بنك الكويت المركزي

The Net Stable Funding Ratio Guidelines for Islamic 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

Contents

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 Islamic 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, taking into consideration the guidance issued by the Islamic Financial Services Board (IFSB) in this regard, 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 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 banks. The objective of the NSFR is to promote resilience of banks' 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 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.

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 Islamic 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.

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 Sharīʼah-compliant hedging contract liability amounts

10. Sharīʼah-compliant hedging contract liabilities are calculated first based on the replacement cost for hedging 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 Sharīʼah-compliant hedging exposures covered by the contract will be the net replacement cost.

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

[1] NSFR Sharīʼah-compliant hedging contract liabilities = (Sharīʼah-compliant hedging contract liabilities) – (total collateral posted as variation margin on Sharīʼah-compliant hedging contract liabilities).

[2] To the extent that the bank's accounting framework reflects on balance sheet, in connection with a Sharīʼah-compliant

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

    c. The total amount of secured and unsecured borrowings and liabilities (including term deposits and investment accounts) 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 and investment accounts, saving deposits and investment accounts and/or term deposits and investment accounts with residual maturities of less than one year provided by retail and small business customers.

14. Stable deposits and investment accounts are the amount of the deposits that are fully insured[4] by a Sharī'ah-compliant deposit insurance scheme, and

hedging 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 to avoid any double-counting.

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

[4] "Fully insured" means that 100% of the deposit amount is covered by an effective Sharī'ah-compliant 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,

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 investment accounts that do not satisfy these criteria shall be treated as less stable deposits.

15. The presence of Sharī'ah-compliant deposit insurance scheme 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 and investment accounts, saving deposits and investment accounts and/or term deposits and investment accounts 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);

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.

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.

"Funding" refers to all sources of funding including deposits and investment accounts, financing 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 Sharī'ah-compliant hedging contract liabilities as calculated according to paragraphs 010 and 11 net of NSFR hedging contract assets as calculated according to paragraphs 27 and 28, if NSFR hedging contract liabilities are greater than NSFR hedging contract assets; [5] 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.

[5] In this case, ASF = 0% x MAX ((NSFR Sharī'ah-compliant hedging contract liabilities – NSFR hedging contract assets), 0).

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.

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 and investment accounts, saving deposits and investment accounts and term deposits and investment accounts with residual maturity of less than one year provided by retail and small business customers
90%	• Less stable demand deposits and investment accounts, saving deposits and investment accounts and term deposits and investment accounts 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

ASF factor	Components of ASF category
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 Sharīʼah-compliant hedging contract liabilities net of NSFR hedging contract assets if NSFR hedging contract liabilities are greater than NSFR hedging contract assets • "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities

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[6].

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 funding 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

[6] 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.

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 financing, 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 Sharī'ah-compliant hedging contracts 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.

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 [7] central bank liquidity operations receive 0% RSF factor.

[7] 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.

Sharī`ah-compliant alternatives to repo-style transactions and Sharī`ah-compliant securities financing

26. Islamic banks wishing to undertake Sharī'ah-compliant alternatives to repo-style transactions and Sharī`ah-compliant securities financing can do so supported by appropriate approvals from their respective Sharī'ah Supervisory Board and refer back to the CBK to obtain further instructions on the treatment of those transactions for the purpose of the NSFR calculation.

Calculation of Sharī'ah-compliant hedging contract asset amounts

27. Sharī'ah-compliant hedging contract assets are calculated first based on the replacement cost for hedging 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 Sharī'ah-compliant hedging exposures covered by the contract will be the net replacement cost.

28. In calculating NSFR Sharī'ah-compliant hedging contract assets, collateral received in connection with hedging 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[8]. 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 Sharī'ah-compliant hedging contract assets and should be assigned a 0% ASF factor.

1) Assets assigned a 0% RSF factor

29. 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);

[8] NSFR Sharī'ah-compliant hedging contract assets = (Sharī'ah-compliant hedging contract assets) – (cash collateral received as variation margin on hedging contract assets).

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

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

a. Sukūk and other Sharī'ah-compliant 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. Sukūk and other Sharī'ah-compliant marketable securities representing claims on or guaranteed by certain non-0% risk-weighted sovereign or central bank as specified in Annex F.

3) Assets assigned a 10% RSF factor

31. Unencumbered financing and deposits with financial institutions with residual maturities of less than six months, where the financing 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 financing.

4) Assets assigned a 15% RSF factor

32. Assets assigned a 15% RSF factor comprise:

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

- Sukūk and other Sharīʼah-compliant 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

- Sukūk and other Sharīʼah-compliant securities with a credit rating equal or equivalent to at least AA–;

b. Other unencumbered financing and deposits with financial institutions with residual maturities of less than six months not included in paragraph 31.

5) Assets assigned a 50% RSF factor

33. 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:

- Sukūk and other Sharīʼah-compliant securities with a credit rating of between A+ and BBB-;

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

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

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

d. Deposits and investment accounts 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 financing to non-financial corporate clients, financing to retail customers (i.e. natural persons) and small business customers, and financing to sovereigns and PSEs.

6) Assets assigned a 65% RSF factor

34. Assets assigned a 65% RSF factor comprise:

   a. Unencumbered real estate financing 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 financing and deposits not included in the above categories, excluding financing 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

35. Assets assigned an 85% RSF factor comprise:

   a. Cash, securities or other assets posted as initial margin for Sharī’ah-compliant hedging contracts[9] 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 Sharī’ah-compliant hedging contracts would otherwise receive a higher RSF factor, they should retain that higher factor.

   b. Other unencumbered performing financing[10] that does 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 financing and deposits with financial institutions;

   c. Unencumbered Sukūk and other Sharī’ah-compliant securities with a remaining maturity of one year or more and exchange-traded Sharī’ah-compliant equity shares, in cases where the issuer is not in default and where the securities do not qualify as HQLA according to the LCR; and

[9] Initial margin posted on behalf of a customer, where the bank does not guarantee performance of the third party, would be exempted from this requirement.
[10] Performing financing is considered to be those that are not past due for more than 90 days. Conversely, non-performing financing is considered to be financing that is more than 90 days past due.

d. Physical traded commodities, including gold.

8) Assets assigned a 100% RSF factor

36. Assets assigned a 100% RSF factor comprise:

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

b. NSFR Sharī'ah-compliant hedging contract assets as calculated according to paragraphs 27 and 28 of NSFR hedging contract liabilities as calculated according to paragraphs 10 and 1111, if NSFR hedging contract assets are greater than NSFR hedging contract liabilities;[11]

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

d. 20% of Sharī'ah-compliant hedging contract liabilities (i.e. negative replacement cost amounts) as calculated according to paragraph 10 (before deducting variation margin posted).

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

[11] RSF = 100% x MAX ((NSFR Sharī'ah-compliant hedging contract assets – NSFR Sharī'ah-compliant hedging contract liabilities), 0).

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
10%	• Unencumbered financing 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 rehypothecate the received collateral for the life of the loan
15%	• Unencumbered Level 2A HQLA • All other unencumbered financing 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 • Financing and deposits with financial institutions and central banks with residual maturities between six months and less than one year • Deposits and investment accounts 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 financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns and PSEs
65%	• Unencumbered real estate financing 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 financing and deposits not included in the above categories, excluding financing 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*

RSF factor	Components of RSF Factor
	Adequacy Ratio - Basel III Guidelines
85%	• Cash, securities or other assets posted as initial margin for Sharīʼah-compliant hedging contracts and cash or other assets provided to contribute to the default fund of a CCP • Other unencumbered performing financing 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 financing 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 Sharīʼah-compliant hedging contract assets net of NSFR hedging contract liabilities if NSFR hedging contract assets are greater than NSFR hedging contract liabilities • 20% of Sharīʼah-compliant hedging contract liabilities (net of eligible cash variation margin). • All other assets not included in the above categories, including non-performing financing (net of specific provisions), financing and deposits with financial institutions with a residual maturity of one year or more, non-exchange-traded Sharīʼah-compliant equities, fixed assets, items deducted from regulatory capital, insurance assets, and defaulted securities

Off-balance sheet exposures

38. 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.

39. 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:
	  ○ Unconditionally revocable credit and liquidity facilities
	  ○ Trade finance-related obligations (including guarantees and letters of credit)
	  ○ Guarantees and letters of credit unrelated to trade finance obligations
	  ○ Non-contractual obligations such as:
	    ▪ potential requests related to securities investment vehicles and other such financing facilities
	    ▪ structured products where customers anticipate ready marketability
	    ▪ managed funds that are marketed with the objective of maintaining a stable value

40. 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.

Section Two: General Disclosure Requirements

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

42. 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.

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

44. 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).

Table 4: NSFR Common Disclosure Template
For the Period Ending on…/…/…...[12]

"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 and investment accounts from small business customers:**					
5	• ***Stable deposits***					
6	• ***Less stable deposits***					
7	**Wholesale funding:**					
8	• ***Operational deposits and investment accounts***					
9	• ***Other wholesale funding***					
10	**Other liabilities:**					
11	• ***NSFR Sharīʼah-compliant hedging contract liabilities***					
12	• ***All other liabilities not included in the above categories***					
13	**Total ASF**					
Required Stable Funding (RSF):						
14	**Total NSFR Sharīʼah-compliant high-quality liquid assets (HQLA)**					
15	**Deposits and investment accounts held at other financial institutions for operational purposes**					
16	**Performing financing and securities:**					

[12] Quarterly statement.

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***					
19	• ***Performing financing to non-financial corporate clients, loans to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:***					
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***					
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 Sharī'ah-compliant hedging contracts and contributions to default funds of CCPs***					
27	• ***NSFR Sharī'ah-compliant hedging contract assets***					
28	• ***NSFR Sharī'ah-compliant hedging contract 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 (%)**					

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**

Section Three: Annexes

Annex (A): Definitions[13]

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

1. **“Bank”** means any [Islamic] 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.

[13] Definitions mirror those in the CBK Capital Adequacy Ratio – Basel III and the LCR Guidelines.

7. "**Repo-Style Transactions**" (in its traditional context) 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:

   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. **"Sharī'ah-compliant 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).

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.

Annex (B): Operational Deposits[14]

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:

    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 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.

[14] Based on the definition of operational deposits in the LCR guidelines.

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.

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[15].

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 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.

[15] 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; capital introduction; and risk analytics.

Annex (C): Bilateral Netting Agreements[16]

1. Exposures to the same counterparties arising out of Sharīʼah-compliant hedging contracts could be subject to a netting treatment according to the following requirements.

   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.

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

[16] Based on the CBK Capital Adequacy Ratio – Basel III Guidelines.

- International Swaps and Derivatives Association (ISDA) Master Agreement (English Law or New York Law, as applicable).
- International Islamic Financial Market - Tahawwut Master Agreement (IIFM - TMA)

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.

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.

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.

Exposure on bilaterally netted Sharī'ah-compliant hedging 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})[17] 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:

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

where:

NGR=level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements.[18]

[17] 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

[18] The 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

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.

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.

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[19]

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 Sharīʼah-compliant hedging contract positions.
    c. The cash variation margin is received in the same currency as the currency of settlement of the Sharīʼah-compliant hedging contract.
    d. Variation margin exchanged is enough to cover the mark-to-market exposure of the Sharīʼah-compliant hedging contract.
    e. Sharīʼah-compliant hedging transactions and variation margins are covered by a single master netting agreement (MNA) between the counterparties and the MNA must be legally enforceable.

[19] Based on the Leverage Ratio for Islamic Banks guidelines.

Annex (E): Sharī'ah-compliant 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[20] and Tawarruq transactions with the CBK) to the extent that allows banks to draw down these assets in times of stress.

   c. Sukuk issued by the CBK or the Government of the State of Kuwait or the IDB.

   d. Sukuk and Sharī'ah-compliant securities issued or guaranteed by sovereigns, central banks, PSEs, 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 financial 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.

[20] In this context, central bank reserves would include demand deposits and the mentioned Tawarruq transactions, and 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

iv. not an obligation of a financial institution or any of its subsidiary entities[21].

e. Where the sovereign has a non-0% risk weight, Sukuk and other Sharī'ah-compliant securities 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, Sukuk and other Sharī'ah-compliant securities 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

5. 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

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

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

a. Sukuk and Sharī'ah-compliant securities and that can be monetized 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 financial 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 10% or the increase in haircut not

[21] 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 *Capital Adequacy Ratio – Basel 3 Guidelines* where securities issued by the bank could qualify for Level 1 assets if all necessary conditions are satisfied.

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. Sukuk and Sharīʼah-compliant securities and that can be monetized issued by corporates that satisfy all of the following conditions:

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

ii. 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.

iii. traded in large financial markets characterized by a low level of concentration.

iv. 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).

c. Sukuk issued by the IILM

B. Level 2B Assets

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

a. Sukuk issued by non-financial institutions, subject to a 50% haircut, that satisfy all of the following conditions:

i. Sukuk and Sharīʼah-compliant securities 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 financial 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. Sharīʼah-compliant common equity shares 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 financial markets characterized by a low level of concentration.
vi. have a proven record as a reliable source of liquidity in the markets 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).

9. If a bank wishes to include other Sharīʼah-compliant assets under Level 2B assets, prior approval must be obtained from the Central Bank of Kuwait.

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

Credit Quality[22]	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%

[22] Based on rating by Standard and Poor's.

Section Four:

Required Reports

Net Stable Funding Ratio for Islamic Banks

Net Stable Funding Ratio (NSFR)
As of ../../....

Bank Name: Islamic Bank														
Level: Local / Bank-wide / Consolidated					KWD '000									KWD '000
		Unweighted Values (before applying factors)				Stable Funding Factors				Weighted Values (after applying factors)				
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 and investment accounts:**													
(a)	Stable and fully-insured demand deposits and saving deposits and investment accounts provided by retail customers					--	95%	95%	100%					
(b)	Stable and fully-insured demand deposits and saving deposits and investment accounts provided by small business customers					--	95%	95%	100%					
(c)	Fully-insured term deposits and investment accounts provided by retail customers					--	95%	95%	100%					
(d)	Fully-insured term deposits and investment accounts provided by small business customers					--	95%	95%	100%					
3	**Less stable deposits and investment accounts:**													
(a)	Demand deposits and saving deposits and investment accounts that are not fully-insured and provided by retail customers					--	90%	90%	100%					
(b)	Demand deposits and saving deposits and investment accounts that are not fully-insured and provided by small business customers					--	90%	90%	100%					
(c)	Term deposits and investment accounts that are not fully-insured and provided by retail customers					--	90%	90%	100%					
(d)	Term deposits and investment accounts 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%					

Net Stable Funding Ratio (NSFR)
As of ../../....
Page 2 of 5

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	**Shari'ah-compliant hedging contract 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%	--	--	--					

Net Stable Funding Ratio (NSFR)
As of ../../....

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:**													
	- Sukuk and other Sharī'ah-compliant securities 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%	--	--	--					
	- Sukuk and other Sharī'ah-compliant 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)	Sukūk and other Sharī'ah-compliant 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)	Sukuk and other Sharī'ah-compliant securities with a credit rating equal or equivalent to at least AA–					15%	--	--	--					
15	**Unencumbered Level 2B HQLA:**													
(a)	Sukuk and other Sharī'ah-compliant securitieswith 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 financing and deposits to 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	**Financing:**													
(a)	financing to non-financial corporate clients					--	50%	50%	100%					
(b)	financing to retail and small business customers, and financing to sovereigns and PSEs					--	50%	50%	100%					

Net Stable Funding Ratio (NSFR)
As of ../../....

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 financing and deposits with a risk weight of less than or equal to 35%					--	--	--	65%					
(e)	Other unencumbered performing financing not included in the above categories, excluding financing to financial institutions, with a risk weight of less than or equal to 35%					--	--	--	85%					
(f)	Unencumbered financing and deposits to 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 Sharī'ah-compliant hedging 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	**Sharī'ah-compliant hedging contract assets****					100%	--	--	--					
24	**20% of Sharī'ah-compliant hedging contract liabilities (i.e. negative replacement cost amounts) before deducting variation margin posted**					100%	--	--	--					
25	**Sukuk issued or guaranteed by banks and financial institutions**					100%	50%	50%	100%					
26	**Investments in real estate**					100%	--	--	--					
27	**Unlisted investments not included in the above categories**					100%	50%	50%	100%					
28	**Listed investments not included in the above categories**					100%	50%	50%	100%					
29	**Non-performing financing**					100%	50%	50%	100%					
30	**All other assets**					100%	50%	50%	100%					
Off-balance Sheet Exposures:														
31	**Irrevocable and conditionally revocable credit and liquidity facilities**					5%	5%	5%	5%					
32	**Unconditionally revocable credit and liquidity facilities**					5%	5%	5%	5%					
33	**Trade finance-related obligations (including guarantees and letters of credit)**					5%	5%	5%	5%					
34	**Guarantees and letters of credit unrelated to trade finance obligations**					5%	5%	5%	5%					

Net Stable Funding Ratio (NSFR)
As of ../../....

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	
35	Non-contractual obligations such as:													
(a)	Potential requests related to securities investment vehicles and other such financing facilities					5%	5%	5%	5%					
(b)	Structured products where customers anticipate ready marketability					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%					
36	All other off-balance sheet exposures not included above					5%	5%	5%	5%					
37	Total RSF (sum of items 9 to 36)													
38	NSFR (8/37)													

* Net of NSFR Sharī'ah-compliant hedging assets if NSFR hedging liabilities are greater than NSFR hedging assets

** Net of NSFR Sharī'ah-compliant hedging liabilities if NSFR Sharī'ah-compliant hedging assets are greater than NSFR Sharī'ah-compliant hedging liabilities