

GUIDELINE ON LIQUIDITY MANAGEMENT CBK/PG/05

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PART I: PRELIMINARY

- 1.1. **Title:** Guideline on Liquidity Management.
- 1.2. **Authorization:** This Guideline is issued under Section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to issue guidelines to be adhered to by institutions in order to maintain a **stable** and efficient banking and financial system.
- 1.3. **Application:** This Guideline shall apply to all institutions licensed under the Banking Act (Cap 488) to conduct business in Kenya and non-operating holding companies.
- 1.4. **Definitions:**
- 1.4.1 **“Aggregated funding”** means the gross amount (i.e., not netting any form of credit extended to the legal entity) of all forms of funding (e.g., deposits or debt securities or similar derivative exposure for which the counterparty is known to be a small business customer). In addition, applying the limit on a consolidated basis means that where one or more small business customers are affiliated with each other, they may be considered as a single creditor such that the limit is applied to the total funding received by the bank from this group of customers.
- 1.4.2 **“Available Stable Funding”** - capital and liabilities not susceptible to fluctuations and are readily available to the Bank at minimal cost and for a longer period of time of at least one (1) year.
- 1.4.3 **“Beneficiary”** means a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.
- 1.4.4 **“Cash management relationship”** means the provision of cash management services to customers.
- 1.4.5 **“Cash management services”** means products and services provided to a customer to manage their cash flows, assets and liabilities and conduct financial transactions necessary to the customer's ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration and control over the disbursement of funds.
- 1.4.6 **“Clearing relationship”** means a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in

domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders, daylight overdraft, overnight financing and maintenance of post-settlement balances, and determination of intra-day and final settlement positions.

- 1.4.7 “Contingency Funding Plan (CFP)”** is the compilation of formally articulated and adequately documented policies, procedures and action plans for responding to severe disruptions to a bank’s ability to fund some or all of its activities in a timely manner and at a reasonable cost.
- 1.4.8 “Corporate debt securities”** (including commercial paper) means only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge.
- 1.4.9 “Correspondent banking”** means 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.
- 1.4.10 “Custody relationship”** means 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 provision of custody related cash management services. Also included are the receipt of dividends and other income, client subscriptions and redemptions. Custodial services – should further extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services (excluding correspondent banking) and depository receipts.
- 1.4.11 “Deposits”:** For purposes of this Guideline, deposits are as defined under Section 2 of the Banking Act.
- 1.4.12 “Fiduciary”** means a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles.
- 1.4.13 “Liquidity”** is the ability of an institution to fund increase in assets and meet obligations as they fall due without incurring unacceptable losses.

- 1.4.14 “Outflow rate”** is expected rate at which a bank’s liabilities are expected to be redeemed over a given stressed period.
- 1.4.15 “Public sector entity (PSE)”** means a public organization that is a part of the government and delivers public programmes, goods, or services, but exists as a separate organization in its own right, possibly as a legal entity and operates with a partial degree of operational independence. The categorization of PSEs in this guideline is consistent with the categorization in the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) for credit risk.
- 1.4.16 “Re-hypothecation”** means the practice by financial institutions of using, for their own purposes, assets that have been posted to them as collateral.
- 1.4.17 “Retail deposits”** means deposits placed by a natural person.
- 1.4.18 “Required Stable Funding”** is measured based on the broad characteristics of the liquidity risk profile of an institution’s assets and off-balance sheet (OBS) exposures.
- 1.4.19 “Run-off rate”** refers to the expected rate at which liabilities (e.g. deposits or debt securities) are expected to be called or withdrawn.
- 1.4.20 “Secured financing transactions”** are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on the market valuations and the transactions are often subject to margin agreements.
- 1.4.21 “Secured funding”** means those liabilities and general obligations that are collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution.
- 1.4.22 “Short Term Liabilities”:** These are liabilities that have matured and those that are due to mature within 91 days and have cash flow implications.
- 1.4.23 “Special purpose entity”** means a corporation, trust, or other entity organized for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to

a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust.

1.4.24 “Total net cash outflows” means the total expected cash outflows minus total expected cash inflows in the LCR stress scenario for the subsequent 30 calendar days. Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon.

1.4.25 “Unencumbered” means free of legal, regulatory, contractual or other restrictions on the ability of the relevant financial institution to liquidate, sell, transfer, or assign the asset. These assets should not be pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries).

1.4.26 “Wholesale funding” means any liability or general obligation raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships).

Other terms used in this Guideline are as defined in the Banking Act.

PART II: STATEMENT OF POLICY

2.1 Purpose:

The purpose of this Guideline is to:

- Ensure each institution maintains adequate level of liquidity to meet its obligations as they fall due.
- Provide guidance on compilation of liquidity returns.
- Ensure accuracy and uniformity in the methodology for determining the Liquidity Ratio, Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).
- Guide institutions in the formulation of liquidity management strategies, policies, procedures, management information systems, internal controls and contingency plans for unexpected distress situations.
- Ensure that institutions have adequate stock of unencumbered HQLA that consists of cash or assets that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario.
- Ensure that institutions maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

2.2 Scope:

- This Guideline applies to an institution's compliance with statutory liquidity requirements and management of liquidity.
- The LCR and NSFR requirements in this Guideline are applied in accordance with the scope of application defined in the Capital Framework in CBK Prudential Guideline on Capital Adequacy (CBK/PG/03).
- This Guideline and monitoring tools should be applied to banks on a consolidated basis.
- A bank should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory, and operational limitations to the transferability of liquidity.

2.3 Responsibility:

It is the responsibility of the board of directors of each institution to approve, implement and maintain a liquidity management strategy, systems and policies that are appropriate for the operations of the institution to ensure that it has sufficient liquidity to meet its obligations as they fall due. The strategy and policies should be communicated to executive and senior management and all other appropriate staff members for execution.

In order to effectively monitor its liquidity risk, an institution is supposed to establish an Asset Liability Committee (ALCO) with the following roles:

- (i) management of the overall liquidity of the institution;
- (ii) the ALCO must report directly to the Board or in the case of a foreign incorporated bank, to senior management of the institution in the country;
- (iii) the ALCO must facilitate, coordinate, communicate and control balance sheet planning with regards to risks inherent in managing liquidity and convergences in interest rates; and
- (iv) the ALCO is responsible for ensuring that a bank's operations lies within the parameters set by its Board of Directors. However, the ALCO is not responsible for formulating the in-house liquidity risk management policy.

In determining the composition, size and various roles of the ALCO, the Board is required to consider the size of the institution, the risks inherent in the institution's operations and the organizational complexity.

Although this Guideline has prescribed statutory minimum liquidity requirements liquidity needs vary from institution to institution depending on cash flow requirements. Each institution shall therefore establish a robust liquidity risk management framework that ensures it maintains

sufficient liquidity, including a cushion of unencumbered, high-quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

PART III: BACKGROUND

The objective of liquidity management is to ensure that an institution is able to meet, in full, all its obligations/commitments as they fall due. An institution is required to hold adequate liquid assets to fund maturing claims for prudent business management. It is therefore important for management to not only measure liquidity on an on-going basis, but also to examine ways of how to fund liquidity requirements during distress situations.

PART IV: LIQUIDITY MANAGEMENT

In addition to complying with the minimum statutory requirements under section 19 of the Banking Act and this Guideline, the management of an institution should put in place mechanisms that will flag out potential funding problems in order to explore ways and means of raising additional funds of the right type and amount. Liquidity Management should, as a minimum, address the following:

4.1 Liquidity Management Strategy

Each institution should have a strategy for the day-to-day management of liquidity, setting out the bank's general approach to liquidity. The strategy should provide a brief statement of the institution's longer-term approach to managing liquidity and maturity mismatch positions. This should be consistent with the institution's business lines and size of balance sheet.

4.2 Management Structure and Information Systems

An institution should have an adequate information system for measuring, monitoring, controlling and reporting liquidity requirements. This system should be integrated in the overall management information systems of the institution.

To supplement the management information system, an institution should have an appropriate management reporting structure to effectively execute the liquidity strategy, with the use of appropriate policies and procedures.

4.3 Measuring and Monitoring Net Funding Requirements

An institution should have a process of assessing cash inflows against its outflows to identify the potential for any shortfall. This should incorporate funding requirements for both on and off-

balance sheet items and in major foreign currencies traded by the institution both in terms of aggregate foreign currency needs and for each currency individually.

Assumptions made in making cash flow projections should be clear and documented. They should be subject to frequent reviews to determine the validity of underlying factors. Less frequent, but more in-depth reviews should be carried out to re-examine and refine institution's liquidity policies and practices in the light of its experience and developments in its business and economic environments.

4.4 Contingency Funding Plan (CFP)

- i. An institution should have a formal Contingency Funding Plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.
- ii. CFP is the compilation of policies, procedures, and action plans for responding to severe disruptions to a bank's ability to fund some or all its activities in a timely manner and at a reasonable cost.
- iii. The plan should be commensurate with a bank's complexity, risk profile, scope of operations and role in the financial systems in which the bank operates. In addition, it should also be closely integrated with the bank's ongoing analysis of liquidity risk and with the results of the scenarios and assumptions used in stress tests.
- iv. The CFP should:
 - a) outline policies to manage a range of stress environments;
 - b) indicate early warning indicators that are used to signal an approaching crisis event as well as the mechanisms to facilitate constant monitoring and reporting of these signals;
 - c) establish clear lines of responsibility;
 - d) articulate available potential contingency funding sources and the amount of funds an institution estimates can be derived from these sources;
 - e) clear escalation/prioritization procedures detailing when and how each of the actions can and should be activated and the lead time needed to tap additional funds from each of the contingency sources;
 - f) set out the procedures to deliver effective internal coordination and communication across the bank's different business lines and locations. It should also address when and how to contact external parties, such as the Central Bank.
- v. The results of stress tests and scenario analyses should be incorporated into the CFP. These results should be used as the basis for identifying various crises that could affect the institution's liquidity and estimating its severity.
- vi. For subsidiaries and branches of international banking groups, the CFP should outline how the management of Kenyan operation's liquidity is integrated into the global liquidity management of their respective parents or head office. The CFP should also set out how

the local operations will be supported and the degree of commitment of the parent institution or head office to provide liquidity support in the event of a crisis.

- vii. CFPs should be reviewed and tested annually to ensure their effectiveness and operational feasibility and should be consistent with institution's business continuity plans.
- viii. The testing should include, at a minimum, the following:
 - a) verifying the availability of the contingency sources of funding listed in the CFP;
 - b) verifying the key assumptions of stress tests, such as the ability to sell certain assets or periodically draw down credit lines;
 - c) ensuring that roles and responsibilities are appropriate and understood;
 - d) confirming that contact information is up-to-date, with reporting lines clearly stated and synchronized with the latest organization chart;
 - e) proving the transferability of cash and collateral (especially across borders and entities in the case of group companies); and
 - f) reviewing that the necessary legal and operational documentation is in place to execute the plan at short notice.
- ix. Following CFP testing, senior management should review the results, assess the effectiveness of the CFP, and ensure that any identified gaps or corrective actions are addressed in a timely manner. The results of the testing exercises should be documented and reported to the Board. Any material revisions to the CFP arising from the testing process should be submitted to the Board for review and approval.
- x. Senior management should review all aspects of the CFP following each testing exercise and ensure that follow-up actions are completed. Results of the CFP testing exercises should be documented and reported to the Board. Any revisions to the CFP should also be approved by the Board.
- xi. The results of the testing exercises should also be available to the Central Bank on request.

4.5 Liquidity Stress Tests

An institution should conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with a bank's established liquidity requirement.

An institution should use stress test outcomes to adjust its liquidity management strategies, day-to-day risk management practices, policies, and positions and to develop effective contingency plans.

4.6 Foreign Currency Liquidity Management

Each institution should have a measurement, monitoring and control system for its liquidity positions in major currencies traded; both in terms of aggregate foreign currency needs and for each individually.

4.7 Intra-group Liquidity Monitoring

Regardless of its organizational structure and degree of centralized or decentralized liquidity risk management, an institution should actively monitor and control liquidity risks at the level of individual legal entities, and foreign branches and subsidiaries, and the group as a whole.

4.8 Management of Intraday Liquidity

An institution should actively manage its intraday liquidity positions and risks to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.

4.9 Internal Controls for Liquidity Management

An institution should have an adequate system of internal controls over its liquidity management process. There should be regular, independent reviews and evaluations of the effectiveness of the system.

The internal control system for liquidity should be integrated with the overall system of internal control and it should promote effective and efficient operations, reliable financial and regulatory reporting, and compliance with applicable laws, regulatory requirements and institution's own policies.

4.10 Internal Liquidity Adequacy Assessment Process

The Internal Liquidity Adequacy Assessment Process (ILAAP) is a formal process through which institutions identify, measure, manage, and monitor liquidity and funding risks across different time horizons including intraday, under business-as-usual and stressed conditions. Its primary objective is to ensure that institutions maintain sufficient liquidity to meet regulatory requirements while supporting current operations, future business plans, and associated risks.

ILAAP also forms a critical component of a bank's overall risk management framework and supports sound decision-making regarding liquidity planning and contingency funding. ILAAPs developed by institutions shall be proportionate to their size, nature, complexity, risk profile, and operating environment, and must be implemented in a manner adequate to its specific circumstances.

ILAAP documents will be reviewed by the Central Bank through the Supervisory Review and Evaluation Process (SREP).

An institution shall develop its own ILAAP, which at a minimum shall incorporate the following key features:

i. Executive Summary, which shall summarize ILAAP's objectives, scope, key findings and shall include the following:

- A brief overview of the bank's overall liquidity risk profile.
- Statement on adequacy of liquidity under current and stressed conditions.
- Key liquidity metrics (LCR, NSFR, Liquidity Ratio etc.).
- Summary of major findings, key improvements, and action points.

ii. Overview: Institutions shall prepare:

- A description of the bank's business model, its scope of operations, and its systemic relevance.
- A summary of internal and external developments since the previous liquidity review (ILAAP).

iii. Summary of conclusions: Institutions shall provide:

- A consolidated assessment of liquidity adequacy, outlining the bank's position with respect to overall liquidity position and its framework for managing liquidity and funding risks.
- Identification of any deficiencies in liquidity risk management, along with corresponding remediation plans.
- An evaluation of any additional liquidity the bank considers necessary considering risks referred to in the Guidance Note on Internal Capital Adequacy Assessment Process (ICAAP).

iv. Governance and Oversight: Institutions shall include a description of:

- The governance structure overseeing ILAAP and the institution's liquidity management. This should include the roles and responsibilities of Board of Directors, Senior Management and committees (e.g., ALCO, Risk Management Committee).
- The risk management framework specific to liquidity and funding risks.
- The three lines of defense model adopted by the bank, that is, liquidity management, risk oversight and monitoring, and audit.

The Board of Directors shall approve the ILAAP annually, ensure that it is aligned with the institution's risk appetite, and embedded within the bank's risk management framework and strategic decision-making.

Further, the Board of Directors shall approve a Liquidity Adequacy statement which provides an assessment of the liquidity adequacy of the institution, supported by ILAAP outcomes and any other relevant information.

The ILAAP shall be an integral part of an institution's overall risk management framework, strategic planning process, recovery planning framework, and risk appetite framework.

v. Liquidity Risk Appetite and Strategy: This section shall include a description of:

- The institution's liquidity risk appetite statement which should specify tolerance for liquidity risk under both normal and stressful conditions. This shall include; liquidity metrics and limits adopted, including LCR (Liquidity Coverage Ratio), NSFR (Net Stable Funding Ratio), Liquidity Ratio, maturity gaps, and concentration of funding among others.
- The escalation triggers and corrective actions the institution will undertake when risk appetite limits are exceeded.
- Strategic liquidity management objectives that define the target levels for liquidity metrics under normal conditions, as well as the desired funding structure, including considerations related to currencies and counterparties. The strategy should also include management of maturity mismatch positions.

vi. Identification and Measurement of Liquidity Risk: Institutions shall:

- Assess the nature and significance of the institution's liquidity risk exposures, including funding (including concentration risk), market, intraday, and contingent liquidity risks. Institutions should also assess currency liquidity risk, and encumbrance risk affecting asset availability.
- Discuss the risk measurement tools used such as liquidity gap analysis, cash flow forecasting (up to one year) and monitoring of early warning indicators (e.g., credit spreads, market sentiment) among others.
- Analyze the reliability of data sources used for liquidity reporting and stress testing, the controls for data accuracy, timeliness, and completeness and comment on the level of automation and manual interventions.

vii. Intraday Liquidity Risk Assessment: Institutions shall include a description of:

- The sources, nature and level of intraday liquidity risk within their operations.
- Intraday liquidity risk management practices.
- An institution's strategy to achieving its intraday liquidity management objectives.

viii. Liquidity Coverage Ratio (LCR): Institutions shall provide:

- An assessment of the Liquidity Coverage Ratio, covering the composition of High-Quality Liquid Assets (HQLA), projected outflows, and inflows.
- Comment on the HQLA breakdown by level (Level 1 and 2), currencies of the stock of HQLA and the composition of unencumbered non-HQLA assets.

The requirements relating to LCR are as outlined in Section 5.2 of this Guideline.

ix. Funding Profile and Diversification: Institutions shall:

- Include a description of the preparation of the Contingency Funding Plan and its approval. The description should also include early warning indicators adopted, activation criteria, escalation process, roles and responsibilities, available emergency liquidity sources and the communication strategy (internal and external).
- Include a description of their funding profile and structure including:
 - The composition of funding mix (e.g., retail, corporate, and wholesale funding), maturity profile, and reliance on short-term funding.
 - Gross and net sources (potential inflows) and uses (potential outflows) of liquidity under both business-as-usual and stressed conditions.
- Assess the stability of liabilities and conditions under which they may become volatile.
- Include projections of the institution's liquidity needs and funding sources across time horizons of 1, 3, 6, 9, and 12 months.
- Analyze their current market access and identify actual or potential threats, including the impact of negative news or short-term liquidity shocks and describe the approach to maintaining continuous market access.
- Assess how its funding plan and strategy is expected to influence its liquidity and funding risk profile, detailing the underlying assumptions and mitigation strategies.
- Assess the Net Stable Funding Ratio (NSFR) and the components.
- Assess the ability to borrow or undertake asset sales in various markets.
- Analysis of intra-group cash flows and accessibility to such funding.

x. Stress Testing and Scenario Analysis: Institutions shall provide:

- An overview of the stress testing framework, including the scenarios applied to assess the institution's liquidity position and resilience under stress, as well as the key assumptions underpinning the stress tests and the justification for those assumptions.
- Reverse Stress Testing results: Institutions shall conduct reverse stress testing at least annually to identify scenarios that could make the institution unable to meet its liquidity obligations.

- A description of management actions in response to stress testing results and their respective implementation timeframes.

xi. Integration with ICAAP and Recovery Plan

- ICAAP and ILAAP stress tests should align; that is, the underlying assumptions, stress test results and projected management actions are expected to be aligned.
- Institutions should describe ILAAP's linkage to Recovery Planning, identifying recovery options related to liquidity and feasibility of liquidity recovery actions.

xii. Internal Controls, Validation, and Audit: In this section, institutions shall:

- Include a short description of the internal control processes and systems for managing liquidity risk and ensuring the accuracy and reliability of liquidity risk assessments.
- Indicate whether stress testing models, behavioral assumptions, and cash flow assumptions are independently validated to ensure accuracy and reasonableness. Findings from the validation process shall be reported to Senior Management and the Board.
- The internal audit should review ongoing ILAAP application, monitor adherence to controls in place within the ILAAP, report any shortcomings identified to the board and senior management, and review the resolution of such shortcomings in the course of follow-up procedures.

xiii. Assessment of Liquidity Adequacy: Institutions shall discuss the overall conclusion on liquidity adequacy, including the areas of strength and improvement, as well as the planned actions and timelines for remediation.

PART V: SPECIFIC REQUIREMENTS

5.1 Minimum Liquidity Ratio

Under section 19 of the Banking Act, an institution shall maintain such minimum holding of liquid assets as the Central Bank may from time to time determine. Currently an institution is required to maintain a statutory minimum of twenty per cent (20%) of all its deposit liabilities, matured and short term liabilities in liquid assets

5.2 Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately into cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario. The LCR will improve the banking sector's

ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

- i. The LCR is comprised of specific parameters which are internationally "harmonized" with prescribed values. Certain parameters, however, contain elements of national discretion which has been adopted by Kenya to reflect jurisdiction-specific conditions.
- ii. At a minimum, the stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by the bank's management and the CBK, or that the bank can be resolved in an orderly way. Banks are also expected to be aware of any potential mismatches within the 30-day period and ensure that sufficient HQLA are available to meet any cash flow gaps throughout the period.
- iii. The LCR builds on traditional liquidity "coverage ratio" methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the scenario is to be calculated for 30 calendar days into the future. The Guideline requires that, absent a situation of financial stress, the value of the ratio be no lower than 100 percent (stock of HQLA should at least equal total net cash outflows) on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress.
- iv. It is the responsibility of banks to use LCR on an ongoing basis to help monitor and control liquidity risk.
- v. **Treatment of Liquidity Transfer Restrictions:** As noted in paragraph 5.2.10, as a general principle, no excess liquidity should be recognized by a cross-border banking group in its consolidated LCR if there is reasonable doubt about the availability of such liquidity. Liquidity transfer restrictions (e.g. ring-fencing measures, non-convertibility of local currency, foreign exchange controls, etc.) in jurisdictions in which a banking group operates will affect the availability of liquidity by inhibiting the transfer of HQLA and fund flows within the group.
- vi. The consolidated LCR should reflect such restrictions in a manner consistent with paragraph 5.2.11. For example, the eligible HQLA that are held by a legal entity being consolidated to meet its local LCR requirements (where applicable) - should be included in the consolidated LCR to the extent that such HQLA are used to cover the total net cash outflows of that entity, notwithstanding that the assets are subject to liquidity transfer restrictions. If the HQLA held in excess of the total net cash outflows are not transferable, such surplus liquidity should be excluded from the Guideline.

- vii. Currencies - As outlined in paragraph 5.2.13, while the LCR is expected to be met on a consolidated basis and reported in a common currency, banks should also be aware of the liquidity needs in each significant currency. As indicated in the LCR, the currencies of the stock of HQLA should be similar in composition to the operational needs of the bank. Banks cannot assume that currencies will remain transferable and convertible in a stress period, even for currencies that in normal times are freely transferable and highly convertible.

Definition of the LCR

5.2.1 The LCR has two components and is expressed as follows:

$$LCR = \frac{\text{Stock of High – Quality Liquid Assets}}{\text{Total Net Cash Outflow over the next 30 Calendar Days}} \geq 100 \text{ percent}$$

Stock of HQLA

5.2.2 The numerator of the LCR is the "stock of HQLA". Under the Guideline, banks must hold a stock of unencumbered HQLA to cover the total net cash outflows (as defined below) over a 30-day period under the prescribed stress scenario. In order to qualify as "HQLA", assets should be liquid during a time of stress. The following sets out the characteristics that such assets should generally possess and the operational requirements that they should satisfy.

Characteristics of HQLA

5.2.3 Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts in short term; loans collateralized with sovereign bonds, sale or repurchase agreement (repo) markets due to fire-sales even in times of stress. This section outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses.

(i) Fundamental Characteristics

- Low risk.
- Ease and certainty of valuation.
- Low correlation with risky assets.
- Local sovereign bonds or international assets listed on a developed and recognized exchange.

(ii) Market-related characteristics (other than local sovereign bonds)

- Active and sizable market.
- Low volatility of asset prices.
- Tendencies to move into these types of assets in a systemic crisis.

5.2.4 As outlined by these characteristics, the test of whether liquid assets are of "high-quality" is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress.

Operational Requirements

5.2.5 All assets in the stock of HQLA are subject to specific operational requirements as indicated in (5.2.6 to 5.2.13). These operational requirements are designed to ensure that the stock of HQLA is managed in such a way that the bank can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds that is available for the bank to convert into cash through the interbank market by means of collateralized loans, outright sale or repo, to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restriction on the use of the liquidity generated.

5.2.6 All assets in the stock should be unencumbered. Assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the CBK but have not been used to generate liquidity may be included in the stock.

5.2.7 A bank should exclude from the stock those assets that, although meeting the definition of "unencumbered", the bank would not have the operational capability to monetize to meet outflows during the stress period.

5.2.8 The stock should be under the control of the function charged with managing the liquidity of the bank, meaning the function has the continuous authority, and legal and operational capability, to monetize any asset in the stock.

5.2.9 A bank should monitor the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner. Specifically, it should have a policy in place that identifies legal entities, geographical locations, currencies and specific custodial or bank accounts where HQLA are held.

5.2.10 Qualifying HQLA that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level, where applicable, may only be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity's or sub-consolidated group's net cash outflows in the LCR) are also reflected in the

consolidated LCR.

- 5.2.11** In assessing whether assets are freely transferable for regulatory purposes, banks should be aware that assets may not be freely available to the consolidated entity due to regulatory, legal, tax, accounting or other impediments.
- 5.2.12** A bank should exclude from the stock of HQLA those assets where there are impediments to sale or use as collateral for a loan through the interbank market.
- 5.2.13** While the LCR is expected to be met and reported in a single currency, banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

Diversification of the Stock of HQLA

- 5.2.14** The stock of HQLA should be well diversified within the asset classes themselves. Banks should have policies and limits in place in order to avoid concentration with respect to asset types, issue and issuer types, and currency (consistent with the distribution of net cash outflows by currency) within asset classes.

Definition of HQLA

- 5.2.15** The stock of HQLA should comprise assets with the characteristics outlined in paragraphs 5.2.3. This section describes the type of assets that meet these characteristics and- should therefore be included in the stock.
- 5.2.16** There are two categories of assets (Level 1 and Level 2) that should be included in the stock. Assets to be included in each category are those that the bank is holding on the first day of the stress period, irrespective of their residual maturity. Level 1 assets - should be included without limit, while Level 2 assets - should only comprise a maximum of 40 percent of the total stock of HQLA.
- 5.2.17** Level 2 assets comprise Level 2A and Level 2B assets. Total Level 2 assets should comprise no more than 40 percent of the total stock of HQLA. Level 2B assets should comprise no more than 15 percent of the total stock of HQLA and are included within the overall 40 percent cap on Level 2 assets.
- 5.2.18** The 40 percent cap on Level 2 assets and the 15 percent cap on Level 2B assets should be determined after the application of required haircuts, and after taking into account the unwind of short-term securities financing transactions maturing within 30 calendar days that involve the exchange of HQLA. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days.

(i) Level 1 Assets

5.2.19 Level 1 assets – should comprise an unlimited share of the pool and are not subject to a haircut under the LCR. For the purpose of calculating the LCR, Level 1 assets in the stock of HQLA should be measured at an amount no greater than their current market value.

5.2.20 Level 1 assets are limited to:

- (a) coins and banknotes;
- (b) balances with the CBK (including required reserves);
- (c) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks, and satisfying all of the following conditions:
 - assigned a 0 percent risk-weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) for credit risk;
 - have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
 - not an obligation of a financial institution or any of its affiliated entities.
- (d) where the sovereign has a non 0 percent risk weight, sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the bank's home country; and
- (e) where the sovereign has a non 0 percent risk weight, domestic sovereign or central bank debt security issued in foreign currencies are eligible 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.

(ii) Level 2 Assets

5.2.21 Level 2 assets (comprising Level 2A assets and any Level 2B assets -recommended by the CBK) – should be included in the stock of HQLA, subject to the requirement that they comprise no more than 40 percent of the overall stock after haircuts have been applied. The method for calculating the cap on Level 2 A assets and the cap on Level 2B assets is set out in paragraph 5.2.18.

5.2.22 A 15 percent haircut is applied to the current market value of each Level 2A asset held in the stock of HQLA. Level 2A assets are limited to the following:

(a) Marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that satisfy all of the following conditions:

- assigned a 20 percent risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03);
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and
- not an obligation of a financial institution or any of its affiliated entities.

(b) Corporate debt securities (including commercial paper) and covered bonds that satisfy all of the following conditions:

- in the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities;
- In the case of covered bonds: not issued by the bank itself or any of its affiliated entities;
- either (i) 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; or (ii) do not have a credit assessment by a recognized ECAI but are internally rated as having a probability of default (PD) corresponding to a credit rating of at least AA-;
- traded in large, deep and active repo or cash markets characterized by a low level of concentration; and
- 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 or increase in haircut over a 30-day period during a relevant period of significant liquidity stress not exceeding 10 percent.

(iii) Level 2B Assets

5.2.23 Level 2B assets are limited to the following:

(a) Residential mortgage-backed securities (RMBS), with the prior approval of the CBK, which satisfy all of the following conditions may be included in Level 2B, subject to a 25 percent haircut:

- not issued by, and the underlying assets have not been originated by the bank itself or any of its affiliated entities;

- have a long-term credit rating from a recognized ECAI of AA or higher, or in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;
- traded in large, deep, and active repo or cash markets characterized by a low level of concentration;
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions;
- the underlying asset pool is restricted to residential mortgages and cannot contain structured products;
- the underlying mortgages are "full recourse" loans (i.e., in the case of foreclosure the mortgage owner remains liable for any shortfall in sales proceeds from the property) and have a maximum loan-to-value ratio (LTV) of 80 percent on average at issuance.

(b) Corporate debt securities (including commercial paper) that satisfy all of the following conditions may be included in Level 2B, subject to a 50 percent haircut:

- not issued by a financial institution or any of its affiliated entities;
- either (i) have a long-term credit rating from a recognized ECAI between A+ and BBB- or in the absence of a long term rating, a short-term rating equivalent in quality to the long-term rating; or (ii) do not have a credit assessment by a recognized ECAI and are internally rated as having a PD corresponding to a credit rating of between A+ and BBB; and
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions, i.e., a maximum decline of price not exceeding 20 percent or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress.

(c) Common equity shares that satisfy all of the following conditions may be included in Level 2B, subject to a 50 percent haircut:

- not issued by a financial institution or any of its affiliated entities;
- exchange traded and centrally cleared;
- is listed on a major stock index in the home jurisdiction or where the liquidity risk is taken;
- denominated in the domestic currency of a bank's home jurisdiction or in the currency of the jurisdiction where a bank's liquidity risk is taken; and
- have a proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions.

Total Net Cash Outflows

5.2.24 The term total net cash outflows¹ is defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75 percent of total expected cash outflows.

Total net cash outflows over the next 30 calendar days = Total expected cash outflows – (the lesser of: (i) Total expected cash inflows and 75 percent of total expected cash outflow)

5.2.25 Banks will not be permitted to double count items, i.e., if an asset is included as part of the "stock of HQLA", the associated cash inflows cannot also be counted as cash inflows. Where there is potential that an item could be counted in multiple outflow categories, (e.g., committed liquidity facilities granted to cover debt maturing within the 30-calendar day period), a bank only has to assume up to the maximum contractual outflow for that product.

Cash Outflows

(i) Retail Deposits

5.2.26 Retail deposits are defined as deposits placed with a bank by a natural person. These retail deposits are divided into “stable” and “less stable” portions of funds as described below, with minimum run-off rates listed for each category. Stable deposits are the amount of the deposits below Kshs.500,000 that are fully insured by the Kenya Deposit Insurance Corporation.

5.2.27 Stable deposits in Kenyan Shillings (Kshs.) will receive a run-off factor of 5 percent, whilst stable deposits in foreign currency will receive a run-off factor of 10 percent.

5.2.28 The remaining retail (also called less stable) deposits in Kshs. will receive a run-off factor of 10 percent, whilst less stable deposits in foreign currency will receive a run-off factor of 20 percent.

5.2.29 Cash outflows related to retail term deposits with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflows if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR, or

¹ Where applicable, cash inflows and outflows should include interest that is expected to be received and paid.

if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

(ii) Unsecured wholesale funding run-off

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

5.2.31 The wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date situated within this horizon (such as maturing term deposits and unsecured debt securities) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor's discretion within the 30-calendar day horizon.

5.2.32 Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

5.2.33 For the purposes of the LCR, unsecured wholesale funding is to be categorized as detailed below, based on the assumed sensitivity of the funds providers to the rate offered and the credit quality and solvency of the borrowing bank. This is determined by the type of funds providers and their level of sophistication, as well as their operational relationships with the bank. The run-off rates for the scenario are listed for each category.

(a) Unsecured Wholesale Funding Provided by Small Business Customers (Run-off = 10 percent)

5.2.34 Unsecured wholesale funding provided by small business customers is treated the same way as retail deposits for the purposes of this Guideline, effectively distinguishing between a "stable" portion of funding provided by small business customers and different buckets of less stable funding. The same bucket definitions and associated run-off factors apply as for retail deposits.

5.2.35 This category consists of deposits and other extensions of funds made by non-financial small business customers. "Small business customers" are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts provided the total aggregated funding raised from one small business customer is less than Kshs.500,000 (on a consolidated basis, where applicable).

5.2.36 Cash outflows related to term deposits from small business customers with a residual maturity or withdrawal notice period of greater than 30 days will be excluded from total expected cash outflow.

(b) Operational deposits generated by Clearing, Custody and Cash Management Activities: (Run-off = 25 percent)

5.2.37 Certain activities lead to financial and non-financial customers needing to place, or leave, deposits with a bank in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. These funds will receive a 25 percent run-off factor only if the customer has a substantive dependency with the bank and the deposit is required for such activities. The CBK's approval would have to be given to banks that choose to utilize this treatment.

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

5.2.39 Operational deposits would receive a 0 percent inflow assumption for the depositing bank given that these deposits are required for operational reasons and are therefore not available to the depositing bank to repay other outflows.

5.2.40 Notwithstanding these operational categories, if the deposit under consideration arises out of correspondent banking or from the provision of prime brokerage services, it will be treated as if there were no operational activity for the purpose of determining run-off factors.

(c) Unsecured Wholesale Funding Provided by Non-Financial Corporates and Sovereigns, Central Banks, Multilateral Development Banks, and PSEs (Run-off = 40 percent)

5.2.41 This category comprises all deposits and other extensions of unsecured funding from non-financial corporate customers (that are not categorized as small business customers) and (both domestic and foreign) sovereign, central bank, multilateral development bank, and PSE customers that are not specifically held for operational purposes (as defined above). The run-off factor for these funds is 40 percent.

**(d) Unsecured Wholesale Funding Provided by Other Legal Entity Customers:
(Run-off = 100 percent)**

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

5.2.43 All notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder.

(iii) Secured funding run-off

5.2.44 For the purposes of this Guideline, "secured funding" is defined as those liabilities and general obligations that are collateralized by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation, administration or resolution.

5.2.45 In this case, the ability to continue to transact repurchase, reverse repurchase, and other securities financing transactions is limited to transactions backed by HQLA or with the bank's domestic, sovereign, PSE, or central bank. ²The amount of outflow is calculated based on the amount of funds raised through the transaction, and not the value of the underlying collateral.

5.2.46 Due to the high-quality of Level 1 assets, no reduction in funding availability against these assets is assumed to occur. Moreover, no reduction in funding availability is expected for any maturing secured funding transactions with the bank's domestic central bank. A reduction in funding availability will be assigned to maturing transactions backed by Level 2 assets equivalent to the required haircuts. A 25 percent factor is applied for maturing secured funding transactions with the bank's domestic sovereign, multilateral development banks, or domestic PSEs that have a 20 percent or lower risk weight, when the transactions are backed by assets other than Level 1 or Level 2A assets, in recognition that these entities are unlikely to withdraw secured funding from banks in a time of market-wide stress. This, however, gives credit only for outstanding secured funding transactions, and not for unused collateral or merely the capacity to borrow.

5.2.47 For all other maturing transactions, the run-off factor is 100 percent. The table I below summarizes the applicable standards:

² In this context, PSEs that receive this treatment should be limited to those that are 20 percent risk weighted or better, and "domestic" can be defined as a jurisdiction where a bank is legally incorporated.

Table I: Applicable standards

Categories for outstanding maturing secured funding transactions	Amount to add to cash outflows
• Backed by Level 1 assets or with central banks.	0 percent
• Backed by Level 2A assets.	15 percent
Secured funding transactions with domestic sovereign, PSEs, or multilateral development banks that are not backed by Level 1 or 2A assets. PSEs that receive this treatment are limited to those that have a risk weight of 20 percent or lower.	25 percent
Backed by RMBS eligible for inclusion in Level 2B	
• Backed by other Level 2B assets	50 percent
• All others	100 percent

(iv) Additional requirements

5.2.48 Derivatives cash outflows: the sum of all net cash outflows should receive a 100 percent factor.

5.2.49 Additional Requirements to be met before a bank increases liquidity needs and asset backed securities, see Annex I.

5.2.50 Drawdowns on committed credit and liquidity facilities: For the purpose of the Guideline, credit and liquidity facilities are defined as explicit contractual agreements or obligations to extend funds at a future date to retail or wholesale counterparties. For the purpose of the Guideline, these facilities only include contractually irrevocable ("committed") or conditionally revocable agreements to extend funds in the future. Unconditionally revocable facilities that are unconditionally cancellable by the bank (in particular, those without a precondition of a material change in the credit condition of the borrower) are excluded from this section and included in "Other Contingent Funding Liabilities".

These off-balance sheet facilities or funding commitments - should have long or short-term maturities, with short-term facilities frequently renewing or automatically rolling-over. In a stressed environment, it will likely be difficult for customers drawing on facilities of any maturity, even short-term maturities, to be able to quickly pay back the borrowings. Therefore, for purposes of this Guideline, all facilities that are assumed to be drawn (as outlined in the paragraphs below) will remain outstanding at the amounts assigned throughout the duration of the test, regardless of maturity.

5.2.51 For the purposes of this Guideline, the currently undrawn portion of these facilities is

calculated net of any HQLA eligible for the stock of HQLA, if:

- the HQLA have already been posted as collateral by the counterparty to secure the facilities or that are contractually obliged to be posted when the counterparty will draw down the facility (e.g. a liquidity facility structured as a repo facility),
- the bank is legally entitled and operationally capable to re-use the collateral in new cash raising transactions once the facility is drawn, and
- there is no undue correlation between the probability of drawing the facility and the market value of the collateral.

The collateral - should be netted against the outstanding amount of the facility to the extent that this collateral is not already counted in the stock of HQLA, in line with the principle in paragraph 5.2.25 that items cannot be double counted in the Guideline.

5.2.52 A liquidity facility is defined as any committed, undrawn back-up facility that would be utilized to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets (e.g., pursuant to a commercial paper program, secured financing transactions, obligations to redeem units, etc.). For the purpose of this Guideline, the amount of the commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share, if a syndicated facility) maturing within a 30-day period that is backstopped by the facility.

The portion of a liquidity facility that is backing debt that does not mature within the 30-day window is excluded from the scope of the definition of a facility. Any additional capacity of the facility (i.e., the remaining commitment) would be treated as a committed credit facility with its associated drawdown rate as specified in paragraph 5.2.54. General working capital facilities for corporate entities (e.g., revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

5.2.53 For that portion of financing programs that are captured in requirements 7 and 8 of Annex I (i.e., are maturing or have liquidity that may be exercised in the 30-day horizon), banks that are providers of associated liquidity facilities do not need to double count the maturing financing instrument and the liquidity facility for consolidated programs.

5.2.54 Any contractual loan drawdowns from committed facilities³ and estimated drawdowns from revocable facilities within the 30-day period should be fully reflected as outflows.

- (a) Committed credit and liquidity facilities to retail and small business customers:
Banks should assume a 5 percent drawdown of the undrawn portion of these

³ Committed facilities refer to those which are irrevocable.

facilities.

- (b) Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks: *Banks should assume a 10 percent drawdown of the undrawn portion of these credit facilities.*
- (c) Committed credit and liquidity facilities extended to banks subject to prudential supervision: *Banks should assume a 40 percent drawdown of the undrawn portion of these facilities.*
- (d) Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries *Banks should assume a 40 percent drawdown of the undrawn portion of these credit facilities.*
- (e) Committed liquidity facilities to other financial institutions, including securities firms, insurance companies, fiduciaries, and beneficiaries: *Banks should assume a 100 percent drawdown of the undrawn portion of these liquidity facilities.*
- (f) Committed credit and liquidity facilities to other legal entities, conduits and special purpose vehicles, and other entities not included in the prior categories: *Banks should assume a 100 percent drawdown of the undrawn portion of these facilities.*

5.2.55 Contractual obligations to extend funds within a 30-day period. Any contractual lending obligations to financial institutions not captured elsewhere in this Guideline should be captured here at a 100 percent outflow rate.

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

(v) Other contingent funding obligations:

5.2.57 These contingent funding obligations may be either contractual or non-contractual and are not lending commitments. Non-contractual contingent funding obligations include associations with, or sponsorship of, products sold, or services provided that may require the support or extension of funds in the future under stressed conditions. Non-contractual obligations may be embedded in financial products and instruments sold, sponsored, or originated by the institution that can give rise to unplanned balance sheet growth arising from support given for reputational risk considerations.

These include products and instruments for which the customer or holder has specific expectations regarding the liquidity and marketability of the product or instrument and for which failure to satisfy customer expectations in a commercially reasonable manner would

likely cause material reputational damage to the institution or otherwise impair ongoing viability.

5.2.58 Some of these contingent funding obligations are explicitly contingent upon a creditor other event that is not always related to the liquidity events simulated in the stress scenario but may nevertheless have the potential to cause significant liquidity drains in times of stress. For this Guideline, the bank should consider which of these "other contingent funding obligations" may materialize under the assumed stress events. The potential liquidity exposures to these contingent funding obligations are to be treated as a behavioral assumption. All identified contractual and non-contractual contingent liabilities, and their assumptions should be reported, along with their related triggers. Banks should, at a minimum, use historical behavior in determining appropriate outflows.

5.2.59 Non contractual contingent funding obligations related to potential liquidity draws from joint ventures or minority investments in entities, which are not consolidated per paragraph 5.2.3 should be captured where there is the expectation that the bank will be the main liquidity provider when the entity is in need of liquidity.

5.2.60 In the case of contingent funding obligations stemming from trade finance instruments, a run-off rate of 5 percent is applied. Trade finance instruments consist of trade-related obligations directly underpinned by the movement of goods or the provision of services, such as:

- documentary trade letters of credit, documentary and clean collection, import bills, and export bills; and
- guarantees directly related to trade finance obligations, such as shipping guarantees.

5.2.61 Lending commitments, such as direct import or export financing for non-financial corporate firms, are excluded from this treatment and banks will apply the draw-down rates specified in paragraph 5.2.54.

5.2.62 Other contingent funding obligations include products and instruments such as:

- unconditionally revocable "uncommitted" credit and liquidity facilities (2 percent run-off rate);
- guarantees and letters of credit unrelated to trade finance obligations (as described in paragraph 5.2.60) (10 percent run-off rate);

5.2.63 Other contractual cash outflows: (100 percent). Any other contractual cash outflows within the next 30 calendar days should be captured in this Guideline, such as outflows to cover unsecured collateral borrowings, uncovered short positions, dividends or contractual

interest payments, with explanation given as to what comprises this bucket. Outflows related to operating costs, however, are not included in this Guideline.

Cash Inflows

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

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

5.2.66 *Cap on total inflows:* In order to prevent banks from relying solely on anticipated inflows to meet their liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75 percent of total expected cash outflows as calculated in the Guideline. This requires that a bank must maintain a minimum amount of stock of HQLA equal to 25 percent of the total cash outflows.

(i) Secured lending, including reverse repos and securities borrowing

5.2.67 Table II shows the inflow rates to be applied:

Table II: Inflow rates

Maturing secured lending transactions backed by the following asset category:	Inflow rate (if collateral is not used to cover short positions):	Inflow rate (if collateral is used to cover short positions):
Level 1 assets	0 percent	0 percent
Level 2A assets	15 percent	0 percent
Level 2B assets		
Eligible RMBS	25 percent	0 percent
Other Level 2B assets	50 percent	0 percent
Margin lending backed by all other collateral	50 percent	0 percent
Other collateral	100 percent	0 percent

(ii) Committed facilities

5.2.68 No credit facilities, liquidity facilities or other contingent funding facilities that the bank holds at other institutions for its own purposes are assumed to be able to be drawn. Such facilities receive a 0 percent inflow rate, meaning that this scenario does not consider inflows from committed credit or liquidity facilities. This is to reduce the contagion risk of liquidity shortages at one bank causing shortages at other banks and to reflect the risk that other banks may not be in a position to honor credit facilities, or may decide to incur the legal and reputational risk involved in not honoring the commitment, in order to conserve their own liquidity or reduce their exposure to that bank.

(iii) Other inflows by counterparty

5.2.69 For all other types of transactions, either secured or unsecured, the inflow rate will be determined by counterparty. In order to reflect the need for a bank to conduct ongoing loan origination/roll-over with different types of counterparties, even during a time of stress, a set of limits on contractual inflows by counterparty type is applied.

5.2.70 When considering loan payments, the bank should only include inflows from fully performing loans. Further, inflows should only be taken at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, this assumes that the existing loan is rolled over and that any remaining balances are treated in the same way as a committed facility according to paragraph 5.2.54.

5.2.71 Inflows from loans that have no specific maturity (i.e., have non-defined or open maturity) should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed in paragraphs 5.2.72 and 5.2.73.

(iv) Retail and small business customer inflows

5.2.72 This scenario assumes that banks will receive all payments (including interest payments and instalments) from retail and small business customers that are fully performing and contractually due within a 30-day horizon. At the same time, however, banks are assumed to continue to extend loans to retail and small business customers, at a rate of 50 percent of contractual inflows. This results in a net inflow number of 50 percent of the contractual amount.

(v) Other wholesale inflows

5.2.73 This scenario assumes that banks will receive all payments (including interest payments and instalments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, banks are assumed to continue to extend loans to wholesale clients, at a rate of 0 percent of inflows for financial institutions and central banks, and 50 percent for all others, including non-financial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

- 100 percent for financial institution and central bank counterparties; and
- 50 percent for non-financial wholesale counterparties.

5.2.74 Inflows from securities maturing within 30 days not included in the stock of HQLA should be treated in the same category as inflows from financial institutions (i.e., 100 percent inflow). Banks may also recognize in this category inflows from the release of balances held in segregated accounts in accordance with regulatory requirements for the protection of customer trading assets, provided that these segregated balances are maintained in HQLA. This inflow should be calculated in line with the treatment of other related outflows and inflows covered in this Guideline. Level 1 and Level 2 securities maturing within 30 days should be included in the stock of liquid assets, provided that they meet all operational and definitional requirements, as laid out in paragraphs 5.2.5 to 5.2.23.

5.2.75 Operational deposits: Deposits held at other financial institutions for operational purposes, as outlined in paragraphs 5.2.34 to 5.2.40, such as for clearing, custody, and cash management purposes, are assumed to stay at those institutions, and no inflows - should be counted for these funds - i.e., they will receive a 0 percent inflow rate, as noted in paragraph 5.2.38.

(vi) Other cash inflows

5.2.76 Derivatives cash inflows: the sum of all net cash inflows should receive a 100 percent inflow factor.

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

5.2.78 Other contractual cash inflows: Other contractual cash inflows should be captured here, with explanation given to what comprises this bucket. Cash inflows related to non-financial

revenues are not taken into account in the calculation of the net cash outflows for the purposes of this Guideline.

5.3. Net Stable Funding Ratio (NSFR)

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.

NSFR aims at reducing funding risk over a longer time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. The NSFR is comprised of specific parameters which are internationally "harmonized" with prescribed values. Certain parameters, however, contain elements of national discretion which has been adopted by Kenya to reflect jurisdiction-specific conditions.

Responsibility - Banks are expected to meet the NSFR requirement on an ongoing basis.

Definition and Minimum Requirements

5.3.1 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 percent 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. The amount of such stable funding required ("Required stable funding") 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 (OBS) exposures.

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

5.3.2 The amounts of available and required stable funding specified in the Guideline are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets. The calibration reflects the stability of liabilities across two dimensions:

- (a) *Funding tenor* – The NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.
- (b) *Funding type and counterparty* – The NSFR is calibrated under the assumption that short-term (maturing in less than one year) deposits provided by retail customers and

funding provided by small business customers are behaviorally more stable than wholesale funding of the same maturity from other counterparties.

5.3.3 In determining the appropriate amounts of required stable funding for various assets, the following criteria were taken into consideration, recognizing the potential trade-offs between these criteria:

- (a) *Resilient credit creation* – The NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.
- (b) *Bank behaviour* – The NSFR is calibrated under the assumption that banks may seek to roll over a significant proportion of maturing loans to preserve customer relationships.
- (c) *Asset tenor* – The NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because banks would be able to allow some proportion of those assets to mature instead of rolling them over.
- (d) *Asset quality and liquidity value* – The NSFR assumes that unencumbered, high-quality assets that can be securitized or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.

5.3.4 Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from OBS commitments and contingent funding obligations.

5.3.5 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.

Definition of Available Stable Funding

5.3.6 The amount of available stable funding (ASF) is measured based on the broad characteristics of the relative stability of a bank'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 a bank's capital and liabilities to one of five categories as presented below. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts. Carrying value represents the amount at which a liability or equity instrument is recorded before the application of any regulatory

deductions, filters or other adjustments.

5.3.7 When determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. For funding with options exercisable at the bank's discretion, reputational factors should be taken into account that may limit a bank's ability not to exercise the option.⁴ In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks should assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category. For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively.

Calculation of derivative liability amounts

5.3.8 Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost.^{5,6}

Liabilities and capital receiving a 100 percent ASF factor

5.3.9 Liabilities and capital instruments receiving a 100 percent ASF factor comprise:

- (a) the total amount of regulatory capital, before the application of capital deductions, excluding the proportion of Tier 2 instruments with residual maturity of less than one year;
- (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) 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

⁴ This could reflect a case where a bank may imply that it would be subject to funding risk if it did not exercise an option on its own funding.

⁵ NSFR derivative liabilities = (derivative liabilities) – (total collateral posted as variation margin on derivative liabilities).

⁶ To the extent that the bank's accounting framework reflects on-balance sheet, in connection with a derivative contract, an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount for purposes of the NSFR, that asset should not be included in the calculation of a bank's required stable funding (RSF) to avoid any double-counting.

one year do not qualify for the 100 percent ASF factor).

Liabilities in Kenyan Shillings (Kshs.) receiving a 95 percent ASF factor

5.3.10 Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in Kshs.

Liabilities in Kenyan Shillings (Kshs.) receiving a 90 percent ASF factor

5.3.11 Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in Kshs.

Liabilities in foreign currency receiving a 90 percent ASF factor

5.3.12 Stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency.

Liabilities in foreign currency receiving a 80 percent ASF factor

5.3.13 Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency.

Liabilities receiving a 50 percent ASF factor

5.3.14 Liabilities receiving a 50 percent 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 generated by clearing, custody and cash management activities;
- (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.

Liabilities receiving a 0 percent ASF factor

5.3.15 Liabilities receiving a 0 percent ASF factor comprise:

- (a) all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks and financial institutions;

- (b) other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions – should 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 liabilities would then be assigned either a 100 percent ASF factor if the effective maturity is one year or greater, or 50 percent, if the effective maturity is between six months and less than one year; and

- (c) NSFR derivative liabilities net of NSFR derivative assets, if NSFR derivative liabilities are greater than NSFR derivative assets.

5.3.16 Table III 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 III: Summary of liability categories and associated ASF factors

ASF factor	Components of ASF category
100 percent	• 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
95 percent	• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in Kshs.
90 percent	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in Kshs. • Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency
80 percent	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency
50 percent	• 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 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
0 percent	• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests) • NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets

Definition of Required Stable Funding for Assets and Off-Balance Sheet Exposures

- 5.3.17** 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. 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.
- 5.3.18** The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetized through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts are expected to be supported by stable funding.
- 5.3.19** Assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, investors should be assumed to exercise any option to extend maturity. For assets with options exercisable at the bank's discretion, reputational factors should be taken into account that may limit a bank's ability not to exercise the option. In particular, where the market expects certain assets to be extended in their maturity, banks should assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category. For amortizing loans, the portion that comes due within the one-year horizon – should be treated in the less-than-one-year residual maturity category.

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

Encumbered assets

- 5.3.20** Assets on the balance sheet that are encumbered for one year or more receive a 100 percent RSF factor. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50 percent. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50 percent retain that higher RSF factor.

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.

Secured financing transactions

5.3.21 For secured funding arrangements, use of balance sheet and accounting treatments should generally result in banks excluding, from their assets, securities which they have borrowed in securities financing transactions (such as reverse repos) where they do not have beneficial ownership. In contrast, banks should include securities they have lent in securities financing transactions where they retain beneficial ownership. Where banks have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the bank's balance sheet, the bank should allocate such securities to the appropriate RSF category.

5.3.22 Securities financing transactions with a single counterparty may be measured net when calculating the NSFR, provided that the netting conditions are met⁷.

Calculation of derivative asset amounts

5.3.23 Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value.

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

Assets assigned a 0 percent RSF factor

5.3.25 Assets assigned a 0 percent RSF factor comprise:

- (a) coins and banknotes immediately available to meet obligations;
- (b) all central bank reserves (including required reserves and excess reserves); and
- (c) all claims on central banks with residual maturities of less than six months.

⁷ See Basel Committee on Banking Supervision: p.33i of "Basel III leverage ratio framework and disclosure requirements", January 2014

Assets assigned a 5 percent RSF factor

5.3.26 Assets assigned a 5 percent RSF factor comprise unencumbered Level 1 assets as defined in this guideline, excluding assets receiving a 0 percent RSF as specified above, and including:

- marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the International Monetary Fund, the European Central Bank and the European Community, or multilateral development banks that are assigned a 0 percent risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) for credit risk; and
- certain non-0 percent risk-weighted sovereign or central bank debt securities as specified in this guideline.

Assets assigned a 10 percent RSF factor

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

Assets assigned a 15 percent RSF factor

5.3.28 Assets assigned a 15 percent RSF factor comprise:

- (a) unencumbered Level 2A assets as defined in this guideline, including:
 - marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20 percent risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) credit risk; and
 - corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA–;
- (b) all other unencumbered loans to financial institutions with residual maturities of less than six months not included in paragraph 5.3.28.

Assets assigned a 50 percent RSF factor

5.3.29 Assets assigned a 50 percent RSF factor comprise:

- (a) unencumbered Level 2B assets as defined and subject to the conditions set forth in this

Guideline, including:

- residential mortgage-backed securities (RMBS) with a credit rating of at least AA;
 - corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB–; and
 - exchange-traded common equity shares not issued by financial institutions or their affiliates;
- (b) any HQLA as defined in this Guideline that are encumbered for a period of between six months and less than one year;
- (c) all loans to financial institutions and central banks with residual maturity of between six months and less than one year;
- (d) deposits held at other financial institutions for operational purposes, as outlined in this guideline, that are subject to the 50 percent ASF factor in paragraph 5.3.14 and
- (e) all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (ie natural persons) and small business customers, and loans to sovereigns and PSEs.

Assets assigned a 65 percent RSF factor

5.3.30 Assets assigned a 65 percent RSF factor comprise:

- (a) unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 50 percent or lower risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03); and
- (b) other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 50 percent or lower risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03).

Assets assigned an 85 percent RSF factor

5.3.31 Assets assigned an 85 percent RSF factor comprise:

- (a) cash, securities or other assets posted as initial margin for derivative contracts. Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor.

- (b) other unencumbered performing loans that do not qualify for the 50 percent or lower risk weight under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) and have residual maturities of one year or more, excluding loans to financial institutions;
- (c) unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to this guideline; and
- (d) physical traded commodities, including gold.

Assets assigned a 100 percent RSF factor

5.3.32 Assets assigned a 100 percent RSF factor comprise:

- (a) all assets that are encumbered for a period of one year or more;
- (b) NSFR derivative assets as calculated according to paragraphs 5.3.24 and 5.3.25 net of NSFR derivative liabilities as calculated according to paragraph 5.3.8, if NSFR derivative assets are greater than NSFR derivative liabilities;
- (c) all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities; and
- (d) 20 percent of derivative liabilities (i.e. negative replacement cost amounts) as calculated according to paragraph 5.3.8 (before deducting variation margin posted).

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

Table IV. Summary of asset categories and associated RSF factors

RSF factor	Components of RSF category
0 percent	• Coins and banknotes • All central bank reserves • All claims on central banks with residual maturities of less than six months
5 percent	• Unencumbered Level 1 assets, excluding coins, banknotes and central bank reserves
10 percent	• Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in this Guideline, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan

RSF factor	Components of RSF category
15 percent	• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories • Unencumbered Level 2A assets
50 percent	• Unencumbered Level 2B assets • HQLA encumbered for a period of six months or more and less than one year • Loans to financial institutions and central banks with residual maturities between six months and less than one year • Deposits held at other financial institutions for operational purposes • All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs
65 percent	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 50 percent under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03). • Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 50 percent under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03).
85 percent	• Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a Central Counter Parties (CCP). • Other unencumbered performing loans with risk weights greater than 50 percent under the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03) and residual maturities of one year or more, excluding loans to 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 • Physical traded commodities, including gold
100 percent	• All assets that are encumbered for a period of one year or more • NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities • 20 percent of derivative liabilities as calculated according to 5.3.8 • All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities

Off-balance sheet exposures

5.3.34 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.

5.3.35 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 V identifies the specific types of OBS exposures to be assigned to each

OBS category and their associated RSF factor.

Table V. Summary of off-balance sheet categories and associated RSF factors

RSF factor	RSF category
5 percent of currently undrawn portion	• Irrevocable and conditionally revocable credit and liquidity facilities to any client
5 percent of currently undrawn portion	• Trade finance-related obligations (including guarantees and letters of credit)
10 percent of currently undrawn portion	Other contingent funding obligations, including products and instruments such as: • Unconditionally revocable credit and liquidity facilities • Guarantees and letters of credit unrelated to trade finance obligations • Other Non-contractual obligations 10 percent

PART VI: RETURNS, REPORTS AND COMPLETION INSTRUCTIONS

6.1 An institution shall provide data on maturity analysis of its assets and liabilities in the prescribed format (Form CBK/PR5-1 {Maturity Analysis of Assets and Liabilities}) on monthly basis and in accordance with the completion instructions attached. The return should be submitted by the 5th day of the subsequent month.

Maturity analysis of off-balance sheet items that have cash flow implications should also be analyzed in this return. The maturity time band will depend on the management judgment of when the commitments will be likely to be called or drawn down.

6.2 Minimum Liquidity Ratio: An institution shall provide data on its liquidity in the prescribed format (Form CBK/PR5-2 {Liquidity statement}) and in accordance with the completion instructions attached, after each ten (10) working days period (10th, 20th and the last day of each month). The data should be submitted within five (5) working days after the reporting date.

6.3 Liquidity Coverage Ratio (LCR): LCR Calculations, HQLA, Inflows and Outflows returns should be submitted to the CBK on a monthly basis within 5 calendar days after the end of the month, with the operational capacity to increase the frequency to weekly or even daily in stressed situations at the discretion of the CBK. The returns will be submitted in the prescribed formats (Form CBK/PR5-3 {LCR Calculations}, Form CBK/PR5-3-1 {HQLA}, Form CBK/PR5-3-2 {Inflows}, Form CBK/PR5-3-3 {Outflows }).

Banks are expected to inform the CBK of their LCR and their liquidity profile on an ongoing basis. Banks should also notify the CBK immediately if their LCR has fallen, or is expected to fall, below 100 percent.

6.4 Net Stable Funding Ratio (NSFR): NSFR return should be submitted to the CBK within 5 days of the end of every quarter in the prescribed format (Form CBK/PR5-4).

6.5 Internal Liquidity Adequacy Assessment Process (ILAAP): On an annual basis, banks shall, not later than 30th April, submit to the CBK their ILAAP report as at 31st December of the previous year.

PART VII: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

7.1. Remedial Measures

- 7.1.1. Where any provision of this Guideline is breached or not observed, the Central Bank may pursue any or all of the remedial actions and administrative sanctions provided for under the Banking Act.
- 7.1.2. If an institution is unable to fund its liquidity mismatch, it shall forthwith, in writing, report its inability to the Central Bank of Kenya, Bank Supervision Department, stating reasons for such failure and/or inability, and measures being taken to rectify the situation.
- 7.1.3. Institutions submitting late and/or inaccurate returns shall be penalized and officers held accountable and liable in accordance with the provisions of the Banking Act and CBK Prudential Guidelines.

7.2. Administrative Sanctions

The conditions to be given shall generally cover management and control of liquidity exposures, and conduct of the concerned institution's business, but may specifically include the following:

- 7.2.1. Imposition of penalties under relevant sections of the Banking Act.
- 7.2.2. Suspension of lending activities and undertaking any new business.
- 7.2.3. Suspension from taking new deposits to retire maturing ones.
- 7.2.4. Recommending suspension from clearing house.
- 7.2.5. Prohibition of acquisition of additional non-core assets.
- 7.2.6. Prohibition from declaring dividends or paying bonuses, salary incentives, and other discretionary compensation to directors and/or officers of the institution.
- 7.2.7. Prohibition or suspension from any other activity (ies) that Central Bank perceives to be contributing to liquidity strain in the affected institution.

PART VIII

- 8.1 Effective Date:** This Guideline takes effect from January 1, 2027.
- 8.2 Supersedence:** This Guideline supersedes Prudential Guideline No. CBK/ PG/05 on Liquidity Management issued on 1st January 2013 and Guidelines on the Liquidity Coverage Ratio and Net Stable Funding Ratio issued in April 2025.

ENQUIRIES

Any enquiries should be addressed to the

Director,
Bank Supervision Department
Central Bank of Kenya
P.O. Box 60000 - 00200
NAIROBI
TEL. 28600000 e-mail: *fin@centralbank.go.ke*

MATURITY ANALYSIS OF ASSETS AND LIABILITIES

CBK/PR 5-1

Name of Institution.....

Financial Year Start Date..... End Date.....

		1	2	3	4	5	6	7	8	9
A	ASSETS	Matured	Maturing in Less than 1 month	1 month Less than 3 months	3 months Less than 6 months	6 months Less than 1 year	1 year Less than 3 years	3 years Less than 5 years	Over 5 Years	Total
1	Cash reserves									
2	Balance with Central Bank of Kenya									
3	Balance due from local institutions & Bldg Societies									
4	Balance due from banks abroad									
5	Kenya government Treasury Bills									
6	Kenya Government Treasury Bonds									
7	Foreign government Treasury Bills and Bonds									
8	Other Investments									
9	Other foreign assets									
10	Local currency loans and advances (net)									
11	Foreign currency loans and advances (net)									
12	Fixed Assets (net)									
13	Balance due from group companies									
14	Other assets									
15	TOTAL ASSETS									
16	Off-balance sheet assets									
B	LIABILITIES									
1	Balance due to Central Bank of Kenya									

		1	2	3	4	5	6	7	8	9
A	ASSETS	Matured	Maturing in Less than 1 month	1 month Less than 3 months	3 months Less than 6 months	6 months Less than 1 year	1 year Less than 3 years	3 years Less than 5 years	Over 5 Years	Total
2	Balances due to local institutions & Bldg Societies									
3	Balance due to banks abroad									
4	Local currency deposits									
5	Local currency borrowings									
6	Foreign currency deposits									
7	Foreign currency borrowings									
8	Other foreign liabilities									
9	Balance due to group companies									
10	Other liabilities									
11	Capital and Reserves									
12	TOTAL LIABILITIES									
13	Off-balance sheet liabilities									
C	NET POSITION ON-BALANCE SHEET ITEMS (A15-B12)									
D	NET POSITION OFF-BALANCE SHEET (ITEMS (A16-B13)									

AUTHORIZATION

We declare that this return, to the best of our knowledge and belief is correct.

Name of Compiling Officer:**Date**.....

Name of Authorizing Officer (1):**Date**.....

Name of Authorizing Officer (2):**Date**.....

LIQUIDITY STATEMENT

CBK/PR 5-2

Name of Institution.....
Financial Year
Start Date.....
End Date.....

1. NOTES AND COINS

SHS'000'

- (a) Local _____
(b) Foreign _____

2. BALANCES WITH CENTRAL BANK OF KENYA

- (a) Balances with Central Bank _____
(b) Less: Borrowings from Central Bank _____

3. BALANCES WITH DOMESTIC COMMERCIAL BANK

- (a) Balances with banks _____
Less:
(b) Time deposits with banks _____
(c) Balances due to banks _____
(d) Overdrafts and matured loans/advances _____

4. BALANCES WITH BANKS ABROAD

- (a) Balances with banks abroad _____
Less:
(b) Time deposits with banks abroad _____
(c) Balances due to banks abroad _____
(d) Overdrafts and matured loans/advances _____
from banks abroad _____

5. BALANCES WITH FINANCIAL INSTITUTIONS

- (a) Balances with financial institutions _____
Less:
(b) Time deposits with financial institutions _____
(c) Balances due to financial institutions _____
(d) Matured loans/advances from financial institutions _____

6. BALANCES WITH MORTGAGE FINANCE COMPANIES

- (a) Balances with mortgage finance companies _____
Less:
(b) Time deposits with mortgage finance companies _____

(c) Balances due to mortgage finance companies	_____
(d) Matured loans/advances from mortgage companies	_____
7. BALANCES WITH BUILDING SOCIETIES	
(a) Balances with building societies	_____
Less:	
(b) Time deposits with building societies	_____
(c) Balances due to building societies	_____
(d) Matured loans/advances from building societies	_____
8. TREASURY BILLS	_____
9. TREASURY BONDS	_____
10. FOREIGN TREASURY BILLS & BONDS	_____
11. NET LIQUID ASSETS (1-10)	_____
12. DEPOSIT BALANCES	
(a) (i) Deposits from parastatals including accrued interest	_____
(ii) Deposits from all other sources including Accrued interest	_____
(iii) Total deposits	_____
(b) Less:	
(i) Balances due to banks	_____
(ii) Balances due to financial institutions	_____
(iii) Balances due to mortgage finance companies	_____
(iv) Balances due to building societies	_____
(v) Total deductions	_____
(c) Net Deposit Liabilities	_____
13. OTHER LIABILITIES	
(a) Matured	_____
(b) Maturing within 91 days	_____
(c) Total Other Liabilities	_____
14. LIQUIDITY RATIO	
(a) Net Liquid Assets (1-10)	_____
(b) Total Short term Liabilities 12(c)+13(c)	_____
(c) Ratio of (a)/(b)	_____

ANALYSIS OF BALANCES DUE/TO/FROM OTHER BANKING INSTITUTIONS

I. DOMESTIC INSTITUTIONS

INSTITUTION	AMOUNT DUE TO	AMOUNT DUE FROM	NET
BANKS			
TOTAL			
FINANCIAL INSTITUTIONS	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			
MORTGAGE FINANCE COMPANIES	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			
BUILDING SOCIETIES	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			

ANALYSIS OF BALANCES DUE TO/FROM OTHER BANKING INSTITUTIONS

II. FOREIGN INSTITUTIONS

INSTITUTION	AMOUNT DUE TO	AMOUNT DUE FROM	NET
BANKS			
TOTAL			
FINANCIAL INSTITUTIONS	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			
MORTGAGE FINANCE COMPANIES	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			
BUILDING SOCIETIES	AMOUNT DUE TO	AMOUNT DUE FROM	
TOTAL			

Liquidity Coverage Ratio (LCR) Calculation**FORM CBK/PR5-3**

Institution:	
Financial Year:	
Start Date:	
End Date:	

Amount in KES. '000'

The LCR calculation	
HQLA	
Level 1 Assets	
Level 2 Assets	
Level 2A Assets	
Level 2B Assets	
Adjustment to stock of HQLA for 15% cap on Level 2B assets	
Adjustment to stock of HQLA for 40% cap on Level 2 assets	

Cash Outflows	
Retail deposits	
Wholesale Funding	
Additional requirements	
Committed credit and liquidity facilities	
Contractual obligations to financial institutions	
Trade Finance Instruments	
Total other contingent funding obligations	
Any other contractual cash outflows	
Total Cash Outflows	

Cash Inflows	
Secured lending inflows	
Committed facilities	
Inflows by counterparty	
Other cash inflows	
Total Cash Inflows	

Total Net Cash Outflows	
Liquidity Coverage Ratio (%)	

$$\text{Total net cash outflows} = \text{Total cash outflows} - \min[\text{total cash inflows}, 75 \text{ percent of gross outflow}]$$

Liquidity Coverage Ratio (LCR) - HQLA																			FORM CBK/PR5-3-1	
Institution:																				
Financial Year:																				
Start Date:																				
End Date:																				
Amount in KES. '000'																				
Stock of high quality liquid assets (HQLA)																				
Item	Market Value																	Weight	Weighted Amount	
	KES	USD		GBP		EUR		JPY		YEN		CHF		ZAR		OTHER FX Currencies	TOTAL			
Level 1 assets	Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	KES Equivalent	in KES			
Coins and banknotes (including qualifying cash items in the process of collection)																	-	1.00	-	
CBK reserves that can be drawn in times of stress:																				
At the CBK																	-	1.00	-	
At other Central Banks																	-	1.00	-	
Securities issued or guaranteed by the Government of Kenya (KES)																	-	1.00	-	
Securities issued or guaranteed by the Government of Kenya (USD)																	-	1.00	-	
Other eligible securities with a 0% risk weight:																				
Issued or guaranteed by sovereigns																	-	1.00	-	
Issued or guaranteed by central banks																	-	1.00	-	
Issued or guaranteed by PSEs																	-	1.00	-	
Issued or guaranteed by BIS, IMF, ECB, European Community, or MDBs																	-	1.00	-	
Other non-0% risk-weighted eligible sovereign or central bank securities:																			-	
Issued in domestic currencies in the country in which the liquidity risk is being taken or in the licensee's home country																	-	1.00	-	
Issued in foreign currencies, up to the amount of the licensee's stressed net cash outflows in that specific foreign currency stemming from the licensee's operations in the jurisdiction where the liquidity risk is taken																	-	1.00	-	
Total stock of Level 1 assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	
Level 2A assets																				
Level 2A qualifying securities issued or guaranteed by:																				
Sovereigns																	-	0.85	-	
Central banks																	-	0.85	-	
PSEs																	-	0.85	-	
MDBs																	-	0.85	-	
Level 2A qualifying non-financial corporate bonds																	-	0.85	-	
Total stock of Level 2A assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	
Level 2B assets																				
Corporate debt securities																	-	0.50	-	
Residential mortgage backed securities																	-	0.75	-	
Non-financial common equity shares																	-	0.50	-	
Total stock of Level 2B assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	
Stock of HQLA																				
Adjustment to stock of HQLA for 15% cap on Level 2B assets																			-	
Adjustment to stock of HQLA for 40% cap on Level 2 assets																			-	
Stock of HQLA after caps																			-	

Liquidity Coverage Ratio (LCR) - Outflows

FORM CBK/PR5-3-2

Institution:	
Financial Year:	
Start Date:	
End Date:	

Amount in KES. '000'

Cash outflows

Item	Amount																Outflow rate	Cash Outflows
	KES Local Currency	USD Foreign Currency	KES Equivalent	GBP Foreign Currency	KES Equivalent	EUR Foreign Currency	KES Equivalent	JPY Foreign Currency	KES Equivalent	YEN Foreign Currency	KES Equivalent	CHF Foreign Currency	KES Equivalent	ZAR Foreign Currency	KES Equivalent	OTHER FX Currencies KES Equivalent	TOTAL in KES	
Retail deposit run-off																		
Retail Term Deposits with residual maturity or withdrawal notice period > 30 days																	-	0.00
Stable Retail deposits																	-	
Qualifying demand deposits																	-	0.05
Qualifying saving deposits																	-	0.05
Qualifying time deposits																	-	0.05
Less Stable Retail deposits																		
Demand deposits																	-	0.10
Saving deposits																	-	0.10
Time deposits																	-	0.10
Total retail deposits outflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Wholesale Funding																		
Unsecured wholesale funding																		
Stable Small Business Customers																	-	0.05
Qualifying demand deposits																	-	0.05
Qualifying saving deposits																	-	0.05
Qualifying time deposits																	-	0.05
Less Stable Small Business Customers																		
Demand deposits																	-	0.10
Saving deposits																	-	0.10
Time deposits																	-	0.10
Term deposits with a remaining maturity of > 30 days																	-	0.00
Operational deposits generated by clearing, custody and cash management activities																		
Not covered by deposit insurance																	-	0.25
Covered by deposit insurance																	-	0.05
Funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks, and PSEs																		
Fully covered by Deposit Protection Fund																	-	0.20
Partially covered or not covered by deposit insurance																	-	0.40
Other legal entity customers																	-	1.00
Total Unsecured wholesale funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Secured Wholesale Funding																		
Backed by Level 1 assets or with central banks																	-	0.00
Backed by Level 2A assets																	-	0.15
Secured funding transactions with domestic sovereign, PSEs or multilateral development banks, not backed by Level 1 or 2A assets																	-	0.25
Backed by Level 2B assets																	-	0.50
All other Secured Funding Transactions																	-	1.00
Total Secured Wholesale Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Outflows Wholesale Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

Additional requirements																		
Derivative Cash Outflows																	-	1.00
Liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts																	-	1.00
Liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions, Level 1 assets																	-	0.00
Liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions, other assets																	-	0.20
Liquidity needs related to excess non-segregated collateral held by the licensee that could contractually be called at any time by the counterparty																	-	1.00
Liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted																	-	1.00
Liquidity needs related to contracts that allow collateral substitution to non-HQLA assets																	-	1.00
Loss of funding on asset-backed securities, covered bonds and other structured financing instruments																	-	1.00
Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities																	-	1.00
Total additional requirements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Drawdowns on committed credit and liquidity facilities																		
Committed credit and liquidity facilities to retail and small business customers																	-	0.05
Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs and MDBs																	-	0.10
Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and MDBs																	-	0.30
Committed credit and liquidity facilities extended to banks subject to prudential supervision																	-	0.40
Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries and beneficiaries																	-	0.40
Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries																	-	1.00
Committed credit and liquidity facilities to other legal entities (including SPVs), conduits and special purpose vehicles and other entities not included in the prior categories																	-	1.00
Total committed credit and liquidity facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contractual obligations to extend funds within a 30-day period																		
Obligations to financial institutions not captured elsewhere																	1.00	-
Trade Finance Instruments-Contingent Funding Obligations																		
Contingent funding obligations stemming from trade finance instruments																	-	0.05
Other contingent funding obligations																		
Unconditionally revocable "uncommitted" credit and liquidity facilities																	-	0.02
Guarantees and letters of credit unrelated to trade finance obligations																	-	0.10
Non-contractual obligations such as:																	-	-
<i>a. potential requests for debt repurchases</i>																	-	0.10
<i>b. structured products where customers anticipate ready marketability</i>																	-	0.10
<i>c. managed funds that are marketed with the objective of maintaining a stable value</i>																	-	0.10
Outflows from potential repurchases of outstanding debt obligations of issuers with an affiliated dealer or market maker																	-	0.10
Non-contractual obligations where customer short positions are covered by other customers' collateral																	-	0.50
Total other contingent funding obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other contractual cash flows																		
Any other contractual cash outflows																	-	1.00
Total Cash Outflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Liquidity Coverage Ratio (LCR) - Inflows																	FORM CBK/PR5-3-3	
Institution:																		
Financial Year:																		
Start Date:																		
End Date:																		
Amount in KES. '000'																		
Cash Inflows																		
Item		Amount															Inflow rate	Cash Inflows
		KES	USD		GBP		EUR		JPY		YEN		ZAR		OTHER FX Currencies	TOTAL		
		Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	KES Equivalent	in KES		
Secured Lending																		
Maturing secured lending transactions backed by the following collateral:																		
Level 1 assets																-	0.00	-
Level 2A assets																-	0.15	-
Level 2B assets																-	0.50	-
Margin lending backed by all other collateral																-	0.50	-
All other collateral																-	1.00	-
Collateral is used to cover short positions																-	0.00	-
Total secured lending inflows		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Committed facilities																		
Credit facilities, liquidity facilities and contingent funding facilities that an institution holds at other institutions																	0.00	-
Total committed facilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Inflows by counterparty																		
Retail and small business customer inflows																-	0.50	-
Wholesale inflows: non-financial counterparties (including non-financial corporates, sovereigns, MDBs, and PSEs)																-	0.50	-
Wholesale inflows: financial institution and central bank counterparties																-	1.00	-
Inflows from securities not included in the stock of HQLA																-	1.00	-
Operational deposits held at other financial institutions for clearing, custody, and cash management purposes																-	0.00	-
Balances held at other financial institutions in excess of operational deposits ("excess balances")																-	1.00	-
Non-performing loans																-	0.00	-
Total inflows by counterparty		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Other cash inflows																		
Derivatives net cash inflows																-	1.00	-
Other contractual cash inflows																-	0.50	-
Total other cash inflows		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
Total Cash Inflows																		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-

Net Stable Funding Ratio (NSFR)																		FORM CBK/PR5-4	
Institution:																			
Financial Year:																			
Start Date:																			
End Date:																			
Item	Amount																Factor	Weighted amount	
Available Stable Funding (ASF)	KES	USD		GBP		EUR		JPY		YEN		CHF		ZAR		Other FX Currencies			
	Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent		
Liabilities and capital instruments receiving a 100% ASF factor																			
Regulatory capital, before the application of capital deductions, excluding the proportion of Tier 2 instruments with residual maturity of less than one year																		100%	-
Any capital instrument not included in (1) that has an effective residual maturity of one year or more.																		100%	-
Total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more																		100%	-
Deferred tax liabilities and minority interest if the effective maturity is one year or greater																		100%	-
Retail deposits and small business customers																			
Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in KES																		95%	-
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in KES.																		90%	-
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency																		90%	-
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers in foreign currency																		80%	-
Wholesale funding																			
Funding with a residual maturity of less than one year provided by non-financial corporate customers																		50%	-
Operational deposits generated by Clearing, Custody and Cash Management Activities																		50%	-
Funding with residual maturity of less than one year from sovereigns, PSEs, and MDBs																		50%	-
Other funding not included in the above categories with residual maturity between six months to less than one year, including funding from central banks and banks																		50%	-
Deferred tax liabilities and minority interest if the effective maturity is between six months and less than one year																		50%	-
Other liabilities																			
All other liabilities and equity categories not included in the above categories																		0%	-
Other liabilities without a stated maturity																		0%	-
NSFR derivative liabilities net of NSFR derivative assets , if NSFR derivative liabilities are greater than NSFR derivative assets																		0%	-
ASF Total																			-

Required Stable Funding (RSF)																		
Coins and banknotes																	0%	-
All central bank reserves																	0%	-
All claims on central banks with residual maturities of less than six months																	0%	-
Unencumbered Level 1 assets, excluding assets receiving a 0% RSF as specified above																		
Marketable securities representing claims on or guaranteed by sovereigns, CBs, PSEs, BIS, IMF, ECB and EU, or MDBs with a 0% risk weight																	5%	-
Certain non-0% risk-weighted sovereign or CB debt securities as specified in the guideline																	5%	-
Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets																	10%	-
Unencumbered Level 2A assets as defined in the guideline																		
Marketable securities representing claims on or guaranteed by sovereigns, CBs, PSEs or MDBs that are assigned a 20% risk weight																	15%	-
Corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA-																	15%	-
Unencumbered Level 2B assets as defined in the guideline																		
Residential mortgage-backed securities (RMBS) with a credit rating of at least AA																	50%	-
Corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB-																	50%	-
Exchange-traded common equity shares not issued by financial institutions or their affiliates																	50%	-
Any HQLA as defined in the LCR that are encumbered for a period of between six months and less than one year																	50%	-
All loans to financial institutions and central banks with residual maturity of between six months and less than one year																	50%	-
Deposits held at other banks for operational purposes that are subject to the 50% ASF factor																	50%	-
All other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (ie natural persons) and small business customers, and loans to sovereigns and PSEs																	50%	-
Unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 50% or lower risk weight																	65%	-
Other unencumbered loans not included in the above categories, excluding loans to banks, with a residual maturity of one year or more that would qualify for a 50% or lower risk weight																	65%	-
Cash, securities or other assets posted as initial margin for derivative contracts																	85%	-
Other unencumbered performing loans that do not qualify for the 35% or lower risk weight and have residual maturities of one year or more, excluding loans to banks																	85%	-
Unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA																	85%	-
Physical traded commodities																	85%	-
All assets that are encumbered for a period of one year or more																	100%	-
NSFR derivative assets net of NSFR derivative liabilities, if NSFR derivative assets are greater than NSFR derivative liabilities																	100%	-
All other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities																	100%	-
20% of derivative liabilities (ie negative replacement cost amounts) before deducting variation margin posted.																	100%	-
Off-balance sheet exposures																		
Irrevocable and conditionally revocable credit and liquidity facilities to any client																	5%	-
Unconditionally revocable credit and liquidity facilities																	10%	-
Trade finance-related obligations (including guarantees and letters of credit)																	5%	-
Guarantees and letters of credit unrelated to trade finance obligations																	10%	-
Non-contractual obligations such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities.																	10%	-
RSF Total																		-
NET STABLE FUNDING RATIO (%)																		-

INSTRUCTIONS FOR COMPLETION OF THE FORM ON MATURITY ANALYSIS OF ASSETS AND LIABILITIES – FORM CBK/PR5-1

Assets and liabilities should be entered according to the remaining period to maturity.

A. ASSETS

1. Cash Reserves

Enter notes and coins (both local and foreign) held in the tills and vaults.

2. Balances with Central Bank

Enter all credit balances with Central Bank including the mandatory cash reserve, repos purchase and credit balance in any other current accounts maintained with Central Bank. They should be reported gross of accrued interest.

3. Balances due from Local Institutions and Building Societies

Enter balances and placements with domestic institutions and building societies according to their remaining period to maturity. They should be reported gross of accrued interest.

4. Balances due from banks abroad

Enter balances and placements with foreign institutions according to their remaining maturity. They should include accrued interest.

5. Kenya Government Treasury Bills

These should be reported at amortized cost and should be entered according to their respective remaining period to maturity.

6. Kenya Government Treasury Bonds

These should be reported at amortized cost if held to maturity or at fair value if held for trading purposes and should be entered according to their respective remaining period to maturity or when payment is expected.

7. Foreign Government Treasury Bills and Bonds

These are securities issued by other sovereign governments, other than the Government of Kenya. These should be reported at amortized cost if held to maturity or at fair value if held for trading purposes and should be entered according to their respective remaining period to maturity or when payment is expected.

8. Other investments

Enter equity and other local currency investments according to their respective maturity dates. Equity investments should be entered in column 8.

9. Other foreign assets

Enter other foreign assets including foreign equity investments and bonds according to their respective period remaining to maturity or when they can be repaid.

10. Local currency loans and advances

Enter net outstanding local currency loans, bills discounted and other loans. Loans should be entered according to their respective period remaining to maturity. Overdrafts should be spread out and entered in the appropriate time bands according to their respective expiry dates. Enter bills discounted in the appropriate time bands according to their respective due dates. Non-performing loans, overdrafts and bills discounted should be entered in appropriate time bands when repayment can be realistically expected. Ordinarily this should exceed one year unless the recovery process has started and the exact date of repayment is known. All past due bills should be treated as non-performing.

11. Foreign currency loans and advances

Enter net outstanding foreign currency loans, bills discounted and any other foreign currency facility. Loans should be entered according to their respective period remaining to maturity. Enter bills discounted in the appropriate time bands according to their respective due dates. Non-performing loans and bills discounted should be entered in appropriate time bands when repayment can be realistically expected. Ordinarily this should exceed one year unless the recovery process has started and the exact date of repayment is known. All past due bills should be treated as non-performing.

12. Fixed assets

Enter the net figure under item 12. These should include prepaid operating lease rentals.

13. Balances due from group companies

Enter balances due from group companies in appropriate time bands according to when payment is expected.

14. Other assets

Enter components of other assets under the appropriate time bands when receipts are realistically expected.

15. Total assets

Enter the sum of items 1 to 14 for each time band.

16. Off-Balance Sheet Assets

Enter off-balance sheet assets that have cash flow implications. Maturity bands will depend on management judgment of when the commitments are likely to be drawn.

B. LIABILITIES

1. Balances due to Central Bank of Kenya

Enter balances due to Central Bank including repo sales in appropriate time bands according to the remaining period to maturity or when repayment is expected. They should be reported gross of interest accrued.

2. Balances due to local institutions and Building Societies

Enter balances and deposits due to domestic institutions and building societies according to their remaining period to maturity and should be reported gross of interest accrued.

3. Balances due to banks abroad.

Enter balances and deposits due to banks abroad according to their remaining period to maturity.

4. **Local currency deposits**

Enter outstanding balances of local currency deposits including accrued interest in accordance with their respective remaining period to maturity. Demand account deposits should be entered under column 1. Call and seven days deposits should be entered under column 2, but if notice of withdrawal has been given, then enter the amount to be withdrawn under column 1. Savings accounts deposits should be entered under column 2.

5. **Local currency borrowings**

Enter outstanding balances of local currency borrowings including accrued interest in accordance with their respective remaining period to maturity taking into account rollover commitments.

6. **Foreign currency deposits**

Enter outstanding balances of foreign currency deposits including accrued interest in accordance with their respective remaining period to maturity. Demand account deposits should be entered under column 1. Call and seven days deposits should be entered under column 2, but if notice of withdrawal has been given, then enter the amount to be withdrawn under column 1. Savings accounts deposits should be entered under column 2.

7. **Foreign currency borrowings**

Enter outstanding balances of foreign currency borrowings including accrued interest in accordance with their respective remaining period to maturity taking into account rollover commitments.

8. **Other foreign liabilities**

Enter other foreign liabilities not specified elsewhere according to their respective period remaining to maturity or when repayment is expected.

9. **Balances due to group companies**

Enter balances due to group companies in appropriate time bands according to when repayment is expected.

10. Other liabilities

Enter components of other liabilities under the appropriate time bands when receipts are realistically expected.

11. Capital and Reserves

Enter appropriately recognizing that most of the components should ordinarily be entered in column 8.

12. Total liabilities

Enter the sum of items 1 to 11 for each time band.

13. Off-Balance Sheet Liabilities

Enter off-balance sheet liabilities that have cash flow implications. Maturity bands will depend on management judgment of when the commitment are likely to be called up.

COMPLETION INSTRUCTIONS FOR LIQUIDITY RETURN

FORM CBK/PR5-2

1. Notes and coins

a) Local

Enter all notes and coins on the institution's premises (including mobile units) which are legal tender in Kenya.

b) Foreign

Enter the Kenyan shillings equivalent of all convertible foreign currencies held by the institution. CBK mean rates as on the reporting dates should be applied in converting foreign currencies into Kenya shillings.

2. Balances with Central Bank of Kenya

a) Balances with Central Bank

Enter all credit balances with the Central Bank, including the mandatory cash reserve and credit balance in any other accounts maintained with the Central Bank including balances held in Repo accounts in respect of purchases from CBK.

- b) **Borrowing from Central Bank**
Enter all borrowings from the Central Bank; including accrued interest charged. Exclude balances due to CBK in respect of Repo sales to CBK.

All Central Bank balances should be reported as per institutions' ledger. Reconciliation between CBK statement balances and institution ledger will be submitted upon request by Central Bank of Kenya.

3. Balances with Domestic Commercial Bank

- a) **Balances with banks**
Enter the total of all balances (credit current accounts balances, overnight, call and time) held at other domestic commercial banks excluding uncleared effects. These balances should include accrued interest and should agree with the total analysed in the schedule attached to liquidity return.
- b) **Time Deposits with Banks**
Enter the amount of time deposits including accrued interest entered in 3(a) above whose maturities exceed 91 days.
- c) **Balances Due to banks**
Enter the total of balances due to commercial banks including accrued interest. This balance should agree with the total analyzed in the table attached to the liquidity return.
- d) **Overdrafts and matured loans and advances from domestic banks**
Enter the total of all overdrafts and any other debit balances on current accounts, matured loans and advances including letters of credit, guarantees and bonds given by commercial banks.

4. Balances with banks abroad

- a) **Balances with Banks Abroad**
Enter balances with banks abroad, including balances with correspondent banks and both related and unrelated foreign branches of the reporting institution. This

should include accrued interest but should exclude un-cleared effects. They should also agree with the total analyzed in the attached table.

b) **Due to Banks Abroad**

Enter the total of debit balances on current and/or correspondent accounts due to banks abroad including matured installments of loans and advances and accrued interest. These should agree with the balance analyzed in the attached table.

5. Balances with Financial Institutions

a) **Balances with Financial Institutions**

Enter the total of all balances (overnight, call and time) placed with the institution, excluding un-cleared effects. This should include accrued interest; and should agree with the total analyzed in the table attached.

b) **Time Deposits with Financial Institutions**

Enter the amount of time deposits including accrued interest entered in 5(a) above whose maturities exceed 91 days.

c) **Balances due to Financial Institutions**

Enter the total of balances received from financial institutions including accrued interest. This balance should agree with the total analyzed in the table attached and should exclude balances with institutions with maturities period exceeding 91 days.

d) **Matured Loans and Advances Received from Financial Institutions**

Enter the total of matured loans and advances including guarantees, bills discounted, promissory notes and performance bonds received from financial institutions.

6. Balances with Mortgage Finance Companies

a) **Balances with Mortgage Finance Companies**

Enter the total of all balances (overnight, call and time deposits) placed with the institution, excluding un-cleared effects but including accrued interest.

b) **Time Deposits with Mortgage Finance Companies**

Enter the amount of time deposits including accrued interest included in line 6(a) above whose maturities exceed 91 days.

c) **Balances due to Mortgage Finance Companies**

Enter the total of all balances including accrued interest (overnight borrowings, and call placements) received from mortgage finance companies.

This balance should agree with the total analyzed in the table attached to the liquidity return.

d) **Matured loans and advances from Mortgage Finance Companies**

Enter the total of matured loans and advances including guarantees, bills discounted, promissory notes and performance bonds received from mortgage finance companies.

7. Balances with Building Societies

a) **Balances with Building Societies**

Enter the total of all balances (call and time deposits) placed with building societies, including accrued interest. This balance should agree with the total analyzed in the schedule attached to the return.

b) **Time Deposits with Building Societies**

Enter the amount of time deposits including accrued interest included in line 7(a) above whose maturities exceed 91 days.

c) **Balances Due to Building Societies**

Enter the total of all balances (call and time deposits, loans and advances) received from other building societies including accrued interest. This balance should agree with the total analyzed in the table attached to the liquidity return.

d) **Matured Loans and Advances from Building Societies**

Enter the total of matured loans and advances received from building societies.

All deposits/placements with institutions/building societies under liquidation should not be reported as part of liquid assets.

8. Kenya Government Treasury Bills

Enter the amortized cost of all Kenya Government Treasury Bills investments by the reporting institution, net of encumbered Treasury Bills. Encumbered Treasury Bills are those pledged to secure any form of credit facility granted to the reporting institution. Treasury Bills held under repurchase agreements are encumbered and should not therefore be reported as part of liquid assets. Under the Repo agreement such treasury bills are to be

held until maturity after which they are repurchased. Repo bills cannot therefore be negotiated/discounted during the tenure of the agreement.

9. Kenya Government Treasury Bonds/ Bearer Bonds

Enter the amortized cost or fair value of all treasury bonds/bearer bonds including government contractor bonds traded in the Nairobi Stock Exchange acquired by the reporting institution directly from the government and its issuing agents and those discounted from third parties.

Treasury bills and bonds pledged as security for the Intra-Day Liquidity Facility (ILF) shall be considered as part of liquid assets in the computation of liquidity ratio. However, in the event of failure to settle by the reporting institution, the ILF shall convert to an overnight facility (Lombard). The underlying pledged securities shall therefore become encumbered and cease to qualify for inclusion in liquidity computation.

10. Foreign Government Treasury Bills and Bonds

Enter the amortized cost or fair value of Treasury bills and bonds issued by other sovereign governments.

These may only be included if they are:

- Freely marketable or readily discountable,
- The country of origin should not have any foreign exchange restrictions or controls.

11. Total Liquid Assets

Enter the sum of items 1 to 10 above

12. Total Deposit Liabilities

- a) Enter total deposits (Local and Foreign Currency) from all sources, including accrued interest, but excluding un-cleared effects.

b) Less:

i) Balances Due to banks

Enter the total of balances due to domestic and foreign commercial banks including accrued interest. This amount should agree with the sum of balances analyzed in the attached table.

- ii) **Balances Due to Financial Institutions**
Enter the total amount of balances due to both domestic and foreign financial institutions including accrued interest. This amount should agree with the sum of balances in the attached table.
- iii) **Balances Due to Mortgage Finance Companies**
Enter the total amount of balances due to both domestic and foreign mortgage finance companies including accrued interest. This amount should agree with the sum in the attached table.
- iv) **Balances Due to Building Societies**
Enter the total amount of balances due to domestic and foreign building Societies including accrued interest. This amount should agree with the sum in the attached table.
- v) **Total Deductions**
Enter the total of items b (i) to b (iv)
- c) **Net Deposit Liabilities:**
Enter the net amount of item 12(a) (iii) less sum of 12 (b) (v)

13. Other liabilities:

- a) **Matured:** Enter the sum of all matured liabilities (Including crystallized off-balance sheet commitments) that have cash flow implications and are due for payment
- b) **Maturing Liabilities:** Enter the sum of all other liabilities maturing within three months from the reporting date.

14. Liquidity Ratio

- a) Total of items (1 - 10)
- b) Sum of Group 12 (c) + 13 (c)
- c) Ratio of [(a)/ (b)] x 100%

- 15.** The liquidity return (PR 5-2) should be completed as per the instructions contained in this guideline, and should be submitted within five (5) clear working days after reporting dates of 10th, 20th and the last day of each month.

Annex I

Operational deposits generated by Clearing, Custody and Cash Management Activities

1. Qualifying activities in this context refer to clearing, custody or cash management activities that meet the following criteria:
 - 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;
 - It must be provided under a legally binding agreement to institutional customers; and
 - 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.
2. Qualifying operational deposits generated by such an activity are ones where:
 - The deposits are by-products of the underlying services provided by the banking organization and not sought out in the wholesale market in the sole interest of offering interest income.
 - The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer (not limited to paying market interest rates) to leave any excess funds on these accounts.
3. The following describe the types of activities that may generate operational deposits. A bank should assess whether the presence of such an activity does indeed generate an operational deposit as not all such activities qualify due to differences in customer dependency, activity, and practices:
 - A **clearing relationship** refers to a service arrangement that enables customers to transfer funds (or securities) indirectly through direct participants in domestic settlement systems to final recipients. Such services are limited to the following activities: transmission, reconciliation and confirmation of payment orders; daylight overdraft, overnight financing and maintenance of post-settlement balances; and determination of intra-day and final settlement positions.
 - 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 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 provision of custody related cash management services. Also included are the receipt of dividends and other

income, client subscriptions and redemptions. Custodial services – should furthermore extend to asset and corporate trust servicing, treasury, escrow, funds transfer, stock transfer and agency services, including payment and settlement services (excluding correspondent banking), and depository receipts.

- A **cash management relationship** refers to the provision of cash management and related services to customers. Cash management services, in this context, refer 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 ongoing operations. Such services are limited to payment remittance, collection and aggregation of funds, payroll administration, and control over the disbursement of funds.

Annex II

Cash Outflows: Additional Requirements for banks to increase liquidity needs and asset backed securities

1. **Increased liquidity needs related to downgrade triggers embedded in financing transactions, derivatives, and other contracts:** (100 percent of the amount of collateral that would be posted for, or contractual cash outflows associated with, any downgrade up to and including a 3-notch downgrade).
2. **Increased liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions:** (20 percent of the value of non-Level 1 posted collateral).
3. **Increased liquidity needs related to excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty:** 100 percent of the non-segregated collateral that could contractually be recalled by the counterparty because the collateral is in excess of the counterparty's current collateral requirements.
4. **Increased liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted:** 100 percent of the collateral that is contractually due but where the counterparty has not yet demanded the posting of such collateral.
5. **Increased liquidity needs related to contracts that allow collateral substitution to non-HQLA assets:** 100 percent of the amount of HQLA collateral that— should be substituted for non-HQLA assets without the bank's consent that have been received to secure transactions that have not been segregated.
6. **Increased liquidity needs related to market valuation changes on derivative or other transactions:** As market practice requires collateralization of mark-to-market exposures on derivative and other transactions, banks face potentially substantial liquidity risk exposures to these valuation changes. Inflows and outflows of transactions executed under the same master netting agreement – should be treated on a net basis. Any outflow generated by increased needs related to market valuation changes should be included in the LCR calculated by identifying the largest absolute net 30-day collateral flow realized during the preceding 24 months. The absolute net collateral flow is based on both realized outflows and inflows.
7. **Loss of funding on asset-backed securities, 8 covered bonds and other structured financing instruments:** The scenario assumes the outflow of 100 percent of

⁸ To the extent that sponsored conduits/SPVs are required to be consolidated under liquidity requirements, their assets and liabilities will be taken into account.

the funding transaction maturing within the 30-day period, when these instruments are issued by the bank itself (as this assumes that the re-financing market will not exist).

8. **Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities:** (100 percent of maturing amount and 100 percent of returnable assets).

Liquidity Coverage Ratio (LCR)

Form CBK/PR5-3-1



Institution:		
Financial Year:		Version 5.0.0
Start Date:		
End Date:		

Amount in KES. '000'

1. Stock of high quality liquid assets (HQLA)

Reference	Item	Market Value																	Weight	Weighted Amount
		KES	USD		GBP		EUR		JPY		YEN		CHF		ZAR		OTHER FX Currencies	TOTAL		
		Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	KES Equivalent	in KES		
1.1. Level 1 assets																				
1.1.1.	Coins and banknotes (including qualifying cash items in the process of collection)																	-	1.00	0
1.1.2.	CBK reserves that can be drawn in times of stress:																			
1.1.2.1.	At the CBK																	-	1.00	0
1.1.2.2.	At other Central Banks																	-	1.00	0
1.1.3.	Securities issued or guaranteed by the Government of Kenya (KES)																	-	1.00	0
1.1.4.	Securities issued or guaranteed by the Government of Kenya (USD)																	-	1.00	0
1.1.5.	Other eligible securities with a 0% risk weight:																			0
1.1.5.1.	Issued or guaranteed by sovereigns																	-	1.00	0
1.1.5.2.	Issued or guaranteed by central banks																	-	1.00	0
1.1.5.3.	Issued or guaranteed by PSEs																	-	1.00	0
1.1.5.4.	Issued or guaranteed by BIS, IMF, ECB, European Community, or MDBs																	-	1.00	0
1.1.6.	Other non-0% risk-weighted eligible sovereign or central bank securities:																	-		0
1.1.6.1.	Issued in domestic currencies in the country in which the liquidity risk is being taken or in the licensee's home country																	-	1.00	0
1.1.6.2.	Issued in foreign currencies, up to the amount of the licensee's stressed net cash outflows in that specific foreign currency stemming from the licensee's operations in the jurisdiction where the liquidity risk is taken																	-	1.00	0
Total stock of Level 1 assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		0
1.2. Level 2A assets																				
1.2.1.	Level 2A qualifying securities issued or guaranteed by:																			
1.2.1.1.	Sovereigens																	-	0.85	0
1.2.1.2.	Central banks																	-	0.85	0
1.2.1.3.	PSEs																	-	0.85	0
1.2.1.4.	MDBs																	-	0.85	0
1.2.2.	Level 2A qualifying non-financial corporate bonds																	-	0.85	0
Total stock of Level 2A assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
1.3. Level 2B assets																				
131	Corporate debt securities																	-	0.50	0
	Residential mortgage backed securities																	-	0.75	0
132	Non-financial common equity shares																	-	0.50	0
Total stock of Level 2B assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
1.4. Stock of HQLA																				
141	Adjustment to stock of HQLA for 15% cap on Level 2B assets																			0
142	Adjustment to stock of HQLA for 40% cap on Level 2 assets																			0
Stock of HQLA after caps																				

Liquidity Coverage Ratio (LCR)

Form CBK/PR5-3-3



Institution:		
Financial Year:		Version 5.0.0
Start Date:		
End Date:		

Amount in KES. '000'

2. Cash outflows

Reference	Item	Amount																Outflow rate	Cash Outflows
		KES	USD		GBP		EUR		JPY		YEN		CHF		ZAR		OTHER FX Currencies	TOTAL	
		Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	KES Equivalent	in KES	
2.1. Retail deposit run-off																			
2.1.1. Retail Term Deposits with residual maturity or withdrawal notice period > 30 days																		0.00	-
2.1.2. Stable Retail deposits																			
2.1.2.1. Qualifying demand deposits																		0.05	-
2.1.2.1. Qualifying saving deposits																		0.05	-
2.1.2.1. Qualifying time deposits																		0.05	-
2.1.3. Less Stable Retail deposits																			
2.1.3.1. Demand deposits																		0.10	-
2.1.3.1. Saving deposits																		0.10	-
2.1.3.1. Time deposits																		0.10	-
Total retail deposits outflows		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Wholesale Funding																			
Unsecured wholesale funding																			
2.2.1. Stable Small Business Customers																			
2.2.1.1. Qualifying demand deposits																		0.05	-
2.2.1.1. Qualifying saving deposits																		0.05	-
2.2.1.1. Qualifying time deposits																		0.05	-
2.2.2. Less Stable Small Business Customers																			
2.2.2.1. Demand deposits																		0.10	-
2.2.2.1. Saving deposits																		0.10	-
2.2.2.1. Time deposits																		0.10	-
2.2.3. Term deposits with a remaining maturity of > 30 days																		0.00	-
Operational deposits generated by clearing, custody and cash management activities																			
2.2.4. Not covered by deposit insurance																		0.25	-
2.2.4. Covered by deposit insurance																		0.05	-
Funding provided by non-financial corporates and sovereigns, central banks, multilateral development banks, and PSEs																			
2.2.5. Fully covered by Deposit Protection Fund																		0.20	-
2.2.5. Partially covered or not covered by deposit insurance																		0.40	-
2.2.6. Other legal entity customers																		1.00	-
Total Unsecured wholesale funding		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Secured Wholesale Funding																			
2.2.7. Backed by Level 1 assets or with central banks																		0.00	-
2.2.8. Backed by Level 2A assets																		0.15	-
2.2.9. Secured funding transactions with domestic sovereign, PSEs or multilateral development banks, not backed by Level 1 or 2A assets																		0.25	-
2.2.10. Backed by Level 2B assets																		0.50	-
2.2.11. All other Secured Funding Transactions																		1.00	-
Total Secured Wholesale Funding		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Outflows Wholesale Funding		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.3. Additional requirements																			
2.3.1. Derivative Cash Outflows																		1.00	-
2.3.2. Liquidity needs related to downgrade triggers embedded in financing transactions, derivatives and other contracts																		1.00	-
2.3.3. Liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions, Level 1 assets																		0.00	-
2.3.4. Liquidity needs related to the potential for valuation changes on posted collateral securing derivative and other transactions, other assets																		0.20	-
2.3.5. Liquidity needs related to excess non-segregated collateral held by the licensee that could contractually be called at any time by the counterparty																		1.00	-

2.3.6.	Liquidity needs related to contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted																	-	1.00	-
2.3.7.	Liquidity needs related to contracts that allow collateral substitution to non-HQLA assets																	-	1.00	-
2.3.8.	Loss of funding on asset-backed securities, covered bonds and other structured financing instruments																	-	1.00	-
2.3.9.	Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities																	-	1.00	-
Total additional requirements		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.4. Drawdowns on committed credit and liquidity facilities																				
2.4.1.	Committed credit and liquidity facilities to retail and small business customers																	-	0.05	-
2.4.2.	Committed credit facilities to non-financial corporates, sovereigns and central banks, PSEs and MDBs																	-	0.10	-
2.4.3.	Committed liquidity facilities to non-financial corporates, sovereigns and central banks, PSEs, and MDBs																	-	0.30	-
2.4.4.	Committed credit and liquidity facilities extended to banks subject to prudential supervision																	-	0.40	-
2.4.5.	Committed credit facilities to other financial institutions including securities firms, insurance companies, fiduciaries and beneficiaries																	-	0.40	-
2.4.6.	Committed liquidity facilities to other financial institutions including securities firms, insurance companies, fiduciaries, and beneficiaries																	-	1.00	-
2.4.7.	Committed credit and liquidity facilities to other legal entities (including SPVs), conduits and special purpose vehicles and other entities not included in the prior categories																	-	1.00	-
Total committed credit and liquidity facilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.5. Contractual obligations to extend funds within a 30-day period																				
2.5.1.	Obligations to financial institutions not captured elsewhere																		1.00	-
2.6. Trade Finance Instruments-Contingent Funding Obligations																				
2.6.1.	Contingent funding obligations stemming from trade finance instruments																	-	0.05	-
2.7. Other contingent funding obligations																				
2.7.1.	Unconditionally revocable "uncommitted" credit and liquidity facilities																	-	0.02	-
2.7.2.	Guarantees and letters of credit unrelated to trade finance obligations																	-	0.10	-
2.7.3.	Non-contractual obligations such as:																	-	-	-
	<i>a. potential requests for debt repurchases</i>																	-	0.10	-
	<i>b. structured products where customers anticipate ready marketability</i>																	-	0.10	-
	<i>c. managed funds that are marketed with the objective of maintaining a stable value</i>																	-	0.10	-
2.7.4.	Outflows from potential repurchases of outstanding debt obligations of issues with an affiliated dealer or market maker																	-	0.10	-
2.7.5.	Non-contractual obligations where customer short positions are covered by other customers' collateral																	-	0.50	-
Total other contingent funding obligations		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.8. Other contractual cash flows																				
2.8.1.	Any other contractual cash outflows																	-	1.00	-
Total Cash Outflows		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Liquidity Coverage Ratio (LCR)

Form CBK/PR5-3-2



Institution:		
Financial Year:		Version 5.0.0
Start Date:		
End Date:		

Amount in KES. '000'

3. Cash Inflows

Referen	Amount															Inflow rate	Cash Inflows
	KES	USD		GBP		EUR		JPY		YEN		ZAR		OTHER FX Currencies	TOTAL		
	Local Currency	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	Foreign Currency	KES Equivalent	KES Equivalent	in KES		
3.1. Secured Lending																	
3.1. Maturing secured lending transactions backed by the following collateral:																	
3 Level 1 assets															-	0.00	0
3 Level 2A assets															-	0.15	0
3 Level 2B assets															-	0.50	0
3 Margin lending backed by all other collateral															-	0.50	0
3 All other collateral															-	1.00	0
3 Collateral is used to cover short positions															-	0.00	0
Total secured lending inflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2. Committed facilities																	
Credit facilities, liquidity facilities and contingent																	
3.2. funding facilities that an institution holds at other institutions															-	0.00	0
Total committed facilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3. Inflows by counterparty																	
3.3. Retail and small business customer inflows															-	0.50	0
Wholesale inflows: non-financial counterparties																	
3.3. (including non-financial corporates, sovereigns, MDBs, and PSEs)															-	0.50	0
Wholesale inflows: financial institution and central bank counterparties															-	1.00	0
3.3. Inflows from securities not included in the stock of HQLA															-	1.00	0
Operational deposits held at other financial																	
3.3. institutions for clearing, custody, and cash management purposes															-	0.00	0
Balances held at other financial institutions in excess of operational deposits ("excess balances")															-	1.00	0
3.3. Non-performing loans															-	0.00	0
Total inflows by counterparty	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.4. Other cash inflows																	
3.4. Derivatives net cash inflows															-	1.00	0
3.4. Other contractual cash inflows															-	0.50	0
Total other cash inflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.5. Total Cash Inflows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Liquidity Coverage Ratio (LCR)

Form CBK/PR5-3



Institution:		Version 5.0.0
Financial Year:		
Start Date:		
End Date:		

Amount in KES. '000'

4. The LCR calculation

Reference	Item	Amount
4.1. HQLAs		
4.1.1.	Level 1 Assets	0
4.1.2.	Level 2 Assets	0
4.1.2.1	Level 2A Assets	0
4.1.2.2	Level 2B Assets	0
4.1.3.	Adjustment to stock of HQLA for 15% cap on Level 2B assets	0
4.1.4.	Adjustment to stock of HQLA for 40% cap on Level 2 assets	0
Total adjusted stock of HQLA		0
4.2. Cash Outflows		
4.2.1.	Retail deposits	0
4.2.2.	Wholesale Funding	0
4.2.3.	Additional requirements	0
4.2.4.	Committed credit and liquidity facilities	0
4.2.5.	Contractual obligations to financial institutions	0
4.2.6.	Trade Finance Instruments	0
4.2.7.	Total other contingent funding obligations	0
4.2.8.	Any other contractual cash outflows	0
Total Cash Outflows		0
4.3. Cash Inflows		
4.3.1.	Secured lending inflows	0
4.3.2.	Committed facilities	0
4.3.3.	Inflows by counterparty	0
4.3.4.	Other cash inflows	0
Total Cash Inflows		0
4.4. Net Cash Outflows		0
4.5. Liquidity Coverage Ratio (%)		0%

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{ECO} - \min(\text{ECI}, 25\% \text{ECO})}$$