

**Introduction:**

Under the directive (2/RBA/357/2015) issued by the Central Bank of Kuwait (CBK) dated 25 October 2015, Islamic Banks licensed in the State of Kuwait adopted the Net Stable Funding Ratio (NSFR) as part of CBK's continuous implementation of Basel III reforms.

The objective of the NSFR is to promote resilience of the bank's liquidity risk profiles. 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 ratio's numerator, Available Stable Funding (ASF), is defined as the portion of capital and liabilities expected to be reliable over specific time horizons whereas the denominator, Required Stable Funding (RSF), is defined as the portion of assets and off-balance sheet exposures expected to be funded on an ongoing basis over similar time horizons.

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. Its two components, ASF and RSF, contrast durational and behavioral characteristics for available funding sources with liquidity, quality and tenor characteristics for required funding to properly assess the funding ratio.

Scope of reporting and monitoring occurs at both local and banking group level, KFH Kuwait and KFH Group respectively.

Results Analysis and Main Drivers

KFH Group's total weighted value of Available Stable Funding (ASF) stood at KD 13.133 billion while the total weighted value of Required Stable Funding (RSF) stood at KD 11.834 billion as of the end of September 30, 2018. Furthermore, the NSFR for the stated period was 110.98 %.

The ASF portfolio is driven mainly by a robust capital base and substantial retail deposit base along with reliable wholesale funding. After applying relevant factors, the contribution of the capital base, retail deposits and wholesale funding to the ASF portfolio stood at 14%, 64%, 20% respectively.

The RSF portfolio is driven mainly by financing various stakeholders including but not limited to financial institutions (FIs), non-financial corporate clients, retail and small business customers, sovereigns, central banks and PSEs.

KFH Group's High-Quality Liquid Assets (HQLA), detailed in the LCR disclosure¹, requires minimal funding due to its highly-rated nature and liquidity thus after applying relevant factors it makes up merely 2% of the RSF portfolio whereas performing financing makes up 70% and other assets the remainder 28%.

Other assets (Sr. 29) not detailed in the NSFR Common Disclosure Template on the following page includes sukuk issued or guaranteed by banks and FIs, investments in real estate, uncategorized listed and unlisted investments, NPFs and all other assets. Much of the required funding after applying relevant factors is distributed between unlisted investments and all other assets categories, 37% & 24% respectively.

¹ Available under the Economic Reports section at <https://kfh.com/en/home/Personal/Investor-Relations.html>

Quantitative information on the Net Stable Funding Ratio is provided in the table below where values are as September 30th 2018 for KFH Group.

Table 4: NSFR Common Disclosure*

"KWD '000s"

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
1	Capital:					
2	* Regulatory Capital	1,852,827	-	-	-	1,852,827
3	* Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits and investment accounts from small business customers:					
5	* Stable deposits	-	864,104	1,959	28	822,788
6	* Less stable deposits	-	6,432,743	1,229,912	649,974	7,546,364
7	Wholesale funding:					
8	* Operational deposits and investment accounts	-	297,215	-	-	148,608
9	* Other wholesale funding	-	3,754,251	796,947	774,696	2,447,626
10	Other liabilities:					
11	* NSFR Shari'ah-compliant hedging contract liabilities	11,607	-	-	-	-
12	* All other liabilities not included in the above categories	1,215,266	129,592	2,265	156,429	314,623
13	Total ASF	3,079,700	11,477,904	2,031,083	1,581,128	13,132,836
Required Stable Funding (RSF):						
14	Total NSFR Shari'ah-compliant high-quality liquid assets (HQLA)	3,954,747	-	-	162,167	262,348
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and securities:					
17	* Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	* Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	-	1,206,721	115,751	34,053	272,937
19	* Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	2,830,353	1,180,808	5,593,236	7,588,127
20	- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
21	* Performing residential financing, of which:					
22	- With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines	-	-	-	541,931	352,255
23	* Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	16,918	14,380
24	Other assets:					
25	* Physical traded commodities, including gold	44,876	-	-	-	38,145
26	* Assets posted as initial margin for Shari'ah-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	* NSFR Shari'ah-compliant hedging contract assets	17,605	-	-	-	17,605
28	* NSFR Shari'ah-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	* All other assets not included in the above categories	2,392,947	597,969	32,372	401,520	3,109,637
30	Off-balance sheet items	2,230,265	682,319	268,662	384,853	178,305
31	Total RSF	8,640,440	5,317,362	1,597,592	7,134,679	11,833,739
32	NSFR (%)					110.98%

* Quarterly Statement.