

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Section Four: Annexes

Annex (A): Definitions

In the context of these Guidelines, the following terminologies take the meanings corresponding to each of them:

1. **"Bank"** means any bank fully recognized as such by the relevant regulator of the country in which it is registered except such a bank which:
   a. In the opinion of the Central Bank, is not adequately supervised by the relevant banking supervisory authority.
   b. The license or other authorization of which to carry on banking business is for the time being suspended.
2. "**Banking groups**" are groups that engage predominantly in banking activities and are registered as banks in the relevant jurisdiction.
3. **"PSE"** means a public sector entity which is specified as such either by the Central Bank ("domestic PSE") or by an overseas banking supervisory authority ("foreign PSE"). Domestic PSEs include those entities owned by the government, excluding the subsidiaries of such institutions undertaking commercial activities.
4. **"MDB"** means a multilateral development bank, which refers to any bank or lending or development body established by agreement between, or guaranteed by, two or more countries, territories or international organizations other than for purely commercial purposes.
5. "**Securities Firm**" means any entity licensed and supervised by relevant securities regulator. Domestically, these include all non-banking financial entities including investment companies and funds that are under the supervision of the Capital Markets Authority. Securities brokers and financial intermediaries are also included under this definition.
6. "**Host Supervisor**" is the overseas supervisor entities of Kuwaiti banks.
7. "**Off-Balance-Sheet Activities**" are banks' business that does not generally involve booking assets or liabilities. Examples include granting of standby commitments, letters of credit and guarantees.
8. "**Repo-Style Transactions**" means transactions involving the sale and repurchase ("repo") of assets, purchase and resale ("reverse repo") of assets, as well as securities lending and securities borrowing. The term "repo-style transactions" is generally taken to refer to any of the following transactions of a bank:

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a. Sale & repurchase ("repo") of securities - the bank agrees to sell securities to a third-party for cash with a commitment to repurchase the securities at an agreed price on an agreed future date.

b. Securities lending - the bank lends securities to a third-party and receives either cash or other securities from that party in exchange as collateral.

c. Purchase and resale ("reverse repo") of securities - the bank agrees to acquire securities from a third-party for cash with a commitment to resell the securities at an agreed price on an agreed future date (i.e. the reverse of repo transactions).

d. Securities borrowing - the bank borrows securities from a third-party and gives cash or other securities to that party in exchange as collateral.

9. "**Special Purpose Vehicle (SPV)**" means any corporation constituted or established for a specific purpose with the following key characteristics:

   a. The activities of a SPE are limited to those for accomplishing the purpose of the corporation, financial management or assets securitization.

   b. It is structured in a manner intended to isolate the corporation from the credit risk of an originator or entity selling the underlying exposure or pool of exposures.

10. "**In-the-Money**": Option contracts are in the money when there is a financial benefit to be derived from exercising the option immediately. A call option is in the money when the price of the underlying instrument is above the exercise price. A put option is in the money when the price of the underlying instrument is below the exercise price.

11. "**Subordinated loan**" is a debt instrument issued by financial institutions which, in case of liquidation, support creditor's claims, but which ranks above ordinary and preferred shares.

12. "**Secured Obligations**": means obligations that are secured by legal rights on specifically designated assets owned by the bank which are used in the case of bankruptcy, insolvency or liquidation.

13. "**Significant Currencies**" A currency is considered significant if the aggregate liabilities (on-balance sheet and off-balance sheet) in that currency amount to 5% or more of the bank's total liabilities (on and off-balance sheet) in all currencies.

14. "**High-Quality Liquid Asset (HQLA)**" Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value under stress scenarios.

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15. "**Total Net Cash Outflows**" is defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days.

16. "**Transactional Accounts**" are defined as the accounts used to settle transactions pertaining to salaries and customers income.

17. "**Operational Deposits**" are the deposits generated by clearing, custody and cash management activities.

18. "**Fully secured deposits**" are the deposits that are fully covered (100%) under deposit insurance scheme.

19. "**Stable Deposits**" are the amounts of the deposits that are fully insured by a deposit insurance scheme which represent a portion from the deposits in the transactional accounts (e.g. accounts where salaries are automatically deposited) as per the provisions of those regulations.

20. "**Retail Deposits**" are defined as deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

21. "**Unsecured wholesale funding**" is defined as those deposits and obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships) and are not collateralized by legal rights to specifically designated assets owned by the bank in the case of bankruptcy, insolvency or liquidation resolution. Obligations related derivative contracts are excluded from this definition.

22. "**Small business deposits**" are the deposits that are considered as having similar characteristics to retail accounts provided the total aggregated funding raised from one small business customer is less than KWD 250,000 (on a consolidated basis where applicable).

23. "**Eligible External Credit Assessment Institutions (ECAI)**" external credit assessments must be from an eligible ECAI as recognized by the CBK in accordance with Annex B; Recognition criteria, and the list of ECAIs of Basel III Capital Adequacy Ratio for conventional banks.

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Annex (B): Calculation of the cap on Level 2 assets with regard to short term secured funding

1. This section seeks to clarify the appropriate method for the calculation of the cap on Level 2 assets with regards to short-term secured funding.

2. The calculation of the 40% cap on Level 2 assets should take into account the impact of the amounts of Level 1 and Level 2 assets involved in secured funding[(23)], secured lending[(24)] transactions maturing in 30 calendar days on the stock of HQLA. The maximum amount of adjusted Level 2 assets in the stock of HQLA is equal to two-thirds of the adjusted amount of Level 1 assets after haircuts have been applied. The calculation of the 40% cap on Level 2 assets will take into account any reduction in eligible Level 2B assets on account of the 15% cap on Level 2B assets.

3. Further, the calculation of the 15% cap on Level 2B assets should take into account the impact of the amounts of HQLA assets involved in secured funding, secured lending and collateral swap transactions maturing within 30 calendar days on the stock of HQLA. The maximum amount of adjusted Level 2B assets in the stock of HQLA is equal to 15/85 of the sum of the adjusted amounts of Level 1 and Level 2 assets, or, in cases where the 40% cap is binding, up to a maximum of 1/4 of the adjusted amount of Level 1 assets, both after haircuts have been applied.

4. The adjusted amount of Level 1 assets is defined as the amount of Level 1 assets that would result from short-term secured funding and secured lending, involving the exchange of any HQLA for any Level 1 assets (including cash). The adjusted amount of Level 2B assets is defined as the amount of Level 2B assets that would result from short-term secured funding and secured lending transactions involving the exchange of any HQLA for any Level 2B assets. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days. Relevant haircuts would be applied prior to calculation of the respective caps.

(23) Refer to definition in paragraph 64.

(24) Refer to definition in paragraph 84

5. The formula for the calculation of the stock of HQLA is as follows:

   Stock of HQLA = Level 1 + Level 2A + Level 2B – Adjustment for 15% cap – Adjustment for 40% cap

   Where:

   - Adjustment for 15% cap = Max (Adjusted Level 2B – 15/85*(Adjusted Level 1 + Adjusted Level 2A), Adjusted Level 2B - 15/60*Adjusted Level 1, 0)

   - Adjustment for 40% cap = Max ((Adjusted Level 2A + Adjusted Level 2B – Adjustment for 15% cap) - 2/3*Adjusted Level 1 assets, 0)

6. Alternatively, the formula can be expressed as:

   Stock of HQLA = Level 1 + Level 2A + Level 2B – Max ((Adjusted Level 2A+Adjusted Level 2B) – 2/3*Adjusted Level 1, Adjusted Level 2B – 15/85*(Adjusted Level 1 + Adjusted Level 2A), 0)

7. Example – Calculation of the cap on Level 2 assets:

   Assumptions:

   - Bank has KWD10 billion as balances with the Central Bank (qualifies for Level 1 HQLA) and KWD10 billion of AAA-rated covered bonds (qualifies for Level 2A HQLA)

   - Net cash outflow of the bank is KWD10 billion.

   Therefore:

   - Covered bonds are subject to 15% haircut. Thus, the value of covered bonds after haircuts is 8.5 billion KD [=10-(10*15%)].

   - Adjustment for 40% cap:

   Level 2 adjustment = 8.5 – (2/3*10)= 1.83 billion.

   - Total HQLA after adjustment is: 16.67 billion [=10+(8.5-1.83)].

   - Therefore, the Liquidity coverage ratio = 166.7% (=16.67/10).

If the bank executes a repo of KWD10 billion of covered bonds for balances with the Central Bank, some adjustments will arise on the net cash outflows and HQLA.

Therefore:

- A 15% run-off rate will be applied on the covered bonds repos as it is considered a secured lending transaction backed by a Level 2A asset. Net cash outflows will be 11.5 billion [10+(15%*10)].
- For the purposes of calculating the adjusted HQLA, the bank is assumed to be in possession of the covered bonds (as determined by unwinding the transaction) and will be subject to a 15% haircut. Therefore, the value of the covered bonds after applying the haircut will be 8.5 billion [10-(10*15%)].
- Adjustment for 40% cap:

  Level 2 adjustments = 8.5 – (2/3*10) = 1.83 billion.
- Thus, total Level 1 assets is 20 billion and total Level 2 assets is 0 after taking the repo transaction into consideration. Therefore, the total HQLA after adjustments will be 18.17 billion [20+(0-1.83)].
- Liquidity coverage ratio = 158.0% (18.17/11.5).

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Annex (C): Illustrative Summary of the LCR

Item	Factor
	Stock of HQLA
A. Level 1 Assets	
• Coins and bank notes • Qualified balances with Central Bank of Kuwait • Debt securities / Sukuk issued by Central Bank of Kuwait or the Government of Kuwait • Debt securities / Sukuk that can be monetized and issued or guaranteed by sovereigns, central banks, PSEs, IMF, The Bank of International Settlement, European Central Bank, European Commission, or Multilateral Development Banks • Debt securities / Sukuk issued in local currency by sovereign or the country's central bank where the liquidity risk arises or the banks home country – given a non-0% RW • Debt securities / Sukuk issued in foreign currency by sovereign or central bank that do not exceed the value of the net cash outflow in foreign currency caused by a stress scenario based on the bank's operations in the country where the liquidity risk arises from – given a non-0% RW	100%
Total Level 1 Assets	
B. Level 2 Assets (maximum of 40% of HQLA)	
1) Level 2A Assets	
• Debt securities / Sukuk that can be issued and liquidated or guaranteed by sovereigns, central banks, PSEs, and qualified Multilateral Development Banks • Debt securities / Sukuk qualified for liquidation (including commercial paper) • Qualified covered bonds	85%
2) Level 2B Assets (maximum of 15% of HQLA)	
• Debt securities / Sukuk (including commercial paper) issued by qualified non-financial institutions • Qualified common equity shares	50%
Total Level 2 Assets (1+2)	
Total value of stock of HQLA	
Cash Outflows	
A. Retail deposits – Local currency	
Demand deposits and term deposits (maturity within 30-days)	
• Stable deposits	5%
• Fully insured accounts that are non-transactional accounts	8%
Less stable – retail deposits:	
– 0 – 50,000	10%
– >50,000– 150,000	15%
– >150,000– 250,000	20%
– >250,000	25%
Term deposits with remaining maturity over 30 days	0%
Retail deposits – Foreign currency	
Demand deposits and term deposits (maturity within 30-days)	
• Stable deposits	5%
• Fully insured accounts that are non-transactional accounts	10%
Less stable – retail deposits:	
– 0 – 50,000 KWD	12%
– >50,000 KWD – 150,000 KWD	17%
– >150,000 KWD – 250,000 KWD	22%
– >250,000 KWD	27%
Term deposits with remaining maturity over 30 days	0%

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B. Unsecured Wholesale Funding	
1) Small business customer deposits – local currency	
Stable deposits:	
Fully insured transactional accounts	5%
Other fully insured non-transactional accounts	8%
Less stable deposits:	
- 0 – 50,000	10%
- >50,000– 250,000	15%
- >250,000– 500,000	20%
- >500,000	25%
Term deposits with remaining maturity over 30 days	0%
Foreign currency:	
Stable deposits	
Fully insured transactional accounts	7%
Other fully insured non-transactional accounts	10%
Less stable deposits:	
- 0 – 50,000 KWD	12%
- >50,000 KWD – 250,000 KWD	17%
- >250,000 KWD – 500,000 KWD	22%
- 500,000 KWD	27%
Term deposits with remaining maturity over 30 days	0%
2) Operational deposits generated by clearing, custody, and cash management	25%
• Fully insured part	5%
3) Uninsured deposits from non-financial institutions, sovereign, central banks, multilateral development banks, and PSEs	40%
• Fully insured part	20%
4) Uninsured deposits by other legal entity corporations	100%
C. Secured Funding	
• Backed by Level 1 assets or with central banks	0%
• Backed by Level 2A assets	15%
• Secured funding transactions with domestic sovereign ,PSE's or multilateral development banks that are not backed by Level 1 or 2A assets	25%
• Backed by other Level 2B assets	50%
• All others	100%
D. Other cash outflow	
Net derivative cash outflow	100%
Asset-backed securities, Covered bonds, and other structured financing instruments	100%
Asset-backed commercial paper, securities paper, securities investment vehicles, and other similar financing tools	100%
Committed: credit and liquidity facilities given by a bank to:	
• retail and small business customers (from amount not used)	5%
• non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks (from amount not used)	10% Credit 30% Liquidity
• banks subject to prudential supervision (from amount not used)	40%
• Other financial institutions (including securities firms and insurance firms) (from amount not used)	40% Credit 100% Liquidity
• Other legal entities (from amount not used)	100%

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Other contingent funding obligations	
• Guarantees, LCs, revocable credit and liquidity facilities, non-contractual commitments[25]	5%
• Customers short positions that are covered by other customers' collateral	50%
Increased liquidity needs related to the potential for valuations changes on posted collateral[26]	20%
Other contractual cash outflows[27]	100%
Total Cash outflow	
Cash Inflows	**Inflow Rates**
A. Secured lending transactions backed by the following asset category[28]	
Level 1 assets	0%
Level 2A assets	15%
Level 2B assets	50%
Margin lending backed by all other collateral	50%
Other collateral	100%
B. Committed facilities – credit and liquidity facilities given to banks	0%
C. Other inflows by:	
• Retail and small business customer	50%
• Non-retail customers:	
1. Financial institutions and central banks 2. Non-financial institutions	100% 50%
• Operational deposits held at other financial institutions	0%
D. Other net derivative cash inflows	100%
E. Other contractual cash inflows	100%
Total Cash inflows	
Net cash outflow = Total cash outflow – Total cash inflow or lowest value (75% of total cash outflow)	
Liquidity coverage ratio = HQLA / Net cash outflow	

[25] As described in paragraph 78.

[26] As described in paragraph 68/b.

[27] As described in paragraphs 79 and 80.

[28] As described in paragraph 85.

Annex (D): Mapping notations used by individual ECAIs for sovereigns and PSEs

Credit Quality	Risk Weight
	Claims on sovereigns
(AAA to AA-) or Equivalent	0%
(A+ to A-) or Equivalent	20%
	Claims on PSEs
Claims on local PSEs	0%
(AAA to AA-) or Equivalent	20%

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G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

Required Reports

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

Liquidity Coverage Ratio
As of …./…./….

KWD '000s

Bank Name: Conventional Bank	
Level: Local/Bank-wide/Consolidated	**Value**
HQLA:	
Total Level 1 Assets (Line 12)	
Total Level 2A Assets (Line 18)	
Total Level 2B Assets (Line 22)	
Total HQLA before Adjustments (Line 24)	
Total HQLA after Adjustments (Line 31)	
Net Cash Outflows:	
Total Cash Outflows (Line 82)	
Total Cash Inflows (Line 95)	
Minimum (Total cash inflows or 75% of total cash outflows) (Line 96)	
Net Cash Outflows (Line 97)	
Liquidity Coverage Ratio (Line 98)	%

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

Liquidity Coverage Ratio
As of …./…./….

	Bank Name: Conventional Bank			
	Level: Local / Bank-wide / Consolidated			**KWD '000s**
Sr.	**Numerator : High Quality Liquid Assets**	**Value**	**Run-off rate**	**Value after Applying Run-off rate**
	Level 1 Assets			
1	Coins and banknotes		100%	
2	Balances with Central Bank of Kuwait		100%	
	Debt Securities / Sukūk			
3	Issued by Government of Kuwait		100%	
4	Issued by CBK		100%	
5	Securities Guaranteed by Government of Kuwait		100%	
	Debt securities / Sukūk issued by the following entities with a 0% RW – Except for debt securities and Sukūk listed above			
6	Issued by Sovereigns or Central Banks		100%	
7	Issued by The Bank of international Settlements, IMF, European Central Bank, European Commission & Multilateral Development Banks		100%	
8	Issued by Public Sector Entities		100%	
9	Securities Guaranteed by sovereigns, central banks, the Bank of International Settlements, IMF, European Central Bank, European Commission & Multilateral Development Banks		100%	
	Debt securities / Sukūk issued by Governments or Central Banks and has a non-0% RW			
10	Issued by Sovereign or Central Banks in domestic currencies		100%	
11	Issued by Sovereign or Central Banks in foreign currencies		100%	
12	**Total Stock of Level 1 Assets**			
	Level 2 Assets (up to 40% of total HQLA)			
	Level 2A Assets			
	Debt Securities / Sukūk that can be monetised – Issued by the following entities and given a 20% RW			
13	Sovereigns or Central Banks		85%	
14	Multilateral Development Banks		85%	
15	Public Sector Entities		85%	
16	Non-Financial Institutions or any of its affiliated entities		85%	
17	Covered bonds not issued by the bank itself or any of its affiliated entities		85%	
18	**Total Stock of Level 2A Assets**			

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

	Level 2B Assets (up to 15% of total HQLA)			
19	Debt Securities / Sukuk (including Commercial Paper)issued by non-financial institutions		50%	
20	Qualified Common Equity Shares		50%	
21	Other Assets (If the Bank received approval from the Central Bank of Kuwait)		50%	
22	**Total Stock of Level 2B Assets**			
23	**Total Stock of Level 2 = line 18 + 22**			
24	**Total Stock of Liquid Assets before Adjustments = line 12 + 23**			
	Adjustments (note 1)			
25	Level 1			
26	Level 2A			
27	Level 2B			
	Stocks of Liquid Assets after Adjustments			
28	Adjusted Level 1 line 12 + 25			
29	Adjusted Level 2A line 18 + 26			
30	Adjusted Level 2B line 22 + 27			
31	**Total Stock of Liquid Assets after Adjustments (28 + 29 + 30)**			

	Denominator : Net Cash Flow			
	Total Cash Outflows maturing within 30 day period (unless mentioned otherwise)	**Value**	**Run-off rate**	**Value after applying run-off rate**
A	**Retail Deposits**			
	Demand deposits and term deposits (maturity within 30- days):			
32	Stable deposits		5%	
33	Fully insured accounts that are Non-Transactional Accounts) - Local Currency		8%	
	Less Stable deposits (Local currency):			
34	0 - 50,000 KWD		10%	
35	50,000 KWD 150,000 - KWD		15%	
36	150,000 KWD 250,000 - KWD		20%	
37	250,000 + KWD		25%	
38	Fully insured accounts that are Non-Transactional Accounts - (Foreign Currency)		10%	
	Less Stable deposits (Foreign Currency):			
39	0 - 50,000 KWD		12%	
40	50,000 KWD 150,000 - KWD		17%	
41	150,000 KWD 250,000 - KWD		22%	
42	250,000 + KWD		27%	
43	Term Deposits with remaining maturity over 30 days (note 2)		0%	

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

B	**Unsecured Wholesale Funding**			
	Small business customer deposits			
	Demand deposits and term deposits(That mature within 30-days):			
44	Fully insured Transactional Accounts - Local Currency		5%	
45	Other Non-Transactional Accounts fully insured-Local Currency		8%	
	Less Stable Deposits(Local Currency):			
46	0 - 50,000 KWD		10%	
47	50,000 KWD 250,000 - KWD		15%	
48	250,000 KWD 500,000 - KWD		20%	
49	500,000 + KWD		25%	
50	Fully insured Transactional Accounts -Foreign Currency		7%	
51	Other Non-Transactional Accounts fully insured-Foreign Currency		10%	
	Less Stable Deposits(Foreign Currency):			
52	0 - 50,000 KWD		12%	
53	50,000 KWD 250,000 - KWD		17%	
54	250,000 KWD 500,000 - KWD		22%	
55	500,000 + KWD		27%	
56	Term Deposits with remaining maturity over 30 days (note 2)		0%	
	Operational deposits generated by clearing, custody and cash management			
57	Uninsured		25%	
58	Fully Insured		5%	
	Deposits from Sovereigns, Central Banks, Public and Private Sector entities			
59	Uninsured deposits by non-financial corporates and sovereigns, central banks, multilateral development banks, and public sector entities		40%	
60	Fully insured deposits by non-financial corporates and sovereigns, central banks, multilateral development banks, and public sector entities		20%	
61	Deposits by other legal entity customers		100%	
C	**Secured Funding**			
62	Backed by Level 1 assets or with central banks		0%	
63	Backed by Level 2A assets		15%	
64	Secured funding transactions with domestic sovereign ,PSE's or multilateral development banks that are not backed by Level 1 or 2A assets		25%	
65	Backed by other Level 2B assets other than sovereign PSE's or multilateral development banks		50%	
66	All others		100%	

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

D	**Other Cash Outflows**			
67	Derivatives cash outflows		100%	
68	Asset-backed securities, Covered bonds, and other structured financing instruments		100%	
69	Asset-backed commercial paper, securities paper, and securities investment vehicles		100%	
	Committed (revocable & irrevocable): Credit Facilities & Liquidity Facilities with the following conditions			
70	Committed credit and liquidity facilities to retail and small business customers		5%	
71	Committed credit facilities to non-financial corporates,sovereigns and central banks, PSEs and multilateral development banks		10%	
72	Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSE's, and multilateral development banks		30%	
73	Committed credit and liquidity facilities extended to banks subject to prudential supervision		40%	
74	Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries		40%	
75	Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries		100%	
76	Committed credit and liquidity facilities to other legal entities (including SPEs, conduits and special purpose vehicles, and other entities not included in the prior categories)		100%	
	Other contingent funding obligations			
77	Guarantees, LCs, Revocable Credit and Liquidity Facilities etc.		5%	
78	Any other non-contractual obligations		5%	
79	Customers short positions that are covered by other customers' collateral		50%	
80	Increased liquidity needs related to the potential for valuation changes on posted collateral		20%	
81	Other contractual cash outflows		100%	
82	**Total Cash Outflow**			

	Cash Inflows	**Value**	**Run-off rate**	**Value after applying run-off rate**
A	**Secured lending transactions backed by the following asset category:**			
83	Level 1 assets		0%	
84	Level 2A assets		15%	
85	Level 2B assets		50%	
86	Margin lending backed by all other collateral		50%	
87	Other collateral		100%	
B	**Committed facilities**			
88	Credit and liquidity facilities given to banks from banks and financial institutions		0%	

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

G) Circular No. (2/BS/345/2014) concerning Application of Liquidity Coverage Ratio.

C	**Other inflows by counterparty**			
89	Retail and small business customer		50%	
90	Financial Institutions and central bank		100%	
91	Non-financial institutions		50%	
92	Operational deposits held at other financial institutions		0%	
D	**Other Cash Inflows**			
93	Net derivatives cash inflows		100%	
94	Other contractual cash inflows		100%	
95	**Total Cash Inflows**			
96	**Lowest value (Total cash inflows or 75% of total cash outflows)**			
97	**Net Cash Outflow = line 82 - 96**			
98	**Liquidity Coverage Ratio = line 97/31**			%

(1) Refer to paragraph 4 from Annex B in these Guidelines.

(2) Refer to paragraph 39 in these Guidelines.

Form 2: Deposit Concentration Report (Top 25 Depositors) as of …./…./…. (2) (1)

Sr.	Depositor Name	Depositor Type	Deposit Currency	Deposit Amount (in Deposit Currency)	Total Deposits (KWD)	% Deposits to Total Liabilities	% Deposits to Total Bank's Deposits
1							
2							
3							
4							
5							
6							
7							
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25							

(1) This report covers deposits of individuals, corporates, financial institutions and government and does not include deposits of banks.

(2) Deposits of all types should be aggregated at customer level as per paragraph 101 of these instructions. If the customer has deposits denominated in different currencies, deposits in each currency should be reported in a separate line and customer deposits should be aggregated in the "Total Deposits (KWD)" column.

Form 3: List of Unencumbered Assets as in ..../…./…. **(2) (1)**

Sr.	Asset Type	Issuer type	Country of Issuance	Asset Credit Rating	Issuer Credit Rating	Stock Market (If listed)	Nominal Value	Market Value	Applicable Haircut	Transaction Date	Maturity Date

(1) Includes unencumbered assets that can be used to raise HQLA or used as collateral to obtain financing at a reasonable cost.
(2) Data is collected based on asset type

THE GOVERNOR

Muharram 12, 1437 H
October 25, 2015

The Chairman,

Circular No. (2/BS/356/2015) to all Local Conventional Banks regarding Application of Net Stable Funding Ratio

In line with the international developments in the field of banking supervision and application of the relevant best practices, and within the framework of finalization of Basel III Set of Reforms, we would like to inform you that the Board of Directors of Central Bank of Kuwait (CBK) has resolved in its session held on 25/10/2015 application of Net Stable Funding Ratio "NSFR" Regulations to the local conventional banks. NSFR requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, thus reducing reliance on less stable, short-term sources of funding.

Banks are also required to abide, at all times, by the minimum NSFR and the disclosure requirements effective from 01/01/2018. CBK should be provided at the current stage with NSFR reports (for follow-up purposes) from 01/01/2016. In addition, your bank should provide us with NSFR statements on a monthly basis based on month-end position, and on a daily basis for all the business days in the reporting month, within 14 business days from the end of the respective reporting period. Such reports should be signed by your bank's Chief Executive Officer "CEO" and reviewed by your external auditors for the monthly periods and audited for the closing period. As for the months of January and February 2016, banks shall be granted a grace period to provide CBK with such statements along with those for March 2016. Your bank should provide the CBK with an electronic copy of such statements via email: SV.OSS.BASEL3@CBK.GOV.KW .

The CBK reiterates that your bank should lay down the policies and procedures necessary for application of this ratio, and develop the IT systems needed to ensure accuracy and comprehensiveness of the statement.

Find enclosed herewith a copy of the LCR regulations, which contain the related reports required from banks.

With my best regards,

THE GOVERNOR
DR. MOHAMMAD Y. AL-HASHEL

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

The Net Stable Funding Ratio Guidelines for Conventional Banks

These instructions have been translated from Arabic into English language. If there is any conflict or ambiguity between the two versions, Arabic version shall prevail.

25/10/2015

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2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

Section One: NSFR

First: Introduction

1. As part of the Central Bank of Kuwait's (CBK) continued efforts to update its guidelines in line with global regulatory standards and to advance its supervisory tools, the CBK Board of Directors approved at its meeting held on 25/10/2015 the Net Stable Funding Ratio (NSFR) in its final form for local conventional banks, including branches of foreign banks operating in Kuwait. The issuance of the NSFR Guidelines comes as part of the steps taken by the CBK to implement Basel III reforms and these Guidelines are complementary to the existing liquidity guidelines.

2. To complement its "Principles for Sound Liquidity Risk Management and Supervision" issued in 2008, the Basel Committee on Banking Supervision (BCBS) has developed additional standards for funding liquidity within its Basel III framework. These standards include the Liquidity Coverage Ratio (LCR) and the NSFR which have been approved by the CBK Board of Directors on 23/12/2014 and 25/10/2015 respectively, and implemented in local conventional banks, and the NSFR. The objective of this Ratio is to promote resilience of banks' liquidity risk profiles and more resilient banking sector. The NSFR will require banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

3. Maturity transformation performed by banks is a crucial part of financial intermediation that contributes to efficient resource allocation and credit creation. As a result, banks would have maturity mismatches between their assets and deposits. In many cases, as was clear in the aftermath of the financial and economic crisis of 2008, private incentives to limit excessive reliance on unstable funding are weak. Just as banks may have incentives to increase leverage, incentives arise for banks to expand their balance sheets, often very quickly, relying on relatively cheap and abundant short-term wholesale funding. Rapid balance sheet growth can weaken the ability of individual banks to respond to liquidity (and solvency) shocks when they occur, and can have systemic implications when banks fail to internalize the costs associated with large funding gaps. A highly interconnected financial system tends to exacerbate these spillovers.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

Second: Scope of Application

4. Banks shall calculate the NSFR separately for each of the following levels:

   a. Level (A): the NSFR for the bank on the local level (inside Kuwait), including head office and its branches inside Kuwait.
   b. Level (B): the NSFR for the bank on a bank-wide level, including the head office and its branches inside and outside Kuwait.
   c. Level (C): the NSFR on a consolidated basis (banking group, including branches and subsidiaries inside and outside Kuwait).

Third: Requirements and Calculation Methodology

5. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "*Available stable funding*" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. "*Required stable funding*" 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.

6. The NSFR (as a percentage) shall be calculated as follows:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100$$

7. The NSFR definitions mirror those outlined in the "Liquidity Coverage Ratio Guidelines for Conventional Banks" issued by the CBK, unless otherwise specified.

Fourth: NSFR Components

A) Available Stable Funding (ASF)

8. The amount of available stable funding (ASF) is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding. The amount of ASF is calculated by first assigning the carrying value of an institution's capital and liabilities to one of five categories, as presented below in table (1), before the application of any regulatory deductions, filters or other adjustments. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.
H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

9. When determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks should assume such behavior for the purpose of the NSFR and include these liabilities in the corresponding ASF category. For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively.

Calculation of derivative liability amounts

10. Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. When an eligible bilateral netting contract is in place that meets the conditions as specified in the "bilateral netting agreements" conditions specified in Annex C, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

11. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.[(1)] [(2)]

1) Liabilities and capital receiving a 100% ASF factor

12. Liabilities and capital instruments receiving a 100% ASF factor comprise:

    a. The total amount of regulatory capital, before the application of capital deductions[(3)], including general provisions calculated under the regulatory capital and excluding the proportion of Tier 2 instruments with residual maturity of less than one year. As regards to branches of foreign banks, this category includes the actual value of funds designated for the branch/ branches;

    b. The total amount of any capital instrument not included in (a) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year; and

(1) NSFR derivative liabilities = (derivative liabilities) – (total collateral posted as variation margin on derivative liabilities).

(2) To the extent that the bank's accounting framework reflects on balance sheet, in connection with a derivative contract, an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount for purposes of the NSFR, that asset should not be included in the calculation of a bank's required stable funding (RSF) to avoid any double-counting.

(3) Capital instruments reported here should meet all requirements outlined in CBK Capital Adequacy Ratio – Basel III Guidelines.

c. The total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more. Cash flows falling below the one-year horizon but arising from liabilities with a final maturity greater than one year do not qualify for the 100% ASF factor.

2) Liabilities receiving a 95% ASF factor

13. Liabilities receiving a 95% ASF factor comprise stable demand deposits, saving deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers.

14. Stable deposits are the amount of the deposits that are fully insured[(1)] by a deposit insurance scheme, and where:

    a. the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely; or

    b. the deposits are in transactional accounts (e.g. accounts where salaries are automatically deposited) .

    All other deposits and accounts that do not satisfy these criteria shall be treated as less stable deposits.

15. The presence of deposit insurance alone is not sufficient to consider a deposit "stable" if it does not satisfy all of the aforementioned conditions.

3) Liabilities receiving a 90% ASF factor

16. Liabilities receiving a 90% ASF factor comprise "less stable" demand deposits, saving deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers.

4) Liabilities receiving a 50% ASF factor

17. Liabilities receiving a 50% ASF factor comprise:

    a. Funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers;

    b. Operational deposits (as defined in Annex B);

(1) "Fully insured" means that 100% of the deposit amount is covered by an effective deposit insurance scheme. Deposit balances up to the deposit insurance limit can be treated as "fully insured". However, any amount in excess of the deposit insurance limit is to be treated as "less stable". For example, if a depositor has a deposit of KWD 150,000 that is covered by a deposit insurance scheme, which has a limit of KWD 100,000, where the depositor would receive at least KWD 100,000 from the deposit insurance scheme if the bank were unable to pay, then KWD 100,000 would be considered "fully insured" and treated as stable deposits, while KWD 50,000 would be treated as less stable deposits.

c. Funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks; and

d. Other funding (secured and unsecured) not included in the categories above with residual maturity between six months to less than one year, including funding from central banks and financial institutions.

"Funding" refers to all sources of funding including deposits, loans and others.

5) Liabilities receiving a 0% ASF factor

18. Liabilities receiving a 0% ASF factor comprise:

a. All other liabilities categories not included in the above categories, including other funding with residual maturity of less than six months from the central bank and financial institutions;

b. Other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognized for liabilities without a stated maturity:

- First, deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realized; and
- Second, minority interest, which should be treated according to the term of the instrument, usually in perpetuity.

These exceptions would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year;

c. NSFR derivative liabilities as calculated according to paragraphs **Error! Reference source not found.**10 and 1111 net of NSFR derivative assets as calculated according to paragraphs 28 and 29, if NSFR derivative liabilities are greater than NSFR derivative assets;[(1)] and

d. "Trade Date" payables arising from purchases of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.

19. Table (1) below summarizes the components of each of the ASF categories and the associated maximum ASF factor to be applied in calculating an institution's total amount of available stable funding under the standard.

(1) In this case, ASF = 0% x MAX ((NSFR derivative liabilities – NSFR derivative assets), 0).

Table 1: Summary of liability categories and associated ASF factors

ASF factor	Components of ASF category
100%	• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year) • Other capital instruments and liabilities with effective residual maturity of one year or more • Deferred tax liabilities with residual maturity of one year or greater • Minority interest with residual maturity of one year or more
95%	• Stable demand deposits, saving deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
90%	• Less stable demand deposits, saving deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
50%	• Funding with residual maturity of less than one year provided by non-financial corporate customers • Operational deposits • Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks • Other secured or unsecured funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions • Deferred tax liabilities with residual maturity between six months and less than one year • Minority interest with residual maturity between six months and less than one year
0%	• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests) • NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets • "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

B) Required Stable Funding (RSF)

20. The amount of required stable funding is measured based on the broad characteristics of the liquidity risk profile of an institution's assets and OBS exposures. The amount of required stable funding is calculated by first assigning the carrying value of an institution's assets to the categories listed in table (2) below. The amount assigned to each category is then multiplied by its associated required stable funding (RSF) factor, and the total RSF is the sum of the weighted amounts added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor.

21. Definitions mirror those outlined in the LCR, unless otherwise specified[1].

22. The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetized through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts are expected to be supported by stable funding.

23. Assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, investors should be assumed to exercise any option to extend maturity. In particular, where the market expects certain assets to be extended in their maturity, banks should assume such behavior for the purpose of the NSFR and include these assets in the corresponding RSF category. For amortizing loans, the portion that comes due within the one-year horizon can be treated in the less-than-one-year residual maturity category.

24. For purposes of determining its required stable funding, an institution should (i) include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and (ii) exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that (i) such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet, and (ii) the effects of such transactions will be reflected in the institution's balance sheet when settled.

[1] For the purposes of calculating the NSFR, HQLA are defined as all HQLA without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that may otherwise limit the ability of some HQLA to be included as eligible HQLA in calculation of the LCR.

2- RULES OF LIQUIDITY SYSTEM AND THE REGULATIONS ISSUED FOR LIQUIDITY POSITION IN THE BANKING SYSTEM.

H) Circular No. (2/BS/356/2015) concerning Application of Net Stable Funding Ratio.

Encumbered Assets

25. Encumbered assets receive RSF factors as follows:

    a. Assets on the balance sheet that are encumbered for one year or more receive a 100% RSF factor;

    b. Assets encumbered for a period of between six months and less than one year receive the following RSF factors:

        - 50% RSF factor if these assets would receive an RSF factor lower than or equal to 50% if unencumbered; and

        - If these assets receive an RSF factor higher than 50% if unencumbered, the higher RSF factor is applied.

    c. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered.

        Assets that are encumbered for exceptional[(1)] central bank liquidity operations receive 0% RSF factor.

Secured financing transactions

26. For secured funding arrangements, including securities financing transactions, the following applies:

    a. Banks should include securities that have been borrowed in securities financing transactions (such as reverse repos and collateral swaps), that appear on the banks' balance sheets and where the banks retain beneficial ownership. Otherwise, banks should not include the securities; and

    b. Where banks have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the bank's balance sheet, the bank should allocate such securities to the appropriate RSF category.

27. Securities financing transactions with a single counterparty may be measured net when calculating the NSFR, provided that the netting conditions set out below:

    a. Transactions have the same final settlement date.

(1) In general, exceptional central bank liquidity operations are considered to be non-standard, temporary operations conducted by the central bank in a period of market-wide financial stress and/or exceptional macroeconomic challenges.

b. The right to net the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of: (i) default; (ii) insolvency; and (iii) bankruptcy.

c. Transactions are settled net, settled simultaneously, or are subject to a settlement mechanism that results in a single net amount on the settlement date.

Calculation of derivative asset amounts

28. Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting contract is in place that meets the conditions as specified as per the "bilateral netting agreements" conditions specified in Annex C, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

29. In calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank's operative accounting or risk-based framework, unless it is received in the form of cash variation margin and meets the conditions as specified in Annex D[(1)]. Any remaining balance sheet liability associated with (a) variation margin received that does not meet the criteria above or (b) initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

1) Assets assigned a 0% RSF factor

30. Assets assigned a 0% RSF factor comprise:

a. Coins and banknotes immediately available to meet obligations;

b. All central bank reserves (including required reserves and excess reserves);

c. All claims on central banks with residual maturities of less than six months; and

d. "Trade Date" receivables arising from sales of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.

2) Assets assigned a 5% RSF factor

31. Assets assigned a 5% RSF factor comprise unencumbered Level 1 HQLA as defined in Annex E, excluding assets receiving a 0% RSF factor as specified above, and including:

(1) NSFR derivative assets = (derivative assets) – (cash collateral received as variation margin on derivative assets).

a. Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, multilateral development banks that are assigned a 0% risk weight under Annex F, Government of Kuwait, the Central Bank of Kuwait, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community; and

b. Marketable securities representing claims on or guaranteed by certain non-0% risk-weighted sovereign or central bank debt securities as specified in Annex F.

3) Assets assigned a 10% RSF factor

32. Unencumbered loans and deposits with financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 HQLA as defined in Annex E, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan.

4) Assets assigned a 15% RSF factor

33. Assets assigned a 15% RSF factor comprise:

a. Unencumbered Level 2A HQLA as defined in Annex E, including:

- Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under Annex F; and

- Corporate debt securities/ Sukuk (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA–;

b. Other unencumbered loans and deposits with financial institutions with residual maturities of less than six months not included in para 0.

5) Assets assigned a 50% RSF factor

34. Assets assigned a 50% RSF factor comprise:

a. Unencumbered Level 2B HQLA as defined and subject to the conditions set forth in Annex E, including:

- Corporate debt securities/ Sukuk (including commercial paper) with a credit rating of between A+ and BBB-;

- Exchange-traded common equity shares not issued by financial institutions or their affiliates

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b. Any HQLA as defined in Annex E that are encumbered for a period of between six months and less than one year;

c. All loans and deposits with financial institutions and central banks with residual maturity of between six months and less than one year; and

d. Deposits held at other deposit-taking financial institutions for operational purposes that are subject to the 50% ASF factor in paragraph 17; and

e. All other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, and loans to sovereigns and PSEs.

6) Assets assigned a 65% RSF factor

35. Assets assigned a 65% RSF factor comprise:

a. Unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Capital Adequacy Ratio - Basel 3 guidelines; and

b. Other unencumbered loans and deposits not included in the above categories, excluding loans and deposits with financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the CBK *Capital Adequacy Ratio - Basel III Guidelines*.

7) Assets assigned a 85% RSF factor

36. Assets assigned an 85% RSF factor comprise:

a. Cash, securities or other assets posted as initial margin for derivative contracts[(1)] and cash or other assets provided to contribute to the default fund of a central counterparty (CCP). Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor.

b. Other unencumbered performing loans[(2)] that do not qualify for the 35% or lower risk weight under the CBK *Capital Adequacy Ratio - Basel III Guidelines* and have residual maturities of one year or more, excluding loans and deposits with financial institutions;

(1) Initial margin posted on behalf of a customer, where the bank does not guarantee performance of the third party, would be exempt from this requirement.

(2) Performing loans are considered to be those that are not past due for more than 90 days. Conversely, non-performing loans are considered to be loans that are more than 90 days past due.

c. Unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, in cases where the issuer is not in default and where the securities do not qualify as HQLA according to the LCR; and

d. Physical traded commodities, including gold.

8) Assets assigned a 100% RSF factor

37. Assets assigned a 100% RSF factor comprise:

a. All assets that are encumbered for a period of one year or more;

b. NSFR derivative assets as calculated according to paragraphs 28 and 29 of NSFR derivative liabilities as calculated according to paragraphs 10 and 11, if NSFR derivative assets are greater than NSFR derivative liabilities;[(1)]

c. All other assets not included in the above categories, including non-performing loans (net of specific provisions), loans and deposits with financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, insurance assets, and defaulted securities; and

d. 20% of derivative liabilities (i.e. negative replacement cost amounts) as calculated according to paragraph 10 (before deducting variation margin posted).

38. Table 2 summarizes the specific types of assets to be assigned to each asset category and their associated RSF factor.

Table 2: Summary of asset categories and associated RSF factors

RSF factor	Components of RSF Factor
0%	• Coins and banknotes • All central bank reserves • All claims on central banks with residual maturities of less than six months • "Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities
5%	• Unencumbered Level 1 HQLA, excluding coins, banknotes and central bank reserves

(1) RSF = 100% x MAX ((NSFR derivative assets – NSFR derivative liabilities), 0).

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RSF factor	Components of RSF Factor
10%	• Unencumbered loans and deposits with financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 HQLA and where the bank has the ability to freely re-hypothecate the received collateral for the life of the loan
15%	• Unencumbered Level 2A HQLA • All other unencumbered loans and deposits with financial institutions with residual maturities of less than six months not included in the above categories
50%	• Unencumbered Level 2B HQLA • HQLA encumbered for a period of six months or more and less than one year • Loans and deposits with financial institutions and central banks with residual maturities between six months and less than one year • Deposits held at other financial institutions for operational purposes • All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs
65%	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio - Basel 3 guidelines • Other unencumbered loans and deposits not included in the above categories, excluding loans and deposits with financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% as per the CBK *Capital Adequacy Ratio - Basel III Guidelines*
85%	• Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP • Other unencumbered performing loans with risk weights greater than 35% as per the CBK *Capital Adequacy Ratio - Basel III Guidelines* and residual maturities of one year or more, excluding loans and deposits with financial institutions • Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities in cases where the issuer is not in default and where the securities do not qualify as HQLA according to the LCR • Physical traded commodities, including gold
100%	• All assets that are encumbered for a period of one year or more • NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities • 20% of derivative liabilities (net of eligible cash variation margin) • All other assets not included in the above categories, including non-performing loans (net of specific provisions), loans and deposits with financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, insurance assets, and defaulted securities

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Off-balance sheet exposures

39. Many potential OBS liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. The NSFR assigns an RSF factor to various OBS activities in order to ensure that institutions hold stable funding for the portion of OBS exposures that may be expected to require funding within a one-year horizon.

40. Consistent with the LCR, the NSFR identifies OBS exposure categories based broadly on whether the commitment is a credit or liquidity facility or some other contingent funding obligation. Table 3 identifies the specific types of OBS exposures to be assigned to each OBS category and their associated RSF factor.

Table 3: Summary of off-balance sheet categories and associated RSF factors

RSF Factor	RSF Category
5% of the currently undrawn portion	• Irrevocable and conditionally revocable credit and liquidity facilities • Other contingent funding obligations, including products and instruments such as: o Unconditionally revocable credit and liquidity facilities o Trade finance-related obligations (including guarantees and letters of credit) o Guarantees and letters of credit unrelated to trade finance obligations o Non-contractual obligations such as: ▪ potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities ▪ structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs) ▪ managed funds that are marketed with the objective of maintaining a stable value

41. Banks shall provide the CBK with the NSFR report as per the attached template for the levels detailed in paragraph 4 on a monthly basis based on the position at the end of the month and on the average of daily data for all business days during the month for which the data are reported.

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Section Two: General Disclosure Requirements

42. Banks shall disclose the NSFR on a consolidated basis as per the below common template (Table 4).

43. Banks must disclose the information on the NSFR quarterly, and concurrently with, the publication of their quarterly and year-end financial statements based on the figures as at the end of the period. Banks must also make available on their websites the historic series of the NSFR.

44. Both unweighted and weighted values of the NSFR components must be disclosed.

45. In addition to the disclosure template hereunder, banks should provide sufficient qualitative discussion relevant to the NSFR to facilitate understanding of the results and data disclosed, which may include analysis of the main drivers of the NSFR results, changes during the period for which the data is prepared or compared to the date of the last disclosure (such as changes to the bank's strategy, funding structure or any other circumstances).

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Table 4: NSFR Common Disclosure Template
For the Period Ending on…/…/…...[(1)]

"value in KWD 000"

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				
		No specified maturity	Less than 6 months	More than 6 months And less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	**Capital:**					
2	• ***Regulatory Capital***					
3	• ***Other Capital Instruments***					
4	**Retail deposits and deposits from small business customers:**					
5	• ***Stable deposits***					
6	• ***Less stable deposits***					
7	**Wholesale funding:**					
8	• ***Operational deposits***					
9	• ***Other wholesale funding***					
10	**Other liabilities:**					
11	• ***NSFR derivative liabilities***					
12	• ***All other liabilities not included in the above categories***					
13	**Total ASF**					
Required Stable Funding (RSF):						
14	**Total NSFR high-quality liquid assets (HQLA)**					
15	**Deposits held at other financial institutions for operational purposes**					
16	**Performing loans and securities:**					
17	• ***Performing loans to financial institutions secured by Level 1 HQLA***					
18	• ***Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions***					
19	• ***Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:***					

(1) Quarterly statement.

20	– ***With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines***					
21	• ***Performing residential mortgages, of which:***					
22	– ***With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines***					
23	• ***Securities that are not in default and do not qualify as HQLA, including exchange-traded equities***					
24	**Other assets:**					
25	• ***Physical traded commodities, including gold***					
26	• ***Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs***					
27	• ***NSFR derivative assets***					
28	• ***NSFR derivative liabilities before deduction of variation margin posted***					
29	• ***All other assets not included in the above categories***					
30	**Off-balance sheet items**					
31	**Total RSF**					
32	**NSFR (%)**					

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Table 5: References of the Table 4

Sr.	Item	Row in NSFR Template
Available Stable Funding (ASF):		
1	**Capital:**	
2	• ***Regulatory Capital***	**From 1 (a) to 1 (c)**
3	• ***Other Capital Instruments***	**1 (d)**
4	**Retail deposits and deposits from small business customers:**	
5	• ***Stable deposits***	**2**
6	• ***Less stable deposits***	**3**
7	**Wholesale funding:**	
8	• ***Operational deposits***	**4 (b)**
9	• ***Other wholesale funding***	**4 (a), 4 (c), 4 (d)**
10	**Other liabilities:**	
11	• ***NSFR derivative liabilities***	**5**
12	• ***All other liabilities not included in the above categories***	**6, 7**
13	**Total ASF**	**8**
Required Stable Funding (RSF):		
14	**Total NSFR high-quality liquid assets (HQLA)**	**9, 10, 13, 14, 15, 18**
15	**Deposits held at other financial institutions for operational purposes**	**20**
16	**Performing loans and securities:**	
17	• ***Performing loans to financial institutions secured by Level 1 HQLA***	**16**
18	• ***Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions***	**19 (f)**
19	• ***Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:***	**11, 19 (a), 19 (b), 19 (d), 19 (e)**
20	– ***With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines***	**19 (d)**
21	• ***Performing residential mortgages, of which:***	**19 (c)**
22	– ***With a risk weight of less than or equal to 35% under the Capital Adequacy Ratio – Basel 3 guidelines***	**19 (c)**
23	• ***Securities that are not in default and do not qualify as HQLA, including exchange-traded equities***	**17**
24	**Other assets:**	
25	• ***Physical traded commodities, including gold***	**22**
26	• ***Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs***	**21**
27	• ***NSFR derivative assets***	**23**
28	• ***NSFR derivative liabilities before deduction of variation margin posted***	**24**
29	• ***All other assets not included in the above categories***	**12, 25**
30	**Off-balance sheet items**	**From 26 to 31**
31	**Total RSF**	**32**
32	**NSFR (%)**	**33**

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Section Three: Annexes

Annex (A): Definitions[1]

In the context of these Guidelines, the following terminologies take the meanings corresponding to each of them:

1. **"Bank"** means any bank fully recognised as such by the relevant regulator of the country in which it is registered except such a bank which:

   a. In the opinion of the Central Bank, is not adequately supervised by the relevant banking supervisory authority.

   b. The license or other authorisation of which to carry on banking business is for the time being suspended.

2. "**Banking groups**" are groups that engage predominantly in banking activities and are registered as banks in the relevant jurisdiction.

3. **"PSE"** means a public sector entity which is specified as such either by the Central Bank ("domestic PSE") or by an overseas banking supervisory authority ("foreign PSE"). Domestic PSEs include those entities owned by the government, excluding the subsidiaries of such institutions undertaking commercial activities.

4. **"Financial Institutions"** are institutions defined as financial institutions by the CBK (local financial institutions) or by foreign banking regulators (foreign financial institutions); examples of financial institutions include investment companies, insurance companies and currency exchange companies.

5. **"MDB"** means a multilateral development bank, which refers to any bank or lending or development body established by agreement between, or guaranteed by, two or more countries, territories or international organisations other than for purely commercial purposes.

6. "**Off-Balance-Sheet Activities**" are banks' business that does not generally involve booking assets or liabilities. Examples include granting of standby commitments, letters of credit and guarantees.

7. "**Repo-Style Transactions**" means transactions involving the sale and repurchase ("repo") of assets, purchase and resale ("reverse repo") of assets, as well as securities lending and securities borrowing. The term "repo-style transactions" is generally taken to refer to any of the following transactions of a bank:

[1] Definitions mirror those in the Capital Adequacy Ratio – Basel 3 and the LCR guidelines.

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a. Sale & repurchase ("repo") of securities - the bank agrees to sell securities to a third-party for cash with a commitment to repurchase the securities at an agreed price on an agreed future date.

b. Securities lending - the bank lends securities to a third-party and receives either cash or other securities from that party in exchange as collateral.

c. Purchase and resale ("reverse repo") of securities - the bank agrees to acquire securities from a third-party for cash with a commitment to resell the securities at an agreed price on an agreed future date (i.e. the reverse of repo transactions).

d. Securities borrowing - the bank borrows securities from a third-party and gives cash or other securities to that party in exchange as collateral.

8. "**Secured Obligations**": means obligations that are secured by legal rights on specifically designated assets owned by the bank which are used in the case of bankruptcy, insolvency or liquidation.

9. "**High-Quality Liquid Asset (HQLA)**" Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value under stress scenarios.

10. "**Operational Deposits**" are the deposits generated by clearing, custody and cash management activities.

11. "**Stable Deposits**" are the amounts of the deposits that are fully insured by a deposit insurance scheme which represent a portion from the deposits in the transactional accounts (e.g. accounts where salaries are automatically deposited) as per the provisions of those regulations.

12. "**Transactional Accounts**" are defined as the accounts used to settle transactions pertaining to salaries and customers income.

13. **"Unencumbered Assets"** means assets free of legal, regulatory, contractual or other restrictions on the ability of the bank to liquidate, sell or transfer these assets. Liquid assets should not be used to cover trading positions or to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries).

14. "**Retail Deposits**" are defined as deposits placed with a bank by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories.

15. **"Wholesale funding**" is defined as those deposits and obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships).

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16. **"Small business deposits**" are the deposits that are considered as having similar characteristics to retail accounts provided the total aggregated funding raised from one small business customer is less than KD 250,000 (on a consolidated basis where applicable).

17. **"Default funds"**, also known as clearing deposits or guarantee fund contributions (or any other names), are clearing members' funded or unfunded contributions towards, or underwriting of, a CCP's mutualized loss sharing arrangements.

18. **"Central counterparty (CCP)"** is the party that dedicates in the settlement process between counterparties to contracts related to financial instruments becoming the buyer to every seller and the seller to every buyer in the market.

19. **"Principal amount"** means the amount of any outstanding claim (excluding any interest and other expenses) on, or contingent liability in respect of, the relevant counterparty.

20. **"Variation margin"** means a clearing member's or client's funded collateral posted on a daily or intraday basis to a CCP based upon price movements of their transactions.

21. **"Initial margin"** means a clearing member's or client's funded collateral posted to the CCP to mitigate the potential future exposure of the CCP to the clearing member arising from the possible future change in the value of the transactions.

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Annex (B): Operational Deposits[1]

1. Certain banking activities related to payments and settlement systems lead to customers needing to place, or leave, deposits with a bank in order to cover such transactions. This is conditional on the fact that the activities have a substantive dependency with the bank and the deposit is required for such activities.

2. Qualifying activities in this context refer to clearing, custody or cash management activities that meet the following criteria:

   a. The customer is reliant on the bank to perform these services as an independent third party intermediary in order to fulfil its normal banking activities over the next 30 days. For example, this condition would not be met if the bank is aware that the customer has adequate back-up arrangements.

   b. These services must be provided under a legally binding agreement to customers.

   c. The termination of such agreements shall be subject either to a notice period of at least 30 days or significant switching costs (such as those related to transaction, information technology, early termination or legal costs) to be borne by the customer if the operational deposits are moved before 30 days.

3. Qualifying operational deposits generated by such activities are ones where:

   d. The deposits are by-products of the underlying services provided by the bank and are not sought out in the wholesale market.

   e. The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer.

4. Only that part of the deposit balance with the service provider that is proven to serve a customer's operational needs can qualify as stable. Excess balances should be treated in the appropriate category for (non-operational) deposits. If the bank is unable to determine the amount of the excess balance, the entire deposit should be considered non-operational.

5. Banks must determine the methodology for identifying excess balances in operational accounts. The methodology should be conducted at a sufficiently granular level to adequately assess the risk of withdrawal in an idiosyncratic stress. The methodology should take into account relevant factors such as the average balances in advance of specific payment needs.

(1) Based on the definition of operational deposits in the LCR guidelines.

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6. If the deposit arises out of correspondent banking or from the provision of prime brokerage services, it will be treated as if it was a non-operational activity for the purpose of determining run-off factors[(1)].

7. The portion of the operational deposits generated by clearing, custody and cash management activities that is fully covered by deposit insurance can receive the same treatment as "stable" retail deposits.

8. A clearing relationship, in this context, refers to a service arrangement, granted by the bank as a direct participant in settlement systems, that enables customers to transfer funds (or securities) indirectly through participants in domestic settlements systems to final recipients. Such services are limited to the following activities: transmission, overdraft and settlement.

9. A custody relationship refers to the provision of safekeeping, reporting, processing of assets or the facilitation of the operational and administrative elements of related activities on behalf of customers in the process of their transacting and retaining financial assets. Such services are limited to the settlement of securities transactions, the transfer of contractual payments, the processing of collateral, and the receipt of dividends and other income, transfer of funds and stocks and agency services, including payment and settlement services (excluding correspondent banking).

10. A cash management relationship refers to the provision of cash management and related services to customers. Cash management services refers to those products and services provided to a customer to manage its cash flows, assets and liabilities, and conduct financial transactions necessary to the customer's operational activities. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

(1) Correspondent banking refers to arrangements under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services in order to settle foreign currency transactions (e.g. so-called nostro and vostro accounts used to settle transactions in a currency other than the domestic currency of the respondent bank for the provision of clearing and settlement of payments). Prime brokerage is a package of services offered to large active investors, particularly institutional hedge funds. These services usually include: clearing, settlement and custody; consolidated reporting; financing (margin, repo or synthetic); securities lending; capital introduction; and risk analytics.

Annex (C): Bilateral Netting Agreements[1]

1. Exposures to the same counterparties arising out of a range of forwards, swaps, options and similar derivative contracts, could be subject to a netting treatment according to the following requirements.

2. Accordingly, for the NSFR purposes:

   a. Banks may net transactions subject to novation under which any obligation between a bank and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.

   b. Banks may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.

   c. In both cases (a) and (b), a bank will need to satisfy the Central Bank that it has:

      i. A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances.

      ii. Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:

         a) The law of the jurisdiction in which the counterparty is chartered and the branch that conducted the netting.

         b) The law that governs the individual transactions.

         c) The law that governs any contract or agreement necessary to effect the netting.

[1] Based on the Capital Adequacy Ratio – Basel 3 guidelines.

iii. In this context, the banks may use the following applicable market accepted standard agreements:

- International Swaps and Derivatives Association (ISDA) Master Agreement (English Law or New York Law, as applicable).
- International Foreign Exchange Master Agreement (IFEMA) for FX transactions.
- FX Net Agreements for FX transactions.
- Worldwide Foreign Exchange Netting and Close-Out Agreement for FX transactions.
- Global Foreign Exchange Netting and Close-Out Agreement (FXNET "Non-User" Agreement) for FX transactions.
- International Currency Option Master Agreement (ICOM).

iv. Banks are only permitted to avail the benefit of Master Netting Agreements in jurisdictions where such agreements are legally enforceable (i.e. where legal precedence exists). The use of such netting should also be supported by the positive opinion of the licensed bank's Legal Department.

v. Banks intending to use any Master Netting Agreements other than those listed in previous paragraph should seek the explicit approval of the Central Bank to do so.

3. Procedures are in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes that may be applicable to these type of agreements at a later stage.

4. In certain arrangements (such as contracts including 'walk away clauses') where the counterparty terminates the contract, this event is not taken into consideration for the purposes of calculating the NSFR. Thus, the exposure is calculated without taking into account the Netting Agreement.

5. Exposure on bilaterally netted derivative transactions will be calculated as the sum of the net mark-to-market replacement cost, if positive, plus an add-on based on the notional underlying principal. The add-on for netted transactions (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross})[(1)] and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$\mathbf{A_{Net}=0.4*A_{Gross}+0.6*NGR*A_{Gross}}$$

(1) A_{Gross} equals the sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in the CBK's Capital Adequacy Ratio Guidelines) of all transactions subject to legally enforceable netting agreements with one counterparty.

where:

NGR=level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements.[(1)]

6. The scale of the gross add-ons to apply in this formula will be the same as those for non-netted transactions as set out in the CBK's Capital Adequacy Ratio Guidelines. The Central Bank will continue to review the scale of add-ons to make sure they are appropriate.

7. For purposes of calculating potential future credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which notional principal is equivalent to cash flows, notional principal is defined as the net receipts falling due on each value date in each currency.

(1) CBK permits a choice of calculating the NGR on a counterparty by counterparty or on an aggregate basis level for all transactions subject to legally enforceable netting agreements. However, the method chosen by a licensed bank is to be used consistently. Under the aggregate approach, net negative current exposures to individual counterparties cannot be used to offset net positive current exposures of another counterparty i.e. for each counterparty the net current exposure used in calculating the NGR is the maximum of the net replacement cost or zero. Note that under the aggregate approach, the NGR is to be applied individually to each legally enforceable netting agreement.

Annex (D): Utilizing the cash portion of variation margin received to reduce the Replacement Cost.[1]

1. Banks may use the cash portion of variation margin received to reduce the replacement cost portion (but not the potential future exposure) of the leverage ratio exposure measure and may deduct the receivables assets from cash variation margin provided from the leverage ratio exposure measure (if the cash variation margin provided has been recognized as an asset under the bank's accounting framework) subject to the following conditions being met:

   a. For trades not cleared through a qualifying central counterparty (QCCP) the cash received by the recipient counterparty is not segregated from the cash portion of the variation margin.

   b. Variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivatives positions.

   c. The cash variation margin is received in the same currency as the currency of settlement of the derivative contract.

   d. Variation margin exchanged is enough to cover the mark-to-market exposure of the derivative.

   e. Derivatives transactions and variation margins are covered by a single master netting agreement (MNA) between the counterparties and the MNA must be legally enforceable .

[1] Based on the Leverage Ratio for Conventional Banks guidelines.

Annex (E): High Quality Liquid Assets as per the LCR

1. Assets are generally qualified as HQLA if they can be easily and immediately converted into cash at little or no loss of value under stress circumstances.

2. The conditions identified in the following paragraphs should be satisfied by Levels 1 and 2 assets.

1) Level 1 Assets

3. Level 1 assets are included in their applicable market value and can comprise an unlimited share of the pool, and are not subject to haircuts.

4. Level 1 assets are limited to:

   a. Coins and banknotes.

   b. Assets with central banks in the countries in which the liquidity risk is being taken (including cash reserves[1]) to the extent that allows banks to draw down these assets in times of stress.

   c. Debt securities / Sukuk issued by the CBK or the Government of the State of Kuwait.

   d. Debt securities / Sukuk issued or guaranteed by sovereigns, central banks, PSEs, the International Monetary Fund, the Bank for International Settlements, the European Central Bank and European Commission, or development banks and satisfying all of the following conditions:

      i. assigned a 0% risk-weight as shown in Annex (F).

      ii. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

      iii. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.

      iv. not an obligation of a financial institution or any of its subsidiary entities[2].

(1) In this context, central bank reserves would include demand deposits, overnight deposits and term deposits with the central bank that: (i) are repayable within 30 day or are explicitly and contractually repayable on notice from the depositing bank; or (ii) that the bank can use to obtain financing on a term basis or on an overnight basis. Other term deposits with central banks are not eligible for the stock of HQLA.

(2) This requires that the holder of the security must not have recourse to the financial institution or any of the financial institution's affiliated entities. In practice, this means that securities, such as government-guaranteed issuance during the financial crisis, which remain liabilities of the financial institution, would not qualify for the stock of HQLA. The only exception is when the bank also qualifies as a PSE under the CBK Capital Adequacy Ratio – Basel III Guidelines where securities issued by the bank could qualify for Level 1 assets if all necessary conditions are satisfied.

e. Where the sovereign has a non-0% risk weight, debt securities/Sukuk issued in domestic currency by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country.
f. Where the sovereign has a non-0% risk weight, debt securities/Sukuk in foreign currencies issued by the sovereign or central bank up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken.

2) Level 2 Assets

c. <u>Level 2A Assets</u>

5. Level 2A assets are limited to the following:

a. Debt securities/ Sukuk issued or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy all of the following conditions:

i. assigned a 20% risk weight as per Annex (F).

ii. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

iii. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or the increase in haircut not exceeding 10% over a 30-day period during a relevant period of significant liquidity stress).

iv. not an obligation of a financial institution or any of its affiliated entities.

b. Debt securities/ Sukuk that can be monetized (including commercial paper)[(1)] and covered bonds[(2)] that satisfy all of the following conditions:

i. not issued by a financial institution or any of its affiliated entities.
ii. in the case of covered bonds: not issued by the bank itself or any of its affiliated entities.

iii. either have a long-term credit rating from a recognized external credit assessment institution (ECAI) of at least (AA-) or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating.

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(1) Corporate debt securities (including commercial paper) do not include complex structured products or subordinated debt.

(2) Covered bonds are bonds issued and owned by a bank or mortgage institution and are subject by law to special public supervision designed to protect bond holders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, are capable of covering claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

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iv. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

v. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10% or the increase in haircut not exceeding 10% over a 30-day period during a relevant period of significant liquidity stress).

d. Level 2B Assets

6. Level 2B assets are limited to the following:

a. Debt securities/Sukuk (including commercial paper) issued by non-financial institutions, that satisfy all of the following conditions:

i. Debt securities/Sukuk issued by non-financial institutions or one of their subsidiaries and have a long-term credit rating between A+ and BBB- or the equivalent, or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating.

ii. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

iii. have a proven record as a reliable source of liquidity in the markets even during stressed market conditions (i.e. maximum decline of price not exceeding 20% or the increase in haircut not exceeding 20% over a 30-day period during a relevant period of significant liquidity stress).

b. Common equity shares that satisfy all of the following conditions, subject to a 50% haircut:

i. not issued by a financial institution or any of its affiliated entities.

ii. exchange traded and centrally cleared.

iii. a constituent of the major stock index in Kuwait or where the liquidity risk is taken.

iv. denominated in Kuwaiti Dinar or in the currency of the jurisdiction where the liquidity risk is taken.

v. traded in large, deep and active repo or cash markets characterized by a low level of concentration.

vi. have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, (i.e. a maximum decline of share price not exceeding 40% or increase in haircut not exceeding 40% over a 30-day period during a relevant period of significant liquidity).

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7. If a bank wishes to include other assets under Level 2B assets, prior approval must be obtained from the CBK.

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Annex (F): Mapping notations used by individual ECAIs for sovereigns, central banks, PSEs and MDBs

Credit Quality[(1)]	Risk Weight
Claims on sovereigns/ central banks	
(AAA to AA-) or Equivalent	0%
(A+ to A-) or Equivalent	20%
Claims on PSEs	
Claims on local (Kuwaiti) PSEs	0%
(AAA to AA-) or Equivalent	20%
Claims on MDBs	
As per the Capital Adequacy Ratio – Basel 3 guidelines	0%
As per the Capital Adequacy Ratio – Basel 3 guidelines	20%

(1) Based on rating by Standard and Poor's.

Section Four:

Required Reports

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Bank Name: Conventional Bank														KWD '000
Level: Local / Bank-wide / Consolidated		Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				KWD '000
Sr.	Item	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):														
1	**Capital:**													
(a)	Common equity tier 1					100%	--	--	--					
(b)	Additional tier 1 capital					100%	--	--	--					
(c)	Tier 2 capital					100%	0%	0%	100%					
(d)	Capital instruments not included above with an effective residual maturity of one year or more					--	--	--	100%					
2	**Stable deposits:**													
(a)	Stable and fully-insured demand deposits and saving deposits provided by retail customers					--	95%	95%	100%					
(b)	Stable and fully-insured demand deposits and saving deposits provided by small business customers					--	95%	95%	100%					
(c)	Fully-insured term deposits provided by retail customers					--	95%	95%	100%					
(d)	Fully-insured term deposits provided by small business customers					--	95%	95%	100%					
3	**Less stable deposits:**													
(a)	Demand deposits and saving deposits that are not fully-insured and provided by retail customers					--	90%	90%	100%					
(b)	Demand deposits and saving deposits that are not fully-insured and provided by small business customers					--	90%	90%	100%					
(c)	Term deposits that are not fully-insured and provided by retail customers					--	90%	90%	100%					
(d)	Term deposits that are not fully-insured and provided by small business customers					--	90%	90%	100%					
4	**Secured and unsecured funding:**													
(a)	Funding provided by non-financial corporate customers					--	50%	50%	100%					

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Sr.	Item	Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
(b)	Operational deposits					--	50%	50%	100%					
(c)	Funding from sovereigns, PSEs, and multilateral and national development banks					--	50%	50%	100%					
(d)	**Other deposits:**													
	- Central banks					--	0%	50%	100%					
	- Financial Institutions					--	0%	50%	100%					
	- Other					--	0%	50%	100%					
5	**Derivative liabilities***					0%	0%	0%	0%					
6	**Other liabilities (not included in the categories above):**													
(a)	Deferred tax liabilities					--	0%	50%	100%					
(b)	Minority interest					100%	0%	50%	100%					
(c)	Other liabilities					0%	0%	0%	100%					
7	**"Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities**					--	0%	0%	0%					
8	**Total ASF (sum of items 1 to 7)**													
Required Stable Funding (RSF):														
9	**Coins and banknotes**					0%	--	--	--					
10	**All central bank reserves (including required reserves and excess reserves)**					0%	--	--	--					
11	**All claims on central banks**					--	0%	50%	100%					
12	**"Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities**					0%	0%	0%	0%					
13	**Unencumbered Level 1 HQLA:**													
(a)	**Marketable securities representing claims on or guaranteed by:**													
	- Government of Kuwait or the Central Bank of Kuwait					5%	--	--	--					
	- Sovereigns, central banks, PSEs and MDBs that are assigned a 0% risk weight					5%	--	--	--					

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Sr.	Item	Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
	- The Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community					5%	--	--	--					
(b)	**Non-0% risk-weighted sovereigns:**													
	- Debt securities/Sukuk issued in domestic currency by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country					5%	--	--	--					
	- Debt securities/Sukuk in foreign currencies issued by the sovereign or central bank up to the amount of the bank's stressed net cash outflows in that specific foreign currency stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken					5%	--	--	--					
14	**Unencumbered Level 2A HQLA:**													
(a)	Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight					15%	--	--	--					
(b)	Corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA–					15%	--	--	--					
15	**Unencumbered Level 2B HQLA:**													
(a)	Corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB-					50%	--	--	--					
(b)	Exchange-traded common equity shares not issued by financial institutions or their affiliates					50%	--	--	--					
16	**Unencumbered loans to and deposits with financial institutions where the loan is secured against Level 1 HQLA**					--	10%	50%	100%					
17	**Unencumbered securities that are not in default and exchange-traded equities in cases where the issuer is not in default**					--	--	--	85%					
18	**Encumbered assets:**													
(a)	HQLA encumbered for a period of more than 6 months and less than one year					--	--	50%	--					
(b)	All other encumbered assets					--	--	--	100%					
19	**Loans:**													
(a)	Loans to non-financial corporate clients					--	50%	50%	100%					
(b)	Loans to retail and small business customers, and loans to sovereigns and PSEs					--	50%	50%	100%					

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Sr.	Item	Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
(c)	Unencumbered residential mortgages with a risk weight of less than or equal to 35%					--	--	--	65%					
(d)	Other unencumbered loans and deposits with a risk weight of less than or equal to 35%					--	--	--	65%					
(e)	Other unencumbered performing loans not included in the above categories, excluding loans to financial institutions, with a risk weight of less than or equal to 35%					--	--	--	85%					
(f)	Unencumbered loans to and deposits with financial institutions					--	15%	50%	100%					
20	**Deposits held at other financial institutions for operational purposes**					50%	50%	50%	50%					
21	**Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP**					85%	--	--	--					
22	**Physical traded commodities, including gold**					85%	--	--	--					
23	**Derivative assets****					100%	--	--	--					
24	**20% of derivative liabilities (i.e. negative replacement cost amounts) before deducting variation margin posted**					100%	--	--	--					
25	**Debt securities issued or guaranteed by banks and financial institutions**					100%	50%	50%	100%					
26	**Unlisted investments not included in the above categories**					100%	50%	50%	100%					
27	**Listed investments not included in the above categories**					100%	50%	50%	100%					
28	**Non-performing loans**					100%	50%	50%	100%					
29	**All other assets**					100%	50%	50%	100%					
Off-balance Sheet Exposures:														
30	**Irrevocable and conditionally revocable credit and liquidity facilities**					5%	5%	5%	5%					
31	**Unconditionally revocable credit and liquidity facilities**					5%	5%	5%	5%					
32	**Trade finance-related obligations (including guarantees and letters of credit)**					5%	5%	5%	5%					
33	**Guarantees and letters of credit unrelated to trade finance obligations**					5%	5%	5%	5%					

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Sr.	Item	Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
34	Non-contractual obligations such as:													
(a)	Potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities					5%	5%	5%	5%					
(b)	Structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs)					5%	5%	5%	5%					
(c)	Managed funds that are marketed with the objective of maintaining a stable value					5%	5%	5%	5%					
(d)	Other non-contractual obligations					5%	5%	5%	5%					
35	All other off-balance sheet exposures not included above					5%	5%	5%	5%					
36	Total RSF (sum of items 9 to 35)													
37	NSFR (8/36)													

* Net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets
** Net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities

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