Liquidity Coverage Ratio (LCR) Disclosure – 31 December 2017

Introduction

The public disclosure relating to Liquidity Coverage Ratio has been prepared in accordance with the circular (2/RB/345/2014) dated 23 December 2014 issued by Central Bank of Kuwait as part of Basel III reforms.

This standard aims at promoting short-term resilience of the banks' liquidity risk profile, and ensures that they have an adequate stock of high quality liquid assets to survive a significant stress scenario lasting for a period of 30 days.

Definition

The LCR is defined as the ratio of High Quality Liquid Assets (HQLA) to the total Net Cash Outflows estimated for the next 30 calendar days.

HQLA are classified into two categories, Level 1 and Level 2 assets with a cap of 40% on the Level 2 assets to the total HQLA. Level 2 assets are calculated after applying the hair cut prescribed by CBK and a cap of 15% on the Level 2B assets to the total HQLA. The total net cash outflow is the difference between total expected cash outflows and expected cash inflows after applying the run off factors assigned by the Central Bank of Kuwait (minimum of total expected cash inflows and 75% of total expected cash outflows).

Regulatory Scope of Reporting

As per the circular from Central Bank of Kuwait dated 2 February 2016, minimum ratio to be maintained by the bank should be as follows:-

Year	**Beginning of March 2016**	**Beginning of 2017**	**Beginning of 2018**	**Beginning of 2019**
Minimum	**70%**	**80%**	**90%**	**100%**

Banks are required to comply with the minimum percentages on a daily and ongoing basis.

LCR report is prepared on total bank wide position as well as individually KWD and for any significant currency (USD) for the last day of the month and a cumulative report depicting the LCR ratio for all working days of the month.

Liquidity Policy

The liquidity management of GBK is governed by the Liquidity Policy of the Bank which is reviewed and approved by the Board of Directors. Liquidity policy is the core of sound bank planning and financial management and encompasses the management of the Bank's liquidity position to provide adequate resources to meet anticipated fund demands. The policy outlines the roles and responsibilities within the Bank with respect to liquidity risk management and provides a detailed overview of the processes and procedures including stress testing under various scenarios for measuring and monitoring liquidity risk as per CBK and internal guidelines.

The Liquidity policy also covers the liquidity contingency / crisis planning which specifies the early warning indicators, the roles and responsibilities within the Bank in the event of a liquidity crisis and the actions to be undertaken by each Business Unit in order to address the crisis.

Funding Strategy Gulf Bank has a strong and diversified funding profile and the Bank's strategy is to widen its retail, wholesale and international customer base. Treasury / Retail Banking Group/ Wholesale Banking Group and International Banking Group work in close coordination in order to achieve the Bank's strategic funding objectives.

The Business Units within the Bank collaborate with each other to enhance the liquidity management process by optimizing the balance sheet along business lines, while maintaining global and local standards of efficient liquidity risk management.

Result Analysis

The Bank's HQLA during the three months ending 31 December 2017 was averaging at KD 1,051 million after hair cut against an average net outflow of KD 300 millions with an average LCR of 350.80%.

The HQLA mainly comprised Level 1 assets, which consist of cash, balances with CBK (Sight and Time deposits, Bills and Treasury Bonds) and Sovereign debt Securities. Cash outflows mainly contributed from unsecured wholesale funding, 51.60% of the total cash outflows. Retail and Small Business Customers contributed 21.62% of the total cash outflows. Cash flows related to Derivatives comprised foreign exchange contracts.

Table (6) : LCR Disclosure Form during the period ending 31/December/2017

Sr	Item	Value before implementing the Flow Rate (average)**	Value after implementing the Flow Rate (average)**
	High Quality Liquid Assets		
1	Total HQLA (before amendment)	1,051,697	1,051,017
Cash Outflows			
2	**Retail Deposits and Small Business Customers**	**1,303,976**	**206,905**
3	*Stable deposits*	-	-
4	*Less Stable Deposits*	1,303,976	206,905
5	**Unsecured wholesale Funding excluding small business customers**	**953,421**	**493,777**
6	Operational deposits	36,349	9,087
7	Non-Operational deposits (Other unsecured funding)	917,072	484,690
8	Secured funding	-	-
9	Other cash outflows including :	**135,899**	**130,073**
10	Outflow resulting from Derivative	128,625	128,624
11	Outflows resulting from asset-backed securities and commercial papers (assuming no re-finance)	-	-
12	Committed Credit and Liquidity facilities	7,274	1,449
13	Other potential future funding commitments	-	-
14	Other contractual outflows	**2,524,791**	**126,240**
15	**Total Cash Outflows**		**956,995**
Cash Inflows			
16	Secured Lending Transactions	-	-
17	Inflows resulting from performing loans	657,621	528,836
18	Other cash inflows	128,551	128,551
19	**Total Cash Inflows**	**786,172**	**657,387**
	LCR		Value after Amendments
20	Total HQLA (After Amendment)		**1,051,017**
21	Net Cash Outflows		**299,608**
22	LCR		**350.80%**