

Introduction

In October 2015, the Board of Directors of Central Bank of Kuwait (CBK) approved the guidelines on the implementation of the Net Stable Funding Ratio (NSFR) to be applied to banks operating in Kuwait. The guidelines were part of the CBK's implementation of Basel III reforms.

The main objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have sufficient level of stable funding in relation to their assets and commitments. The NSFR thus promotes banks to rely on funding from stable sources and long-term borrowing in order to reduce the risks of disruptions which might impact the bank's liquidity position.

The Available Stable Funding (ASF) figure is measured according to the relative stability of funding, based on their duration and behavioural characteristics of funding sources. For instance, capital and deposits from retail household sources are considered more stable than wholesale funding. Moreover, long-term funding is generally assigned higher stability weights relative to short-term funding.

The Required Stable Funding (RSF) figure is measured based on the liquidity, quality and tenor of assets and contingent exposures. Generally, short-term lending and highly-liquid assets require lower levels of stable funding to support.

The NSFR is reported and monitored at three organizational levels: *Local level* (NBK Kuwait excluding its overseas branches), *Bank-wide level* including NBK Kuwait and overseas branches (NBK SAKP) and *Group Level* [including all overseas branches and subsidiaries (NBK Group)].

Results Analysis and Main Drivers

NBK maintained comfortable stable funding buffers during the three months ending 30th September, 2024. Available Stable Funding at NBK Group level as of end of 30th September was around KD 23.6 billion against KD 21.6 billion of Required Stable Funding, resulting in NSFR of 109.72%. Despite the impact of global geopolitical tensions on the global economy and financial markets in the third quarter, there was no adverse effect on the Bank's NSFR position.

The main drivers behind the Available Stable Funding are the adequate capital base, sizable Retail deposit base, and long-term funding from non-financial companies and institutional clients. The capital base (including Tier-1 & Tier- 2 Capital Security) formed around 19%, retail deposits (including deposits from small-sized business customers) formed 46%, and wholesale funding formed 31% of the total Available Stable Funding, after applying the relevant weights.

The Required Stable Funding comprised primarily lending to companies, businesses, corporations, retail clients and financial institutions.

The stock of High-Quality Liquid Assets (HQLA), which includes cash and reserve balances with the Central Bank of Kuwait (CBK) and other central banks, government debt issuances in domestic and foreign currencies as well as debt issuances by highly-rated companies stood at KD 8.32 billion (before applying the RSF factors). Due to their high quality and liquid characteristic, these assets require no or low amount of stable funding. Accordingly, the HQLA's constituted only 6.24% of the Required Stable Funding after applying the relevant weights.

"Performing" loans constituted 79.41% of the total RSF after applying the relevant weights.

Non-HQLA investments, contingent funding obligations, such as committed credit facilities, guarantees and letters of credit (LCs), and other assets, constituted the remaining 15.71% of the Required Stable Funding.

Net Stable Funding Ratio Disclosure – 30th September 2024

Quantitative information on the Net Stable Funding Ratio is provided in the table below. The values are as of 30th September 2024 for NBK Group.

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				"Value in KWD 000"
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	• <i>Regulatory Capital</i>	4,310,694	-	-	241,231	4,551,924
3	• <i>Other Capital Instruments</i>	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	• <i>Stable deposits</i>	-	126,942	14,217	24,729	158,830
6	• <i>Less-stable deposits</i>	-	10,413,586	1,008,264	349,023	10,628,689
7	Wholesale funding:					
8	• <i>Operational deposits</i>	-	1,080,332	-	-	540,166
9	• <i>Other wholesale funding</i>	-	16,977,284	1,654,838	1,094,527	6,705,026
10	Other liabilities:					
11	• <i>NSFR derivative liabilities</i>	-	-	-	-	-
12	• <i>All other liabilities not included in the above categories</i>	402,719	1,081,805	167,402	636,064	1,026,800
13	Total ASF	4,713,413	29,679,950	2,844,721	2,345,574	23,611,435
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	7,991,551	-	332,863	-	1,342,110
15	Deposits held at other financial institutions for operational purposes	8,634.13	-	-	-	4,317
16	Performing loans and securities:					
17	• <i>Performing loans to financial institutions secured by Level 1 HQLA</i>	--	-	-	-	-
18	• <i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	--	3,123,935	261,447	945,293	1,544,607
19	• <i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	-	9,720,389	1,709,060	12,501,359	15,251,650
20	- <i>With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines</i>	-	-	-	448,667	291,633
21	• <i>Performing residential mortgages, of which:</i>	--	--	--	-	-
22	- <i>With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio – Basel III Guidelines</i>	--	--	--	-	-
23	• <i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	--	--	--	789,808	671,337
24	Other assets:					
25	<i>Physical traded commodities, including gold</i>	-	--	--	--	-
26	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	-	--	--	--	-
27	<i>NSFR derivative assets</i>	86,803	--	--	--	86,803
28	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	60,097	--	--	--	60,097
29	<i>All other assets not included in the above categories</i>	951,972	825,991	286,829	547,344	1,936,100
30	Off-balance sheet items	3,091,703	6,332,415	1,645,092	1,369,612	621,941
31	Total RSF	12,190,760	20,002,730	4,235,290	16,153,523	21,519,069
32	NSFR (%)					109.72%

¹²Quarterly statement.