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CENTRAL BANK OF KUWAIT



KUWAIT BANKING REPORT 2019

Evolving Landscape





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AL-JABER AL-SABAH**
The Amir Of The State Of Kuwait



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The Crown Prince Of The State Of Kuwait



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FOREWORD



Dr. Mohammad Y. Al-Hashel

Governor
Central Bank of
Kuwait

The Central Bank of Kuwait (CBK) presents the Kuwait Banking Report "Evolving Landscape", demonstrating our continued commitment to support the growth and development of Kuwait's banking industry. This report provides an overview of the banking landscape in Kuwait, in addition to analysis, insights and interviews with local banks.

Kuwait's economy has continued to demonstrate resilience, notwithstanding a challenging economic environment. With careful planning and investment in key sectors, we are working to create a prosperous and sustainable future for our citizens. To this end, the Kuwaiti government has embarked on the 'New Kuwait Vision 2035', setting out long-term development priorities to establish Kuwait as a regional financial, commercial and cultural hub by 2035.

The financial sector, and banking in particular, in Kuwait will play a pivotal role in building a diversified economy, supporting economic initiatives targeting the development of the private sector and SMEs. The CBK, being the lead regulator of Kuwait's bank-centric financial system, devotes considerable resources and attention to ensuring a sound and stable financial system in the country. As a result, our banking system has maintained healthy asset growth and robust liquidity and capital adequacy levels, despite the rise in global economic uncertainty and volatility in financial markets.

But we are not immune to the economic, technological and social challenges that are impacting the global banking sector. Today, we find ourselves at a major inflection point, facing several internal and external challenges that require us to evolve and adapt. The banking industry must reinvent itself for the future, and all stakeholders need to take a proactive role in shaping the way banks operate going forwards.

I am proud to say that we at the CBK are leading a number of key initiatives that will help the banking industry navigate through this transformative journey. CBK is playing a critical role in the development of the Fintech ecosystem. As a regulator, we are responsible for achieving a sustainable balance between enabling innovation and ensuring the stability of the financial system, for the benefit of the broader economy and society. Taking a proactive and dynamic approach, we have established a clear vision and strategy towards embracing technology for the greater benefit of society.

We realize that modern and efficient regulations form a key block for a safe, state-of-the-art, Fintech ecosystem. CBK has recently established the Regulatory Sandbox to further support Fintech startups and entrepreneurs. The regulatory sandbox offers Fintechs a safe space to experiment in innovative products and services, thus ensuring the safety and soundness of the financial sector while encouraging innovation.

One of our major initiatives is the Kuwait National Payment System (KNPS), which we are working with local banks and payment gateway to roll out in two phases in 2020 and 2021. The strategic mega-project encompasses several initiatives designed to establish the necessary infrastructure to address the future needs of our financial system and enhance its stability and efficiency. These initiatives include the Government Electronic Banking System, E-KYC framework, Wages Protection System, and Automated Clearing House.

I hope the information and analyses in this report will guide you through the banking landscape in Kuwait. In the coming years, you will continue to see contributions from Kuwait as a key international player in supporting the growth and development of the global banking industry.

We pray to Allah the Almighty to grant success in our efforts and endeavors and to enable us to heighten the welfare of our beloved country, under the patronage of His Highness the Amir, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince, Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah; and His Highness the Prime Minister, Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah, may Allah bestow on them good health and continuous success.

EXECUTIVE SUMMARY

Economy on the rebound

Kuwait's economy has regained momentum in the last couple of years as oil prices partially recovered. Maintaining a stable outlook, economic growth is expected to reach 2.9% by 2020, up from 1.7% in 2018.

The inclusion of Kuwait in the J.P. Morgan Emerging Market Bond Index (EMBI), and the upgrade of Kuwait Boursa to emerging market status on three global equity indices, which will attract further foreign direct investment (FDI) and strengthen international demand for further issuances over the next five years.

The infrastructure programme is one part of the New Kuwait Vision 2035 underway, which seeks to diversify the economy and to boost private sector participation. As a result, non-oil revenue is projected to grow by an annual 4% by 2021.

Banking sector remains resilient

Total assets of Kuwait's banking sector amounted to \$221 billion in 2018. Local banks have shown remarkable resilience since oil prices collapsed in 2014, with banking assets growing by a CAGR of 4.7% between 2014 and 2018.

Banking in Kuwait is dominated by retail business, with personal loans/financing comprising 40% of total facilities — the largest share by sector. Further growth is expected in the oil and gas segment in coming years as these companies turn to bank financing with subdued oil prices and increased expenditure on mega projects in the horizon.

Opportunities from privatisation and SME development

Sizeable government capital earmarked for privatisation and SME development initiatives will present new expansion opportunities for local banks. Efforts to promote the use of public-private partnership (PPP) models for infrastructure projects will spur

demand for project finance. Similarly, collaboration with the National Fund for SME Development (the "SME Fund") is increasing SME access to bank financing and encouraging banks to provide a more comprehensive and tailored suite of services to this segment.

CBK shaping banking's future

FinTech has fast become the biggest driver of change in Kuwait's banking sector, helped by CBK's new transformation strategy centred on promoting innovation and boosting efficiency across the financial sector. In addition, CBK has ensured the supervision and monitoring of electronic payments through the Electronic Payment and Settlement System Supervision Unit.

Other key initiatives of CBK's transformation agenda include the newly established Regulatory Sandbox, allowing innovative financial technologies to be developed with a lighter regulatory touch. The Kuwait National Payments System (KNPS) is another initiative aimed at streamlining and increasing the efficiency of both bank and government payments.

To support and safeguard these initiatives, CBK has focused on the continued development of its regulatory frameworks, mainly concerning Cyber Security and electronic payments. CBK has also extended its efforts in the Cyber Security space by collaborating on a regional level in developing information sharing platforms. CBK is also currently preparing an E-KYC framework that will make it easier and faster for individuals to open bank accounts online.

On another front, CBK is also shaping the future of the banking sector through equipping its own workforce with the necessary skill sets to supervise the changing banking landscape. It has also collaborated with recognised multilateral bodies and academic institutions to develop the skills and knowledge of the broader banking workforce in Kuwait.



ECONOMY ON THE REBOUND



1.7% ↑
GDP GROWTH IN 2018

55% Oil sector contribution to GDP



GOVERNMENT INVESTED

\$60 Billion TO DATE

Estimated further investment
\$100 Billion until 2035



PUBLIC DEBT

15%
OF GDP
IN 2018



One of the **LOWEST BOND SPREADS**
among GCC sovereigns



Joined **J.P. MORGAN EMERGING
MARKET BOND INDEX** in 2019



KDIPA overseen over

\$2 Billion

FDI inflows since 2013



GOVERNMENT
EARMARKED

\$77.8 Billion

to **22** PPP projects in 2019/20



NATIONAL
SME FUND

SET UP WITH

\$6.6 Billion

capital in 2013



SOLID BANKING SECTOR



TOTAL
BANKING ASSETS

\$221 Billion

4.7% CAGR 2014-2018

2018



23

Banking
institutions

11

Local Banks

2018



GROWTH OPPORTUNITIES
IN



PROJECT
FINANCE
for PPPs



SME
BANKING
SERVICES

**\$152
Billion**



Total banking deposits

80%

Private
Sector

2018

**\$130
Billion**



Total banking credit

40%

Personal Credit
Facilities

2018



KUWAIT BANKING ON THE TRANSFORMATION PATH

CBK TRANSFORMATION STRATEGY



Digitalisation
to automate and
re-engineer processes



**Kuwait National
Payments System**
more efficient payment
infrastructure

FINTech DEVELOPMENT



Regulatory Sandbox
promoting innovation in a
controlled environment



E-KYC framework
easy and efficient electronic
account opening

CAPACITY BUILDING



Developing banking
workforce through
partnerships
with **academic
institutions
& industry
associations**

KUWAIT OVERVIEW

Economic Overview

Economic growth regaining momentum, gradually diversifying

Kuwait returned to growth in 2018, with real GDP up 1.7% following a 3.5% decline in 2017, when oil prices were kept low by a glut in supply. However, oil prices and growth have adjusted higher as Kuwait cut production by close to 6%, in line with the OPEC+ agreement to temporarily curtail production.

Kuwait's fiscal strength allowed the country to ride out the oil price crisis, but the shock was enough to push the government to intensify efforts to diversify the economy in order to become less reliant on oil receipts — a central pillar of the government's wide-ranging New Kuwait Vision 2035. Oil contributed 61% of Kuwait's GDP when the crisis took hold in 2014. That has since been whittled down to 55%.

Fiscal balance on the rebound

The oil price crisis pushed several GCC countries into fiscal deficit, and in 2016 Kuwait registered a 13% deficit, the first shortfall in two decades. The oil sector has contributed 90% of state revenues, on average, over the past five years. In 2016, oil revenues fell by 46%, pushing the fiscal balance into deficit. Government spending also fell by 15% that year.

The country's fiscal balance has gradually recovered since, helped by a partial rebound in oil prices, but remained in deficit until the end of 2018.

Nonetheless, the impact of these fiscal deficits on Kuwait's overall economy has been subtle, due to Kuwait's substantial fiscal buffers. The Kuwaiti government has projected total spending of KWD 22.5 billion in its 2019/2020 budget, up 3% from last year's closing accounts. Capital expenditure will be maintained at around 14% in line with last year's figures as the government seeks to drive economic

growth through the implementation of its New Kuwait Vision 2035.

More sovereign debt issuance to come, pending new debt laws

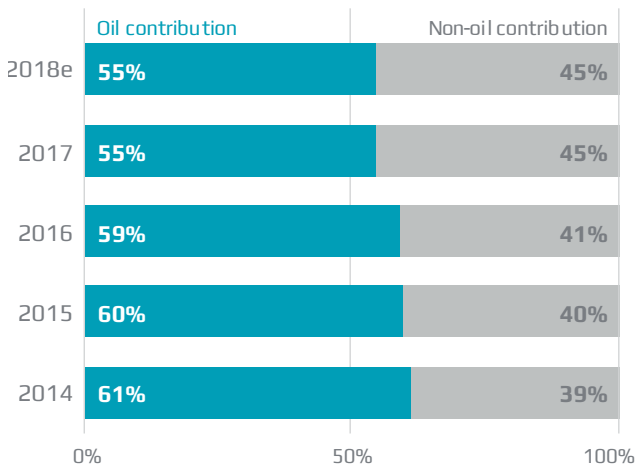
Kuwait has historically had one of the lowest ratios of public debt in the GCC. In 2017, the country joined the regional sovereign debt run for the first time, issuing \$8 billion in 5- and 10-year bonds. This issuance was oversubscribed, with a \$20 billion order book demonstrating a strong appetite from pension and insurance funds for long-term issuances.

Kuwait boasts one of the lowest levels of bond spreads among GCC sovereigns, which have tightened during the first half of 2019 following Kuwait's inclusion in the J.P. Morgan Emerging Market Bond Index (EMBIA) in January. This inclusion has enhanced both the quality of Kuwaiti government issuances and its credit profile as an issuer, garnering stronger demand and confidence from international investors. As a result, Kuwaiti issuers can expect to face lower costs of funding.

With oil prices expected to remain subdued, and an expected future investment of \$100 billion to implement the New Kuwait Vision 2035, the government's financing needs are likely to increase over the medium term. Gross public debt was reported to be 15% of GDP in 2018, indicating further capacity for long-term sovereign bond issuances in the next five years. Such issuances will help the government establish a benchmark yield curve that offers better price guidance for debt issuances in Kuwait.

Consequently, the Kuwaiti government is in the process of passing a new debt law that would increase the tenor limit of debt issuances from 10 to 30 years.

Kuwait — Sector Contribution to GDP (% of GDP) 2014-2018



Source: Kuwait Central Statistical Bureau

Kuwait Sovereign Credit Rating (2019)



FITCH

AA
Stable
outlook

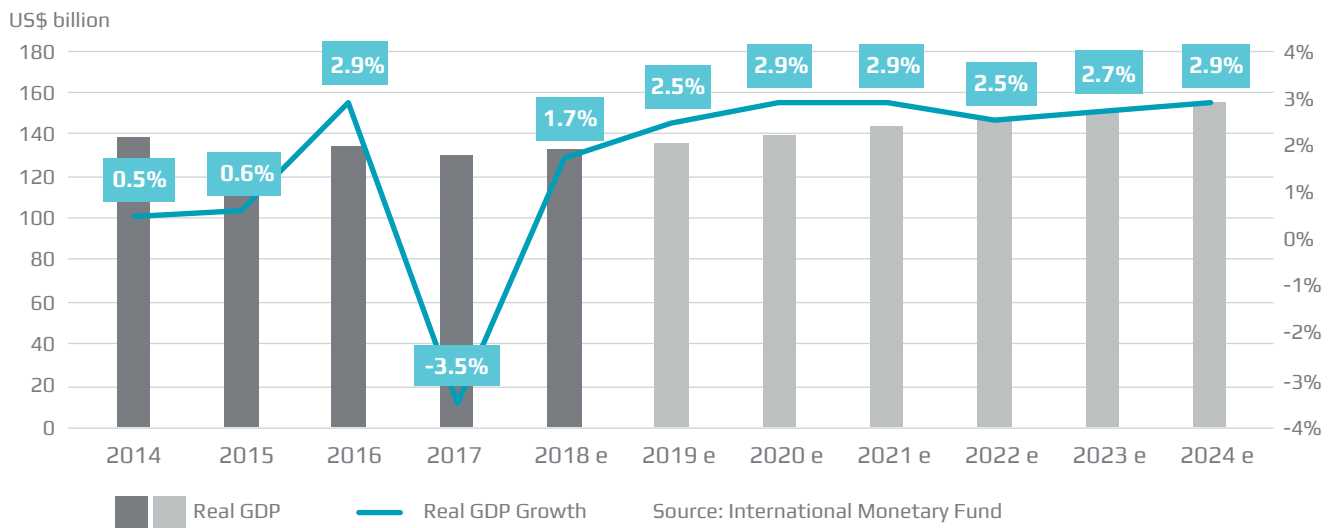
S&P

AA
Stable
outlook

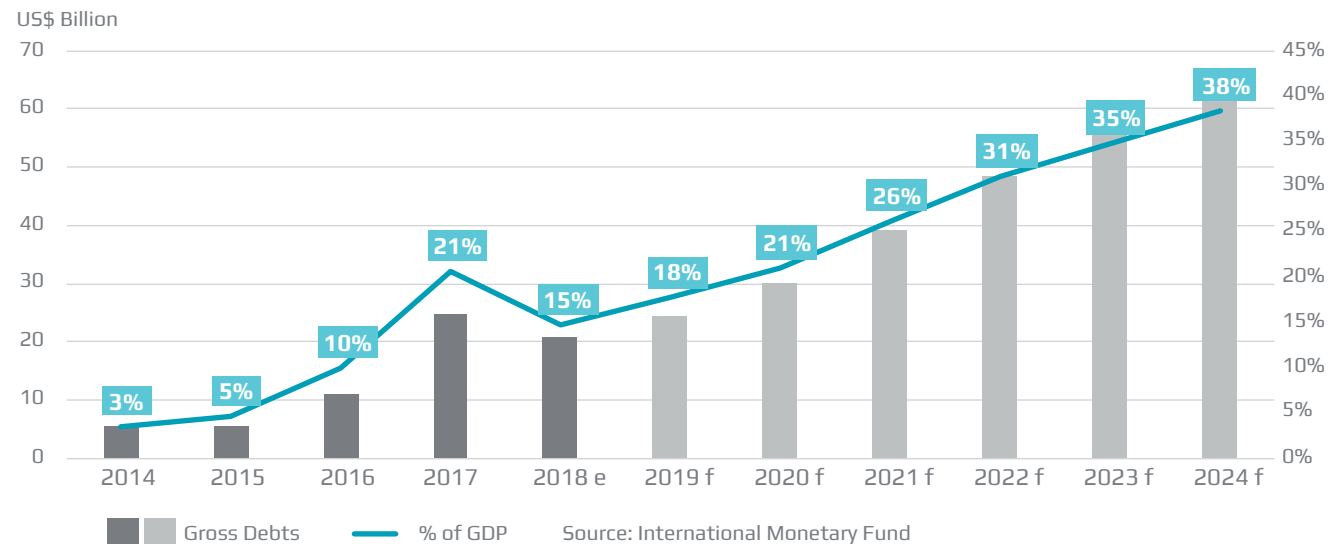
MOODY'S

Aa2
Stable
outlook

Kuwait Real GDP Growth and Forecast 2014-2024



Kuwait Government Gross Debt 2014-2024



For 13 Consecutive Times

Among the World's 50 Safest Banks and the Only Kuwaiti Bank on the List



Aa3



AA-



A+



GLOBAL
FINANCE

For more information about this ranking and its methodology, please visit the Global Finance website:
https://www.gfmag.com/awards-rankings/best-banks-and-financial-rankings/?year=&search_location=&award_type=worlds-safest



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The law would also allow Kuwait to increase its debt ceiling to KWD 25 billion, from KWD 10 billion currently. The government is also drafting a new law that would enable the issuance of sovereign sukuk, which is not currently permitted.

In the meantime, sovereign debt issuances from Kuwait remain on hold. The government's authorisation for debt issuance expired in October 2017. This means it will not be able to issue new debt or refinance maturing debt until the new law is passed. This led to a 6% drop in public debt levels in 2018.

Kuwait opens up to foreign investments

While Kuwait has for a long time been known as a major source of overseas investment, its government now aims to attract high-quality inward foreign direct investment (FDI) as part of its New Kuwait Vision 2035, which seeks to transform the country into a regional financial and commercial hub.

The government has introduced a number of reforms to encourage greater foreign investment. Following the establishment of the Kuwait Direct Investment Promotion Authority (KDIPA) in 2013, the government introduced important legislative

changes such as allowing 100% foreign ownership across all economic sectors. Incentives such as tax holidays of up to 10 years and customs exemptions were also introduced.

Since its inception, KDIPA has overseen more than \$2 billion in FDI inflows to Kuwait. The leading sectors for greenfield investments were business services, real estate and financial services. The oil sector, on the other hand, ranked just 9th, indicating a more balanced distribution of investments in line with the government's desire to diversify the economy.

In addition, Kuwaiti equities are expected to attract \$2.8 billion in passive investment inflows following the announcement of the upgrade of Kuwait Boursa, the national stock exchange, to emerging market status by MSCI. This upgrade, to be implemented in May 2020, is the third from a major global index provider. Kuwait Boursa joined the FTSE Russell emerging market index in 2018, which brought in over \$950 million in passive investments during the past year. A similar classification on the S&P Dow Jones Indices' Global Benchmark Indices will take effect in September 2019.



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Government Initiatives

New Kuwait Vision 2035

The global financial crisis and the 2014 slump in oil prices persuaded the government that it needed to push ahead with long-neglected economic reforms. In 2017, it launched the New Kuwait Vision 2035 — a wide-ranging economic development plan similar to other ‘visions’ launched by its neighbours in the GCC.

The plan’s primary objective is to transform Kuwait into a regional financial and commercial hub. As part of its planned economic overhaul, the government aims to revamp economic laws and streamline private sector regulations, while seeking to increase annual state revenues to KWD 50 billion (\$166 billion) by 2035, from around KWD 13 billion (\$43 billion) in 2018.

As part of the strategy, the government has already undertaken \$60 billion in project spending, with a further \$100 billion to be invested by 2035.

National Program for Economic and Fiscal Sustainability

In March 2016, the government of Kuwait launched the National Program for Economic and Fiscal Diversification (Istidama), with the primary objectives of diversifying the economy, boosting the private sector, and reducing the fiscal deficit.

Since the inception of this program, Kuwait has improved its business environment through

shortening government procedures and curbing bureaucracy, resulting in a jump from 102nd in 2017 to 96th position in the World Bank’s Ease of Doing Business Index 2018.

On the fiscal front, government reforms have helped to contain state expenditure, which reduced by \$2.2 billion, or 10%, between the 2014/2015 and 2017/2018 fiscal years. The government has also looked to better manage its expenditures, reducing fuel subsidies in 2016. Higher water and electricity tariffs for businesses and expatriates were also introduced in 2017, and for the industrial and agricultural sectors in 2018.

Boosting the private sector

Another government initiative aimed at enhancing the role of the private sector as part of the New Kuwait Vision 2035 is the privatisation of public projects. The plan’s short- to medium-term objectives include increasing infrastructure investment through independent water and power producers (IWPPs) and public-private partnerships (PPPs).

A notable recent milestone in this plan is the privatisation of Kuwait Boursa. The results of the privatisation bidding process were announced early in April 2019. The sale was aimed at providing an investment environment based on international standards, as well as attracting foreign investors while retaining local investment.

“

The plan’s primary objective is to transform Kuwait into a regional financial and commercial hub.[...] As part of the strategy, the government has already undertaken \$60 billion in project spending, with a further \$100 billion to be invested by 2035.



Economic Outlook

In its April World Economic Outlook, the IMF predicted Kuwait will record higher GDP growth in 2019, up to 2.5% from 1.7% in 2018, and expects growth of 2.9% in 2020, buoyed by stronger growth in the non-oil sector.

Given the still-high concentration of oil in its GDP, Kuwait's economic performance will remain largely determined by oil industry trends. Growth in oil revenues will see an increase as oil production picks up in 2020, provided oil prices remain stable. However, a downward risk remains in light of current economic trends and the IMF's global economic forecasts foreshadowing a potential decline in oil prices.

On the other hand, non-oil revenues are projected to see stronger growth of 3% in 2019 and 3.5% in 2020, supported by infrastructure projects being built as part of the New Kuwait Vision 2035. With the introduction of new taxes, repricing of various government services and controls on government spending in the medium term, the state's non-oil growth is expected to gradually increase to 4% by

2021. Nonetheless, any delays in implementing economic reforms may hamper this pace of growth.

Kuwait's overall fiscal position will likely be weakened if oil prices fall in line with expectations, which would give rise to greater fiscal financing needs. With the new debt law expected to be passed by 2020, the government can be expected to turn to debt capital markets in the medium term to maintain its fiscal position and to finance those infrastructure projects set for completion by 2023.

As for future infrastructure spending, financing should be made more easily available by the implementation of New Kuwait Vision 2035. Privatisation efforts, especially PPPs and the privatisation of Kuwait Bourse, are likely to increase FDI inflows. This would help the government meet the financing needs for new economic and infrastructure developments. SMEs will also be receiving further government support as part of its aim for these businesses to boost their contribution to economic diversification and development.

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ECONOMIC OUTLOOK FOR KUWAIT AND THE REGION

What role can the banking sector play in achieving the goals of the New Kuwait Vision 2035? What opportunities does this plan present to Kuwaiti banks?



Antoine Daher
Chief Executive Officer



Kuwait's banking sector is well-capitalised and characterised by a high-quality asset base, and it is set to play a primary role in realising the New Kuwait Vision 2035. Kuwaiti banks can provide finance for various projects, such as the upgrade of infrastructure, and finance businesses that contribute to economic diversification. These banks can also offer the private sector and SMEs better access to credit, which would enhance their role in the economy, encourage trade and support businesses that intend to deploy the latest technology. Financial inclusion is another area for the banking sector to support the economy, so that all segments of society have access to banking products and services.



Photo: ansonfd / Shutterstock.com

With governments in the region pursuing economic diversification, how can the banking sector facilitate these initiatives? What opportunities does the economic diversification agenda create for Kuwaiti banks, and what are the key sectors that they should target?



Isam J. Al-Sager
Group Chief
Executive Officer



With economic diversification becoming a priority for most governments in the region, the role of the banking sector continues to grow as a key facilitator for the execution of these initiatives. Banks need to work closely with governments to align the overall direction of economic growth, understand the financial needs to support that direction and facilitate the execution of such initiatives. The banking sectors should focus more on financial inclusion and promoting private sector participation through better innovation and improved product development, while inspiring entrepreneurship.

Economic diversification is quite important for Kuwaiti banks as it will ensure improved and sustainable economic activity. As economies become more diversified, business opportunities emerge, private sector involvement expands, investment flows increase and job creation improves. This is the ideal environment for the growth and development of the banking sector, leading to more diversified exposure, sustainable long-term lending opportunities and better risk and governance frameworks.

Banks in Kuwait should target sectors that promote sustainable growth and encourage economic value creation. Also, socially-responsible lending should be an area of focus with important sectors like, education, health care and renewable energy taking a front seat.

The development of local capital markets is a key pillar for any developed economy. However, Kuwait's debt capital markets, in particular, remain underutilised. How can Kuwaiti banks contribute to developing and enhancing the local debt capital market?



Masaud Mahmoud Hayat
Group Chief
Executive Officer



The establishment of a secondary bond market is the most important near-term initiative that should be undertaken to develop the local debt capital market. The liquidity offered by a secondary market will allow local issuers to fully utilise the local debt capital market and access exponentially larger pools of funding.

A secondary bond market will also make local-issued securities available to a broader market, as some primary market issuances are limited to domestic investors. This will encourage and enable international investors' participation in the local primary bond market, and allow local entities to issue local and foreign currency-denominated bonds alike. Local banks can become "market makers" and/or liquidity providers for bonds issued by local entities.

As local issuers undertake more frequent issuances due to the efficiency of the market, a local yield curve will be created by default, allowing for more efficient and transparent bond pricing.

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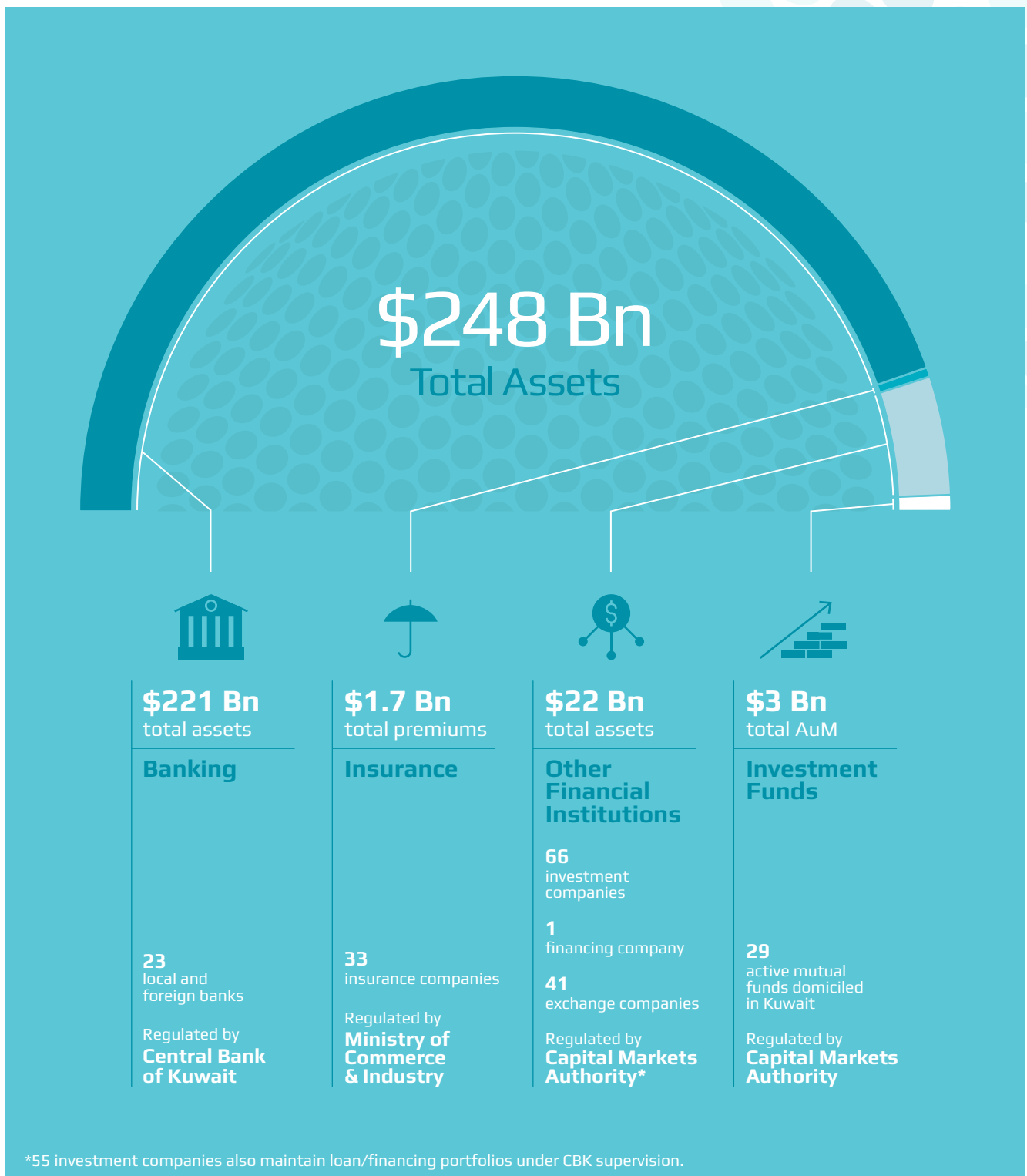
For more information call 1804080, or visit www.burgan.com

Financial System Overview

Kuwait's financial system comprises four sectors: banking, insurance, other financial institutions and investment funds. Other financial institutions refer to financial institutions offering non-bank financing and investments and exchange companies. By the end of 2018, total disclosed assets of Kuwait's financial

system were valued at \$248 billion. There were 110 financial institutions offering financial products and services in the country.

Banking by far constitutes the largest of these with an 89% share.



BANKING LANDSCAPE

Sector Overview

High-quality asset growth buoyed by government borrowing

The assets of Kuwait's local banking sector were valued at \$221 billion in 2018. The sector has remained resilient in the face of the oil price shock of 2014 and its impact on economic growth, registering a 5-year CAGR of 4.7%. This growth has been driven by domestic credit off-take, particularly to the private sector.

Banking penetration — the ratio of banking assets to nominal GDP — stood at 156% of GDP in 2018, compared with 120% in 2014.

The expiry of the public debt law in 2017 resulted in a sharp decline in banks' investments during 2018. Consequently, banks resorted to increasing their placements with CBK and other financial institutions as an alternative source of revenue.

Local banks' holdings of CBK-issued treasury instruments (bonds and Tawarruq) increased by a CAGR of 11.7% between 2014 and 2018 and sight

deposits with CBK by 31.6%, further strengthening their HQLA asset base.

Despite the sharp decline in 2018, the claims on the government from local banks have also seen significant growth, with a CAGR of 25.4% during the same period.

71% of banking assets held by largest five banks

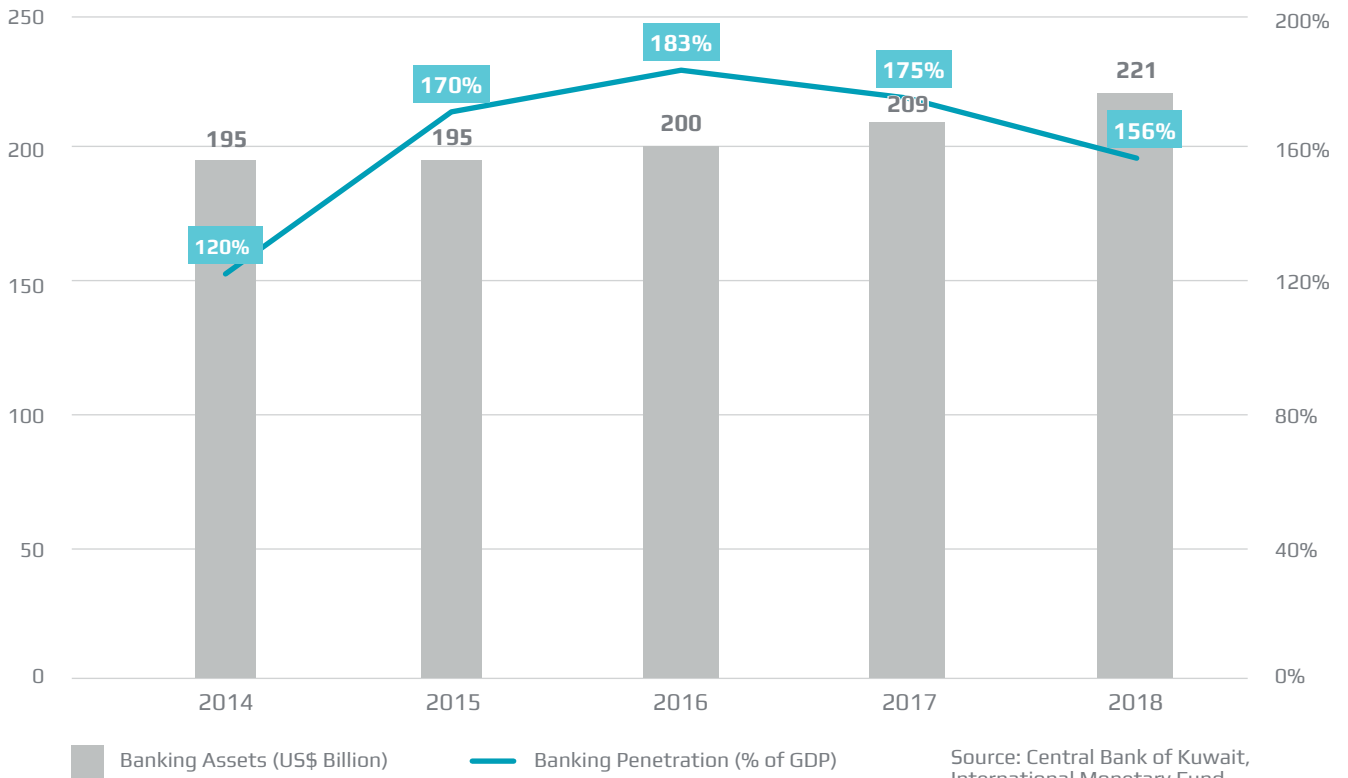
At present, Kuwait's banking sector comprises 23 banking institutions. Of these, 11 are local, consisting of five conventional banks, five full-fledged Islamic banks and one specialised bank (the Industrial Bank of Kuwait). The other 12 institutions are branches of foreign banks. On a consolidated basis, conventional banks make up 58% of the local banking sector's assets.

In all, 71% of banking assets in Kuwait are held by the five largest banks. In 2018, the National Bank of Kuwait controlled the largest share (24%) of Kuwait's local banking sector.

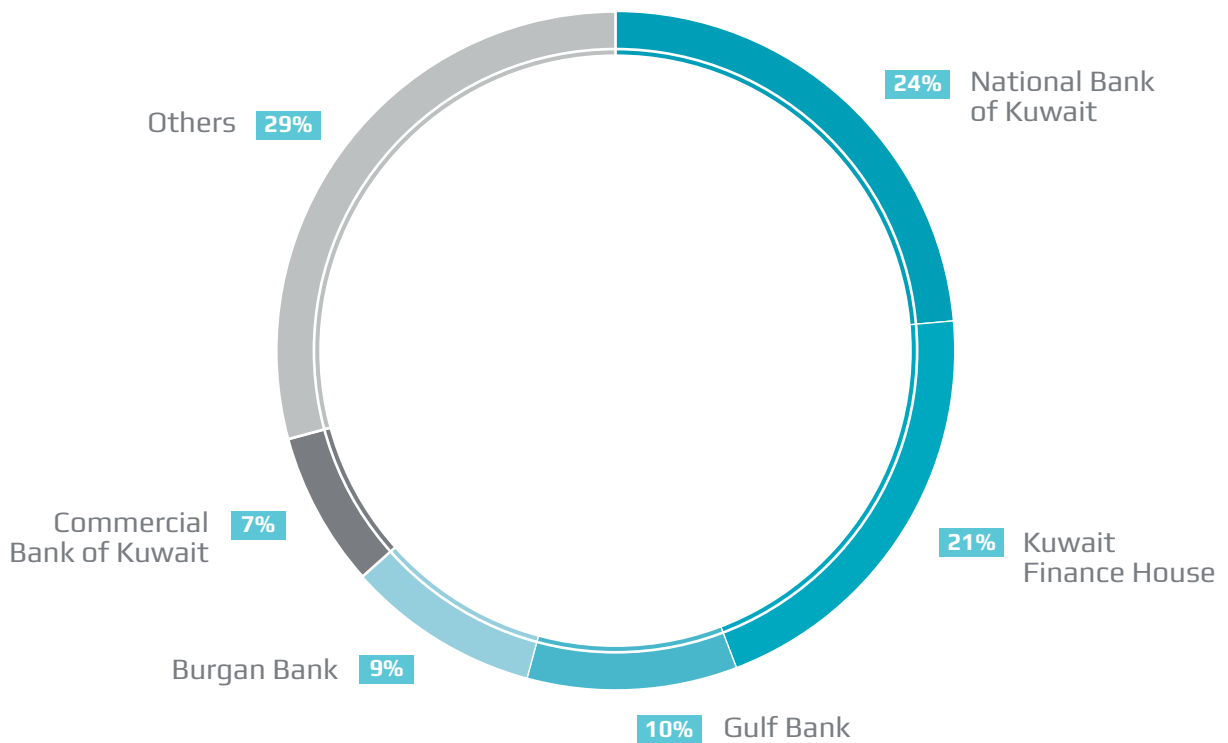
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The sector has remained resilient in the face of the oil price shock of 2014 and its impact on economic growth, registering a 5-year CAGR of 4.7%.

Kuwait Local Banking Assets 2014-2018



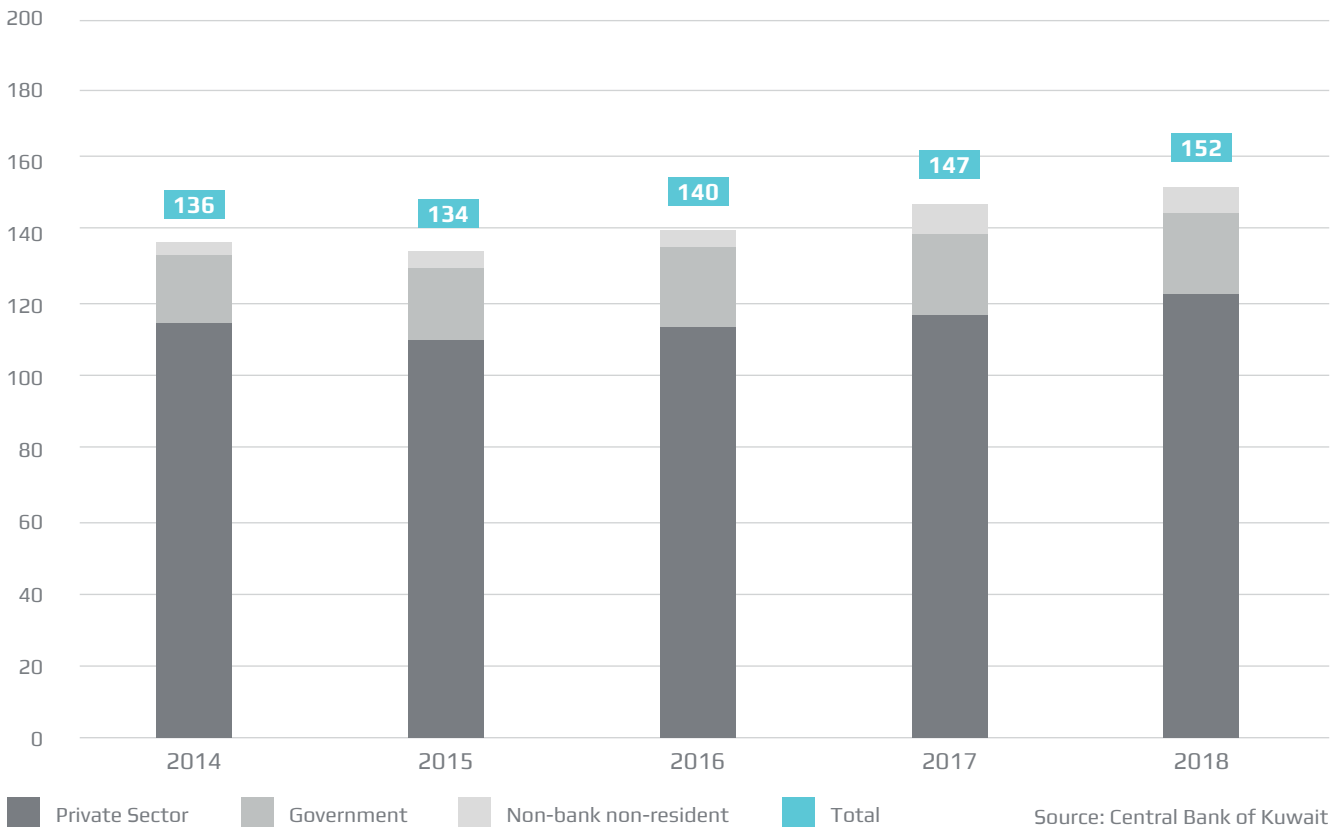
Market Share of Local Banks in Kuwait 2018



Source: Central Bank of Kuwait.

Kuwait Local Bank Deposits 2014-2018

US\$ Billion



Modest deposit growth dominated by the private sector

Total deposits in Kuwait's local banking sector amounted to \$152 billion by the end of 2018, with a CAGR of 4.3% since 2014.

Government deposits grew by a CAGR of 5.8%, after the government increased deposits in 2016 to support liquidity in the banking sector.

The composition of deposits remained relatively consistent. The private sector was the largest depositor, with a share of 80% in 2018. It was also the largest contributor to deposit growth by value, accounting for over half of additional deposits over the past five years.

Government and overseas lending boost credit growth

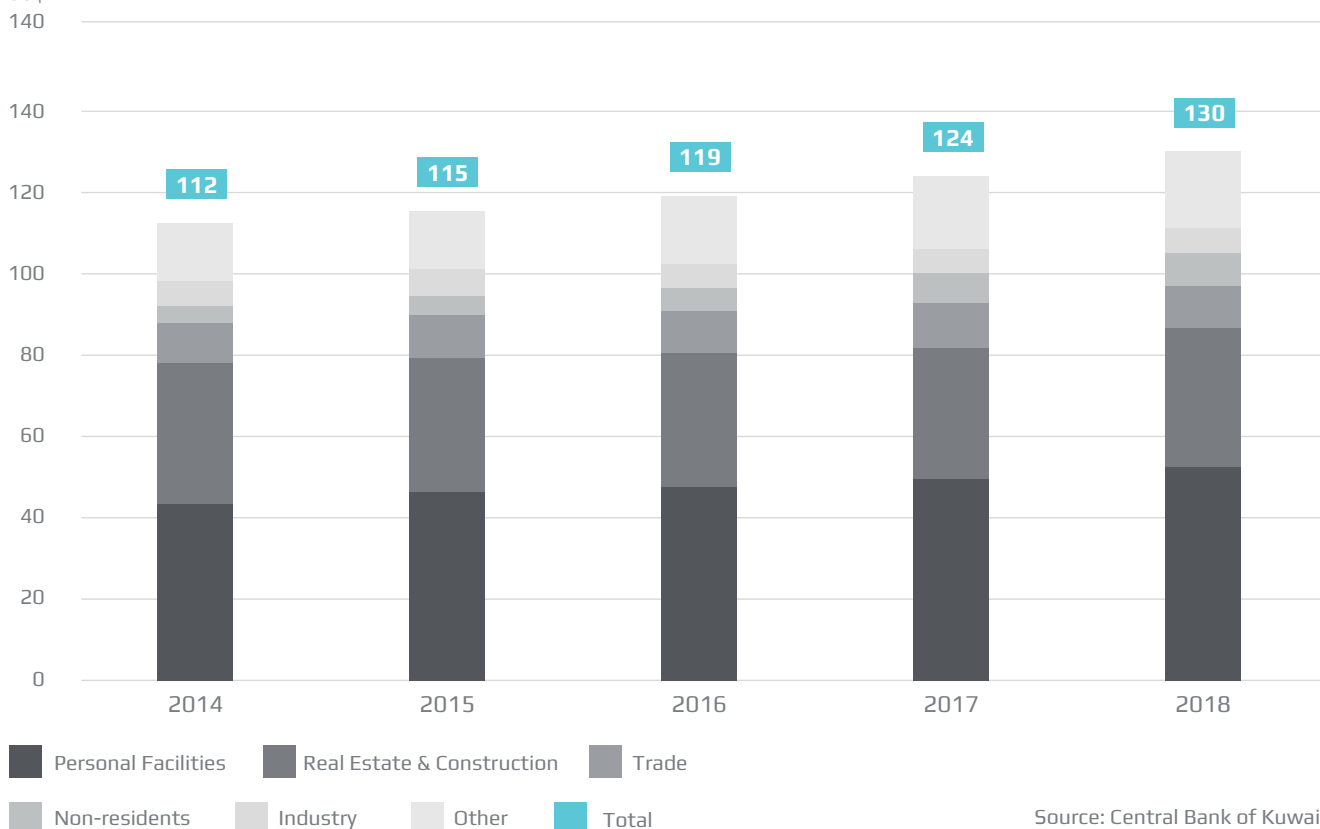
Total credit extended by local banks in 2018 amounted to \$130 billion. Banking credit has followed a similar growth trajectory to overall banking assets, with a CAGR of 5.2% from 2014 to 2018.

Loans/financing to the oil and gas sector were one of the main drivers of credit growth in Kuwait, seeing a CAGR of 42.2%. In 2016, credit to this sector more than doubled, as the oil price crisis continued to hit the balance sheets of oil and gas companies.

Personal credit facilities made up the largest share of banking credit in Kuwait, accounting for 40% of total credit facilities in 2018. This segment, dominated by personal loans/financing offered to employees, has witnessed healthy growth of 6.2% CAGR over the past five years, reflecting changing preference for low-risk borrowers.

Kuwait Local Bank Credit 2014-2018

US\$ Billion



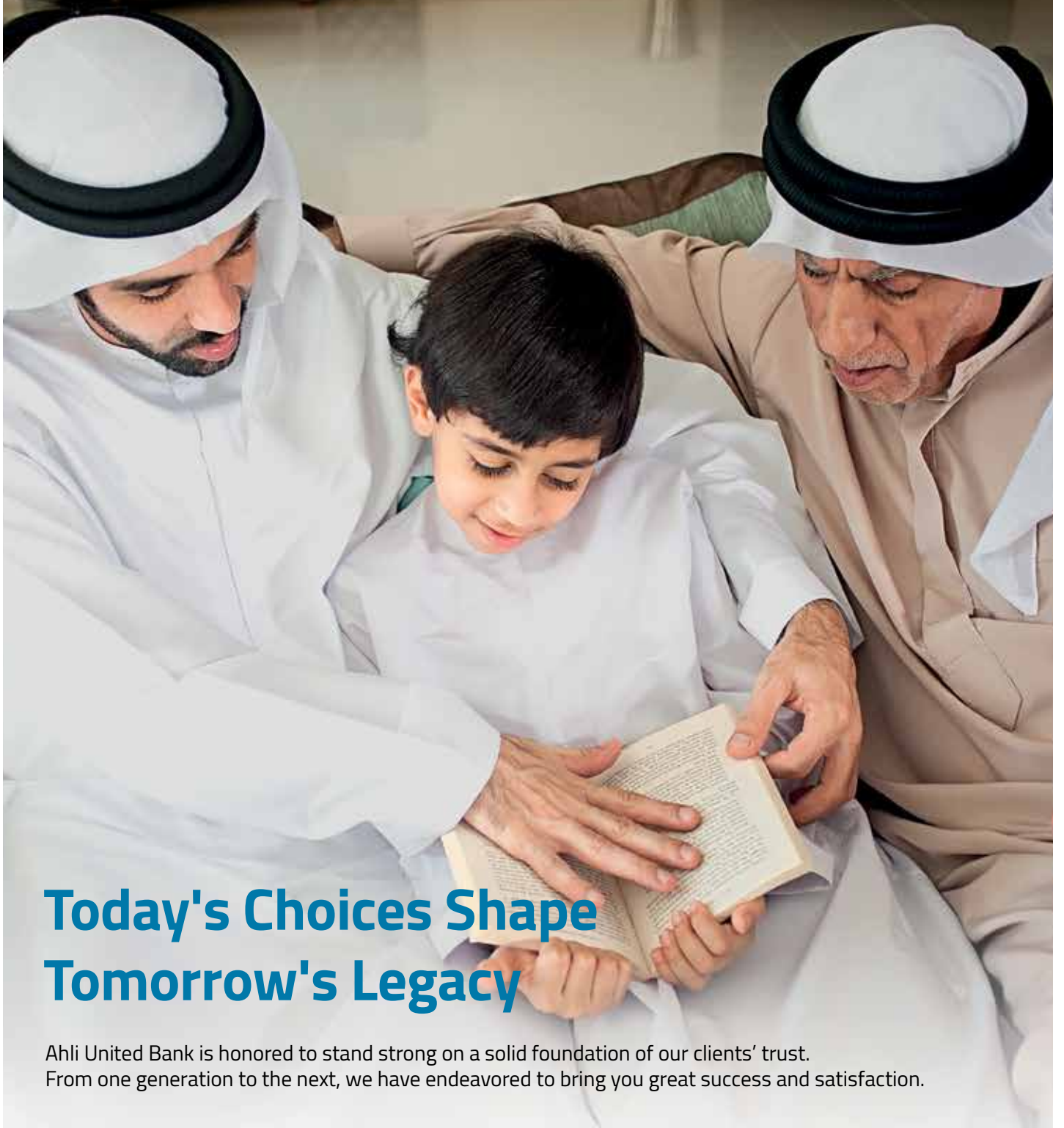
In November 2018, CBK amended regulations on granting personal loans/financing, which are expected to boost credit growth over coming years. Taking into consideration changes in the macro-economic landscape and customer demographics, these regulatory amendments increased the ceiling for consumer loans and Islamic financing. Consumer loans/financing facilities will have a maximum value set to 25 times the net monthly salary of the client, with a cap of KWD 25,000 (\$82,000). Housing loans, which comprised 74% of personal credit facilities in 2018, will be capped at KWD 70,000 (\$231,000). This brings the maximum borrowing for a single client to KWD 95,000 (\$313,000). In addition, monthly loan/financing instalments will be capped at 40% of the borrower's net salary.

Another development that will boost credit growth is the increase in public sector wages during 2019, as outlined in the draft budget for the 2019/20 fiscal year.

Tightening credit deposit gap, liquidity remains favourable

The credit-deposit gap (credit less deposits) gradually narrowed over the past five years as growth in credit outpaced that of deposits. Credit now amounts to 85% of the value of deposits, compared with 82% in 2014. Nonetheless, this gap remains favourable for liquidity conditions in the local banking sector.

An implication of this narrowing gap is that the banking sector might experience downward liquidity pressure if banks do not increase their deposits or diversify their funding bases over the medium-term.



Today's Choices Shape Tomorrow's Legacy

Ahli United Bank is honored to stand strong on a solid foundation of our clients' trust. From one generation to the next, we have endeavored to bring you great success and satisfaction.

البنك الأهلي المتحد

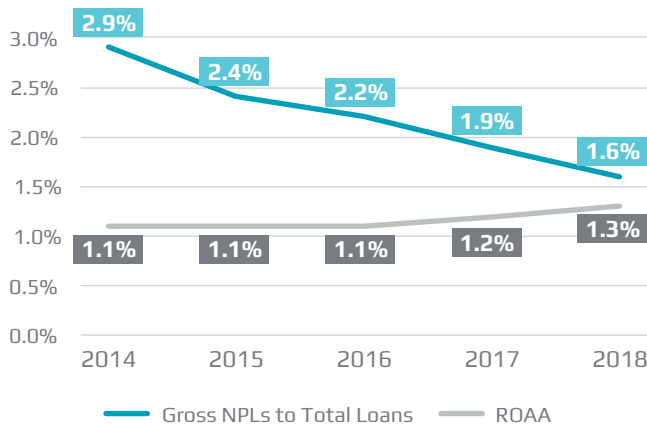


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Sector Performance

Financial Performance Ratios for Kuwaiti Banks 2014-2018



Source: Central Bank of Kuwait

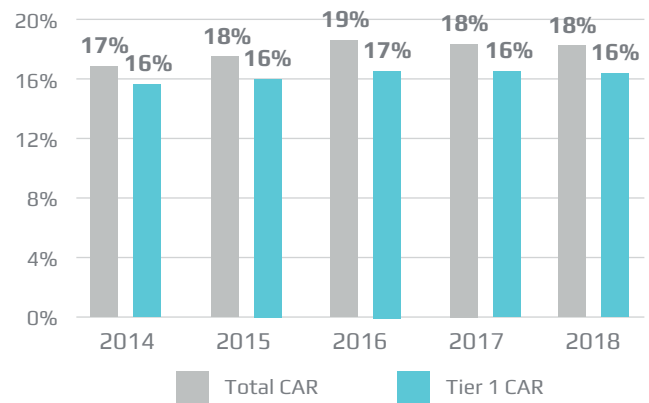
ROAA remains flat, NPLs see significant improvement

Kuwaiti banks saw a marginal increase in profitability between 2014 and 2018, with a consolidated return on average assets (ROAA) ratio of 1.3% in 2018, up from 1.1% in 2014. This increase in ROAA stems from stronger growth in net income during this period, compared to slower growth in Kuwaiti banks' consolidated assets. Considering bank-level data, the range of ROAA across Kuwaiti banks indicates intensified competition, which has forced banks to enhance their efficiency and provide better products and services to their clients. Nonetheless, this indicates the resilience of domestic banks' bottom lines in the face of a challenging global economic environment.

The quality of credit in the overall banking sector has also been impressive, as the ratio of gross non-performing loans (NPL) to total loans has steadily declined from 2.9% in 2014 to a record-low level of 1.6% in 2018. This is the result of the low credit exposure to the oil sector, and a high concentration in housing loans/financing, which has typically had the one of the lowest NPL ratios (1.6%) among major credit segments. The CBK introduced the previously mentioned regulatory amendments in 2018 to further contain this segment's exposure to default.

Kuwaiti banks have also built ample provisions from pre-oil crisis years, which have been subsequently used to write off already declining NPLs. The NPL coverage ratio has continued to increase, with NPL provisions covering 164% of NPLs in 2014 to 254% in 2018.

Kuwaiti Banks' CAR 2014-2018



Source: Central Bank of Kuwait

Stable capital adequacy, enhanced by Tier 1 bonds

Banks in Kuwait have long maintained robust capital adequacy, which has been supported by CBK's emphasis on financial stability. Kuwaiti banks have been required to comply with Basel III capital adequacy requirements since 2014. The consolidated Capital Adequacy Ratio (CAR) — total capital to risk-weighted assets — reported that year had declined to 16.9% from 18.9% in 2013. However, this had been due to the implementation of Basel III and the recalculation of CAR under the new rules. Nonetheless, CAR has picked up since then to reach 18.3% in 2018, exceeding CBK's requirement of 13% in line with Basel III standards.

The financial strength of Kuwaiti banks is mainly driven by Tier 1 capital, which accounted for 90% of total capital, and 16.4% of risk-weighted assets in 2018. CBK requires banks to maintain Tier 1 capital at a minimum of 11% of risk-weighted assets.

Moreover, some banks have made efforts to fortify their capital bases so they can remain in a comfortable position relative to the Basel III standards.

There have been several Tier 1 bonds and sukuk issuances by Kuwaiti banks in the past couple of years. In 2018, Al Ahli Bank of Kuwait issued \$300 million in perpetual Tier 1 bonds. Also, Ahli United Bank and Warba Bank both issued perpetual Tier 1 sukuk in 2017, worth \$200 million and \$250 million, respectively.

OPPORTUNITIES AND CHALLENGES FOR THE BANKING SECTOR

How do you see growth trends in banking in Kuwait evolving over the next five years?



Isam J. Al-Sager
Group Chief
Executive Officer



The banking sector in Kuwait has a key responsibility to support the country's ambitious infrastructure development plan and its 2035 vision. With that in mind, we should see banks becoming a major player in financing mega transactions across various economic sectors as part of the overall capital spending program.

On the other hand, the emerging trend in banking focuses on the digital agenda. Technology will play a significant role in banking growth going forward, especially considering Kuwait's young customer base and their growing digital needs. We expect banks to race in their innovation and technological advancement as this will attract growth towards the better performers.

Supporting entrepreneurship and the SME sector will also be a major growth driver as the private sector becomes more developed and the economy becomes more diversified. Banks should move from the pure intermediation role to add more advisory and relationship-based value-added services.



Tareq Mahmud
Acting CEO



We expect positive growth for the banking sector despite growing macro-economic risks, such as growing trade barriers/conflicts. Kuwait's economic outlook for the coming years is stable with positive growth, supported by sizeable reserves, low government debt and strong banking capitalisation and liquidity. Given this economic outlook, we expect banks will maintain moderate balance sheet growth over the next five years correlated with expected GDP growth.

Growth opportunities would be further accelerated should the economy benefit from diversification initiatives around the continued growth of the private sector and SMEs and the attraction of foreign direct investment.

In which business segments do you see growth opportunities for banks in Kuwait?



Mazin Al-Nahedh
Group Chief
Executive Officer



Backed by the New Kuwait Vision 2035, KFH supports and offers financing to several projects in vital sectors including infrastructure, healthcare and education. We see growth opportunities in all these business segments.

Supporting development projects, government infrastructure spending and private-public partnerships (PPPs) confirms the efficiency of Islamic finance instruments in providing financing solutions that meet customers' requirements. In addition, approving the mortgage law will increase growth prospects.



Elham Yousry Mahfouz
CEO



Technology advancements have touched many sectors, and Kuwait's banking sector is no exception. Banks are now focusing on digitising their services and expanding their reach to remote geographies. With this view in mind, digital banking services, such as mobile and internet banking, are defining banking services in Kuwait. More and more customers are subscribing to mobile and internet banking services and availing easy access benefits and various associated incentives.

More than 60% of Kuwait's population is below the age of 30. This generation is into technology and convenience and they prefer using the internet or mobile for their banking transactions and needs rather than visiting a bank's branch.

Kuwait's banks are steadily moving ahead in this direction with state-of-the-art banking technology driving their product and service offerings to their customers in a step to strengthen customer loyalty.

Do you expect current low oil prices and forecasts of a decline in global economic growth to impact Kuwait's banking sector? What measures can banks take to maintain their profitability and growth?



Adel Abdul Wahab Al-Majed
Vice-Chairman and
Chief Executive Officer



Kuwait has shown resilience to regional and global challenges and proved continuous commitment to its 2035 vision, to transform Kuwait into a financial and commercial hub, with the private sector at the core of this transition. Yet, more efforts are needed on different levels as no one is immune to global economic shocks.

Kuwait also needs to diversify its economy and improve its links to international markets. We believe that maintaining growth and profitability depends on two important pillars: an actively managed diversified credit portfolio and a prudent asset-liability management framework, supported by CBK's efforts to leading banks in achieving these goals.



Ali A. Khajah
Chief Executive Officer



In the next 3-5 years, oil prices might average around \$55-\$60, due to global economic slowdown among other factors. This would result in a moderate decline in public revenues, slower growth in government expenditure and GDP growth of 2.5%. Consequently, bank deposits and credit would see moderate growth of around 3%.

In the future, increasing competition between banks could reduce net credit income spread. However, growth and profitability of banks could improve, if Kuwait's economic development plans as well as government and regulatory reforms materialise. Banks have to address NPAs, technology changes, customer service and productivity issues, and control operating costs. Banks could pursue diversification of products, services and income sources as the trend everywhere. Our mandate will require expansion to match with Kuwait's development strategy.



EUROMONEY
AWARDS FOR EXCELLENCE
2019

Kuwait's Best Bank

Based on Euromoney magazine's
mechanism and standard

Other Insights

PPPs new driver for large-ticket financing

PPPs are beginning to gain traction in Kuwait with the implementation of major infrastructure projects under the New Kuwait Vision 2035. Extensive use of the PPP model is planned, with the primary objective of deepening the involvement of the private sector in Kuwait's economy. The PPP model will also reduce the financing burden on the government. An estimated one third of total capital spending under the development plan will come from private funding.

With several PPP infrastructure projects in the pipeline, banks in Kuwait have an opportunity to expand their corporate finance business through various credit facility offerings. In Kuwait's 2019/20 development plan, KWD 23.5 billion (\$77.8 billion) has been earmarked for 22 strategic projects, of which the private sector is expected to contribute KWD 988 million (\$3.2 billion), or 4%, through the PPP programme facilitated by the Kuwait Authority for Public Private Partnerships. With \$100 billion in upcoming project spending and mounting fiscal pressures, the Kuwaiti government is likely to assign a larger percentage of investments to the PPP programme.

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With several PPP infrastructure projects in the pipeline, banks in Kuwait have an opportunity to expand their corporate finance business through various credit facility offerings.

Underbanked SME segment, ripe with opportunity

The World Bank recently estimated that SMEs contribute just 3% to Kuwait's GDP, compared with an average of 50% in high-income and emerging economies.

The Kuwaiti government is looking to encourage investment in SMEs as part of its drive for economic diversification. In 2013, the government established the National Fund for Small & Medium Enterprise Development (the SME Fund) to support this business segment. The SME Fund was assigned capital of KWD 2 billion (\$6.6 billion), which is being used to finance up to 80% of the capital needs of eligible Kuwaiti-owned SMEs through low-interest loans.

As such, several banks have developed dedicated SME banking centres. Local commercial banks are also participating in the SME Fund's financing programme by providing the remaining 20% of capital through financing facilities. They are also responsible for the disbursement and collection of loans, and receiving service fees from the National Fund in return. The first SME Financing program was launched with Gulf Bank in February 2015.

As large companies increase their share of work in infrastructure projects, the need arises for smaller businesses to supply and serve them. The share of SMEs in overall lending has reached 2.8% in 2018, and it is estimated by the Kuwait Institute of Banking Studies (KIBS) that only 25% of SMEs in the country have obtained credit facilities, compared with a global average of 36%. This indicates there is plenty of room for growth in this area, even outside of the SME Financing Programme. To facilitate this growth, CBK has incentivised banks by using a preferential risk weighting of 75% for SME finance, compared with the standard risk weighting of 100%.

Moreover, it is estimated that only 48% of SMEs in Kuwait use banking services, compared with 77% globally. Commercial banks in Kuwait thus have the opportunity to tap the SME market not only through credit, but also through offering tailored financial products and services for this underserved segment.

التجاري Al-Tijari



Continuously Improving Generation After Generation

Commercial Bank of Kuwait develops to keep in pace with the modern generation's way of thinking and cultural orientations. Al-Tijari has always taken the lead in terms of banking services and product offering upgrading & enhancement while adhering to the past approach of customs and traditions.





Wave of consolidation hits Kuwait's financial sector

Consolidation has taken the GCC banking industry by storm in the last two years, as slow economic growth puts liquidity pressures on financial institutions. In Q4 2018, the financial sector accounted for the largest share (21%) of closed merger and acquisition deals in the GCC.

Kuwait in particular is seeing a round of M&A activity across the financial services industry, particularly in banking and asset management. In January 2019, Kuwait Finance House (KFH) and Bahrain's Ahli United Bank (AUB) agreed the terms of their impending merger, after resuming talks in 2018. This will be the region's first cross-border consolidation, which when finalised will form a new Islamic bank worth over \$94 billion in assets, making it one of the largest Islamic banks in the region.

Bank consolidation has traditionally been encouraged in markets with extremely high levels of banking penetration and a large number of banks as a means to restructure the banking system and improve the operational efficiency and financial stability of smaller banks. However, in this case, KFH initiated the move with the aim of building scale and expanding its network both regionally and internationally. The acquisition will increase KFH's reach in markets such as Egypt and the UK through AUB's strong global network. KFH expects the merger will immediately impact earnings, projecting a 90% increase in consolidated profits in 2019 from the previous year.

The consolidation trend across the GCC financial sector shows no signs of abating, and will likely continue in Kuwait in the short-term. By Q1 2019, the number of closed M&A deals in Kuwait has more than tripled from a year before, which has generated momentum for further deals in the coming year, particularly in the form of financial sector consolidation.

FUTURE OF BANKING IN KUWAIT

The accelerating pace of technological developments and their adoption by the public, in addition to increasing disruption from innovative financial technology (FinTech), has become a key driver of change in Kuwait's financial sector. These

developments have led the world's central banks, including CBK, to adapt their processes to make the most of the new technologies and to draw up regulatory frameworks that safeguard adoption by the financial industry.

CBK Transformation Strategy

CBK recently embarked on a strategy to promote innovation and transform the operational efficiency of both CBK and the country's financial institutions. The strategy primarily focuses on employing digital technologies to automate and re-engineer CBK supervisory processes, making them more agile and adaptive, and laying the groundwork for the future implementation of artificial intelligence and Supervisory Technology (SupTech).

This has become particularly important with FinTech gaining traction in Kuwait in recent years, which has raised concerns that these firms will need to be monitored and supervised to mitigate any risk to consumers and the broader economy.

Witnessing the fast growth of electronic payment channels, CBK issued Instructions for Regulating the Electronic Payment of Funds in 2018. These regulations ensure that a safe and secure ecosystem is maintained.

Considering these potential risks, CBK has continuously developed its Cyber Security Framework to safeguard the banking system and boost trust and usage. As it has been working towards obtaining an international security certificate, CBK has also instructed all banks in Kuwait to acquire the cer-

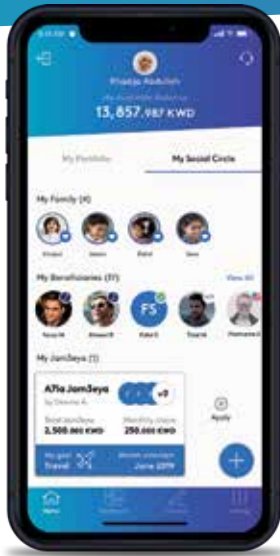
tification. At a regional level, CBK is spearheading a GCC-wide Cyber Security Framework that would allow seamless security information sharing across the region, protecting GCC banking assets from cyber threats.

Enhancement of supervisory structure

CBK has established new units that will be supporting two of its key initiatives. CBK established a dedicated FinTech Unit, which will be supporting the FinTech Regulatory Sandbox. This unit is tasked with managing all processes from the application stage to post-launch follow-ups, in addition to preparing research studies on FinTech, issuing instructions related to FinTech and e-payments and registering Electronic Payment Infrastructure Providers (EPIPs) and Electronic Payment Agents (EPAs).

The other unit is the Electronic Payment and Settlement Systems Supervision Unit. This unit is mandated with supervising the Electronic Payment Infrastructure Providers (EPIPs) and Electronic Payment Agents (EPAs). It is also responsible for performing quality assurance activities, by conducting on-site inspections, to enhance the safety, security, efficiency and the quality of the Electronic Payment and Settlement Systems.





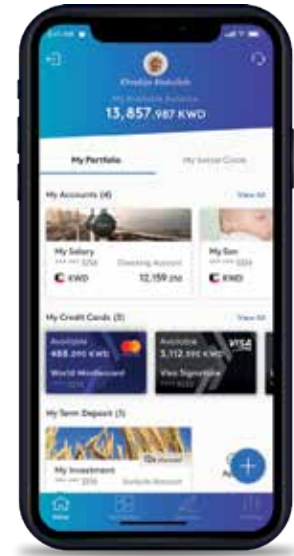
Social Circle

Manage your family's finances, add beneficiaries and start a Jam3eya to save with friends



Spending Dashboard

See the breakdown of your spending and make smart decisions



My Portfolio

View your available balances and track your accounts, cards, term deposits and financing



Social Circle

Manage your family's finances, add beneficiaries and start a Jam3eya to save with friends



Quick Action Buttons

Easily top up your card, request money or transfer funds



Split Bill

Split your bill with your friends and track who paid and who hasn't

The first digital Jam3eya is here!

Never have to chase people for your share again.



Customize Your Jam3eya

Select your personal goal for your own Jam3eya.



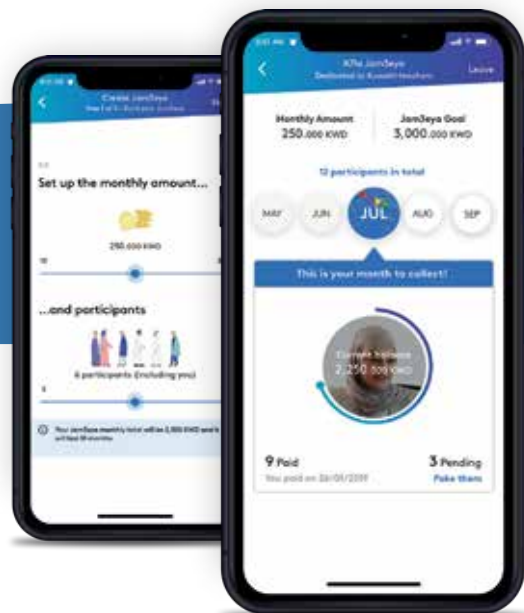
Invite Your Friends

Choose the ones that you trust the most and invite them to begin a digital Jam3eya.



Create Your Jam3eya

Set up the monthly amount, number of participants, and share with your friends.



Regulatory Sandbox

Nurturing the FinTech phenomenon

In November 2018, CBK launched its own Regulatory Sandbox. The primary objective of the Regulatory Sandbox is to aid the development of innovative FinTech solutions through lighter regulatory and licensing requirements, until the safety and soundness of the new products are strong enough for them to be launched in the mainstream market. The framework provides an appropriate controlled environment that allows for experimentation of new applications and technologies without stifling innovation.

The sandbox is open to a variety of entities, ranging from traditional financial institutions testing new technologies to start-ups exploring niche segments in FinTech. In terms of regulating sandbox participants, CBK follows a scaling approach that differentiates between larger sophisticated institutions (such as banks) and entrepreneurial start-ups. Regulation and supervision are tailored proportionately according to the risks inherent in different models, favouring smaller, less complex, or less risky firms.

Participants in Kuwait's Regulatory Sandbox will need to pass through four distinct stages over a maximum period of one year, in which their solutions are assessed by a CBK taskforce together with representatives of local banks. These stages are: application, evaluation, experimentation and accreditation. During this time, the sandbox offers participants several benefits to enhance their efficiency, competitive advantage, and risk management and compliance. These include:

- Reducing the routine time-cycle for launching developed products and services through fast-track approvals;
- Reducing costs through lower capital requirements;
- Facilitating the testing of developed products and services before they are deployed to the market;
- Offering advice on appropriate operating models and information security effectiveness;
- Facilitating complete compliance with all CBK-relevant regulations to the deployment of the proposed product or service.

Stages of Kuwait's Regulatory Sandbox

The duration to complete all stages of the Regulatory Sandbox is a maximum of one year, with the availability of an extension based on CBK discretion.



Application

Potential participant submits the Regulatory Sandbox application form to CBK, along with the required documents, as per application guidelines stated on the CBK website.



Evaluation

CBK thoroughly evaluates the application from all technical, security and regulatory aspects related to the proposed product or service.



Experimentation

CBK, in collaboration with the participant, initiates technical and operational testing of the proposed solutions in an appropriate controlled environment.



Accreditation

CBK grants either an approval or rejection for the deployments of the proposed solutions in the local market.

* Applicants / participants wishing to exit the Sandbox during any stage are to officially notify CBK in writing with the necessary justifications and clarifications.



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THE FUTURE OF BANKING

In your opinion, how can innovation help shape the future of banking in Kuwait? How are you leveraging innovation to achieve your bank's potential?



Antoine Daher
Chief Executive Officer



New technologies and digital adoption have led to innovative ways of delivering banking services to customers. To adapt to clients' evolving preferences, banking products and services are becoming increasingly personalised. We have been a pioneer in adopting digital services to make banking a pleasurable experience for our customers. Some of our industry-leading initiatives include the Introduction of face recognition (biometric) technology as a security feature to log into our banking application, and the provision of robo-advisory wealth management services through our WISE Investment Platform. We have also revamped our marketing strategy with an enhanced focus on mobile and digital platforms to better engage with the youth segment.



Shaheen H. Al-Ghanem
Chief Executive Officer



Innovation is disrupting markets all over the world and Kuwait's banking industry is not immune to such disruptions. In fact, innovation even transforms the very principles that guide economic growth and business competition. The rules that govern success and failure are changing because of innovation, and Kuwait is no exception to this global phenomenon.

At our bank, innovation has been the key enabler for differentiation through our unique offerings. We endeavor to continuously evolve the banking landscape through innovation. We have recently launched Al-Wateen — our digital factory that will revolutionise the digital banking space. We also host The Rowad Innovation Program — an in-house incubator designed to foster an innovation culture that is unprecedented in Kuwait.

As digital transformation sweeps the banking sector in Kuwait, what are the new risks facing Kuwaiti banks as a result? What measures is your bank taking to mitigate these risks?



Masaud Mahmoud Hayat
Group Chief Executive Officer



Banks can no longer wait to pursue successful growth strategies, as digital disruption will have an unprecedented impact on the financial sector. Banks have to accept the digital revolution to drive growth and meet changing customer expectations. Digitisation is redefining efficiency in banking and making possible entirely new ways of doing business and driving growth. The reality is that the move towards the "new digitally driven organisation" — to a more customer relevant, digitally-enabled growth model involves many difficult strategic choices that the bank will need to decide.

We have undertaken multiple initiatives to become a digitally-driven organisation. First, we set up a Board Digital Committee which will work with management to implement the various initiatives and also to bring the digital culture within the bank. Second, we are constantly assessing the needs to the customers through focus groups and surveys so as to redefine products and services. And, lastly, we have embarked on imparting appropriate training to our staff to face the new future.



Michel Accad
Group
Chief Executive Officer



Kuwait's banking sector has moved along with the international banking trend of providing digital banking solutions, including chat-bots, blockchain-driven digital payments, execution of processes through robots, cloud services, data lakes, and uses of artificial intelligence. However, these solutions also introduce a number of risks and vulnerabilities such as cybersecurity, which is one of the key initiatives in our digital banking strategy for 2018-2020.

The levels of protection that were acceptable just a few years ago are no longer adequate. Traditional threats like scamming, skimming and phishing still exist, whilst other more sophisticated cyber-threats like Advanced Persistent Threats (APT), DDOS and Ransomware are constantly evolving.

We mitigate these risks by implementing several measures:

- Ensuring regulatory compliance requirements,
- State-of-the-art technological tools to protect against traditional as well as evolving threats
- Ensuring our staff has the proper people skill sets to implement and monitor
- Ensuring business processes and cybersecurity policies and procedures are constantly revised and updated
- Continuously educating our staff and customers and raising awareness

How do you see FinTech shaping the future of the banking sector, particularly in Kuwait? What actions need to be taken by financial institutions in this respect?



Elham Yousry Mahfouz
CEO



With the increased use of smart-phones and the development of appropriate tools and platforms, FinTech has managed to penetrate the market, offering products and solutions such as e-payments and online trading. Traditional banks had previously claimed such solutions were not feasible substitutes for traditional banking services. Regulation may have slowed down FinTech growth so far, but things are moving forward in reshaping the industry's status quo.

With FinTech, our bank can offer new products that are relevant to its customers' needs in such a way that will help in saving time, improving compliance and offering better client experience.



Raed Jawad Bukhamseen
Vice Chairman and
Chief Executive Officer



The combination of open platform banking and open APIs will become the backbone of all services provided in the banking sector. With public APIs, customers will have more options to interact with their financial services providers; partnerships that will shape innovation and customer experiences. We plan to maintain momentum and shift to the upcoming banking trends in collaboration with third-party service providers. Looking forward, digitisation is paramount to us; the traditional business model of retail banks will become obsolete and a balanced approach from traditional banking to digital innovation is essential. Banks will need to enhance their operational systems to support a more agile infrastructure, reinventing back office processes and develop aging infrastructures.



How do you see FinTech shaping the future of the Islamic banking sector, particularly in Kuwait? What are the key challenges Islamic banks face when embracing FinTech (Sharia etc)?



Mazin Al-Nahedh
Group Chief Executive Officer



FinTech has been shaping the future of Islamic banking in Kuwait and the world as digitisation will play a vital role in the field of e-payments and transactions. Banks also could use it in the best interest of their customers. Furthermore, it is becoming a key source of customer service enhancement.

Banks are increasing their investment in FinTech start-ups to launch e-services that are becoming more efficient and more error free than the traditional banking services. As such, Shariah-compliant FinTech is becoming an increasingly visible part of the global FinTech landscape, and Kuwaiti Islamic banks proved the success in achieving leadership in embracing FinTech in their operations and banking services.



Tareq Mahmud
Acting CEO



FinTech offers a tremendous opportunity to improve the Islamic financial services industry, and we are only at the beginning of this journey. There remain 'clunky' mechanisms and procedures that have not adapted to the opportunities that technology offers.

Key challenges Islamic banks face include:

- Traditional hierarchies and rigid cultures will struggle to progress the organisation. Dynamic leaders are required, who can cope with ambiguity.
- Some banks still insist on developing all solutions 'in-house'. A partnership and collaborative culture is key to support the opportunities technology offers.
- Ensuring that technology is developed that is specifically tailored to improve the processes around Shariah-compliant banking — without compromising on the ethical nature of Islamic banking. This requires extra vigilance and scrutiny.



VIVR

Visual Interactive Voice Response

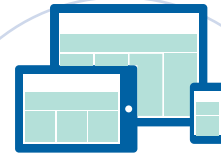
Pushing the boundaries of conventional, voice interactive voice response with visual menus.



1866866

Contact Center

Providing assistance to customers around-the-clock through Interactive Voice Response, Computer Telephony Integration and the invaluable human touch.



Multi-purpose Website

UX/UI that place the customer at the center of all the action with 24/7 voice and video chat.



UAD

The new KIB Unified Agent Desktop

Agents can now rely on a single, web-based application to provide quick and consistent answers.

Digital services for world-class banking



Cardless ATM Withdrawal

A convenient service that enables customers and non-customers to withdraw cash using a mobile number or a Civil I.D.



USSD

First of its kind in Kuwait. USSD allows customers to view account balance, transfer between accounts and more without Internet connectivity.



Web Accessibility (WAI)

Meets the banking needs of everyone, regardless of their language, location or even physical or mental ability. With features like text-to-speech, visitors can listen to the website content.



Mobile & Online Banking

The convenience of banking at your fingertips. Top of the line security keeps your information safe with KIB mobile banking App and online banking.

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CBK Initiatives

CBK has also embarked on several other initiatives aimed at revamping and upgrading the IT infrastructure, policies, processes and procedures underlying the operations of financial institutions in Kuwait, in line with global best practices.

Kuwait National Payment System

The Kuwait National Payment System (KNPS) is a strategic initiative led by CBK, in collaboration with local banks and Kuwait payment gateway service providers establish an advanced payment and settlement system infrastructure. The rollout of this project is planned over two phases in 2020 and 2021.

KNPS' key objectives include:

- Promoting and strengthening financial stability and inclusion.
- Safeguarding the cybersecurity of the payment systems infrastructure
- Enhancing customer experience through modernised payment processes
- Boosting the expansion towards integration with other countries' payment systems

The KNPS comprises a number of systems designed to improve the efficiency and stability of the country's financial system, and develop its infrastructure to accommodate future industry needs.

- 1. Automated Clearing House System (ACH)** — accepts and processes a wide set of payment streams, including different types of direct debit and credit.
- 2. Wages Protection System (WPS)** — facilitates and guarantees the deposit of wages to the beneficiaries' bank account in a timely manner, and maintains an official record of wages information for both public and private sectors.
- 3. Mobile Payment System (MPS)** — provides an instant payment service (Instant Fund Transfers — IFT) for financial institutions and individuals.
- 4. E-Bill Presentment and Payment System** — offers a centralised bill mechanism that allows bill aggregation and dealing with various aspects such as online bill payments.

5. Dispute Management System — allows banks to create and exchange payment dispute cases and offers secure and intelligent end-to-end digital case management.

6. Retail Payment System (RPS) — manages high volume, low value account-based electronic payments for retail transaction around the clock.

7. Real-Time Gross Settlement (RTGS) — allows participants to make high-value remittances, offering all functions of the next generation RTGS that includes advanced reporting tools with enhanced monitoring, liquidity management, and built-in tools for integration with external applications.

8. Central Bank Digital Currency System (CBDC) — enables the issuance and circulation of the Central Bank Digital Currency and its integration into Kuwait economy.

This CBDC infrastructure is under development to ensure the Digital Dinar can be launched quickly by CBK should it choose to do so. This will offer an acceptable means of exchange with a lower cost of issuance. Furthermore, CBDC guarantees a high level of accuracy in applying monetary policies and liquidity forecasting with the ability to determine the volume of cash in circulation. Plans for a national cryptocurrency are currently pending.

Other Initiatives

Further regulatory development initiatives in CBK's pipeline include the Open Banking Framework, which will empower clients by making comprehensive information on their financial standing across multiple banks readily available. Another future initiative is the E-KYC framework, which will facilitate easy and efficient electronic account opening processes for individuals. CBK will be collaborating with government bodies and local banks to ensure the accuracy of the data repository being built to feed into the system.

Cross-border infrastructure efforts include coordinating with other GCC central banks on the GCC Real Time Gross Settlement System (RTGSS), and working with over 20 countries on the Arab RTGSS, which will significantly reduce transfer times from days to minutes.

CAPACITY BUILDING FOR THE FUTURE

Capacity building by CBK and Kuwaiti Financial Institutions

CBK provides opportunities for its staff to participate in local and international training programmes as part of its commitment to capacity development.

In January this year, CBK in collaboration with local financial institutions and KIBS partnered with Harvard Business School to present an executive education programme for banking and finance executives in the GCC region, which it first introduced 10 years ago. The six-day programme, which focused on strategic management and leadership, was aimed at executives in the upper middle levels.

CBK offering postgraduate scholarship and development programmes

As part of CBK's commitment to social responsibility, CBK offers MBA and MSc scholarship programmes for local graduates. These Master's degree scholarships are mostly offered in collaboration with local banks.

CBK also offers the Kuwaiti Graduates Development Programme, which supports local banks in hiring fresh graduates and developing the competencies they will require for a career in banking. The one-year programme includes in-class training supported by e-learning courses as well as field training at Local banks. There are also opportunities for field training at banks overseas.

Also overseas, KIBS in collaboration with the Management Centre Europe (MCE) offers a five-day mini MBA training programme for the banking sector. This is aimed at graduates to implement what they learnt during the programme to drive positive change and development within their respective work places.

KAFAA Initiative

KAFAA is a strategic CBK initiative aimed at building a highly-qualified national workforce with the necessary knowledge and skills to develop the banking sector and enhance the strength of the national economy. The Kuwaiti initiative targets recent Finance and Economics graduates, providing them high quality training in line with international standards.

The initiative seeks to employ the training and development experience of KIBS and local banks in a comprehensive program.

The programme covers areas including banking, information security, Shariah supervision and postgraduate studies at the world's most prestigious universities.

Middle East Centre for Economics and Finance (CEF)

The Middle East Centre for Economics and Finance (CEF) was established in Kuwait in 2011 in partnership with the IMF. Its aim is to build capacity in Arab League countries through hands-on training of policy-makers and by organising conferences, symposia and seminars. Since its inception, the CEF has offered over 200 courses and provided training to over 6,000 officials across 22 countries. In 2017, CEF introduced an online course, Financial Programming and Policies (FPP), in partnership with US online course provider edX and the IMF's online learning programme, IMFx.

New wave of AML compliance training initiatives

There have been several new initiatives in building capacity in the anti-money laundering (AML) compliance space. The Union of Arab Banks in 2018 held a training session on AML compliance in the new age of FinTech, which was attended by employees of various regional banks. The session was aimed at enabling bank employees to identify threats of money laundering and fraud in FinTech companies and blockchain-enabled transactions.

Capacity building using blockchain technology for banking

This year, CBK has organised a global finance roundtable in participation with Kuwait Finance House, Boubyan Bank, National Bank of Kuwait, Al Ahli Bank, Ahli United Kuwait and Kuwait International Bank among others to discuss such topics as how banks can work together on digital innovation. It was concluded that FinTech adoption is a key priority that will need to be integrated into existing banking systems.

Such integration initiatives include Kuwait Finance House partnering with regional start-ups to introduce FinTech capabilities into its banking services. Also, National Bank of Kuwait is working with CBK to develop cyber security programmes for Kuwaitis that can protect banks and their customers from external cyber-attacks.

To prepare employees for digital transformation, CBK employees have undergone an intensive training programme on information security in the banking sector.

Cyber Security Leaders Program (CSLP)

In 2017, CBK launched the Cyber Security Leaders Program (CSLP) — a six-month specialised training programme that qualifies Kuwaiti professionals in Cyber Security, in line with global best practice in information security. The programme aims to equip these professionals to support their organisation to face the Cyber Security challenges and to be the future leaders in this field, in line with the New Kuwait Vision 2035.

Managed by KIBS, the programme is conducted between Kuwait and the UK and comprises three phases following various training methods including e-learning, simulations and practical lectures.

CBK and Kuwait Banking Association Awareness Strategy Project

The Kuwait Banking Association regularly works with CBK on roundtable discussions with domestic and international banks operating in Kuwait to develop the local banking sector, by enhancing relationships between local, regional and international banks and reinforcing the country's monetary and financial systems.



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CAPACITY BUILDING INITIATIVES

Where do you see a skills gap in the existing banking workforce in Kuwait? As a bank, what are you doing to provide the necessary training for your employees?



Raed Jawad Bukhamseen
Vice Chairman and
Chief Executive Officer



Priority is given to smart, intelligent and virtual training outside of traditional staff development in preparation for FinTech and digitisation. A combination of training a workforce in core banking competency and seeking expert help forms the foundation. Should that be sourcing specialists in hospitality or the technology sector, advanced consultants need to be used in collaboration to empower staff and change their mindsets. Investment in technology, information security, risk and compliance will support an agile banking environment and future banking platforms. The banking workforce in Kuwait must respond to emerging technology with constant analysis of core competency and development.

What role do educational and training institutions need to play to continue to support the growth and development of the banking sector in Kuwait?



Ali A. Khajah
Chief Executive Officer



Educational and training institutions should offer programs that will accelerate skill development in major sectors of the economy, government and financial institutions. The skill base of the current staff and future recruits for banks in areas such as technology, risk, compliance, project credit and commercial banking in specialised areas, leadership, planning and management require significant enhancements and attitudinal re-orientation of the local workforce. Kuwait's universities and institutions should be in continuous dialogue with their beneficiary organisations, such as banks, to offer more relevant human resources development programs. A national level co-ordination mechanism for this will be useful.



Adel Abdul Wahab Al-Majed
Vice-Chairman and
Chief Executive Officer



Digital technology is ever evolving, and at an alarming pace where economists call this era the Fourth Industrial Revolution. Educational and training institutions are vital players in this transformation, and they need to work hand-in-hand with the banking sector to understand its needs and design programs and degrees to satisfy these needs. Change is inevitable, and we choose to adapt and harness the benefits of technology and put in efforts with educational and training institutions. It is the balancing act which creates an enabling environment for FinTech firms to operate and grow, while still protecting consumers and the financial system of Kuwait.

How do you see the skill sets required by the banking sector in the future? What initiatives do different stakeholders need to focus on to address the skill gap?



Michel Accad
Group
Chief Executive Officer



With the advent of Machine Learning and AI taking over many of the routine banking activities, the skills will change from monitoring, to tuning the technology. Competent IT skills are primary for efficient digital banking project rollouts and ongoing enhancements. In parallel to the technological developments towards digital solutions, we need to maintain and protect our customers and systems from the cybersecurity threats emerging, thus a greater need for competent cybersecurity human resources.

Other stakeholders, such as back office support and front-end (customer interaction) business areas, require continuous awareness of both, growing threats in the market and the risks related to their business processes. It is imperative that the senior executive management team and HR departments to implement a strategy by which stakeholders engage regularly in the latest e-learning security awareness tools, and local and international security training and workshops.



Shaheen H. Al-Ghanem
Chief Executive Officer



Given that Kuwait's banking landscape is everchanging, the skills that are most required are those which can help banks harness the disruptive technologies which often compel us to evolve. We believe Kuwait is home to tremendous talent who possess the right mix of skills, who only need to be welcomed into the banking sector. Instead, these individuals flock to other industries because banks have not collectively demonstrated a real desire to hire creative thinkers and problem solvers. In this age of digitisation, Kuwaiti banks must do more to spark the imagination and ingenuity of our talented youth to draw them into the industry, and CBK must continue to create the right environment that promotes such skills.

The Banker & Global Finance has recognized
Boubyan Bank as Best Islamic Bank in Kuwait



KUWAIT



Initiatives by Academic Institutions

CBK provides funding for the CEF and KIBS as part of a government initiative to develop human capital in banking and finance through various training programmes and professional certificates.

KIBS was established by CBK in 1970 as its educational arm for developing capacity in the banking and finance sector. The institute provides professional certificates, and workshops in credit management and bank branch management. It also partners with global professional certification bodies to provide exam preparation classes. To reach a wider student base, the KIBS has also introduced an e-learning platform — “Blended Learning”.

Topics covered by KIBS include: auditing; banking laws and operations; Islamic banking and finance; credit administration and management; risk management and treasury operations; and investment. The institute conducts customised workshops on behalf of banks for training in general management and the functional skills required by bank staff. In 2018, KIBS also introduced a scholarship programme that allows Kuwaitis to pursue postgraduate Masters degrees.

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CBK provides funding for the CEF and KIBS as part of a government initiative to develop human capital in banking and finance through various training programmes and professional certificates.

Partnerships between Kuwaiti universities and international certification bodies

Kuwaiti universities have formed strategic partnerships with international certification bodies to develop human capital in Kuwait’s finance sector. In 2017, the Chartered Institute for Securities and Investment (CISI) partnered with Gulf University for Science and Technology (GUST) to provide courses in capital markets and money management.

In 2018, Boursa Kuwait entered into a strategic partnership with the global investment professional association — the CFA Institute — to educate Kuwaitis on the fundamentals of stock market investment. The course’s content was adapted from CFA Institute’s Investment Foundations Programme and was made available to Boursa staff and the wider public via the stock market’s digital education portal, Boursa Academy Online. Boursa Kuwait also provided a virtual trading system to help students learn trading techniques in a practical environment. The learning experience will be a combination of video lectures, live lectures and demonstrations of trading on the Boursa platform.

Other capacity development through financial and academic partnerships

KIBS has partnered with Kuwaiti Islamic bank Boubyan Bank to offer graduates a programme theoretical and practical training programme to prepare them for a career in banking.

KIBS has also collaborated with the Union of Arab Banks to run specialised workshops on global developments in common reporting standards, with specific reference to the challenges faced by Kuwaiti financial institutions.

In 2018, Gulf Bank partnered with the PACE centre at the Gulf University for Science and Technology (GUST) to organise a programme aimed at enhancing retail bank branch managers’ skills and knowledge. The programme was aimed at helping bank managers identify business growth opportunities at their branches and develop the capacity of branch staff.

Similarly, Kuwait International Bank runs its own in-house training programme on Islamic banking that provides an in-depth overview of Islamic investment products.

Partners in Industrial Development



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Other Strategic Initiatives in Capacity Building

Markaz's initiatives in creating an economically productive and sustainable financial market

Asset management and investment banking institution Kuwait Finance Centre, also known as Markaz, has engaged in a number of initiatives to help the country's financial markets become more inclusive, economically productive and sustainable by identifying key areas of improvement within the banking sector.

Markaz is also collaborating with the Organization in Kuwait for Youth Development, 'LOYAC', to prepare young people for a sustainable future. The partnership is aimed at building human capabilities, aligning the business environment with principles of sustainable development, and promoting good governance. It plans to train 22,000 Kuwaiti students a year.

Besides this, Markaz is working on other youth initiatives towards a sustainable future such as through science, technology and innovation knowledge transfer, which it is doing in partnership with KDIPA.

Islamic banking and finance workshops

CBK's educational arm, KIBS, has organised various training workshops to equip bankers with the necessary skills for a career within the growing area of Islamic banking and finance. In collaboration with the General Council for Islamic Banks and Financial Institutions (CIBAFI), KIBS in 2007/08 introduced the Certificate of Islamic Banking and Financial Services, through which successful students receive an Advanced Professional Diploma in Islamic Finance. KIBS and CIBAFI have also collaborated to introduce the Certified Islamic Specialist in Sharia Auditing certificate.

KIBS also offers the Islamic Finance Qualification (IFQ), which was introduced in partnership with Beirut business school École Supérieure des Affaires and the Chartered Institute for Securities & Investment.

In May 2017, CBK organised a workshop with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to develop Islamic banking and financial capabilities at financial institutions in Kuwait.

In 2018, a seminar was hosted by CBK in collaboration with the International Islamic Financial Market (IIFM) on Islamic hedging, liquidity management and Sukuk.



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