

Press Statement of His Excellency The Governor of the Central Bank of Kuwait

His Excellency the Governor of the Central Bank of Kuwait (CBK), Dr. Mohammad Y. Al-Hashel stated that in line with CBK policy to implement the full package of the standards issued by Basel Committee For Banking Supervision "BCBS", i.e. Basel III set of regulatory reforms, the CBK Board of Directors approved, in its session held on 25th October 2015, the "Net Stable Funding Ratio (NSFR)" guidelines for both conventional and Islamic banks, including the branches of the foreign banks operating in the State of Kuwait.

His Excellency the Governor further stated that the CBK Board of Directors had approved Basel III Capital Adequacy Ratio (Risk-based Capital Standard) in June 2014, Leverage Ratio in October 2014 and Liquidity Coverage Ratio (LCR) in December 2014. Insofar as the CBK completed the adoption and implementation of the Basel III set of regulatory reforms, the State of Kuwait was in the forefront of countries applying international standards issued by BCBS post the global financial crisis so as to enhance financial stability within the domestic banking system considering the lessons learned from the crisis.

NSFR requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, thus reducing reliance on less stable, short-term sources of funding, and to ensure that their stable funding profile is consistent with the asset/liability structure of each bank.

NSFR defines the Available Stable Funding (ASF) as the funding sources for the bank's activities under the capital and liabilities side of each bank, based on the applied ASF factor expressed as a ratio representing the composition and the degree of stability of these sources. The applied ASF factor ranges between 100% (the most stable) to 0% (the least stable).

In addition, NSFR defines the Required Stable Funding "RSF" as the use of funding for on- and off-balance sheet activities under the assets side corresponding to a stable funding factor calculated on a bank's individual RSF with values ranging between 100% (factor for lending above one year) and 0% (factor of banks' reserves with CBK).

The minimum required NSFR is calculated as a percentage of ASF to RSF that should not be less than 100%, as suggested by the BCBS. In this context, in accordance with the Basel guidelines and the other international practices, CBK

guidelines allow banks to apply the minimum required ratio of 100% effective from the beginning of 2018.

Furthermore, banks are required to start reporting NSFR to the CBK as from 1st January 2016. Until the official implementation of NSFR guidelines, banks will have sufficient time to upgrade their systems, revise their methodologies of asset/liability management, and make relevant changes to their sources and uses of fund structures in accordance with the new guidelines.

His Excellency the Governor indicated that for those interested in the banking and financial business, the detailed NSFR guidelines are now available on the CBK Website.

Dr. Al-Hashel concluded his statement by asserting that the CBK would continue in its efforts to develop banking supervision processes in line with the international best practices with the aim of promoting domestic financial stability.

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