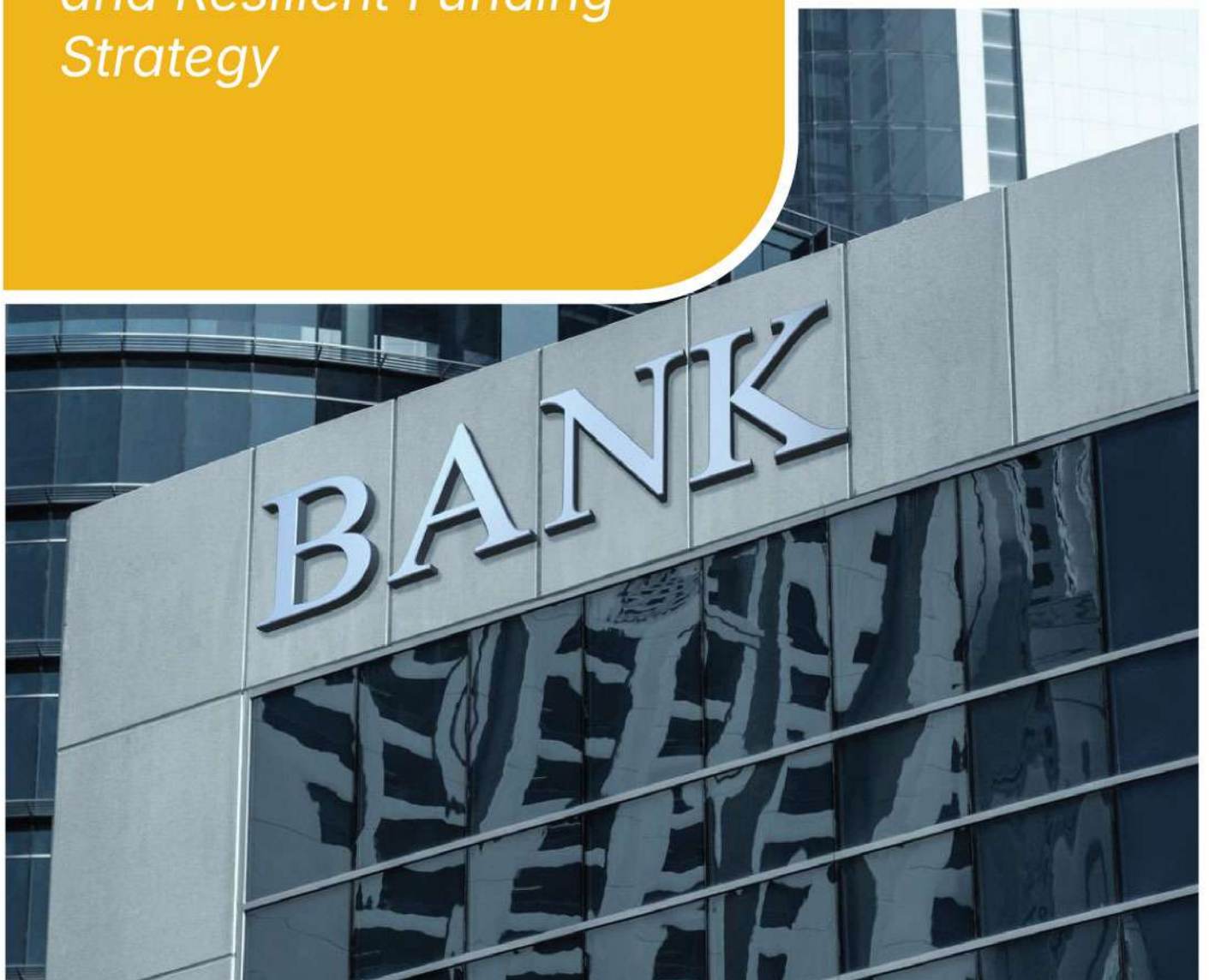


Issue 2

Funding Fortress -

*Building a Diversified
and Resilient Funding
Strategy*



As part of our ILAAP whitepaper series, a few days back, we published "ILAAP Unpacked: A Strategic Guide for UAE Banks", wherein a comprehensive exploration of the Internal Liquidity Adequacy Assessment Process (ILAAP) within the UAE regulatory landscape was covered. That paper demystified regulatory expectations, clarified governance and risk management requirements, and positioned ILAAP not merely as a compliance exercise but as a strategic framework for forward-looking liquidity planning.

Building on that foundation, our current issue, "Funding Fortress: Building a Diversified and Resilient Funding Strategy", builds on the ILAAP series by focusing on funding strategy as a practical and strategic tool. Based on real-world funding practices, it illustrates how banks can create and operationalize a funding framework that closely aligns with their business strategy, financial forecasts, prevailing macroeconomic conditions, and results from liquidity stress testing outcomes.

A strong funding strategy is the foundation of a bank's liquidity resilience. While regulatory liquidity ratios provide important safeguards, they represent a point-in-time snapshot and cannot ensure funding stability under changing market conditions on a standalone basis. Historical global and regional stress events have highlighted that Banks with diverse, proactive, and well-managed funding strategies are generally better at handling shocks, maintaining high market confidence, and servicing their customers during stress.



A. Strategic Plan *of the Bank*

A Bank's funding strategy must be firmly anchored to its overall business strategy. Decisions relating to asset growth, funding mix, sectoral focus, and geographic expansion directly impact the funding needs, funding stability, and funding risk.



From a funding perspective, the strategy should answer three basic questions on funding requirements.:

- **How much?**
- **For what tenor?**
- **How stable should it be?**

Banks that are in a rapid expansion phase or have higher exposure to long-term assets must ensure that funding sources are sufficiently stable and scalable. Supervisors increasingly expect banks to ensure that funding strategies are deliberate, Board-approved outcomes of strategic planning rather than reactive responses to short-term funding pressures.

B. Funding Strategy & its Alignment with *The Forecasted Financial Statements*

A credible funding strategy must be fully aligned with the Bank's forward-looking financial projections. Balance sheets, income statements, and cash-flow forecasts provide the basis for identifying future funding needs and assessing whether planned funding sources are sustainable.

In practice, successful alignment with financials requires the Banks to:

- Link asset growth projections to corresponding funding sources.
- Reflect funding costs, maturities, and mix in profitability forecasts.
- Ensure that planned funding supports liquidity buffers and regulatory ratios.
- Plan maturity such that it appropriately supports maturity mismatch risk for both short and long term.

Banks typically look at funding requirements from two angles: "Net" and "Gross".

The "Net" view captures the additional funding needed to support Balance Sheet growth.

The "Gross" view goes a step further; it factors in deposit churn, run-offs, roll-overs, and other expected reductions in balances.



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C. Alignment of Funding Strategy with *Macroeconomic Environment*

Funding strategies must be responsive to the macroeconomic environment in which Banks operate. Interest rate regime, market liquidity conditions, monetary policy stance, and regional and global geopolitical developments directly influence the funding availability, pricing, and customer behavior.

An effective funding strategy, therefore, considers the following:

1 *Currency movements*
Currency movements and cross-border funding risks.

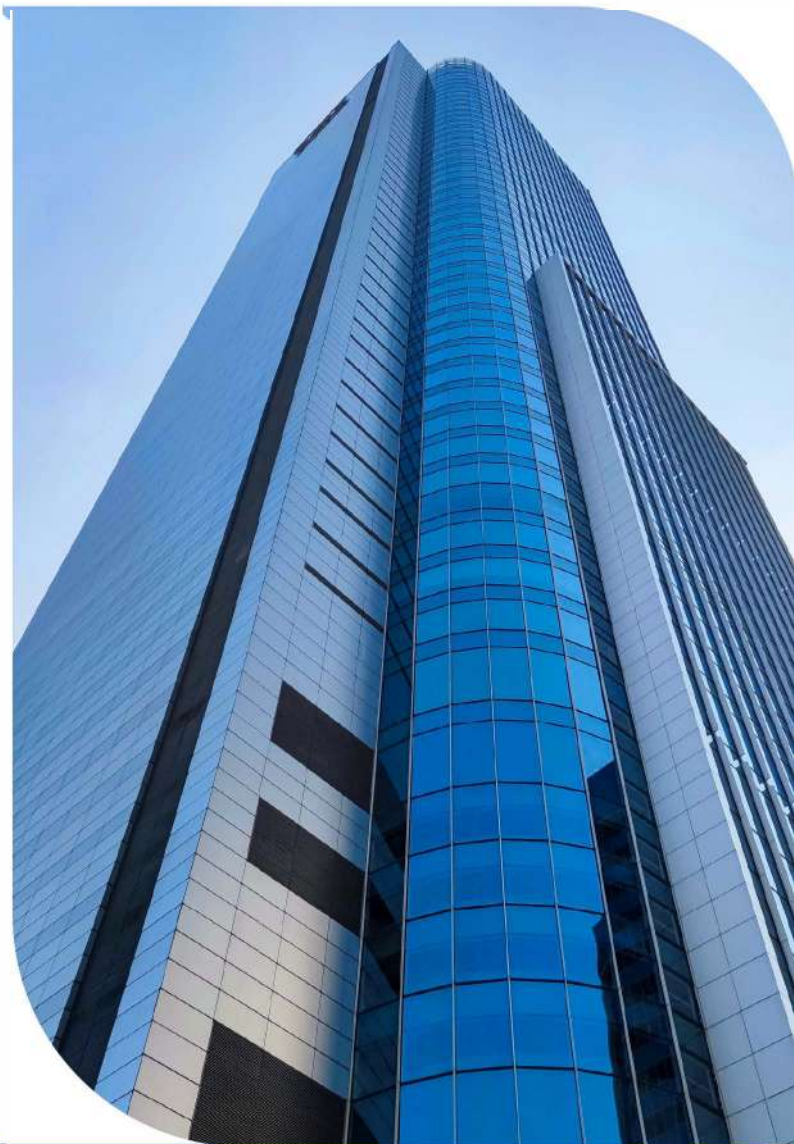
Interest Rate Cycles **2**
Interest rate cycles affect deposit stability and funding costs

3 *Competitive Dynamics*
Competitive dynamics in retail and corporate deposits.

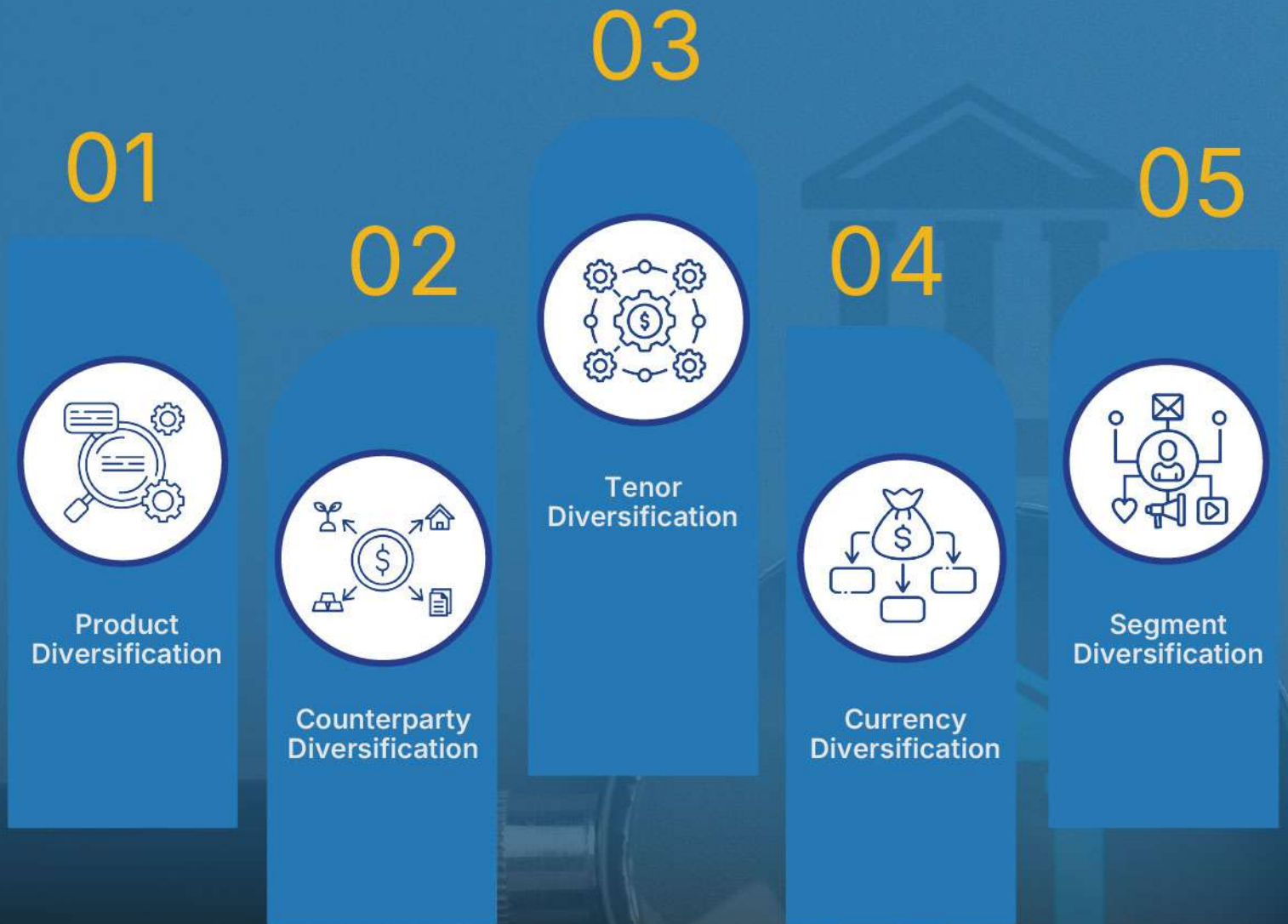
Market Liquidity **4**
Market liquidity and access to Capital markets are important.

During periods of tightening financial conditions, banks that rely heavily on market-based or confidence-sensitive funding face higher rollover and pricing risk. Conversely, such conditions can mask underlying structural weaknesses.

Regulators require banks to assess how adverse macroeconomic conditions could adversely impact funding access and to demonstrate contingency measures that remain credible under stress. This highlights the importance of building structural resilience during stable periods rather than a post-facto response only after conditions worsen.



D. Different Ways to Assess a Diversified Funding Plan- *Diversification Basis Segments, Products, Tenor, and Currencies*



Diversification is a key pillar of funding resilience, but effective diversification goes beyond simply increasing the number of funding sources. Effective diversification can be assessed across various dimensions.

Below are the ways in which the funding diversification can take place:

Product and Instrument Diversification

A Bank relying too heavily on one type of funding (non-maturity deposits, short-term wholesale funding, etc.) is exposed if customer behaviour or market conditions change abruptly. To mitigate this risk, banks should diversify their funding across products. Product concentration risk is mitigated by a well-diversified range of non-maturity deposits, term deposits, wholesale funding, secured funding, and capital market instruments.

Tenor Diversification

A clustered maturity profile exposes banks to refinancing pressure and "cliff risk," where large volumes of funding fall due at the same time. This risk can be reduced by maintaining a well-staggered maturity profile that spreads refinancing obligations over time and reduces reliance on short-term rollovers.

Counterparty Diversification

Reliance on a small number of large depositors can create significant run-off risk, particularly under idiosyncratic or reputational stress events. To effectively manage this risk, Banks are required to regularly monitor top depositor concentration, set concentration thresholds, and conduct behavioral studies to assess depositor stability.

Currency Diversification

While raising funds in foreign currency helps to facilitate global trade and operations, it also involves additional risk, which grows if markets come under stress. Funding can suddenly dry up, and costs jump when you swap one currency for another. Banks should manage this risk through currency matching, limits on net open positions, and regular stress testing of mismatches across different currencies.

Segment and Geographic Diversification

Over-reliance on a specific segment, such as corporate, retail, SME, or treasury deposits, or a particular geography, can increase funding volatility during sector-specific stress events. Diversifying funding across customer segments and geographic areas enhances stability and reduces dependency on any single funding channel or region.

E. Linkage to Liquidity Ratios and *Funding Requirements in BAU and Stress*

Funding strategy and liquidity ratios are interlinked. While metrics such as LCR, NSFR, ELAR, ASRR, and internal survival horizons are important diagnostics, they are not the only essential elements or conclusive of a bank's resilience under stress.

In a BAU environment, this requires a funding strategy that keeps these regulatory ratios above minimum levels, and with a comfortable buffer.

Banks need to take a proactive approach to managing regulatory ratios in a forward-looking manner by ensuring that asset growth, funding mix, and tenor structure lead to projected ratio outcomes in line with regulatory requirements

Regulators expect banks to assess whether their funding would remain adequate and available under institution (Bank) specific, market-wide, and combined stress scenarios.

Stress factors may include accelerated deposit withdrawals from retail, wholesale, and interbank customers, reduced market access, increased collateral requirements, or reputational pressures. By translating stress outcomes into funding requirements,

- banks move from static ratio compliance to dynamic funding preparedness
- with a clear understanding of how much funding is needed
- where it can realistically be sourced
- and how quickly it can be mobilized.

Apply stress Assumptions

1

Apply stress assumptions to deposit run-off, roll-over Rates, and wholesale funding access to understand potential funding gaps.

Identify incremental needs

2

Identify incremental funding needs arising under stress to plan for potential shortfalls.

Assess Usability

3

Assess the usability of liquidity buffers and contingency funding actions to ensure readiness.



Beyond stress assessment, it is important to understand how different funding segments structurally influence regulatory liquidity ratios prescribed by the CBUAE. Each funding source is treated differently under LCR, NSFR, ELAR, and ASRR frameworks based on its stability, contractual tenor, and regulatory risk weights. A sound funding strategy, therefore, evaluates not only funding availability and cost, but also its regulatory efficiency and stability contribution under both BAU and stressed conditions.

The diagram shows the impact of different funding sources on various liquidity ratios:

Impact of Funding Sources on Liquidity Ratios

Funding Sources	LCR impact	NSFR impact	ELAR impact	ASRR impact
Retail NMD	Strongly positive	Strongly positive	Positive	Positive
Corporate NMD	Moderately positive	Moderately positive	Positive	Positive
Retail Term Deposits	Limited short-term LCR benefit	Positive	Positive	Positive
Corporate Term Deposits	Limited LCR benefit	Positive	Positive	Positive
Wholesale short-term funding	Limited LCR benefit	Neutral	Positive	Neutral
Long-term capital Market Issuance	Imigiate LCR benefit	Strongly Positive	Moderately Positive	Strongly Positive
Secured Funding (Repo)	Neutral	Neutral	Neutral	Neutral
Equity/ Tier 1 Capital	Indirect or conditional benefit	Very Strongly Positive	Moderately Positive	Strongly Positive

By aligning funding decisions with projected LCR, NSFR, ELAR, and ASRR outcomes under both BAU and stressed conditions, banks ensure that regulatory compliance becomes a natural outcome of sound structural funding planning rather than a reactive adjustment exercise.



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You may refer to our previously published whitepapers as part of our ILAAP series by visiting our official website www.aptivaa.com. Our previous publication was on **7th April 2026 - ILAAP Unpacked : A strategic guide for UAE banks**

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Disclaimer

This paper offers a high-level perspective on funding strategy and its integration within the ILAAP, consistent with CBUAE regulatory expectations. It is not intended to represent the official views of the CBUAE nor to substitute regulatory guidance. Institutions should consult a qualified professional advisor before making any decision or taking any action.