

BANKING SECTOR STABILITY

WHY IT MATTERS AND WHERE WE STAND

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**DISCLAIMER:
VIEWS EXPRESSED HERE ARE PERSONAL**

my opinions are my own

OUTLINE

Banking Sector Stability

- Why it matters

Banking Sector in Kuwait

- Broader Trends

Banking Sector Stability; An Assessment

- Asset Quality
- Liquidity
- Profitability
- Solvency & Resilience

HEY, I'M CONFUSED!
IS THIS THE LINE FOR THE NEW iPhone
OR IS THIS A RUN ON A BANK?!



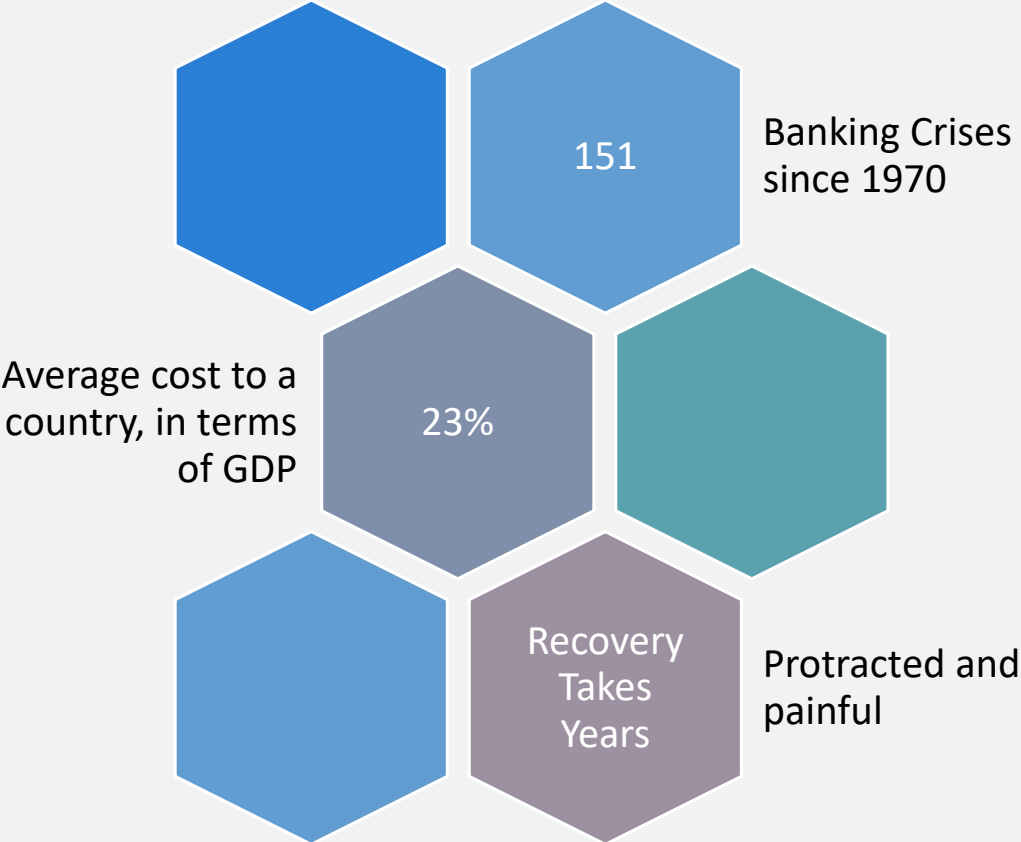
DAVE COVERLY
COLUMBIAN
DAILY TRIBUNE 7/19

CAGLECARTOONS.COM

BANKING STABILITY

Why Should We Care?

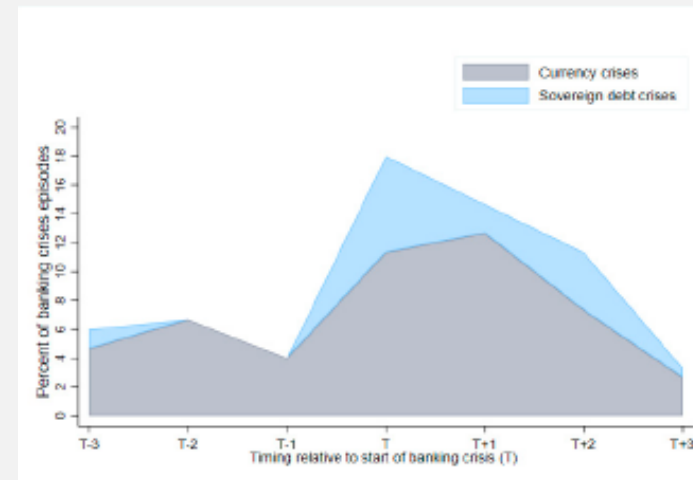
BANKING CRISES ARE COMMON, COSTLY, AND PROTRACTED



BANKS ARE CENTRAL TO MANY CRISIS

Year	Crisis	Peak to Trough Loss		Crisis Type				
		UK	US	Asset Bubble	Sovereign Crisis	Currency Crisis	Inflation Crisis	Banking Crisis
1720	South Sea Bubble	80%	-	x				x
1825	The Country Banking Crisis	43%	3%	x	x			x
1845	Railway Mania Bubble UK	9%	5%	x	x			
1857	Railroad Mania Bubble US	13%	23%	x				x
1866	Collapse of Overend and Gurney	7%	6%					x
1873	Long Depression	33%	47%		x			x
1890	Baring Bank Crisis	9%	42%	x		x		x
1907	US 'Bankers' Panic'	19%	26%	x				x
1929	Wall Street Crash	52%	85%	x		x		x
1983	Latin American Debt Crisis	5%	20%		x	x	x	x
1987	Black Monday	31%	30%					x
1997	Asian Crisis	12%	6%	x	x	x	x	x
2008	Great Financial Crisis	44%	48%	x	x			x

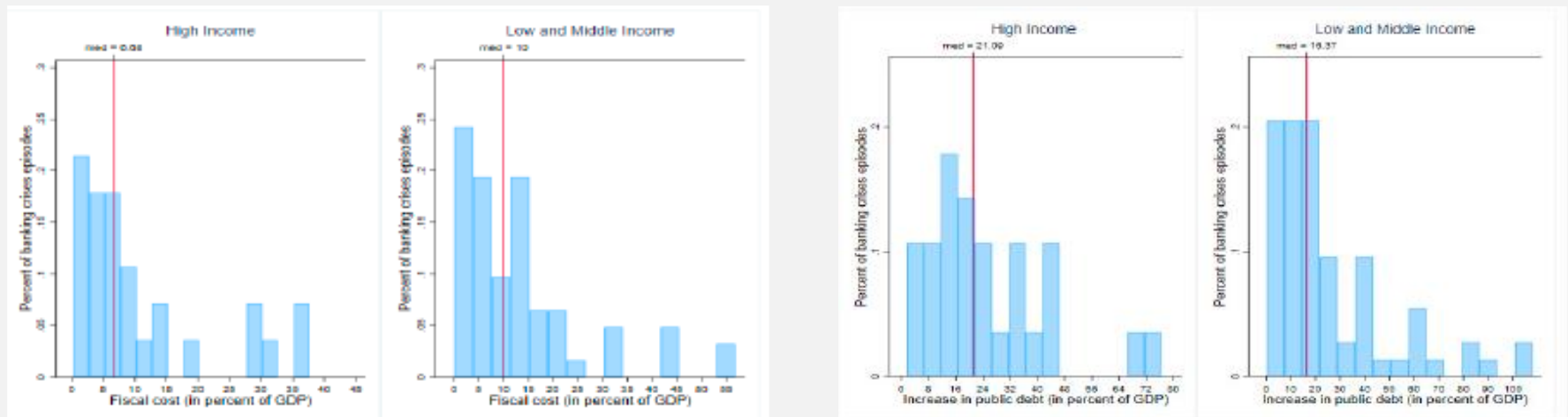
Source: <http://www.risk.jbs.cam.ac.uk>



BANKING CRISES ARE COSTLY: HIGH FISCAL COST

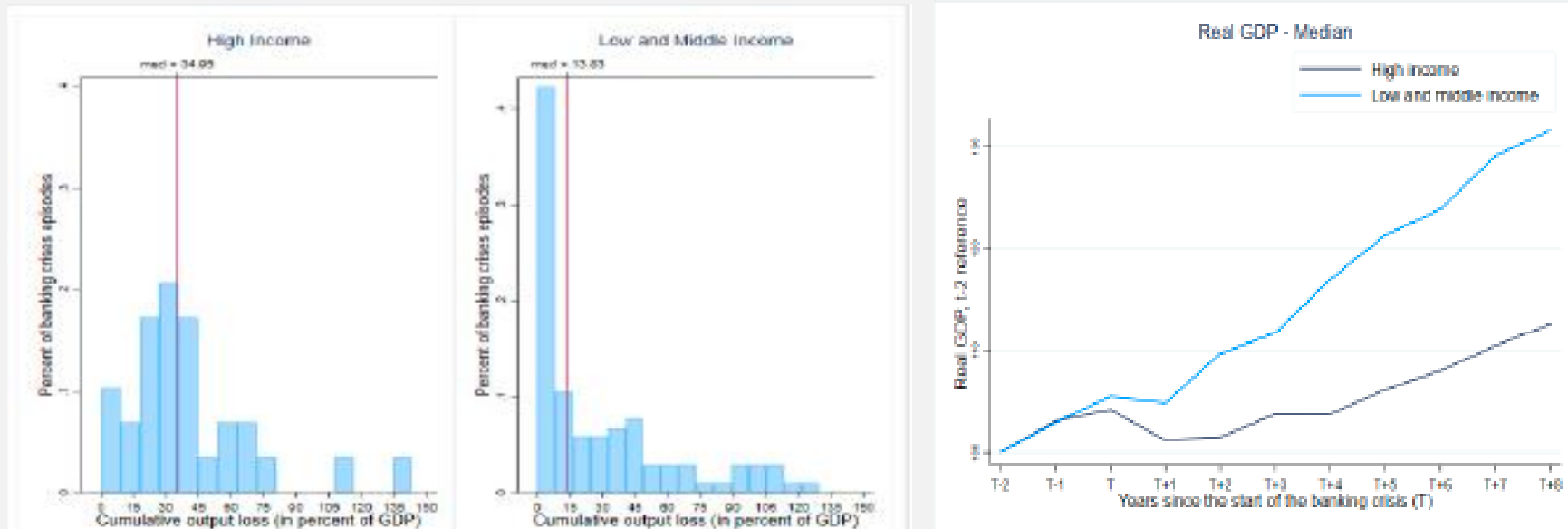
Gross Fiscal Costs

Increase in Public Debt



Source: Laeven & Valencia (2018)

BANKING CRISES ARE COSTLY : OUTPUT LOSS AROUND THE BANKING CRISIS

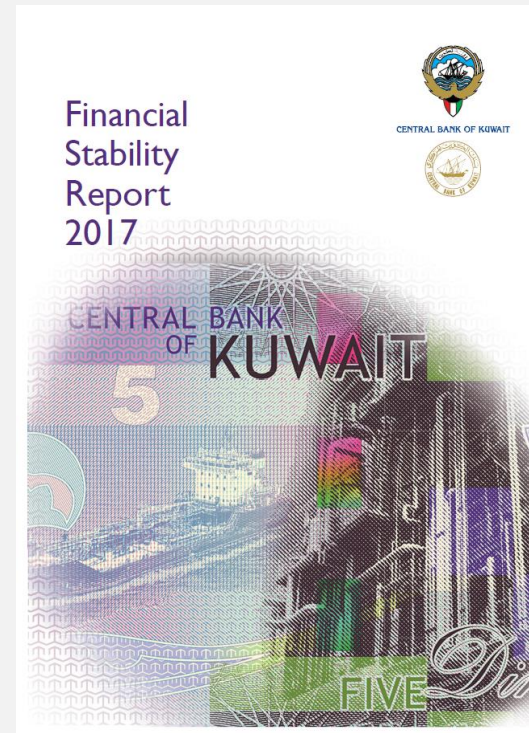
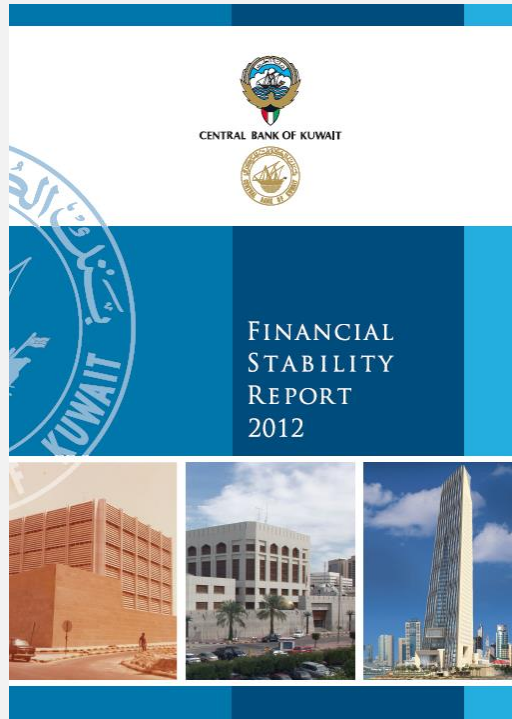


Source: Laeven & Valencia (2018)



BANKING SECTOR IN KUWAIT

FINANCIAL STABILITY REPORT (FSR)



*Rest of the presentation is based on my work, as the Principle Author, of our last six flagship Financial Stability Reports (from 2012-17).

FINANCIAL STABILITY REPORT (FSR)

Banking Sector

- Financial Intermediation
- Risk Analysis
- Profitability, Solvency and Resilience

Domestic Markets

- Money Market
- FX Market
- Boursa Kuwait
- Real Estate Market

Payment System

- Retail Payment System
- Large Scale Payment System

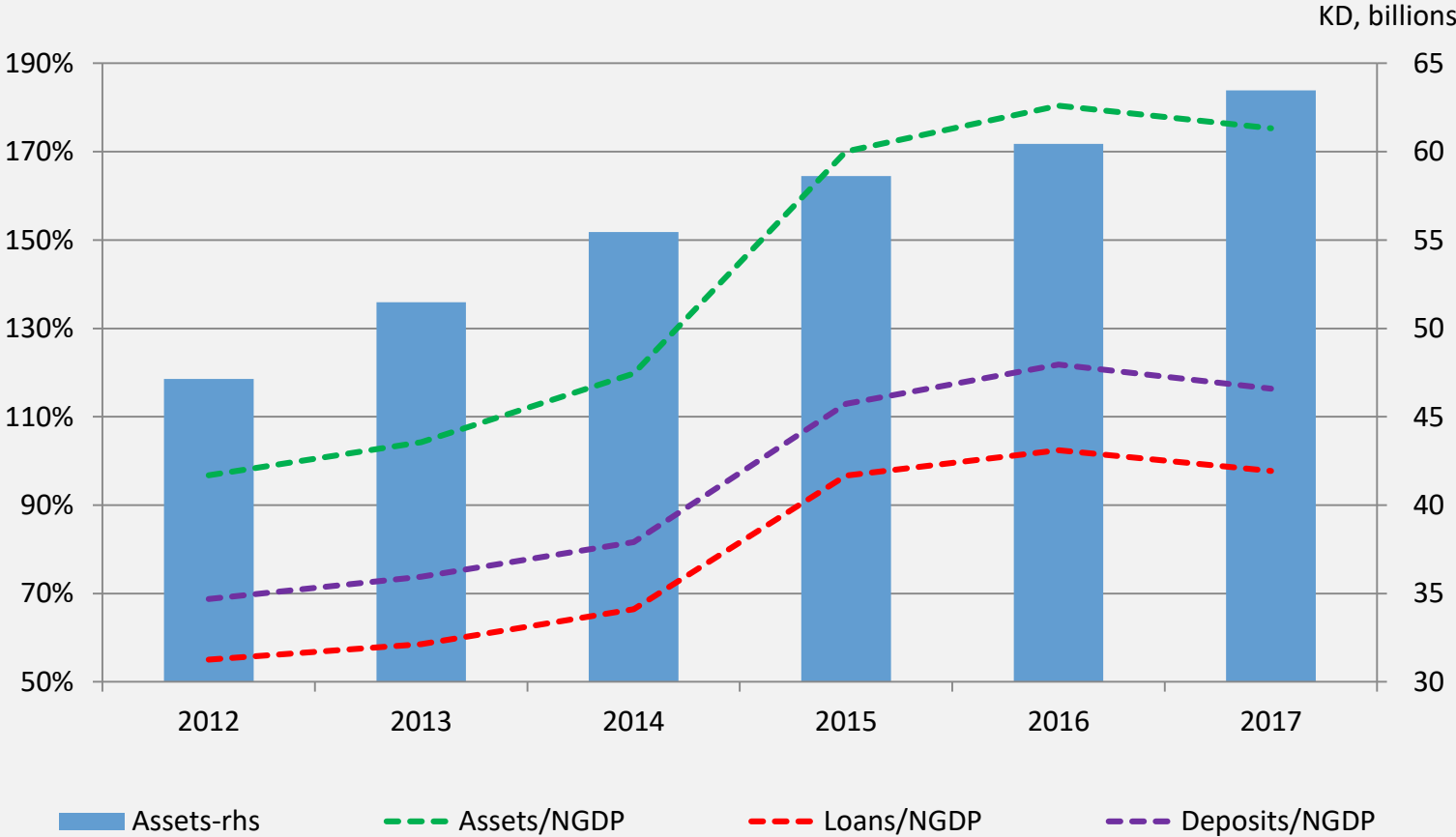


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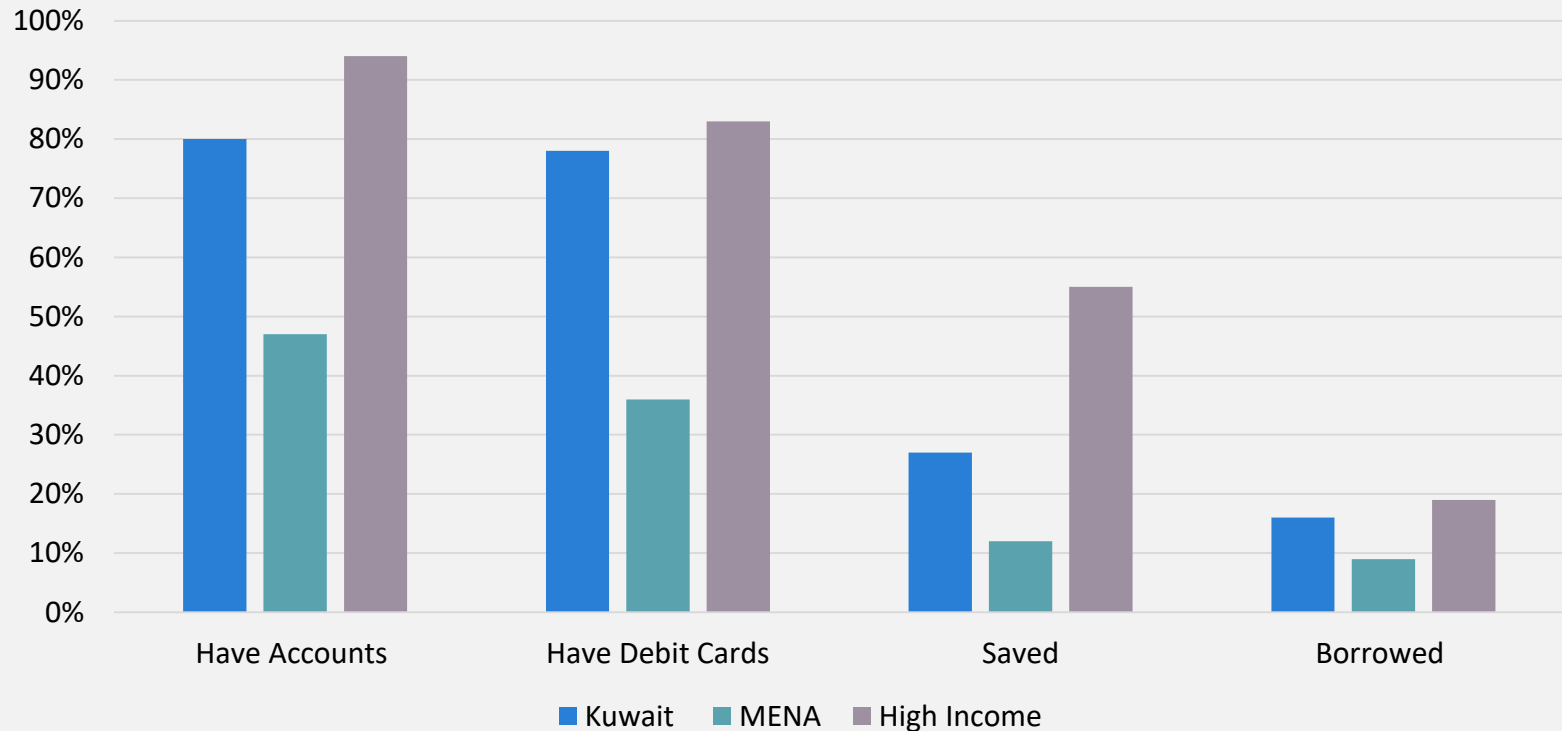
BANKING SYSTEM IS SIZEABLE IN TERMS OF GDP

Banks' Financial Intermediation



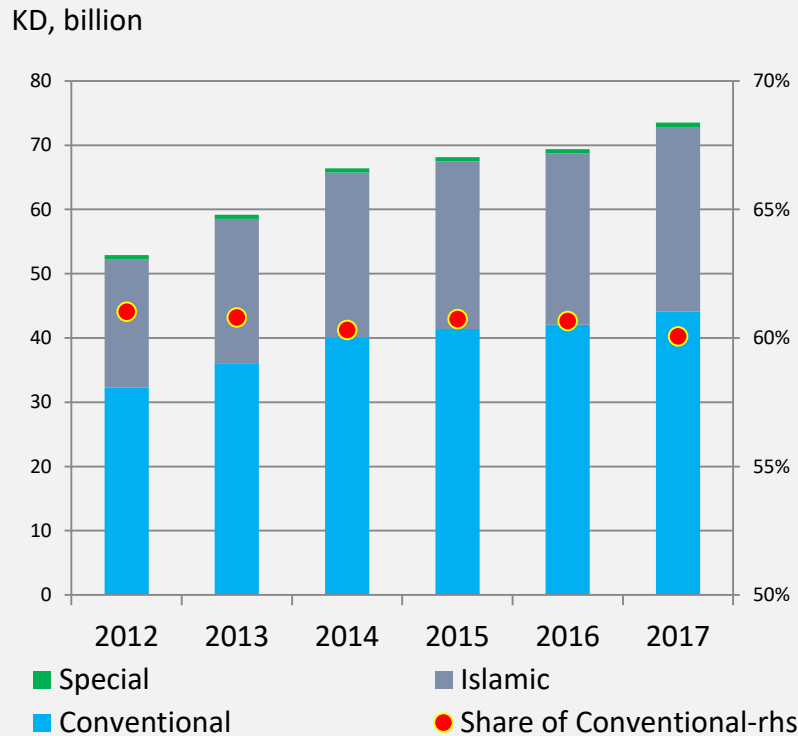
WITH HIGH DEGREE OF FINANCIAL INCLUSION

Have Accounts/Debit Card/Saved/Borrowed at a FI
(% of population age 15+)

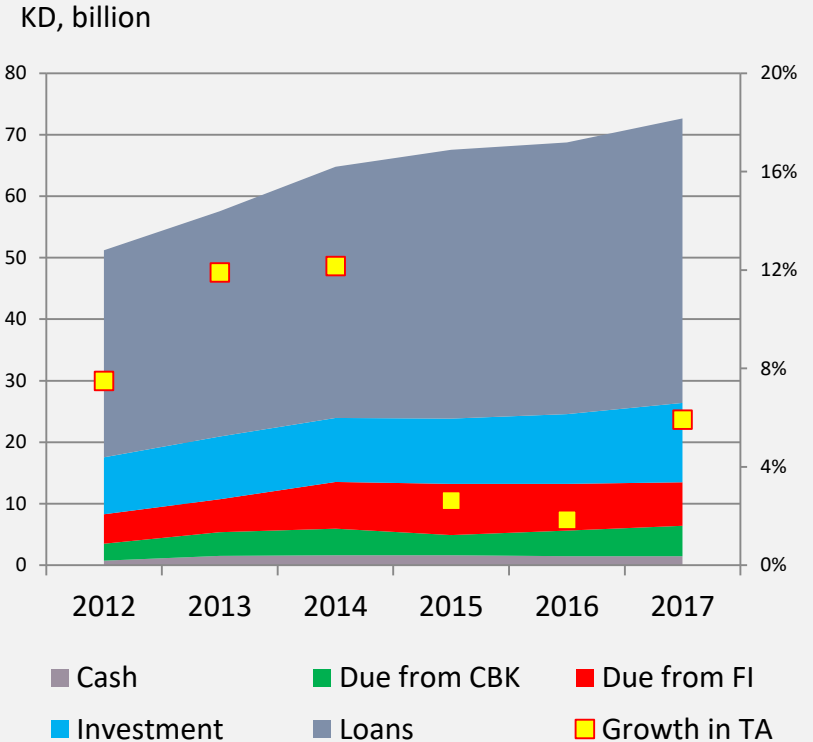


KUWAIT HAS A DUAL BANKING SYSTEM, TRADITIONAL IN STRUCTURE

Assets of the Banking System

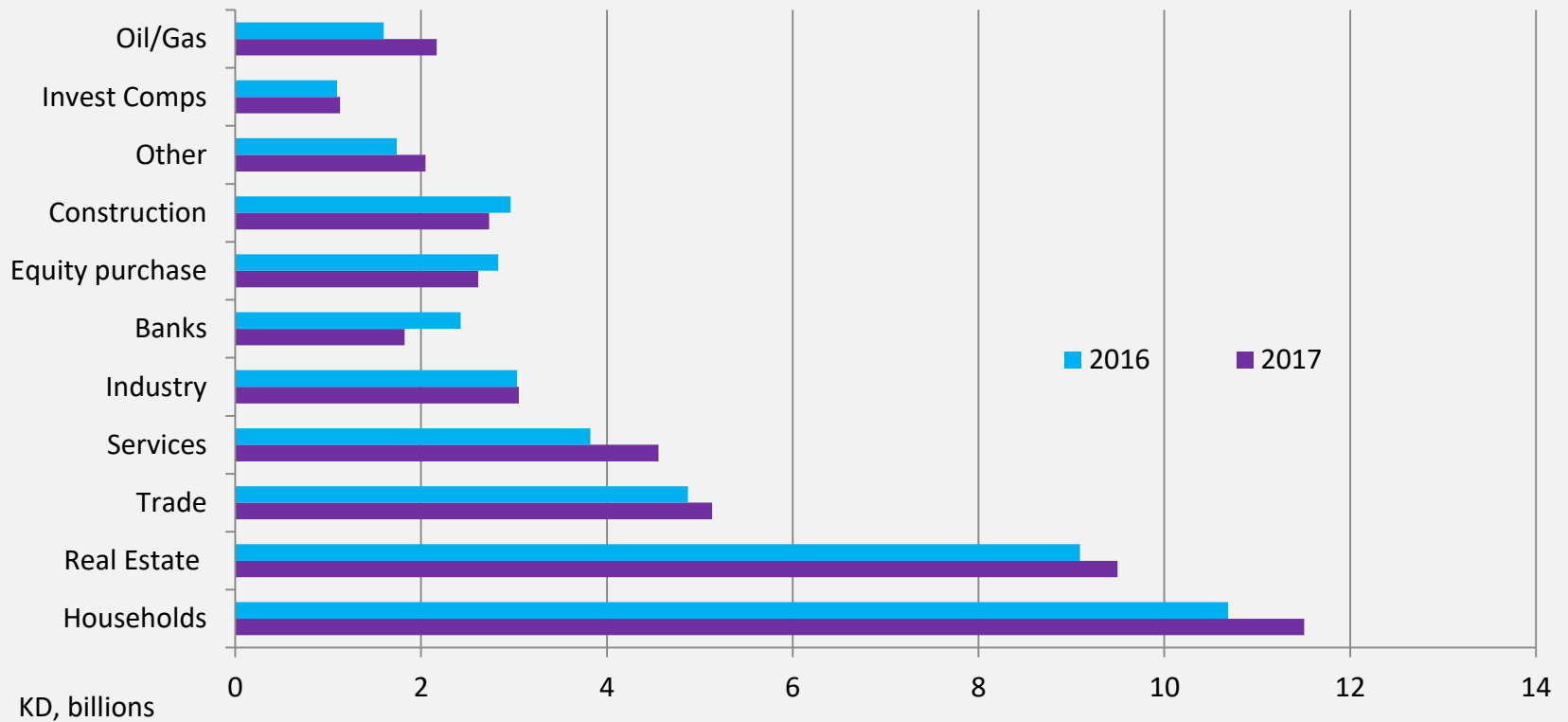


Trends in key components of Assets



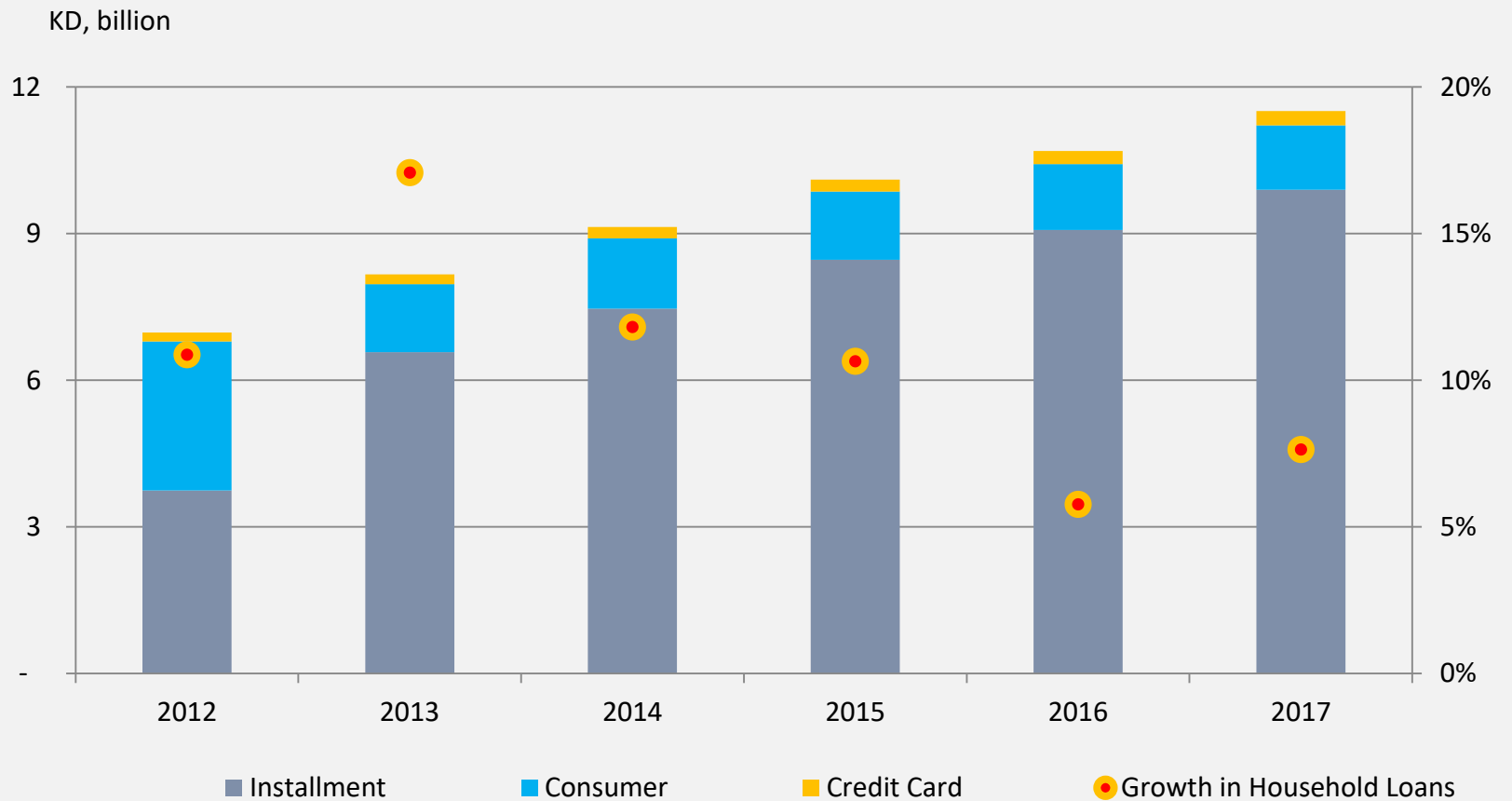
HOUSEHOLDS AND REAL ESTATE : MAJOR RECIPIENTS OF BANK LENDING

Gross Loans by borrowers' type



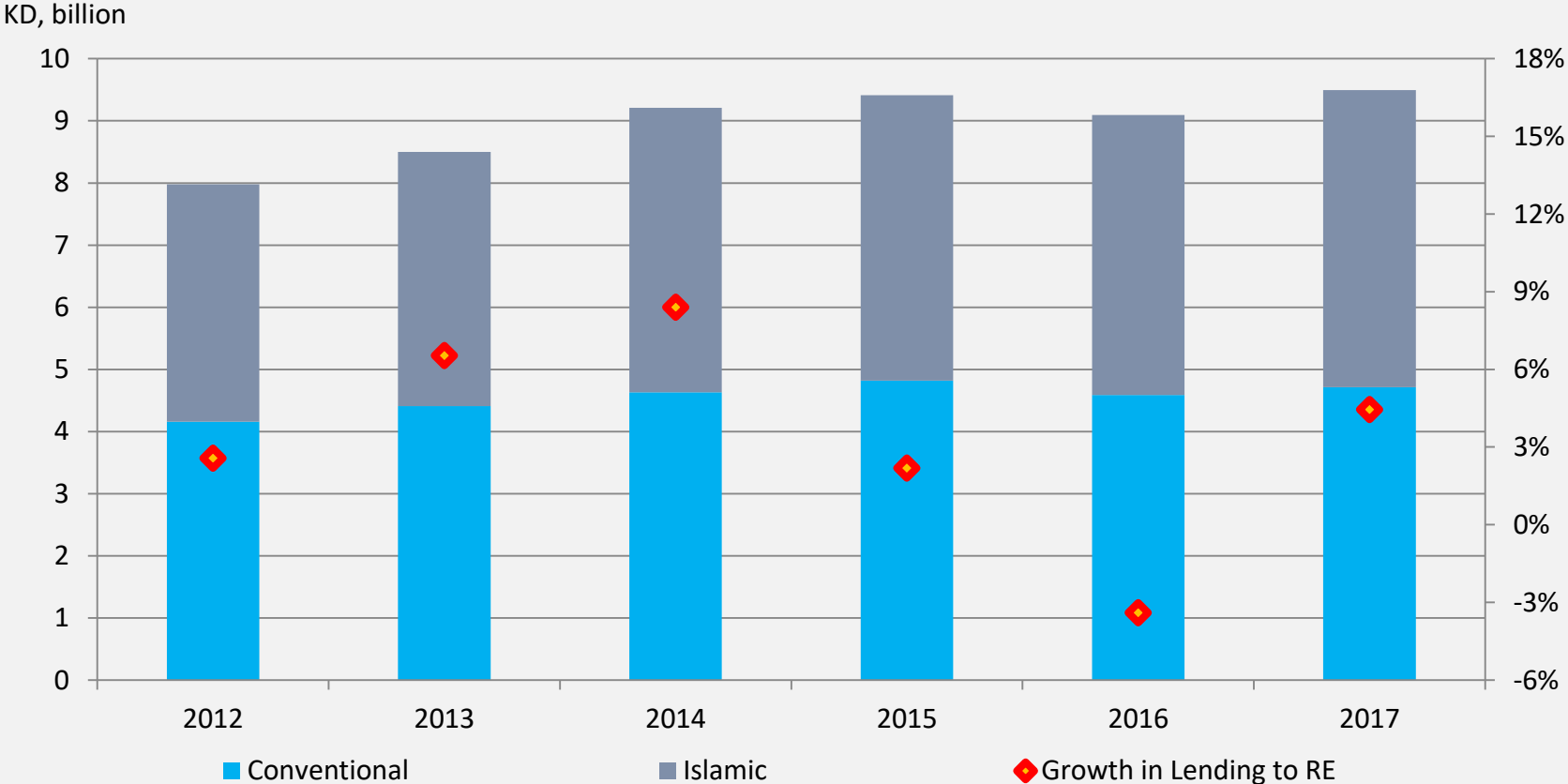
LENDING TO HOUSEHOLDS: INSTALLMENT LOANS CONSTITUTE THE BULK

Breakup of Household Loans

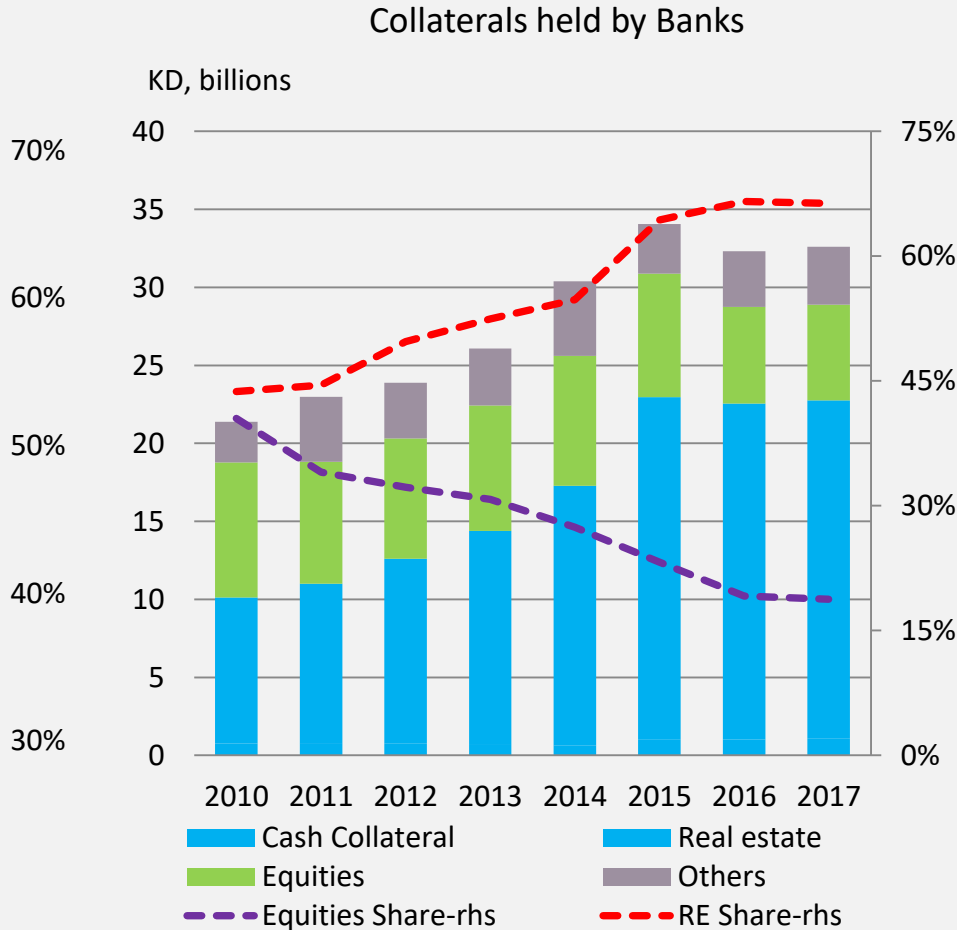
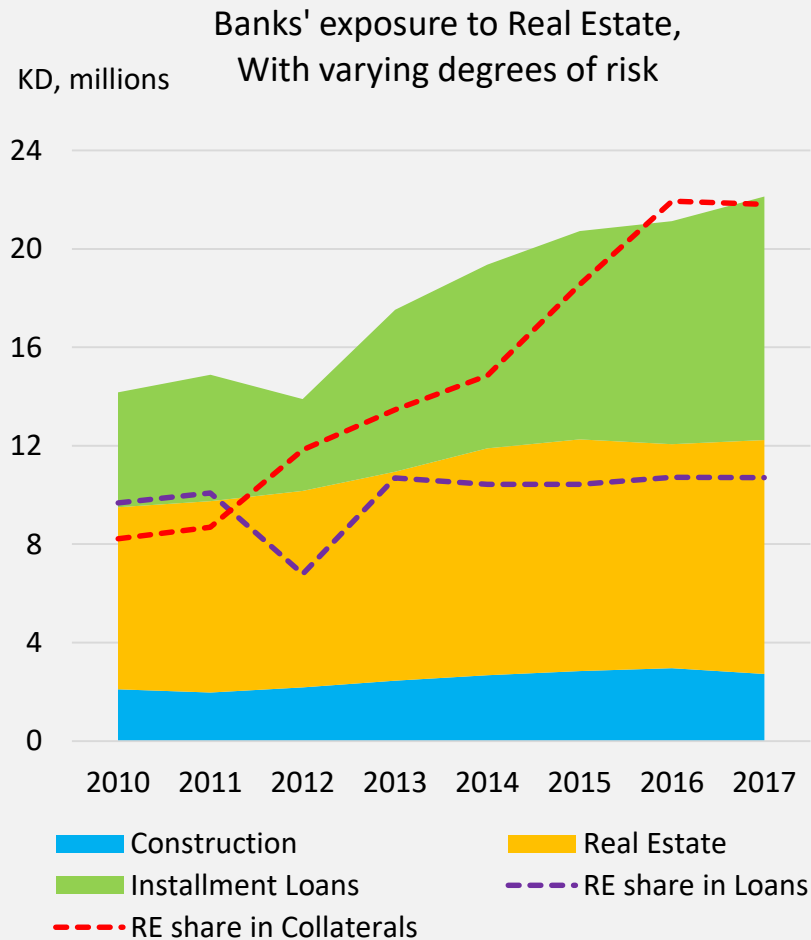


BANKS' EXPOSURE TO REAL ESTATE IS SIGNIFICANT

Banks' Lending to RE/Construction Sector

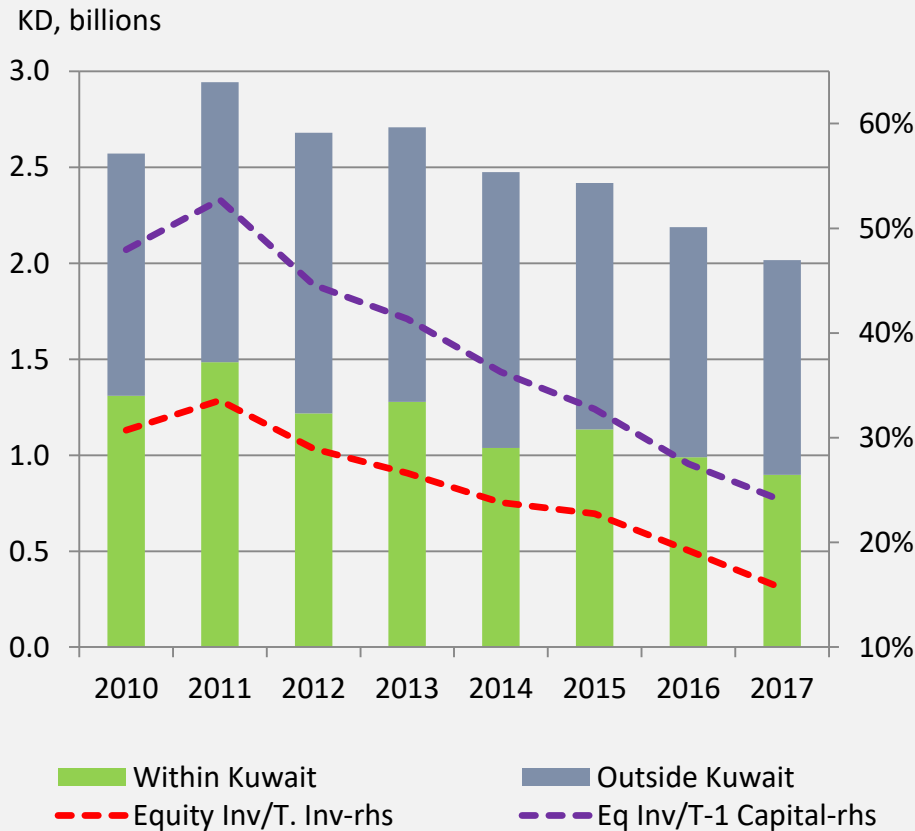


BANKS' EXPOSURE TO REAL ESTATE IS SIGNIFICANT

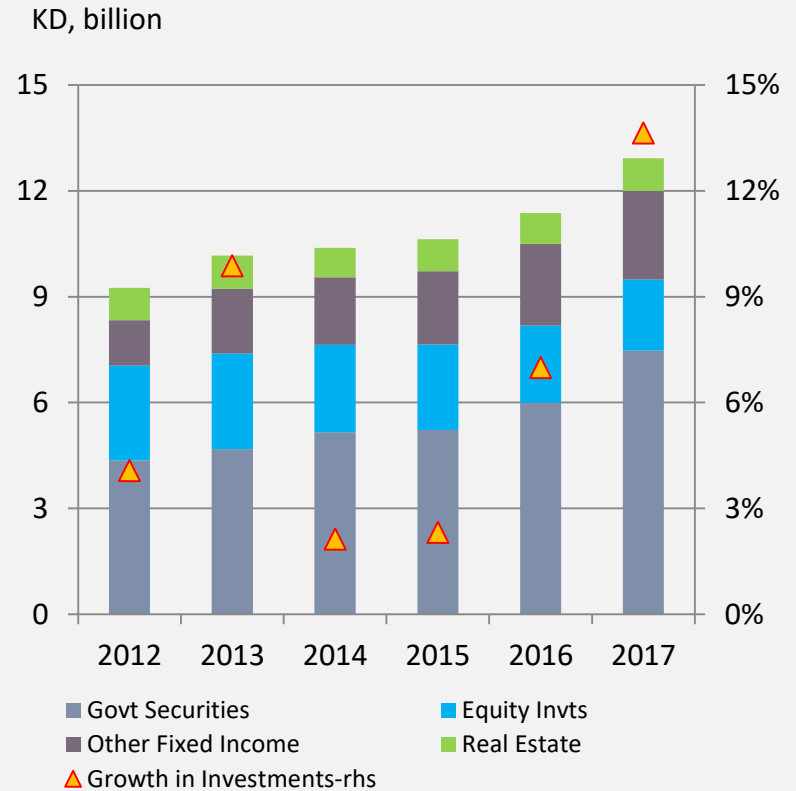


BANKS' INVESTMENTS: FLIGHT TO QUALITY

Banks' Investments in Stock Markets



Banks' Investments- by type



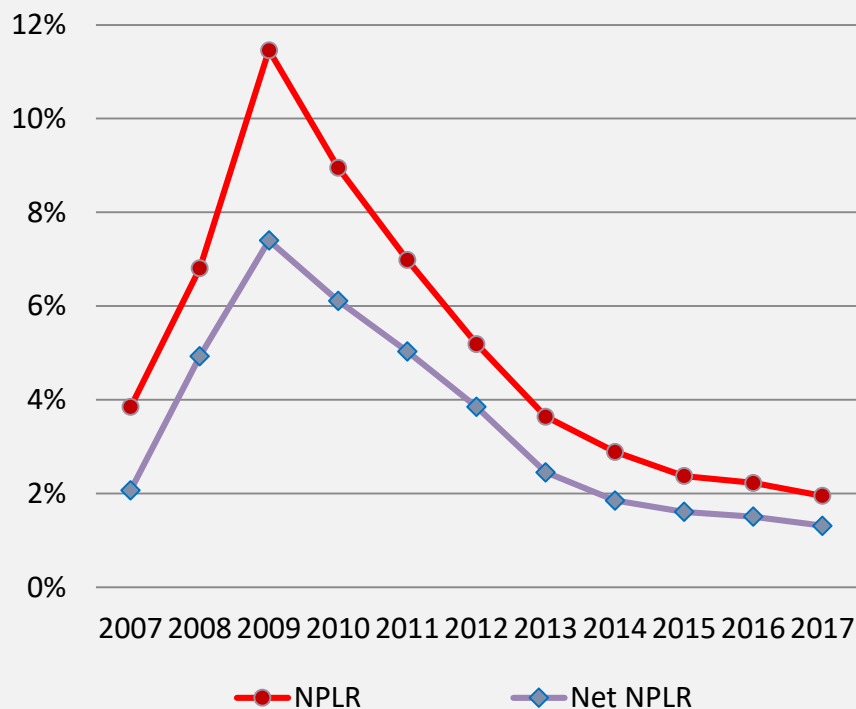


BANKING SECTOR STABILITY IN KUWAIT

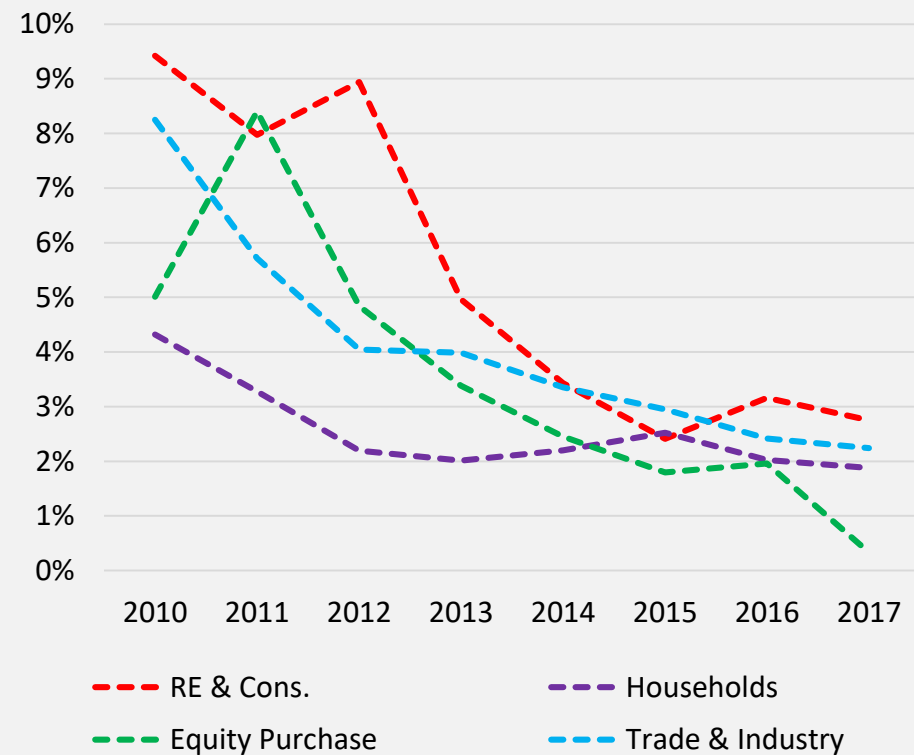
An Assessment

NPLR HAS DROPPED TO A HISTORICALLY LOW LEVEL

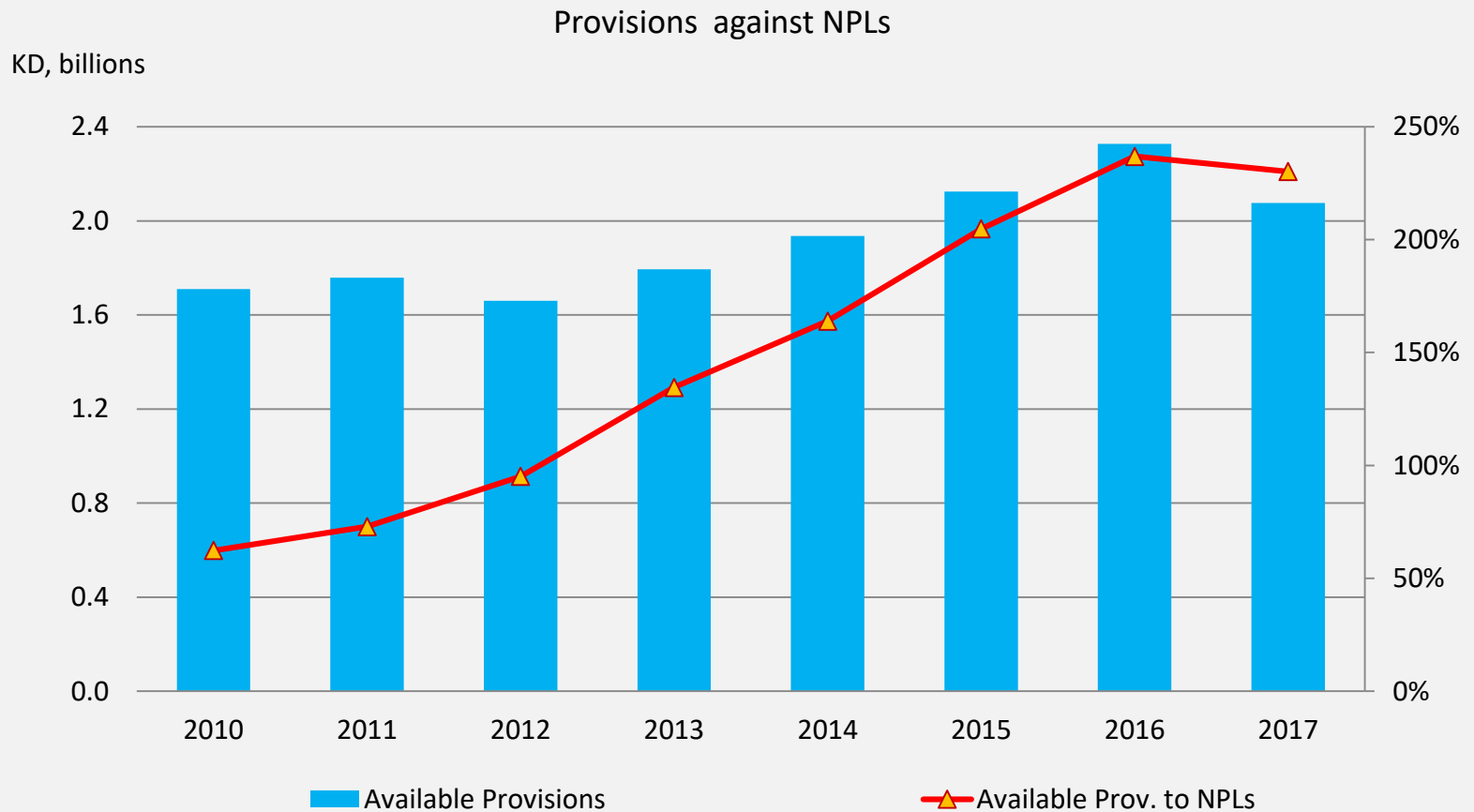
Trends in Non-Performing Loans



NPLR by Sector

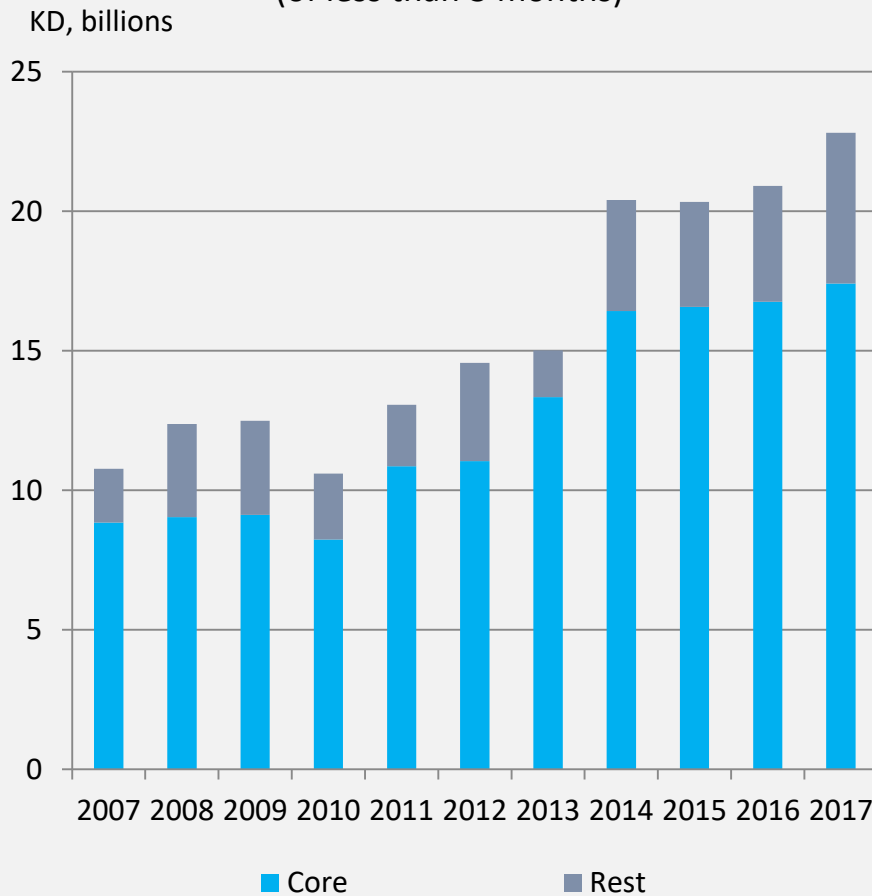


...WITH ROBUST COVERAGE RATIO

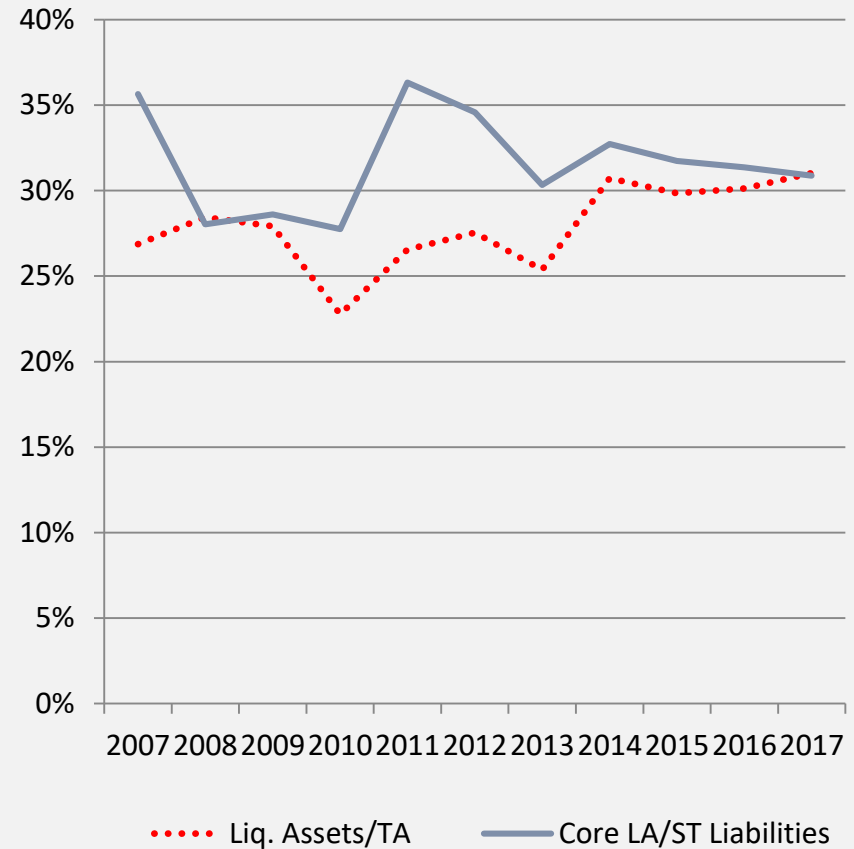


BANKS HAVE CONTINUED TO MAINTAIN AMPLE LIQUIDITY

Banks' Liquid Assets
(of less than 3 months)

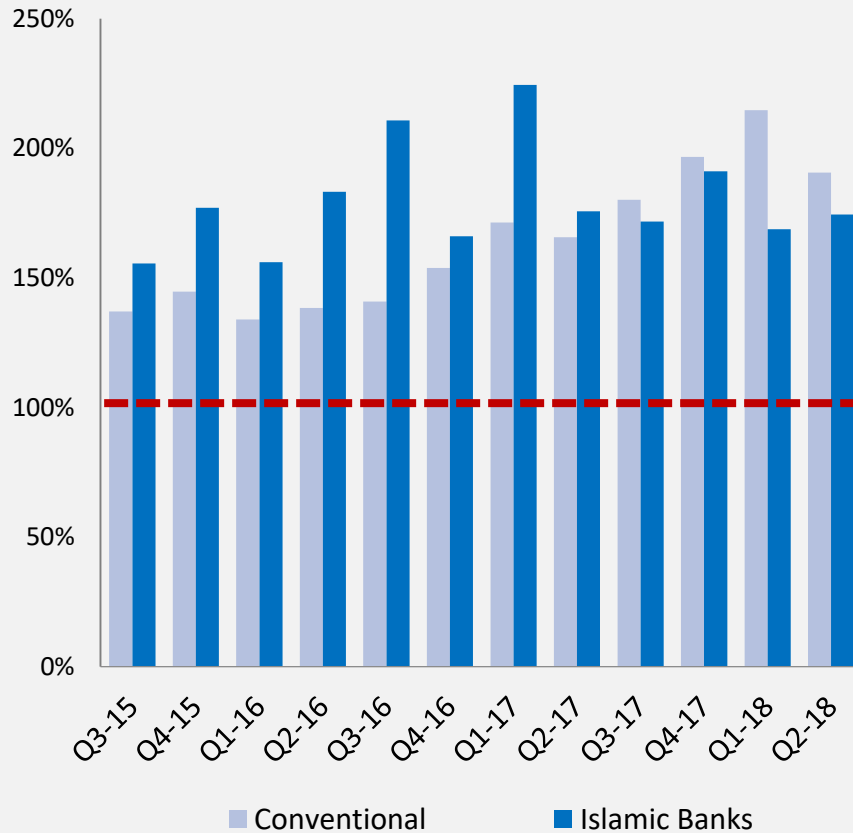


Key Liquidity Indicators

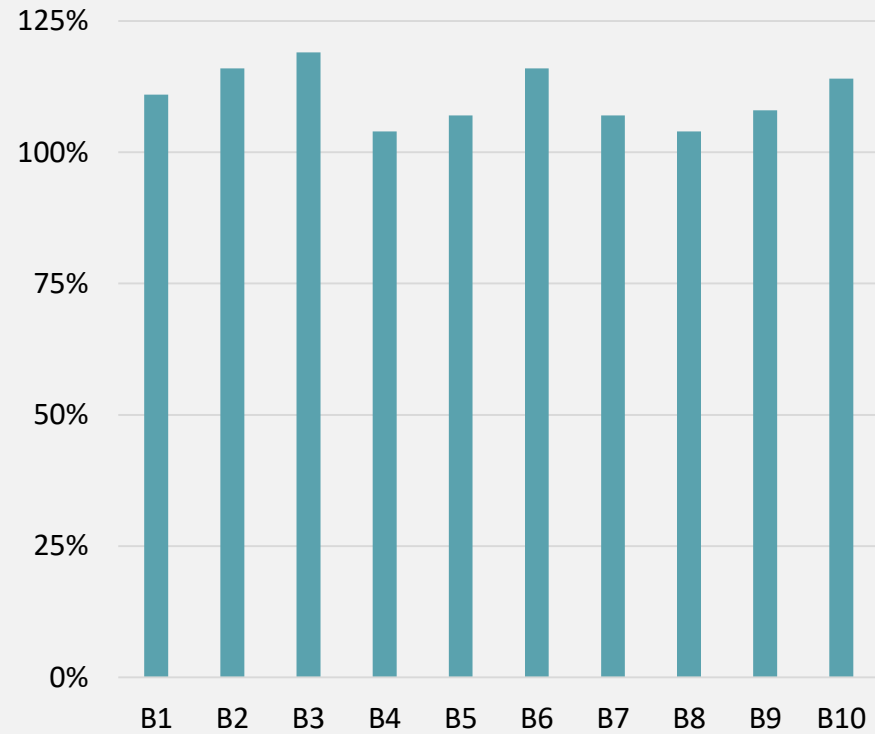


....EVEN WHEN VIEWED IN TERMS OF LCR AND NFSR

Liquidity Coverage Ratio

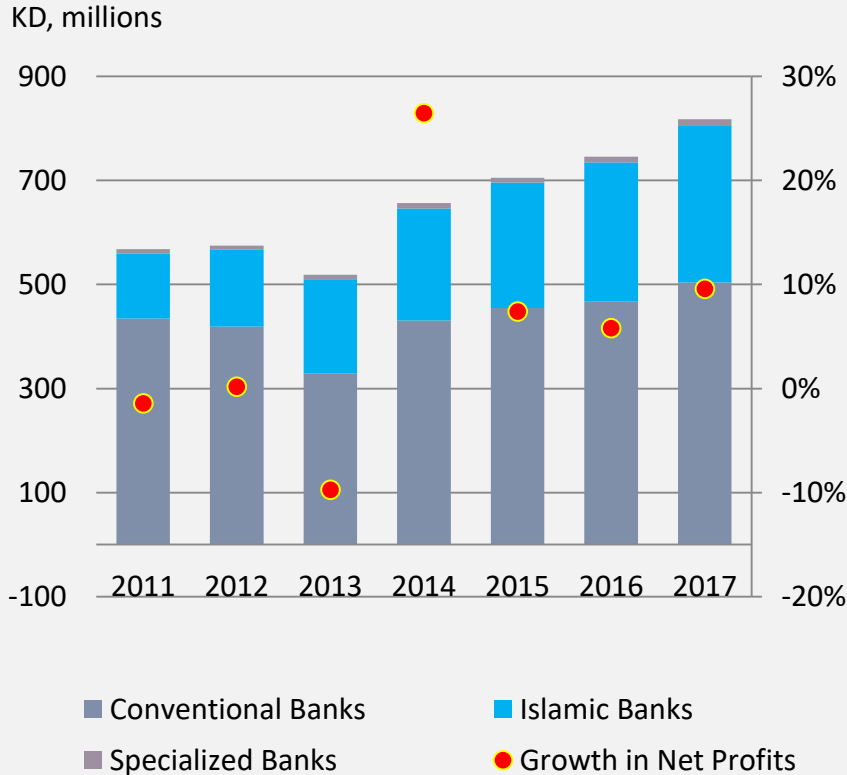


Net Stable Funding Ratio

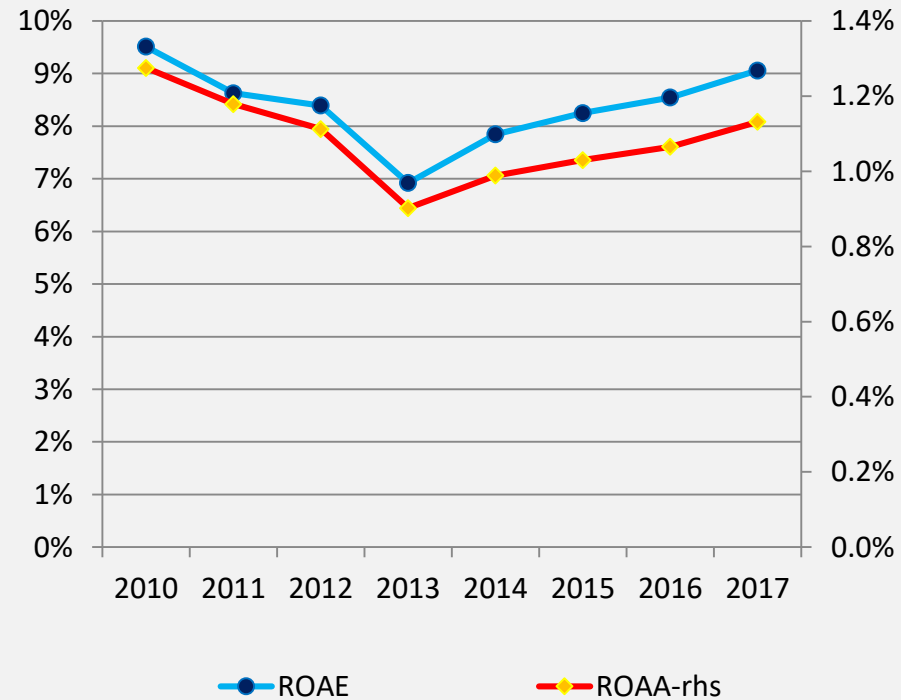


BANKS' NET INCOME HAVE POSTED HEALTHY GROWTH

Net Income of the banking industry

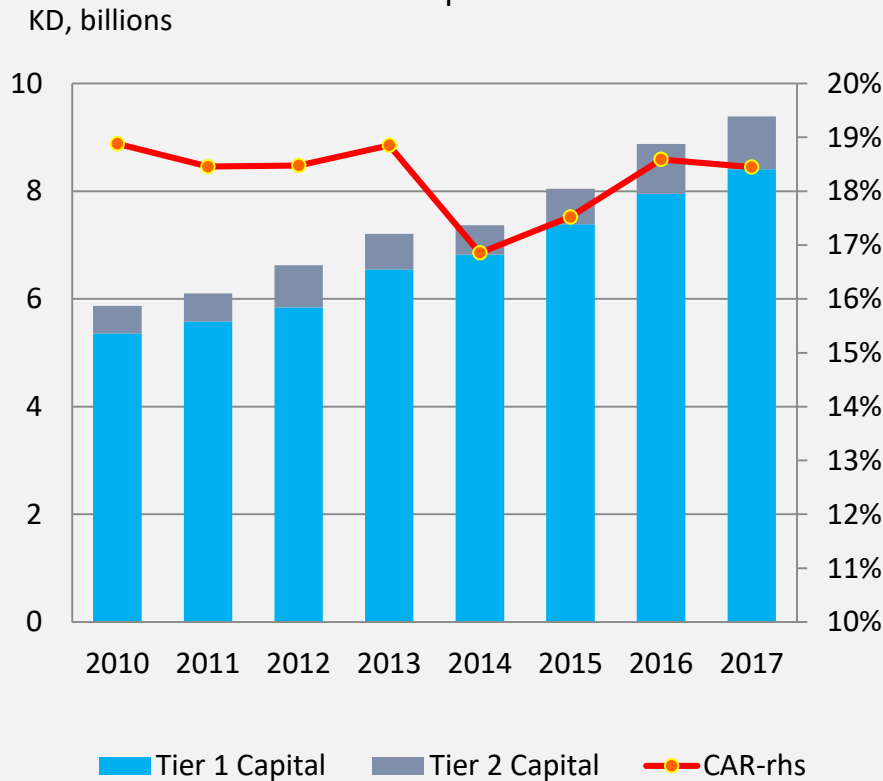


Return on Equity & Assets

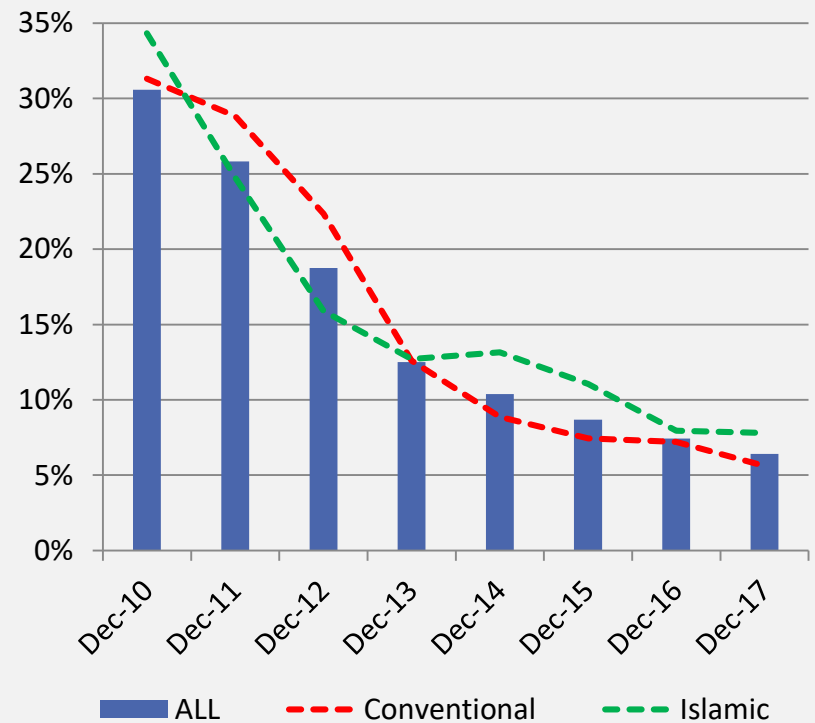


CAPITAL ADEQUACY REMAINS ROBUST

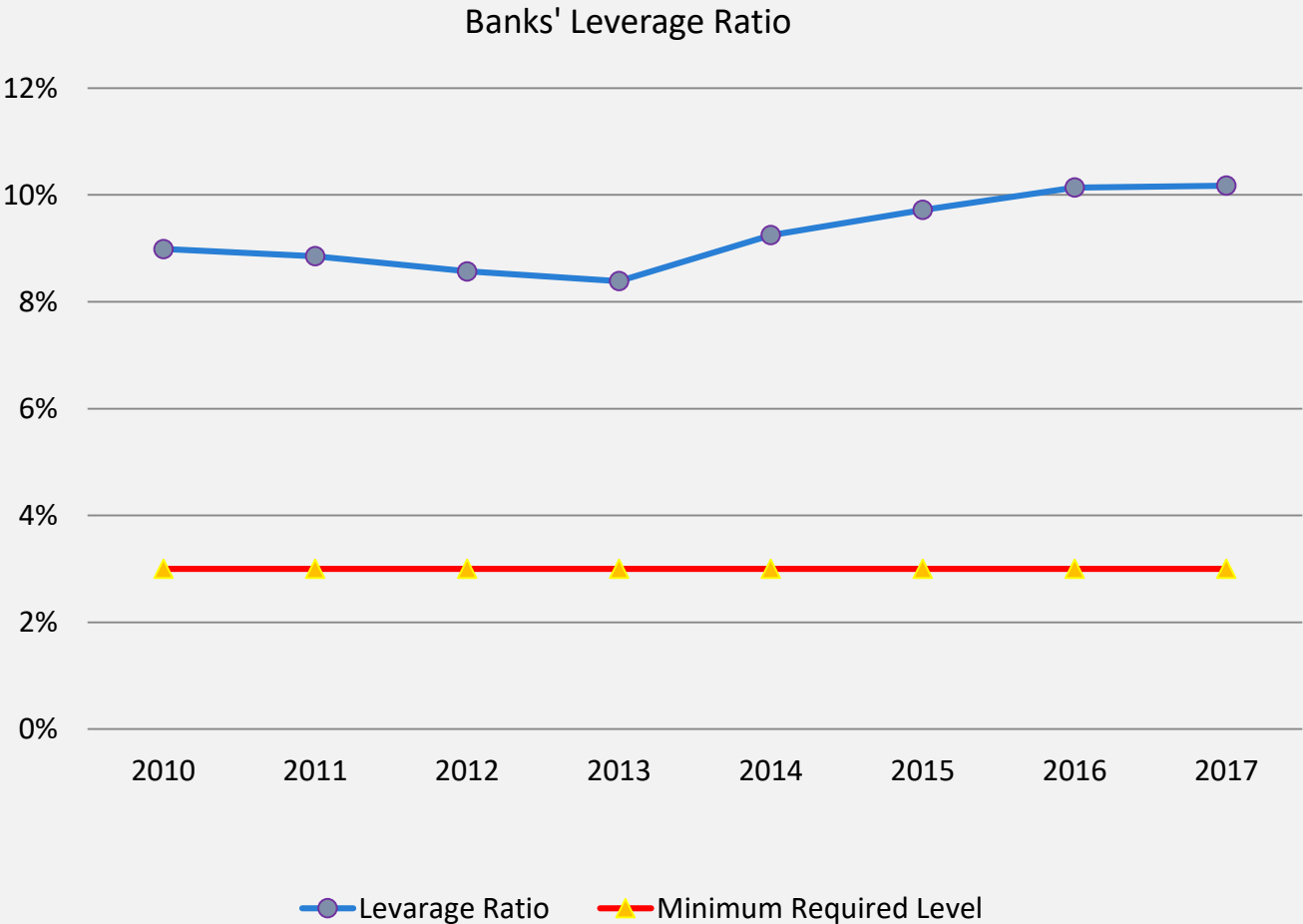
Banks' Capital & CAR



Banks' Net NPLs to Capital

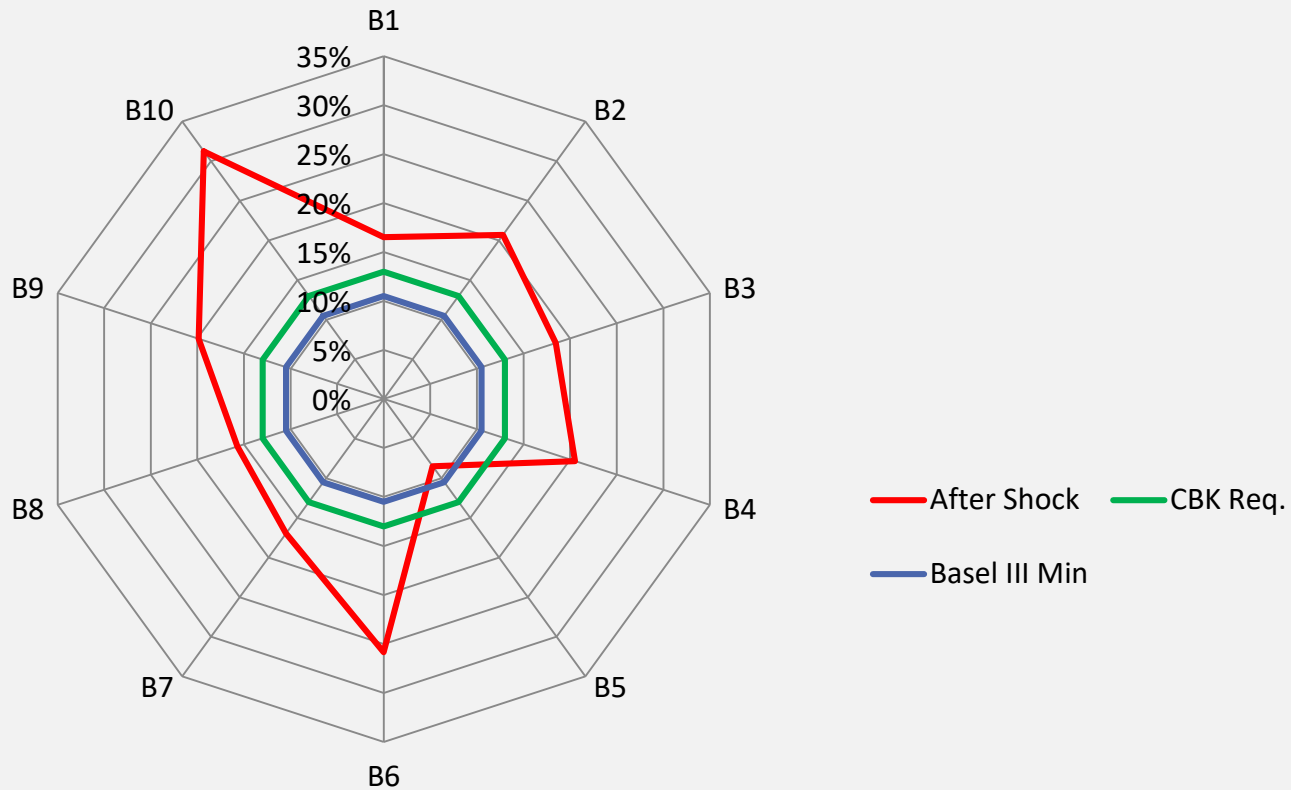


BANKS ARE WELL ABOVE THE LEVERAGE RATIO REQUIREMENT



...AND ARE RESILIENT AGAINST MAJOR SHOCKS

Impact of credit, market and liquidity shocks



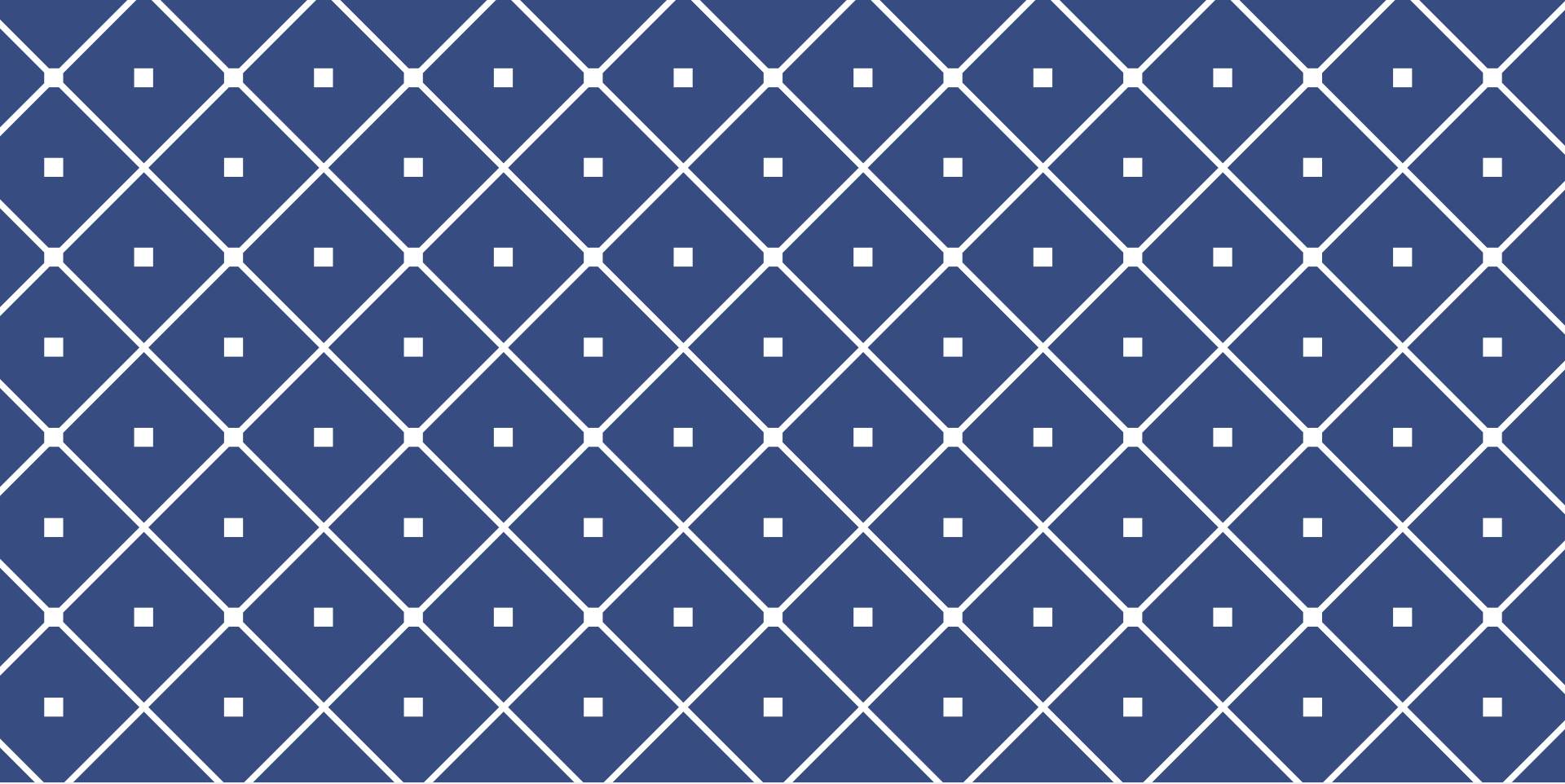
SPEAKER: BRIEF PROFILE



Nizamuddin Arshad is a career central banker, currently serving as an Advisor to the Governor on Banking Affairs at the Central Bank of Kuwait (CBK). He also leads the Financial Stability Office at CBK and is the principal author of flagship annual Financial Stability Reports of the last six years (2012-17), covering the Kuwaiti banking sector, domestic markets and the payment systems.

Nizam has earlier served Pakistan's central bank in senior roles, spearheading the work on financial stability, stress testing, deposit protection, banking regulation and financial sector consolidation. He holds a Masters in Economic Policy from Columbia University, New York and an MSc in Financial Risk Management from the London School of Economics & Political Science (LSE) where he was, respectively, a recipient of US Fulbright and British Chevening Scholarships. He is also a certified Financial Risk Manager (FRM) from the Global Association of Risk Professionals (GARP), USA.

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THANK YOU

