Introduction:

Under the directive (2/RBA/346/2014) issued by the Central Bank of Kuwait (CBK) dated 23 December 2014, Islamic Banks licensed in the State of Kuwait adopted the Liquidity Coverage Ratio (LCR) as part of CBK's implementation of Basel III reforms. LCR's general disclosures are based on strengthening the bank's ability to meet the liquidity risk profile in the short term and ensure the availability of sufficient stock of high-quality liquid assets (HQLA) for the bank to meet liquidity needs that may arise in a significant stress scenario lasting up to 30 days.

Centralization of Liquidity Management of KFH Group:

KFH Group Treasury in Kuwait is centralized under the Group Chief Treasury Officer (GTCO) which subsequently includes Treasury of KFH Banking Subsidiaries. All respective subsidiary CTOs have an indirect reporting line to the GTCO and all money market borrowing and lending transactions are reported to KFH Group Treasury.

Under Group Treasury, each desk acts as a centralized group desk that continuously reviews the group treasury transactions and accordingly advises the subsidiaries; with the addition of providing for any liquidity short falls and deploying access to liquidity as required. Furthermore, for better management and consolidation, any new money market bank lines requests and limits allocation are managed centrally through Financial Institutions (FI) Unit that reports into Group Treasury.

Liquidity Risk Management Governance and Organization:

The bank's Group Assets & Liabilities Committee (GALCO), Assets & Liabilities Committee (ALCO) and Treasury function are ultimately responsible for the management of the group liquidity risk. The Board of Directors is ultimately responsible for ensuring effective management of liquidity risk. It sets the liquidity and funding risk appetite for the bank and approves the major policies concerning liquidity risk management and funding.

Sources of Liquidity risks:

"Liquidity risk is the potential loss to KFH arising from the institution's inability to meet its obligations or to fund increases in assets as they fall due, without incurring unacceptable costs or losses". All KFH banking subsidiaries must manage their liquidity in such a way to have full certainty over the availability of funds, ensuring orderly operations for their activities. In addition, KFH banking subsidiaries comply at all times with the local regulatory liquidity requirements, as well as specific KFH group and local policies.

The KFH Group Liquidity Management Framework:

KFH Group Liquidity Management policy was approved by the Board and covers two main areas; liquidity management and contingency planning.

All KFH banking subsidiaries are required to have a country specific liquidity contingency funding plan in place. The purpose of Liquidity Contingency Planning Policy is to establish guidelines that recognizes best practices and complies with applicable laws and regulations in Kuwait. The Bank operates as an Islamic Bank abiding by the guidelines of Shari'a Law as interpreted and pronounced by the Fatwa and Shari'a

Supervisory Board (FASSB) of the Bank as well as any Shari'a guidelines issued by the regulatory bodies in the State of Kuwait.

Results Analysis and Main Drivers

KFH Group sustained a comfortable HQLA buffer during the three months ending 30 June 2025, averaging roughly KD 4.526 billion (post-haircut) versus an average net cash-outflow of KD 3.091 billion. Furthermore, the LCR for the stated period was 146.41%.

The average HQLA portfolio after applying flow rates is composed primarily of "Level 1" assets, mainly in the form of cash and reserve balances with the CBK, the accessible reserve balance with central banks of countries in which our subsidiaries operate and sukuk issued in countries where liquidity risk is being taken.

The main drivers of the net cash outflows were a combination of retail deposits and small business combined with unsecured wholesale funding totaling 75.03% of total cash-outflows.

Quantitative information on the Liquidity Coverage Ratio is provided in the table below where values are calculated as the simple average of daily observations over the period between 01 April 2025 and 30 June 2025 for KFH Group.

Table 6: LCR Common Disclosure*

			“KWD ‘000s”
S.	**Description**	**Value before applying flow rates (average)****	**Value after applying flow rates[1] (average)****
High-Quality Liquid Assets (HQLA)			
1	Total HQLA (before adjustments)		**4,525,885**
Cash Outflows			
2	Retail deposits and small business		
3	• Stable deposits	6,650	**470**
4	• Less stable deposits	14,528,438	**1,461,741**
5	Deposit, investment accounts and unsecured wholesale funding excluding the deposits of small business customers:		
`6	• Operational deposits	17,291	**4,269**
7	• Non-operational deposits (other unsecured commitments)	5,547,323	**3,410,597**
8	Secured Funding		**76,933**
9	Other cash outflows, including:		
10	• Resulting from Shari’ah compliant hedging contracts	871,411	**871,411**
11	• Resulting from assets-backed sukuk and other structured funding instruments	-	-
12	• Binding credit and liquidity facilities	3,651,915	**373,891**
13	Other contingent funding obligations	2,997,074	**149,854**
14	Other contractual cash outflows obligations	253,233	**253,233**
15	**Total Cash Outflows**		**6,602,398**
Cash Inflows			
16	Secured lending transactions	52,344	-
17	Inflows from the performing exposures (as per the counterparties)	3,582,579	**2,521,784**
18	Other cash Inflows	989,460	**989,460**
19	**Total Cash Inflows**	4,624,383	**3,511,245**
Liquidity Coverage Ratio (LCR)			**Total Adjusted Value[2]**
20	Total HQLA (after adjustments)		**4,525,885**
21	Net Cash Outflows		**3,091,153**
22	LCR		**146.41%**

* Quarterly Statement.
** Simple Average for all business days of the template reporting period.
[1] Is the value after the application of respective haircuts for HQLA, inflow and outflow rates.
[2] 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).