بنك الكويت المركزي
CENTRAL BANK OF KUWAIT

Financial Stability Report 2024

بسم اللّه الرحمن الرحيم

The Amir of the State of Kuwait

H.H Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah

The Crown Prince of the State of Kuwait

H.H Sheikh Sabah Khaled Al-Hamad Al-Sabah

The Prime Minister of the State of Kuwait

H.H Sheikh Ahmed Abdullah Al-Ahmad Al-Sabah

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PREFACE

Basel A. Al-Haroon
Governor of the Central Bank of Kuwait,
Chairman of the Board of Directors

Geopolitical pressures continued to influence the global economic landscape throughout 2024, posing a major concern for financial markets. However, the easing of inflation rates enabled central banks to begin gradually loosening their monetary policies. In this context, global economies maintained a steady growth trajectory, albeit with signs of deceleration in some markets. Interest rates remained relatively high, reflecting policymakers' ongoing efforts to strike a balance between controlling inflation and supporting financial and economic stability.

On the domestic front, the national economy faced several challenges amid declining oil prices. Nevertheless, the Central Bank of Kuwait (CBK) continued to adopt a prudent approach in managing monetary policy. This approach was grounded in a careful assessment of both local and global developments to maintain the delicate balance between preserving the attractiveness of the Kuwaiti Dinar and promoting sustainable economic growth. Efforts also continued to enhance the efficiency of fiscal policy in support of long-term sustainability and economic stability.

In line with the Central Bank of Kuwait's commitment to transparency and public disclosure, the 13th edition of the Financial Stability Report for 2024 presents key developments in the domestic banking sector. The report highlights the sector's continued ability to fulfil its role in the national economy, underscoring its resilience and capacity to withstand future shocks. It also sheds light on major developments in the payments infrastructure and its role in improving the efficiency of financial services and fostering digital transformation.

This report provides a comprehensive analysis of global and domestic economic developments, alongside key economic indicators and an overview of the performance of major markets. It also presents an outline of Kuwait's financial system, with a focus on the structure and key developments within the domestic banking sector over the course of the year. The report examines the risks facing the banking sector—particularly credit, liquidity, market, and operational risks—from various angles. Furthermore, it assesses the soundness of local banks through a thorough evaluation of banking sector profitability, capital adequacy, and the robustness of local payment systems and financial infrastructure.

In conclusion, we pray to Allah the Almighty to grant success to our efforts and endeavours and to enable us to achieve the welfare of our beloved country, under the patronage of His Highness the Amir, Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, His Highness the Crown Prince, Sheikh Sabah Khaled Al-Hamad Al-Sabah, and His Highness the Prime Minister, Sheikh Ahmad Abdullah Al-Ahmad Al-Sabah, may Allah bestow on them good health and continued success.

Coverage & Data Conventions

This Financial Stability Report primarily examines the performance of the key components of the local financial system for the calendar year ended 31 December 2024. All amounts are in Kuwaiti Dinar (KWD) unless otherwise indicated.

When referring to the banking system, data is on a consolidated basis, including both conventional and Islamic banks in Kuwait, their subsidiaries and branches abroad, along with one specialized bank. Due to some data limitations, we have not covered the performance of 11 foreign branches in Kuwait (which account for about %2.4 of the consolidated banking system). Therefore, readers are cautioned that our consolidated banking system data differs from the Kuwait only data that is available on the Central Bank of Kuwait's website.

Data Sources: The report relies on data from CBK, the International Monetary Fund (IMF), Thomson Reuters, Bloomberg, Boursa Kuwait, the Ministry of Justice, and the Ministry of Finance.

Executive Summary

The global economic landscape in 2024 marked a shift from the tightening cycles of the years 2022 and 2023, as central banks across major economies began to cautiously ease monetary policy in response to a notable decline in inflation. Although inflation remained above target in many regions, the moderation from peak levels allowed for a more accommodative stance. Meanwhile, the continued surge in artificial intelligence innovation captured investor interest and underpinned strong equity-market performance, reflecting expectations of future productivity gains. However, the optimism was tempered by rising geopolitical tensions, including escalating conflicts in the Middle East and Eastern Europe, which contributed to market unease. This uncertainty was further compounded in the latter part of the year by volatility surrounding the U.S. presidential election, as global stakeholders assessed the implications of different electoral outcomes.

On the domestic front, monetary and inflationary trends generally mirrored those seen globally, albeit with less intensity. This was largely due to Kuwait's prudent approach in managing inflation over the past two years, avoiding excessive rate hikes. The economic picture, however, was dampened by declining oil prices, which led to a contraction in GDP due to reduced oil revenues. Despite this, local sentiment remained positive, buoyed by encouraging political developments that suggested a reduced likelihood of legislative gridlock and a renewed focus on structural reforms. Investor confidence was also supported by the government's demonstrable efforts to address fiscal imbalances, contributing to a positive performance in local equity markets even in the face of external pressures.

In light of the above, the following section presents the key takeaways from this year's Financial Stability Report.

Global and Local Economic Developments

Global Developments

Global economic growth slowed down during 2024, with estimates from the International Monetary Fund indicating that real global GDP growth

reached 3.3%, compared to 3.5% in 2023. With a noticeable easing of pressure on supply chains, price inflation continues to decline gradually worldwide, with global consumer price inflation dropping to 5.7% in 2024, down from 6.6% in 2023. Meanwhile, global debt levels rose by 1.7% in 2024, compared to a 5.1% increase in 2023, indicating a slowdown in the pace of debt accumulation. On another front, most global stock markets showed strong performance throughout the year, with major indices rising due to improved investor confidence driven by the boom in the artificial intelligence sector. As for oil markets, they remained relatively stable during 2024, with some fluctuations caused by geopolitical tensions and economic uncertainty.

Local Developments

Kuwait's real GDP declined by approximately 2.6% in 2024, impacted by reduced oil production. Inflationary pressures continued to ease domestically, with the inflation rate—measured by the annual change in the Consumer Price Index—reaching 2.9% in 2024, down from 3.6% in the previous year. This occurred despite relatively tight monetary conditions, although the local benchmark interest rate (discount rate) was lowered by 25 basis points during the year to reach 4.0%. As for the Kuwaiti dinar exchange rate, the US dollar appreciated slightly against the Kuwaiti dinar by 0.4% during the year. This stability persisted despite the interest rate differential favouring the US dollar, once again reflecting the prudence and effectiveness of the domestic monetary policy. The estimated fiscal deficit for the 2024/2025 financial year reached approximately KD 5.6 bn, representing about 11.3% of the estimated GDP for 2024. Kuwait's stock market showed significant improvement in 2024, ranking among the best-performing markets in the Gulf region, rebounding from a weak performance in 2023. This recovery was driven by gains in small and medium-cap stocks, supported by strong corporate earnings and increased trading activity. Larger companies also contributed to the positive momentum, albeit to a lesser extent, thanks to their robust financial results. In the real estate sector, market activity rose in 2024 in value terms compared to 2023, primarily driven by the investment property segment. This growth was attributed

to the decline in local interest rates, with transaction values increasing by approximately 36% year-on-year to reach KD 3.73 bn.

Local Financial System Overview

Assets

Banking sector assets recorded a growth rate of 4.3% in 2024, reaching KD 115.2 bn, primarily driven by the expansion of the loan portfolio. As a result—alongside the slight contraction in the global economy and a decline in global oil prices—the ratio of assets to nominal GDP increased, reaching 235% by year-end. Similarly, the ratios of loans to nominal GDP and deposits to nominal GDP also rose, reaching 147% and 150% respectively. Conventional banks' assets grew at a faster pace than Islamic banks' in 2024, with growth rates of 7.8% and 0.8% respectively. Consequently, the share of conventional banks in total banking sector assets increased to 52%, while the share of Islamic banks declined to 48% by the end of 2024. Investment companies regulated by the Central Bank of Kuwait also saw asset growth in 2024, mainly driven by conventional investment firms. As for exchange companies, their assets grew by 2.3%, primarily due to an increase in foreign assets, which was partially offset by a decline in payables and an increase in shareholders' equity.

Loans

Kuwaiti banks continued to fulfil their role as financial intermediaries in 2024 by expanding their credit portfolios despite the high interest rate environment. The loan portfolio grew by approximately KD 2.9 bn, or 4.3%, reaching KD 72.3 bn. This growth was primarily driven by lending to large corporates. In terms of sectoral distribution, most sectors saw growth during the year. Notably, the Services, Construction, Industry, Trade, and Real Estate sectors collectively increased by KD 2.1 bn. However, the portfolio remains concentrated in Household, Real Estate loans, and Service sector loans, which together account for more than half of the total loan portfolio. Regarding the currency composition, loans denominated in the local currency continued to make up the majority of the loan portfolio in 2024, representing around 64.0% of the total. Geographically, the share of loans granted in Europe (primarily the United Kingdom and Turkey) increased to 12.1%. In contrast, loans extended to the GCC countries

(excluding Kuwait) saw a slight decline, making up 13.6% of the total portfolio. Domestically, loans to local clients continued to dominate the portfolio, accounting for 65.4%.

Deposits

In line with previous years, bank deposits continued to grow in 2024, recording a slight increase of 0.4% to reach KD 73.9 bn by year-end, thus remaining the primary source of funding for banks. Domestic deposits accounted for approximately 68.7% of total deposits, while foreign deposits made up 31.3% in 2024, reflecting the banks' international operations. Deposits also remained largely concentrated in the private sector, which constituted the majority of the deposit base at around 79.2% of the total.

Risks

Credit Risk

Credit exposures recorded a growth of 4.5% in 2024, compared to 3.3% in the previous year, primarily driven by the expansion in the loan portfolio and interbank deposits. In terms of loan quality, the portfolio remains of high quality. Although non-performing loans (NPLs) rose slightly during 2024, the NPL ratio remained low at around 1.5%, thanks to the prudent provisioning policy adopted by the Central Bank of Kuwait. Given the increase in NPLs, the NPL coverage ratio declined to 264% at the end of 2024, down from 303% in 2023. Nevertheless, this remains one of the highest coverage ratios in the region, reflecting the banking sector's strong capacity to absorb new defaults without affecting profitability. As for other credit exposures—namely fixed-income investments and interbank deposits—they continue to exhibit high credit quality.

Liquidity Risk

Deposits continued to rise in 2024, growing by approximately 0.4%, compared to a growth rate of around 4.6% in 2023. This slowdown came amid the beginning of the end of the global monetary tightening cycle that started in 2022. The increase in deposits contributed to an expansion in financing activities, leading to a rise in the Maximum Lending Limit (MLL) ratio, which reached 83.5% by the end of 2024, up from 79.6% in 2023. With the growth of various funding sources, the Net Stable Funding Ratio (NSFR) also increased, reaching 114.4% in 2024—well above the regulatory

minimum of 100% set by the Central Bank of Kuwait. Overall, the banking sector continues to enjoy ample liquidity, reflected in the banks' ability to meet regulatory liquidity requirements, consistently maintaining ratios that exceed the mandated thresholds.

Market Risk

Market risks remain limited at the domestic level, as there were no significant changes to the investment portfolio in 2024, aside from minor shifts among different asset classes. Fixed-income and real estate investments grew by 0.4% and 3.2%, respectively, while equity investments declined by approximately 4.9%, driven by a reduction in banks' holdings of local and GCC equities. Investments measured at fair value through other comprehensive income and those measured at fair value through profit & loss accounted for about 72.7% of the total investment portfolio in 2024, up from 63.6% in 2023. Nevertheless, Kuwaiti banks are considered less vulnerable to market fluctuations or potential changes that could negatively impact performance due to their limited exposure to market risk.

Operational Risk

Operational losses in the domestic banking sector declined in 2024, reaching KD 2.7 mn—a decrease of 8.2%—representing just 0.16% of the net profits of Kuwaiti banks during the same period. This highlights the resilience of local banks in keeping pace with rapid technological developments. On the other hand, the employee turnover rate saw a slight increase, reaching 14.4% in 2024 compared to 13.2% in 2023. Nevertheless, this rate remains within a relatively acceptable range. In a forward-looking assessment, operational loss simulation exercises were conducted, with the results confirming the strong financial position of banks and their ability to withstand the materialization of severe operational shocks. As part of the Central Bank of Kuwait's efforts to manage cybersecurity risks, the overall compliance score of the cybersecurity framework maturity index improved for the sector, with the average score rising to 3.32 in 2024 from 3.15 in 2023. This reflects the sector's progress in keeping up with developments across all areas of cybersecurity.

Profitability and Resilience

Profitability

The domestic banking sector recorded a positive performance in 2024, achieving profit growth from sustainable sources. Net profits of the Kuwaiti banking sector grew by approximately 5%, reaching KD 1.68 bn by year-end. This was supported by positive growth in the loan portfolio and relatively high interest rates. Net interest margins continued to rise in 2024, reaching 3.0% for the sector. As a result, the share of net interest income in total bank earnings increased by about 2 percentage points compared to 2023, making up 70% of banks' gross income in 2024. This reinforces the quality of the banking sector's profitability and confirms its ability to sustain the strength and resilience of its core profit-driving activities. Looking at banking sector performance indicators, the sector's profit growth contributed to improved metrics, with the return on average assets (ROAA) rising to 1.49%, and the return on average equity (ROAE) increasing to 11.15% during the year.

Resilience

The domestic banking sector continued to demonstrate a high level of resilience amid evolving economic conditions, reflected in its strong capital adequacy indicators which underscored the sector's sustainability and stability. The capital adequacy ratio (CAR) for the sector stood at 19.4%, significantly exceeding the minimum requirements set by the Central Bank of Kuwait. Compared to the previous year, the ratio saw a slight decline due to the positive growth in banking sector assets, which led to risk-weighted assets growing at a faster pace than capital. In 2024, the share of Common Equity Tier 1 (CET1) in the regulatory capital base remained stable, continuing to constitute the largest portion—77.5% by year-end. This reinforces the banking sector's capacity to absorb potential losses. As a result of the stable contribution of CET1 to regulatory capital, the CET1 ratio declined slightly to 15.0% in 2024 from 15.4% in 2023. Nevertheless, this remains well above the minimum Basel Committee and Central Bank of Kuwait requirements of 7% and 9.5%, respectively.

Payment Ecosystem

The year 2024 witnessed significant advancements in electronic payment methods and a notable expansion in payment infrastructure. A key development was the launch of the new instant payment service "WAMD" at the end of June 2024, which contributed to an increase in the number of electronic payment transactions and further boosted demand for digital payment services over traditional paper-based methods. For the fifth consecutive year, electronic payments continued to dominate other payment methods, with the gap between digital and paper-based transactions widening further in 2024. The volume of electronic payment transactions (including WAMD transactions) grew by approximately 20.6% during the year, while the total value of these transactions (also including WAMD) increased by about 7.6%. This growth was mainly concentrated in non-cash transactions, both in terms of number and value. On another note, the number of local bank branches declined by 2.0% in 2024, with the decrease largely stemming from Islamic banks. Despite global disruptions in internet services and system outages in 2024, the rate of unplanned downtime improved across all indicators. In particular, the core banking system maintained an uptime exceeding 99.9%, underscoring the operational resilience of the domestic banking sector's infrastructure even amid challenging conditions. As part of the Central Bank of Kuwait's ongoing efforts to enhance the quality and sustainability of financial services in the banking sector, CBK extended the operating hours of the Kuwait Automated Settlement System for Interparticipant Payments (KASSIP) by an additional two hours in 2024. The system now operates from 7:00 AM to 7:15 PM, which has contributed to improving operational efficiency and better meeting the needs of beneficiaries.

Outlook

Looking forward, global monetary easing is expected to persist but at a more measured pace, as inflation remains stubborn and policymakers remain vigilant. Complicating the inflation narrative is the emergence of aggressive trade policies and the onset of a new trade war, both of which risk reigniting price pressures and disrupting global supply chains. While markets appear to have priced

in much of the geopolitical risk, the potential for further escalation—particularly in flashpoints such as the Middle East and Eastern Europe—continues to pose downside risks. In this context, investor sentiment is likely to remain cautious, with a heightened focus on policy signals and geopolitical developments.

Domestically, monetary policy is expected to remain steady and gradual, as it was during the tightening cycle, allowing for a controlled stimulus to support demand. The political reset has set the stage for accelerated economic and structural reforms, including long-awaited infrastructure projects that could catalyse growth. Additionally, the enactment of the public debt law is anticipated to ease pressure on government finances by enhancing liquidity and offering banks a new instrument for managing excess liquidity efficiently. Furthermore, some other laws that are expected to be finalized in the near-future will also contribute to relieving the burden on the fiscal balance while providing new products for banks. Overall, despite global headwinds, the local financial system is expected to remain robust and well-positioned to navigate potential shocks, supported by sound policy frameworks, improving macroeconomic fundamentals, and adequate levels of capital.

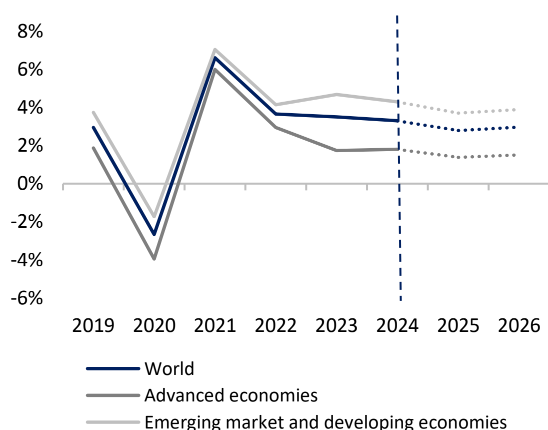
Chapter 1: Global and Local Developments

The interconnectedness of the local financial system with global economic and financial markets underscores the importance of monitoring international developments and mitigating any effects to ensure domestic financial stability. This section highlights the significant global and regional economic trends that emerged throughout 2024, focusing on key factors such as global growth rates, inflation trends, interest rate movements, and performance of vital markets like global equities, oil, real estate, and the Kuwaiti Boursa. By analysing these dynamics and their implications for the local economy, a comprehensive understanding can be established to identify potential risks and opportunities, ultimately reinforcing the foundation for financial stability.

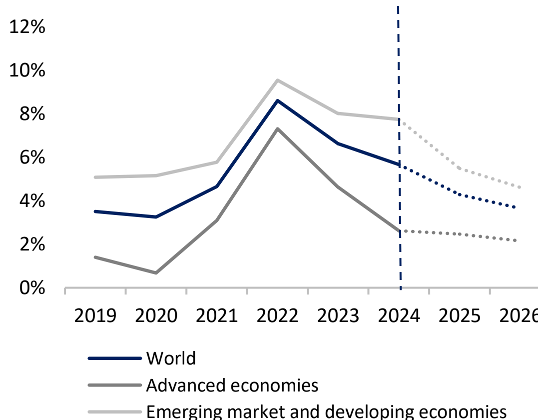
Global Developments

Global growth declined slightly during 2024, with the International Monetary Fund (IMF) estimating world real GDP growth at 3.3% during the year versus 3.5% in 2023 (Figure 1.1). While advanced economies saw a slight uptick in growth at 1.8% (from 1.7% in 2023), they remain below historically observed levels, mainly due to the impact of elevated interest rates, in addition to structural factors such as aging populations and low productivity. Emerging markets and developing economies saw a slight slowdown in growth in 2024, at 4.3% from 4.7% in 2023 driven by disruptions in commodity production and shipping, in addition to the effects of high interest rates. As a result, economic growth is expected to remain stable but constrained by increasing geoeconomic fragmentation and ongoing geopolitical risks.

1.1
Real GDP Growth



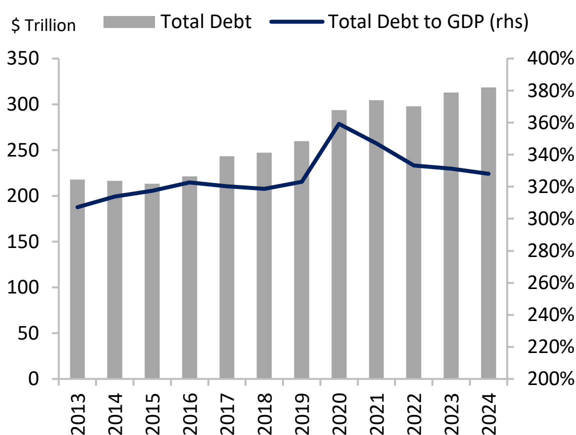
1.2
Inflation (average consumer prices)



With the global growth outlook remaining stable, major economies appear to be gradually moving towards a soft landing as volatility eases and economic activity normalizes. With supply-chain pressures having significantly moderated, consumer price inflation continues to decrease steadily around the world. Average global consumer price inflation eased to 5.7% during 2024 versus 6.6% in 2023, with advanced economies continuing to lead in disinflation, achieving faster inflation reduction than emerging markets. As such, average inflation rates in advanced economies declined to 2.6% in 2024 from 4.6% in 2023, while emerging/developing economies experienced a mere 0.3 percentage point decrease in average inflation to 7.7% (Figure 1.2). Projections indicate a continued decline in inflation rates over the next few years.

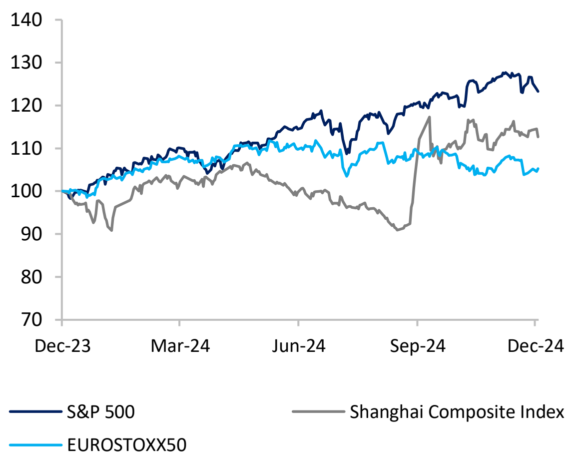
Global debt levels increased by 1.7% in 2024 compared to 5.1% in 2023, indicating a slower pace of debt accumulation (Figure 1.3). Despite the increase in total debt, the debt to GDP ratio declined by 3 percentage points to 328%, as economic growth outpaced debt expansion in light of elevated borrowing costs. From a financial stability perspective, this is a positive indicator, with debt ratios now more in line with pre-pandemic levels. With that said, total debt to GDP continues to be relatively high by historical standards.

1.3
World Debt



Source: Institute of International Finance (IIF)

1.4
Equity Markets (rebased)



Equity Markets

Most global equity markets demonstrated strong performance during the year, with the main indicators for U.S. and European stocks, the S&P 500 and EUROSTOXX50, increasing by 23.3% and 5.3% respectively (Figure 1.4). Growth in U.S. markets was heavily driven by the boom in the artificial intelligence sector as mega-cap tech stocks had an outsized influence on the S&P 500's performance, despite lingering concerns over inflation and monetary policy adjustments. Geo-political instability (Russia-Ukraine conflict), and U.S. tariff fears weighed on European markets, contributing to a more subdued performance. Looking further east, equity market performance in China improved in 2024, with the Shanghai Composite, an index of all stocks traded on the Shanghai Stock Exchange and a key indicator of Chinese equities, rising 12.7% (versus a decline of 4% in 2023). This growth was primarily driven by government-led fiscal stimulus, ending the downwards trend in prior years. With that said, the Chinese property sector exhibited some weakness due to high levels of unsold inventory that led to low consumer confidence and spending, hindering stronger gains. From a global financial stability perspective, taking a closer look at relative valuation levels in the US reveals higher valuations, with companies in the S&P500 index trading at 37.42 times their earnings adjusted for cyclicality and inflation, up from 31.97 the year prior.[1] As seen in previous years, this suggests that equities continue to be in overpriced territory relative to inflation-adjusted earnings, as the historical average of the indicator stood at around 17.

Crude Oil Markets

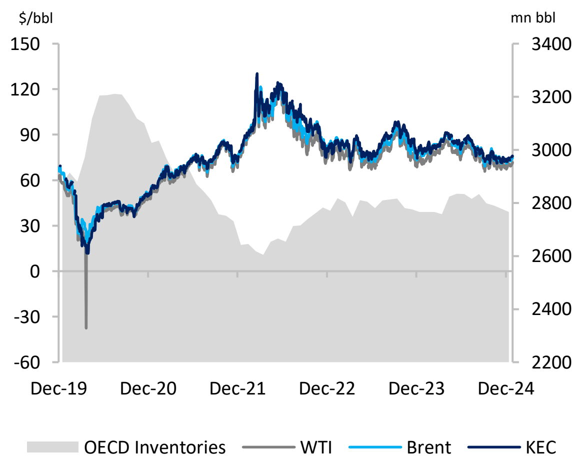
In 2024, oil markets experienced relative stability, with occasional fluctuations influenced by geopolitical tensions and economic uncertainties. Over the year, benchmark prices for Brent, West Texas Intermediate (WTI), and Kuwait Export Crude (KEC) averaged approximately $80/bbl, $76/bbl, and $81/bbl, respectively, during the year (Figure 1.5). Prices hit their lowest levels around September (their lowest since 2021), driven by a combination of geopolitical concerns, and weaker-than-expected oil demand. This was despite the OPEC+ decision on April 2, 2023

[1] Source: Multpl. The Shiller PE ratio uses average inflation-adjusted earnings from the previous 10 years to eliminate cyclicality and inflation effects from relative valuations to arrive at an accurate estimate of market over/under valuation over time.

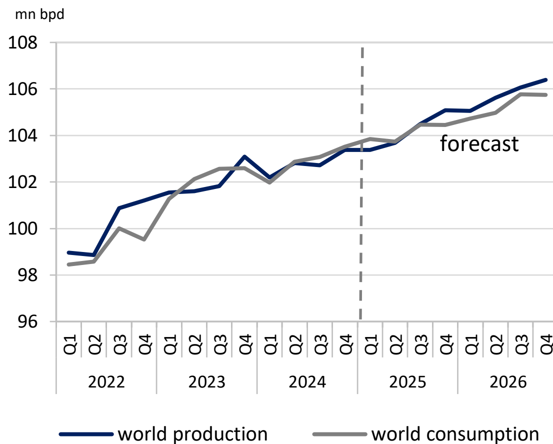
to reduce oil production (a decision that has undergone a series of extensions, the most recent of which was on December 5, 2024) which helped prevent further price declines. Additionally, concerns over the stability of the U.S. economy, including the U.S. Federal Reserve's continued policy of maintaining high interest rates to combat inflation, increased the likelihood of a slowdown in fuel demand.

In December 2024, OPEC+ announced an extension of the 2.2 mb/d voluntary production cuts until the end of March 2025, with a gradual phase-out scheduled from April 2025 through September 2026. This move was intended to prevent excess supply from flooding the market and to support oil prices amid evolving geopolitical and economic developments. The latest projections show Brent crude averaging around $68/bbl in 2025, down from previous projections of $74/bbl, due to increased production of petroleum and a simultaneous slowdown in global output from tariff-related policies.[2] These dynamics are expected to cause production to exceed consumption (Figure 1.6).

1.5
Crude Oil Prices



1.6
World Liquid Fuels Production and Consumption



Source: U.S. Energy Information Administration (EIA)

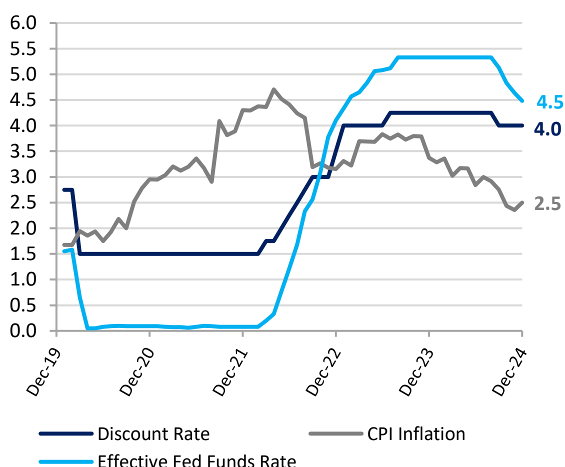
Local Developments

The monetary policy adopted by CBK, which pegs the KWD to an undisclosed basket of currencies, continued to demonstrate its suitability within the domestic economy. This policy grants greater flexibility in setting appropriate interest rates

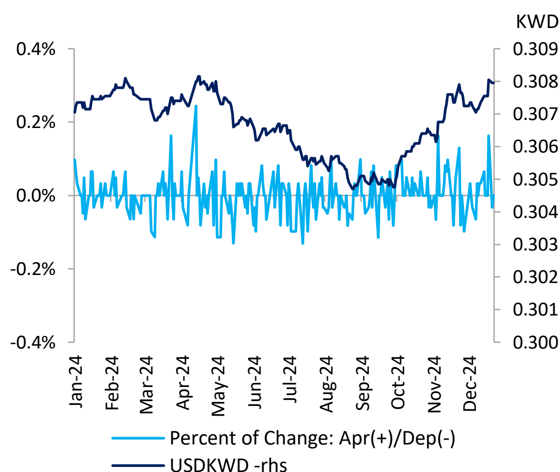
[2] Source: U.S. Energy Information Administration.

in line with domestic economic conditions, without being fully dependent on the U.S. Federal Reserve's policy shifts (Figure 1.7). Furthermore, inflationary pressures continued to cool locally during 2024 compared to 2023, with average annual CPI inflation coming in at 2.9% compared to 3.6% last year. CPI inflation reached 2.5% by the end of 2024 with monetary conditions continuing to exhibit relative tightness, despite local benchmark interest rates (discount rate) declining by 25 basis points during the year to reach 4.0%. Consequently, this monetary easing did not spur any extra demand/inflationary pressures. With that said, it should be noted that governmental subsidization of core consumables has long contributed to the muting of inflationary pressures locally, rendering labour dynamics and supply/demand frictions to be of less importance in the trajectory of price inflation than seen in other economies.

1.7
Benchmark Rates & CPI (%)



1.8
USDKWD Exchange Rate

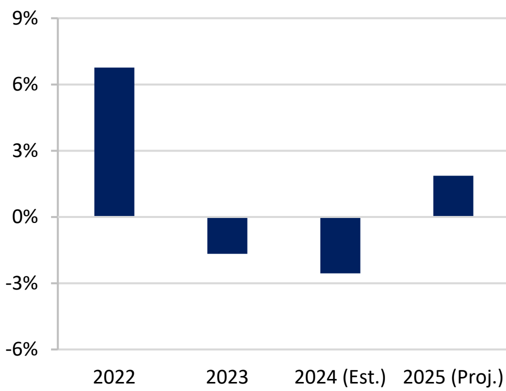


In terms of the local currency, the USD/KWD exchange rate closed with a mere 0.4% increase (i.e. in the USD's favour) by year-end, as the Kuwaiti Dinar (KWD) benefited from its peg to an undisclosed basket. This enabled the net impact of the diverging currencies to be somewhat neutralized, ensuring stability in the KWD exchange rate (Figure 1.8). The stability continued despite an interest rate differential favouring the dollar, further underscoring the soundness and effectiveness of the monetary policy adopted.

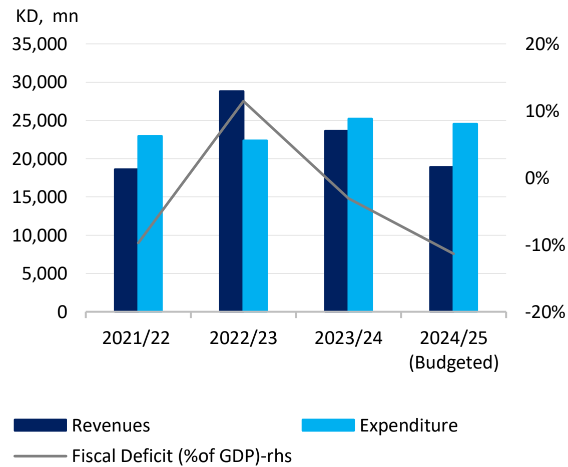
On the macroeconomic side, given the importance of oil as a main source of government revenues and thus the primary driver of local economic activity, Kuwait

witnessed an extended economic contraction in 2024 with real GDP falling by 2.6% driven by oil production cuts, and weaker global oil demand, versus 1.7% in 2023 according to preliminary estimates by the Central Statistical Bureau (Figure 1.9). The outlook for 2025 is more optimistic, as large-scale infrastructure projects are expected to contribute to heightened economic activity in light of the expediting of fiscal and economic reforms. Such developments are expected to contribute to increased economic output in the upcoming year, with real GDP growth projected to reach 1.9%.[3]

1.9
Real GDP Growth



1.10
Kuwait's Public Finances



In that regard, according to the Ministry of Finance's data, the latest budget for FY2024/2025 shows an expected deficit of KD 5.6 bn, equivalent to 11.3% of the forecasted GDP for 2024 (Figure 1.10). Despite the decrease in spending on subsidies, which fell by about (KD 1.4 bn or 23%), this deficit exceeds the deficit recorded in the previous fiscal year, which amounted to KD 1.6 bn. Thus, the deficit remains sizeable and continues to add pressure on the General Reserve Fund's liquidity, which has seen its assets decline over time due to rising funding needs and the expiration of the public debt law to meet said funding. With that said, a new public debt law has been passed in early 2025 at the time of writing this report, and is expected to provide some short-term relief to government finances.

[3] Based on the projections in the IMF's World Economic Outlook for April 2025.

Against this backdrop, there have recently been noticeable steps taken to remedy chronic fiscal imbalances, which include a shift to more targeted spending and diversification of income, with the expedited tendering of large-scale infrastructure and construction projects. Additionally, accessing new sources of funding may prove efficient if leveraged for growth-oriented infrastructural or other private sector empowering investments, especially given Kuwait's relatively low existing debt levels.

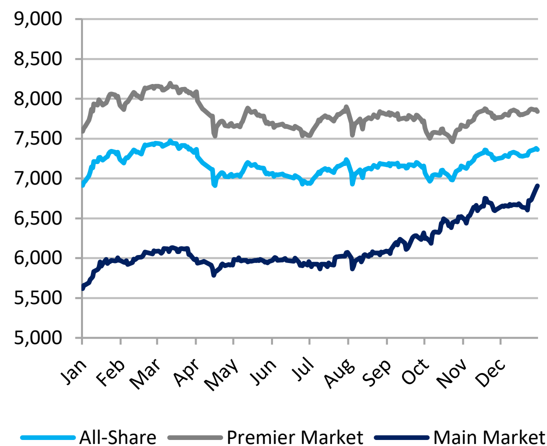
Boursa Kuwait

Kuwaiti equities made notable strides in 2024, ranking among the best-performing markets in the GCC and rebounding from weaker performance in 2023. The rebound was driven by gains in mid-cap and small-cap stocks, with robust corporate earnings and increased trading activity. Large-cap stocks also saw gains in light of strong financial performance, albeit to a lower extent.

The value-weighted All-Share Market Index covering all listed stocks saw a gain of 8.0% in 2024, contrasting with the MSCI World's and S&P500's gains of 19% and 23% respectively. Volatility remained low throughout the year, with annualized volatility coming in at 7.9% versus 9.8% in 2023, despite market activity noticeably increasing. The index climbed 9.6% from January to March, peaking at 7,474 points on the 12th of March (Figure 1.11), driven by positive sentiment from expected interest rate cuts and rising oil prices (which domestic equity markets have historically shown high correlation with). Over this period, oil markets were robust with crude oil prices rallying by an average of 20%. Similar to the effects seen in oil markets, the rally came to an end at the beginning of April, with a steep decline that saw the reversal of all the gains by the middle of the month. During this time, the All-Share index hit its year-low, reaching 6,910 points or a 1.3% year-to-date decline. This drop was driven by a host of factors, including a correction in oil prices, rising concerns that monetary easing could be delayed, and escalation in regional geopolitical tensions. With that said, the decline was short-lived, as markets managed to steadily recover and close in the green by year-end. In terms of segmental performance, the blue-chip Premier Market segment (includes the largest and most liquid stocks) saw the smallest gain of around 4.8%, while the Main

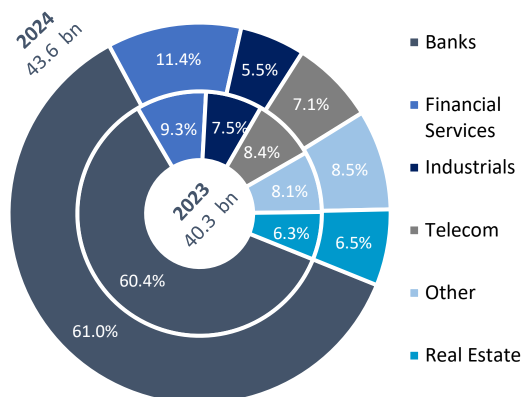
Market segment (includes smaller-cap, less liquid stocks) had the best performance with yearly gains of 24.0%.

1.11
Boursa Kuwait Indices

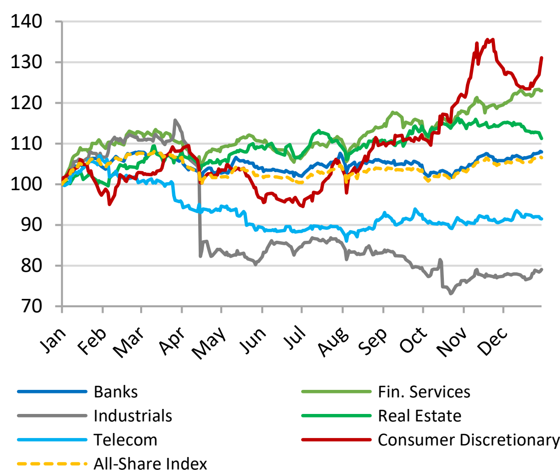


Simultaneously, total Boursa Kuwait market capitalization increased by 8.2% or KD 3.3 bn, to reach KD 43.6 bn (Figure 1.12). This increase was driven by the abovementioned factors, which resulted in higher performance for multiple sectors. Specifically, Banks were the largest contributors of the total increase in market-wide capitalization, adding KD 2.3 bn to their total market cap on the back of improved operating results in light of elevated interest rates. Financial Services were the second highest contributor to the increase in market capitalization, adding a further KD 1.2 bn to their total market cap. This increase was seen in multiple companies, with the sector's total net profits increasing by around 36.4%. Thus, Banks and Financial Services increased their share in total market capitalization by around 0.6 and 2.1 percentage points to reach 61.0% and 11.4% respectively. While only one new company was listed in 2024 in the Premier Market, the year saw the delisting of seven companies from the Main Market, of which three were from the Real Estate sector.

1.12
Market Cap Sectoral Distribution



1.13
Sectoral Indicies (rebased)

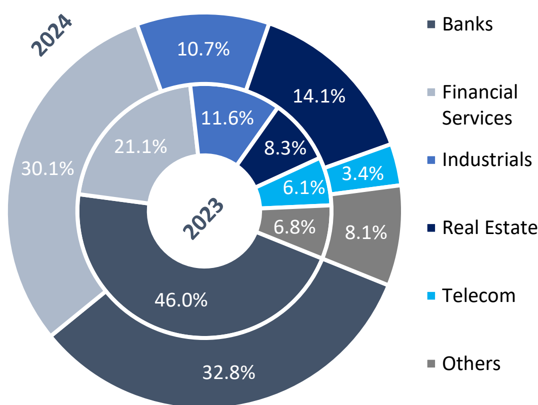


Looking at the price performance of the largest sectors, Consumer Discretionary was the best performing sector, increasing by approximately 31% over the year (Figure 1.13), driven by a 75.0% increase in net profits. Industrials was the lowest performing sector, experiencing a decline of around 21% on the back of an 11.3% decrease in total profits, with non-oil GDP reports indicating a slowdown in manufacturing output. Additionally, Telecommunication was the second-lowest performing sector, with major Telecommunications companies experiencing sharp decreases in profitability. Listed banks saw equity prices increase by around 7.9%, as sentiment was positive towards the sector with increased expectations on the passing of key laws relating to public debt and a new mortgage/housing loan scheme, both of which are expected to add to bank growth and performance. Due to its large size, the sector played a key role in the strong performance of the general market in 2024.

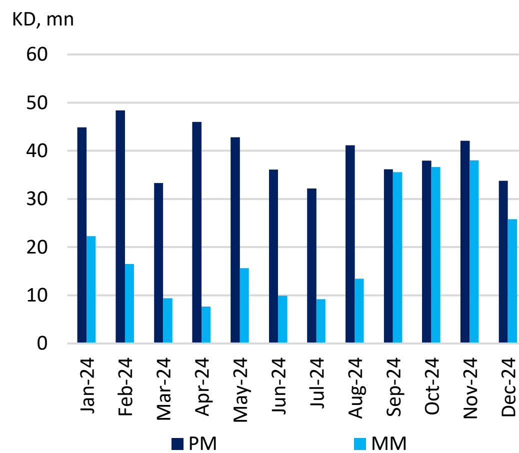
In terms of market depth and activity, total volume traded increased significantly during the year, rising by 73.1% to reach 68.5 bn shares traded, compared to 39.6 bn shares traded in 2023. Similar trends were also seen in the value of shares traded albeit to a lower extent, increasing 42.8% to reach KD 14.8 bn during the year compared to KD 10.4 bn in 2023. This increase in activity was mostly driven by the exuberance exhibited in the Financial Services sector in light of the above-mentioned increase in profits. The sector alone saw total volume and value traded increase by 13.2 bn shares and KD 2.3 bn respectively. Real Estate companies also

saw activity increase, albeit to a lower extent. Trading in Bank stocks remained somewhat flat, with volume-traded increasing by 1.7 bn shares while value-traded increased a mere KD 87.6 mn. These dynamics saw the sectoral composition of trading value change materially over the year, with the Financial Services sector accounting for 30.1% of total trading value, closely approaching the share of the Bank's sector which stood at 32.8% (Figure 1.14). Taking a closer look at market depth, the Premier Market continued to have better liquidity, with the Average Daily Traded Value (ADTV) standing at KD 39 mn in 2024 (an increase of 16% from 2023), compared to the Main Market's KD 20 mn (up 123% from 2023) (Figure 1.15).

1.14
Sectoral Share in Trading Value



1.15
Average Daily Traded Value

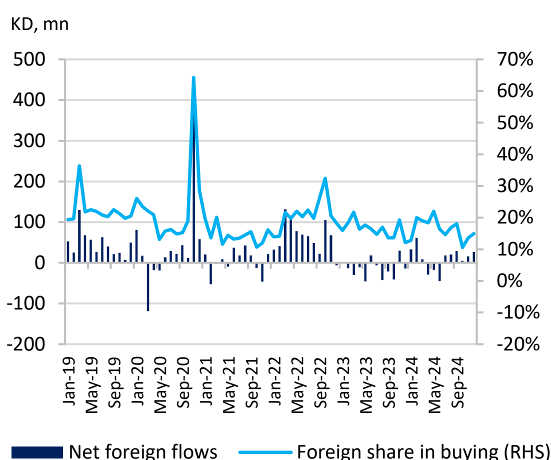


Net foreign flows fluctuated during 2024, showing periods of net outflows in the early months, followed by a recovery in foreign participation from mid-year onward. The average monthly foreign share in buying remains unchanged from last year at 16%, lower than the average of 19% observed from 2017 to 2023 (Figure 1.16). Foreign flows were mostly positive (inflows) during the year, with a monthly average inflow of around KD 10.7 mn, which contrasts with the monthly average negative flows seen in 2023 equalling KD -14.8 mn. Foreign flows over the year may have been influenced by the removal of Agility from the MSCI Emerging Market Index, which became effective on the 3rd of May. With this change, there are now six companies included in the MSCI Emerging Market Index.[4] Given these somewhat

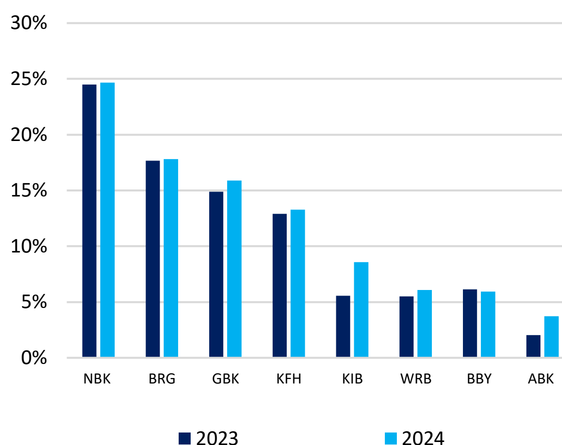
[4] These include National Bank of Kuwait, Kuwait Finance House, Boubyan Bank, Mobile Telecommunications Company, Gulf Bank, and Mabanee.

subdued foreign flows, the share of foreign ownership was unchanged in most banks, apart from KIB and ABK which experienced noticeable increases in foreign ownership (Figure 1.17)[5]. From a financial stability perspective, the presence of foreign ownership in local banks is generally viewed as a positive indicator, as a geographically diverse investor base limits market contagion that could occur in a locally induced crisis. On the other hand, these investments also leave the domestic market vulnerable to spillovers from global developments, and by extension, abrupt outflows.

1.16
Net Foreign Flows into Boursa Kuwait



1.17
Foreign Ownership in Local Banks



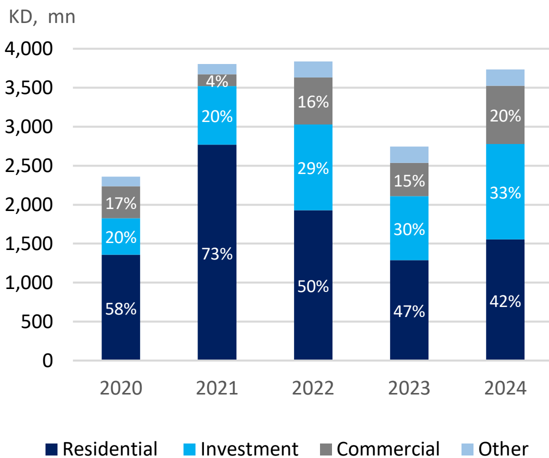
With activity and performance improving during the year 2024, Kuwaiti equity markets remained robust, supported by resilient consumer/investor sentiment and prudent monetary policy. This was despite the exceptional regional geopolitical tensions that were prevalent, some of which led to direct economic disturbances in key markets and trade routes. From a financial stability perspective, continued optimism and higher market activity is considered a positive indicator, especially since the growth remained within sustainable levels. With that said, potential corrections in prices may be on the horizon, given global developments/uncertainty. This highlights the necessity of proactive intervention to mitigate risks arising from excess exposure to equity market volatility.

[5] Excludes: CBoK given negligible foreign ownership.

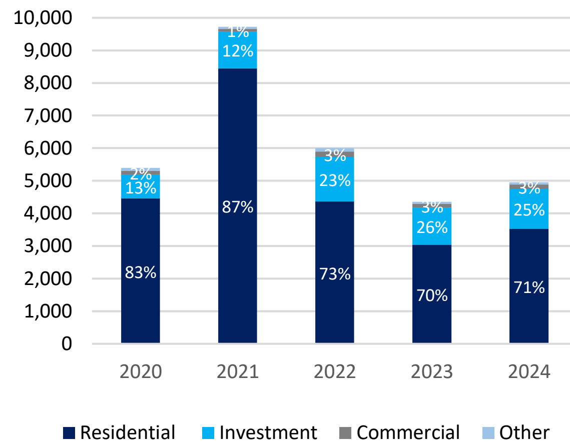
Real Estate Market

In KD terms, activity in the real estate market increased in 2024 relative to 2023, albeit remaining within historical levels. This growth came in light of the decrease in domestic interest rates, which reinvigorated the market after a brief slump in 2023. As such, the total trading value during the year was KD 3.73 bn (Figure 1.18), up 36% (KD 989 mn) from the year prior, and 14% higher than the annual average observed from 2018 to 2023. The Residential segment continued to account for the largest portion of sales by value, albeit at a lower share of 42% compared to 47% in 2023. With that said, the segment made a notable recovery in value-traded from last year, rising 21% (KD 267 mn), while the Investment and Commercial segment's value-traded increased by 49% and 75% respectively. These developments bring the total value traded in the real estate market back in line with historical levels after faltering in 2023.

1.18
Real Estate Transaction Value



1.19
Real Estate Transaction Volume

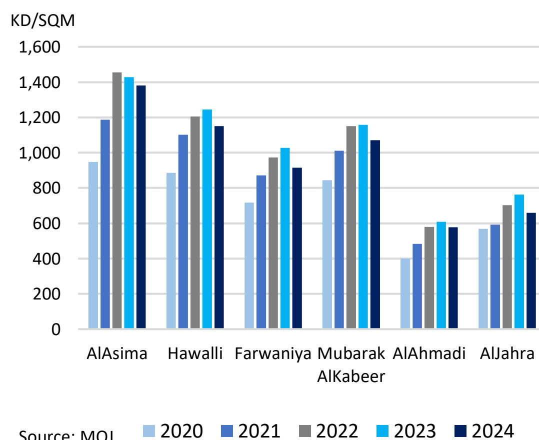


Real estate transaction volume experienced a slight recovery in 2024, albeit at a lower rate than value-traded, increasing 14% from 4,357 properties traded in 2023 to 4,950 in 2024 (Figure 1.19). The increase was led by growth in the Residential segment, which rose 16% (488 units). This led the segment's share in total volume to rise by 1.5 percentage points. It is worth highlighting that the average deal value in the Residential segment over the past six years was around KD 388 thousand, versus KD 770 thousand and KD 3,623 thousand for the Investment and

Commercial segments respectively. Thus, total real estate transaction volume tends to be more sensitive towards activity in the relatively more liquid Residential segment, explaining the dynamics outlined above.

Average price change across the six governorates came in at an estimated -8.0% in 2024, compared to a 3.5% increase in 2023 (Figure 1.20). With that said, upon further analysis, it appears the effects of said developments were uneven between governorates and property types (built property versus land plots). For example, in the Al-Jahra governorate, property prices, which increased approximately 8% in 2023, saw a steep decline of around 14% in 2024. On the other hand, prices were stickier in the more-expensive Al-Asima governorate, where despite rising 54% over the years 2021 and 2022, only fell 5% over 2023 and 2024. A closer look at property types reveals that land plots were the main driver of the decline, with residential land prices falling noticeably more than developed properties. This may be a result of the passing of law no. 126 of 2023 which introduces an annual fee on undeveloped private residential plots exceeding 1,500 square metres in size.[6]

1.20
Avg. Residential RE Prices



Source: MOJ

The Kuwaiti real estate market continued to demonstrate resilience in 2024, exhibiting a welcome correction which brought prices to more sustainable levels after the post-pandemic boom. Early 2025 indicators observed at the time of

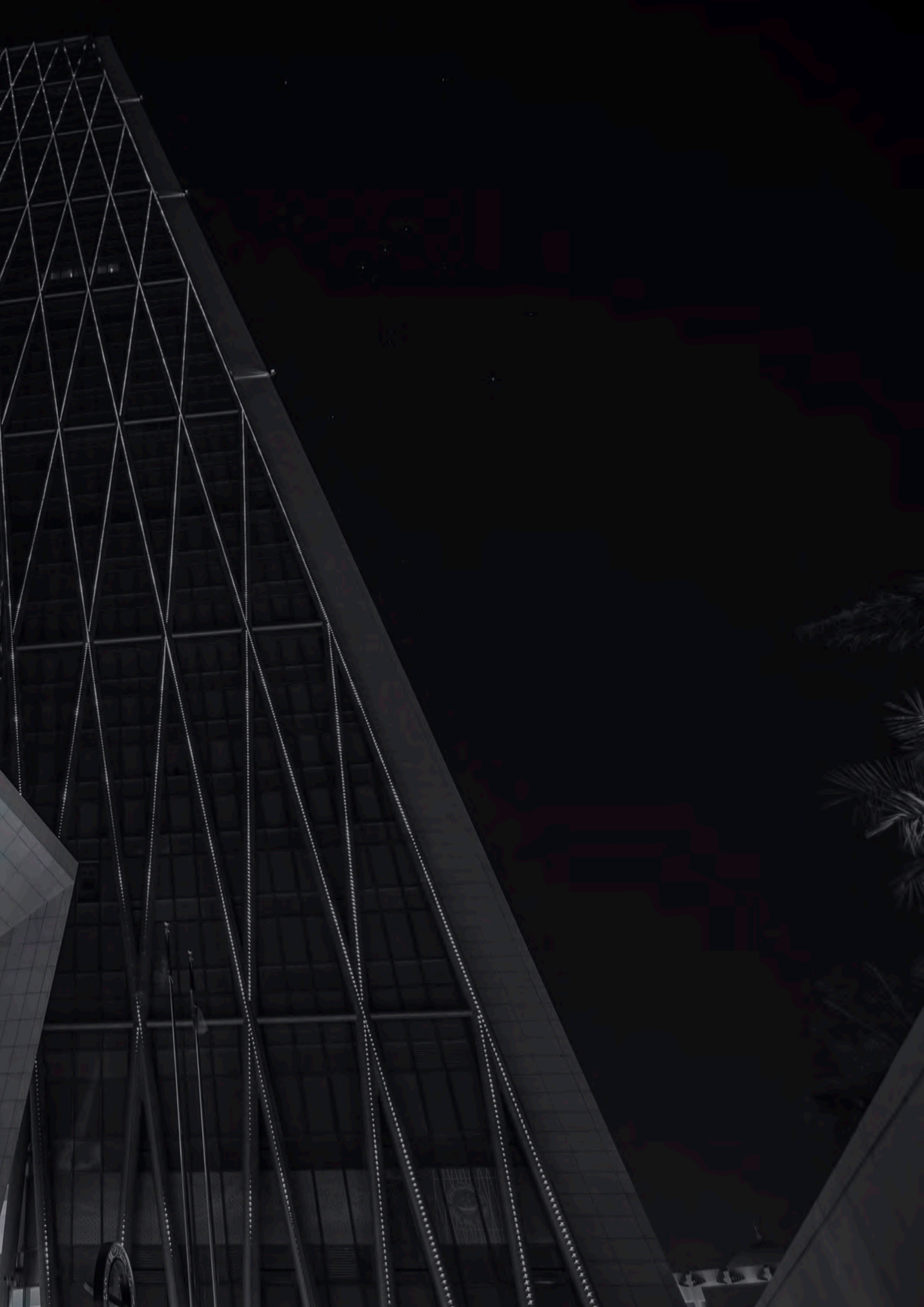
[6] The law stipulates a fee of 10 KWD per SQM owned above 1,500 SQM for undeveloped residential land plots, increasing by 30 KWD annually up to 100 KWD per SQM.

writing this report show prices continuing to correct in light of elevated interest rates and the abovementioned regulatory steps taken to combat market cornering.

In the longer term, supply-side dynamics are expected to dominate price action, as more land development and public housing distribution from the Public Authority for Housing Welfare (PAHW) is expected to increase unit supply and relieve price pressures. This will undoubtedly be expedited by law no. 118 of 2023 regarding the Incorporation of Companies for the Construction of Economic Development of Cities or Residential Areas (the "New Housing Law"), which has recently begun implementation. Development of new residential cities is also expected to decrease the rental demand of residential properties, discouraging the use of these units for investment purposes. The most notable development projects currently in progress or under planning/design include the South AlMutlaa Residential City (28,288 plots), West Abdullah AlMubarak (5,201 plots) South Abdullah AlMubarak (3,260 plots), Sabah AlAhmad (9,574 plots), East Sabah Al-Ahmed (1,184 units), South Saad Al Abdullah (24,508 plots) in addition to other multifamily and low-cost housing units. Longer-term projects include the Sabriya (52,000 plots) and Nawaf AlAhmad (52,000 plots) areas. This incoming supply contrasts with about 97,671 standing housing applications with the PAHW.

The commercial real estate sector experienced significant growth in 2024, with transaction values reaching approximately KD 745 mn, marking a 75.3% increase compared to 2023. Strong activity in the sector is expected to continue due to factors such as expectations of lower interest rates (bolstering investor confidence), macro factors such as notable investments to develop infrastructure, and expected new laws that grant certain foreign entities property ownership rights. On the other hand, headwinds from digitization of commercial licences will undoubtedly add downwards pressure on rents/demand of commercial units in the short to medium term. While it is still too early to fully assess the long-term effects of these policies, indicators suggest continued resilience in the commercial real estate market.

Chapter 2: Local Financial System Overview



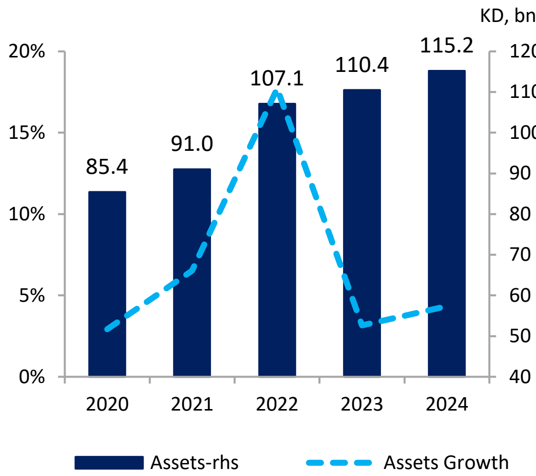
The local financial system consists of multiple entities including banks, insurance, investment, finance, and exchange companies. These companies are governed by rules and regulations set out by multiple supervisory and regulatory bodies depending on the services they provide. The Central Bank of Kuwait (CBK) is mandated with the regulation of banks, finance companies, and exchange companies. In cooperation with the Capital Markets Authority (CMA), CBK shares a dual supervisory role on investment companies.[7] This chapter presents an analysis on the performance of the institutions under CBK's supervision, which include five conventional banks, four Islamic banks, one specialized bank, and 54 investment, finance, and exchange companies. For banks, the analysis covers key changes on their financial positions, while a deeper analysis of key risks is covered in Chapter 3 of this report.

Banking Sector

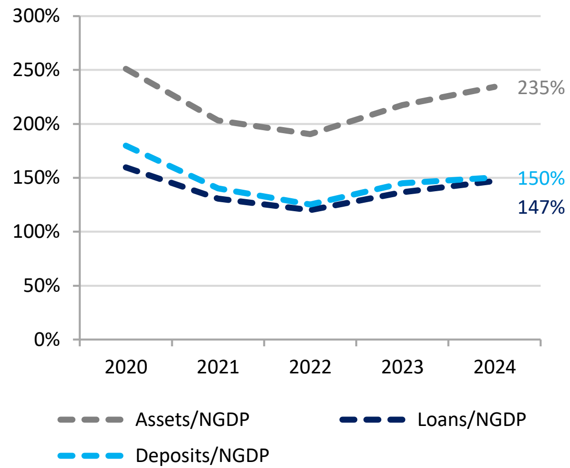
The local economy witnessed a slight contraction of 2.6% during 2024, mainly due to the decline of global oil prices. With that, the local banking sector demonstrated its ability to endure, as the sector's assets grew by 4.3% compared to 3.2% in the previous year. In absolute terms, a total of KD 4.8 bn was added to the banking system's assets, reaching KD 115.2 bn by the end of 2024 (Figure 2.1). In light of the aforementioned slight deceleration in economic output compared to the growth in the banking sector, the ratio of banking assets to nominal gross domestic product (NGDP) increased to 235% in 2024. Similarly, loans to NGDP and deposits to NGDP stood at 147% and 150%, respectively (Figure 2.2).

[7] CBK's supervision is limited to the financing activities of these companies.

2.1
Banking System Assets

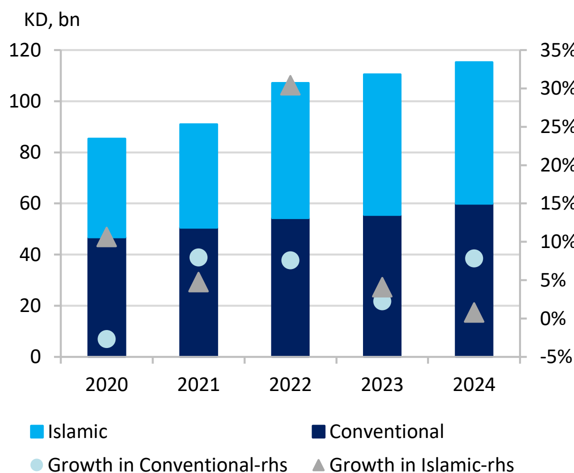


2.2
Bank Indicators relative to NGDP

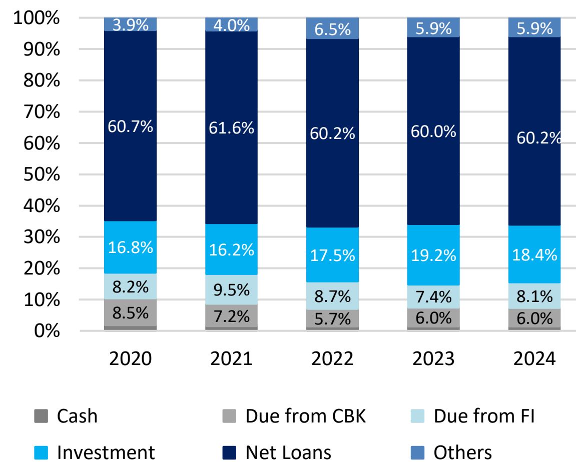


When comparing the performance of conventional banks with their Islamic counterparts, conventional banks recorded a higher growth rate than Islamic banks in 2024 (Figure 2.3). The assets of conventional banks expanded by 7.8% in 2024 to KD 59.9 bn compared to KD 55.6 bn in 2023. Meanwhile, Islamic banks' assets grew by about 0.8% to KD 55.3 bn in 2024, compared to KD 54.8 bn in 2023. In light of the aforementioned developments, conventional banks' share of total banking sector assets rose to 52% at the end of 2024, compared to 50% in the previous year, with the share of Islamic banks declining to 48% versus 50% in the previous year.

2.3
Conventional & Islamic Banks Assets



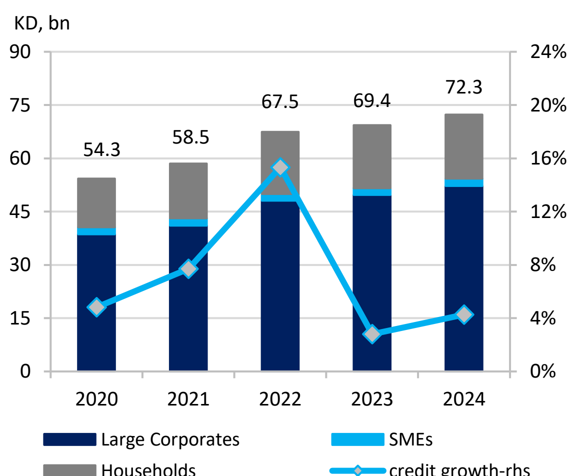
2.4
Decomposition of Assets



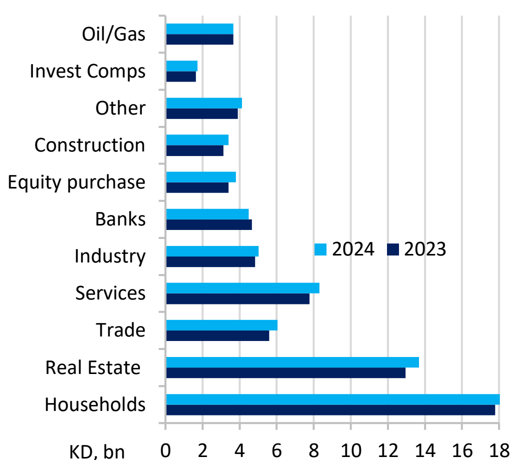
In terms of business-lines, local banks continued to rely on their core activities (mainly lending). The loan portfolio's witnessed growth during 2024 resulted in an increase in the share of net loans to total assets, which reached 60.2% compared to 60.0% in 2023 (Figure 2.4). Conversely, the share of investments to total assets declined during the same period to 18.4% compared to 19.2% in the previous year. This decline was attributed to the maturity of some fixed-income investments and the deployment of those funds by banks into financial institutions, which witnessed an increase in their share during the relevant period to reach 8.1%.

Taking a closer look at the banking sector's loan portfolio (Figure 2.5), Kuwaiti banks continued to carry out their primary role of financial intermediation by expanding their credit portfolios despite the higher interest rate environment. Accordingly, total loans grew by KD 2.9 bn or 4.3% to reach KD 72.3 bn by the end of 2024, compared to 2.8% in the year prior. These levels are in line with the average growth observed over the past five years characterised by low interest rates. The growth in the loan portfolio is mainly attributable to lending directed to large corporates (amounting to KD 2.5 bn), with KD 0.4 bn distributed equally between financing provided to Households and Small and Medium Enterprises (SMEs).

2.5
Gross Loans-by borrowers' type



2.6
Gross Loans by Sector

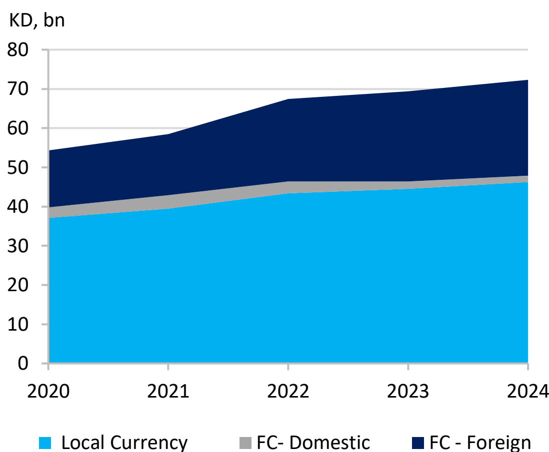


In terms of sectoral distribution, the loan portfolio remains concentrated in Household's, Real Estate, and Services, which together accounted for more than half of total loans. Most economic sectors witnessed growth during 2024 (Figure 2.6), the most notable of which were Services, Construction, Industry, and Trade.

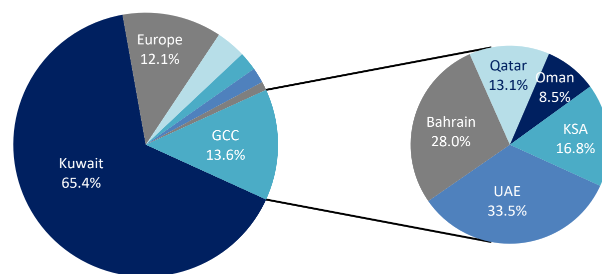
Collectively regarded as productive economic sectors; they experienced a total increase of KD 1.4 bn, while the Real Estate sector grew by KD 0.7 bn. Despite banks' preferences for the Household sector given the stable incomes of borrowers (most of whom are government sector employees) and the diversification benefits of individual lending to reducing credit concentration, loans extended to this sector witnessed modest growth of around KD 0.2 bn. This limited increase may be attributed to lower demand for borrowing amid elevated interest rates and expectations of future rate-cuts.

In terms of the breakdown of loans by currency,[8] the distribution has not witnessed any significant change over the recent years, as loans granted in local currency continued to constitute the largest proportion of the total loan portfolio in 2024, accounting for approximately 64.0% of the total (Figure 2.7), experiencing growth of 3.9% during 2024. Conversely, loans granted domestically in foreign currencies declined by 15.6%, thus decreasing their share to 6.1% of total loans granted in foreign currencies (compared to 7.6% in 2023). As for the loans granted in foreign currencies outside the State of Kuwait, they grew by 6.6%, thus increasing their share of total loans granted in foreign currencies from 92.4% in 2023 to 93.9% in 2024. This growth came in light of the availability of external financing opportunities, as well as the operational presence of local banks abroad.

2.7
Gross Loans-by currency



2.8
Gross Loans by region

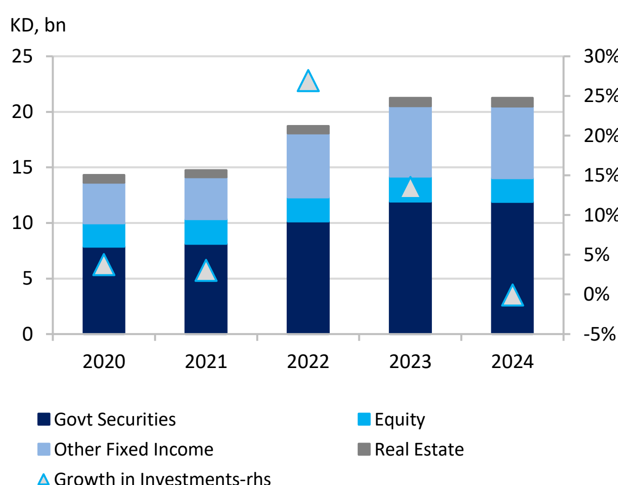


[8] May not be consistent with financial stability reports prior to 2021 due to a change in the calculation methodology.

The geographical distribution of the loan portfolio confirms this trend, with loans granted in Europe (mainly in the United Kingdom and Turkey) increasing their share to 12.1% by the end of 2024, compared to 10.1% in 2023. Loans extended within the GCC countries declined slightly to 13.6% as of the end of 2024, down from 14.1% in the previous year. On the domestic front, loans directed to local borrowers continue to represent the largest share of the loan portfolio, accounting for 65.4% (Figure 2.8).

Moving on to the second largest component of banking sector assets, investments remained stable in 2024 at KD 21.2 bn (Figure 2.9). Despite the slight decline in investments in government fixed-income instruments during 2024, they remain the preferred investment choice for banks, comprising 56% of the total investment portfolio. This sustained preference is largely attributable to the preferential regulatory treatment and the inherently low-risk nature of such investments. Other fixed-income instruments accounted for 30% of total investments in 2024. With regards to equity investments, their share continued to decline, reaching 10% of total investments by the end of 2024, following a decrease of approximately 5.0% during the year. Conversely, real estate investments maintained their upwards trajectory, increasing by 3% in 2024. This growth was supported in part by a shift among some Islamic banks towards investing in commercial real estate, which led to a one-percentage-point rise in their overall share of total investments.

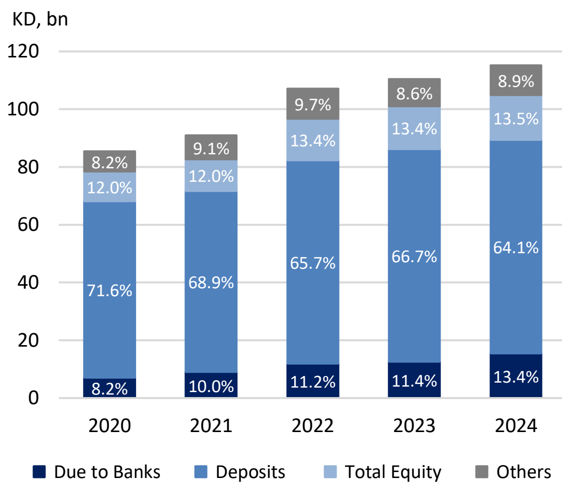
2.9
Banks' Investments - by type



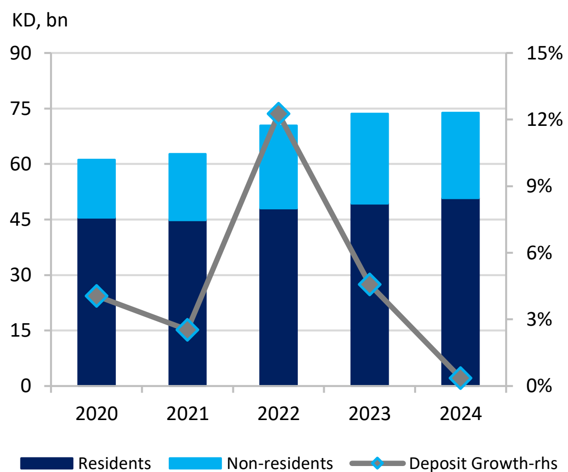
In terms of the geographical allocation of the aggregated investment portfolio, investments in GCC countries continue to dominate, accounting for 50.4% of the total compared to 45.0% in 2023. Notably, investments in Saudi Arabia and the United Arab Emirates increased by 21% and 27%, respectively. This trend may largely be attributed to banks substituting maturing Kuwaiti sovereign bond investments, which were not reissued due to the expiration of the Public Debt Law, with other fixed-income investments. As such, the share of domestic investments declined by 5.3 percentage points in 2024. This decrease was driven by fixed-income instruments, primarily CBK bonds as well as bonds issued by financial institutions.

Examining the other side of the banking sector's financial position (liabilities and shareholders' equity), the share of deposits out of total liabilities and shareholders' equity declined to 64.1% in 2024 (Figure 2.10). This reduction was offset by an increase in the amount due to banks which increased to 13.4%. Nevertheless, deposits remain the primary source of funding for banks. As for issuances, bonds/sukuks increased by 20.7% in light of some banks opting to issue such investments during the year, somewhat restoring the item to its pre-2023 levels. Lastly, shareholders' equity increased by KD 785 mn, in light of the strong profits realized by banks during the year.

2.10
Decomposition of Liabilities and Equity



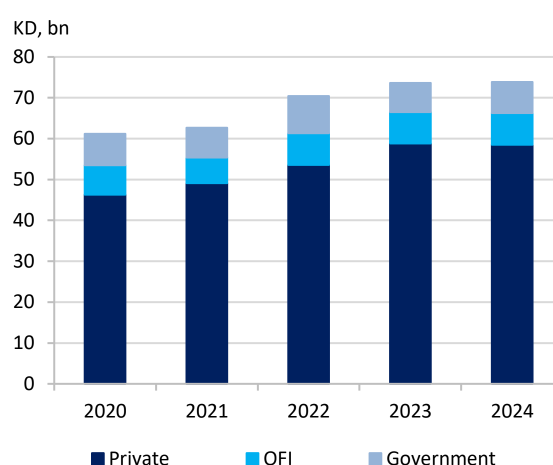
2.11
Deposits of the Banking System



Taking a closer look at the funding side, domestic deposits accounted for approximately 68.7% of total deposits, with elevated interest rates exerting a direct

impact on deposits. In addition, local banking sector deposits grew by 0.4% during the year to reach KD 73.9 bn. In contrast, the share of foreign deposits decreased to 31.3% of total deposits in 2024 (Figure 2.11). With that said, the private sector remains the primary source of funding for banks, with private sector deposits amounting to KD 58.5 bn by the end of the year, accounting for 79.2% of total deposits (Figure 2.12).

2.12
Deposits - by Type



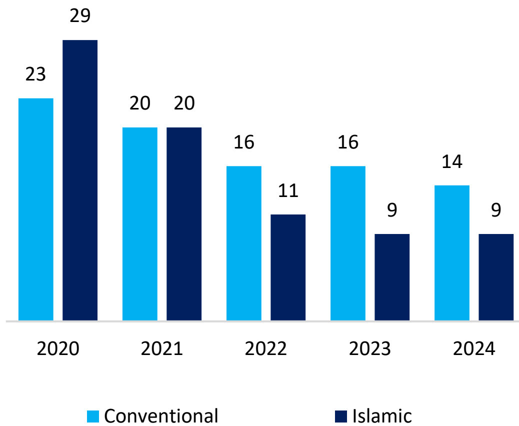
Investment & Finance Companies[9]

The number of investment companies (including two finance companies) continued to decline, falling from 25 total companies in 2023 to 23 companies by the end of 2024, marking an 8% decrease (Figure 2.13).

[9] This section includes data of investment and finance companies that are subject to the supervision of CBK, therefore the numbers may not be consistent with previous year reports (prior to 2023).

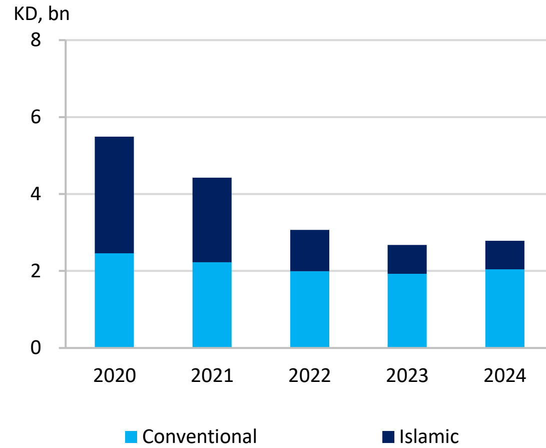
2.13

Number of Investment & Finance Companies



2.14

Investment & Finance Companies' Assets



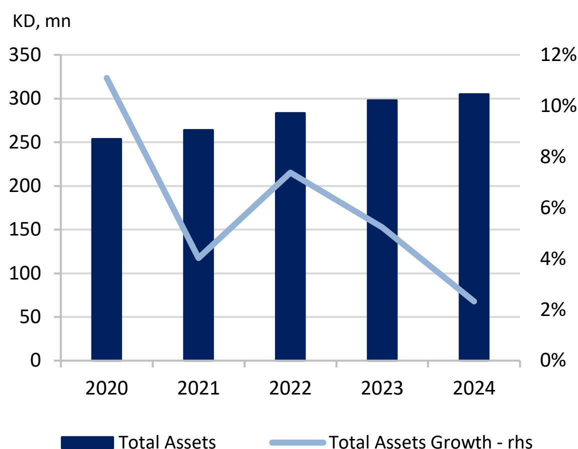
This decline mainly came from conventional investment companies, which saw their number decrease by 2 companies during 2024. In contrast, the number of investment companies operating in accordance with the provisions of Islamic Sharia remained stable during the same period. Conventional investment companies accounted for 73.5% of total investment company assets, while Islamic investment companies comprised the remaining 26.5% (Figure 2.14). Notably, conventional investment companies recorded an asset increase of 6.4% for the first time in the past five years. Additionally, considering the composition of these companies' assets, it can be concluded that lending was not among their main activities, as loans constituted only 12% of the conventional investment companies' total assets and 39% of the Islamic investment companies' total assets. Furthermore, the loan portfolio of all investment companies (subject to CBK supervision) witnessed some stability during the year, which confirms that the observed decrease in the total number of investment companies was a result of the voluntary relinquishing of unutilized financing licenses.

Exchange Companies

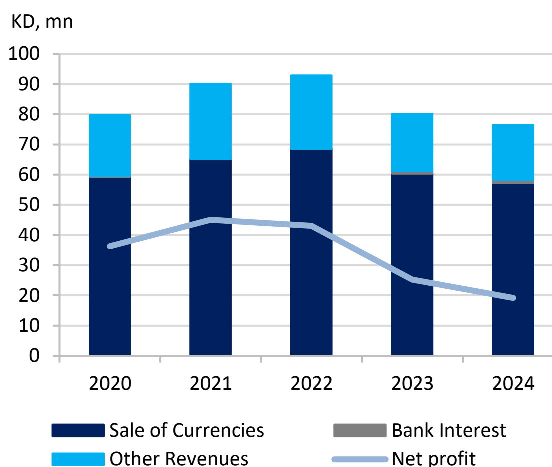
Local exchange companies experienced notable developments during 2024, with their total assets growing by 2.3% (Figure 2.15), mainly driven by an increase in foreign assets. On the liabilities side, accounts payable recorded a decrease, while liabilities to financial institutions increased. Total shareholders' equity, in turn,

continued its upwards trajectory with a 2% increase in 2024, in line with both regulatory requirements and the growth levels of the companies.

2.15
Exchange Companies Assets

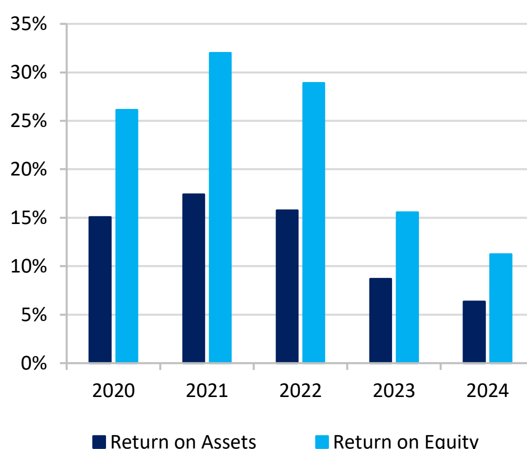


2.16
Breakdown of Exchane Companies' Revenues.



Despite the realized growth in assets, exchange companies experienced a drop in profitability, with net profits declining by 24% (Figure 2.16). This drop was a result of lower revenues (specifically from the sale of currencies), in addition to higher expenses (specifically administrative and banking expenses). The decline in profits affected the main profitability indicators of exchange companies, namely the Return on Average Assets (ROAA) and the Return on Average Equity (ROAE) ratios, with both measures declining in 2024 (Figure 2.17).

2.17
ROAA & ROAE: Exchange Companies



Overall, Kuwaiti banks continued to demonstrate positive performance despite the challenges encountered in 2024, including geopolitical tensions, an elevated interest rate environment, and stagnating economic activity. This positive trajectory is anticipated to persist into 2025, supported by the State's launch of several development projects expected to be financed through local banks. This trend is also reinforced by the issuance of Decree Law No. (60) of 2025 concerning financing and liquidity, which grants the State of Kuwait greater flexibility by enabling access to local and international financial markets to strengthen liquidity management and ensure continuity of the State's public finances. Additionally, the kick-off of global monetary easing provides further optimism on the expected performance of the domestic banking sector. In this context, Kuwaiti banks are equipped with high capital adequacy, strong provisions, and ample liquidity, ensuring their ability to withstand any unexpected market volatility, while efficiently fulfilling their vital role in the economy.

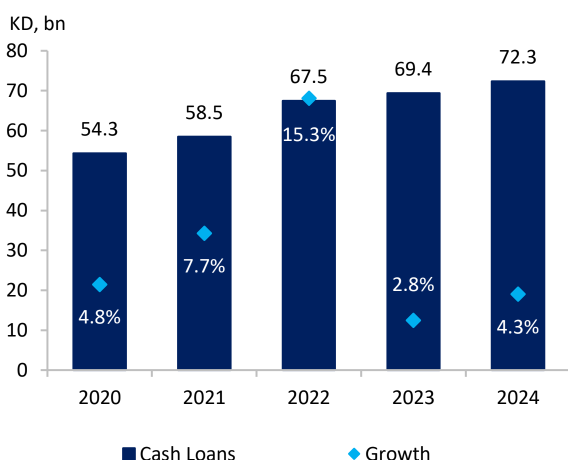
Chapter 3:
Risks

The Central Bank of Kuwait aims to enhance financial stability through its vigilant monitoring of the banking sector, proactive identification of risks that may threaten financial stability, and building of necessary buffers to face these risks. In this regard, this chapter examines the four key risks faced by banks; credit, liquidity, market, and operational risk, and their implications on financial stability.

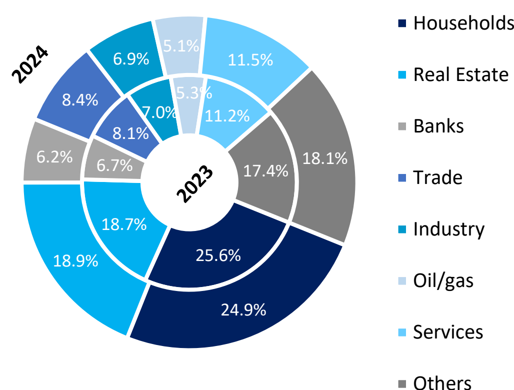
Credit Risk

Credit exposures, which consist of loans, fixed-income investments, and interbank placements, grew by 4.5% during 2024 compared to 3.3% in the previous year. This increase in exposures was primarily due to growth in loans and interbank placements, while fixed-income investments remained stable. The growth was mainly concentrated in the Kingdom of Saudi Arabia, the United Arab Emirates, the United States of America, and the United Kingdom.

3.1
Loan Portfolio



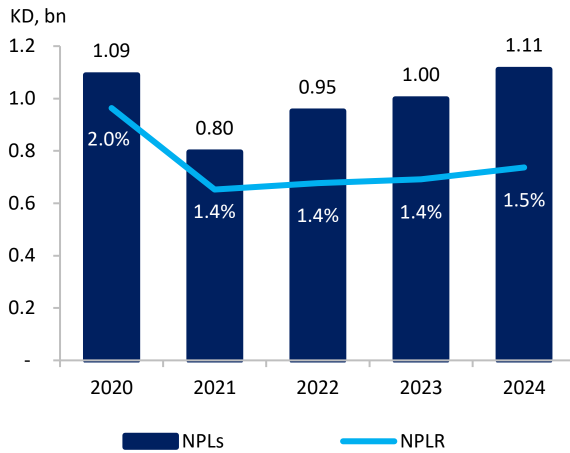
3.2
Loan Portfolio Sectoral Distribution



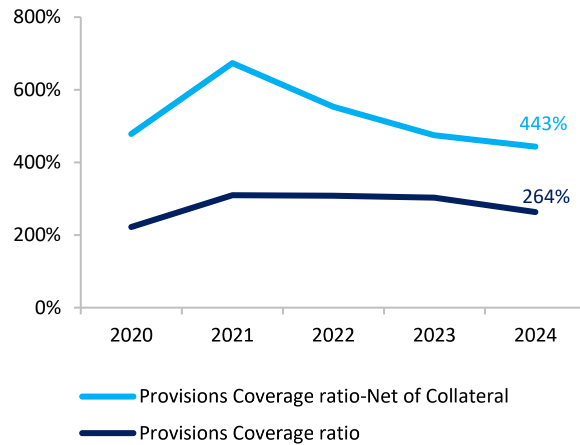
The loan portfolio grew significantly during the year, thus becoming the main contributor in the growth of credit exposures (Figure 3.1). The portfolio increased by approximately 4.3% during 2024 (KD 2.9 bn) compared to an average growth rate of 4.3% over the previous four years due to low interest rates. Most economic sectors witnessed similar increases in loans, with the exception of financing granted to the banking sector, which declined for the second consecutive year by 4%. Growth in the loan portfolio was concentrated in the productive economic sectors, such as Services, Trade, and Industry, confirming the banking sector's ability to play

its vital role in the economy. With that said, the Households and Real Estate sectors still constitute the largest share of the loan portfolio (Figure 3.2).[10]

3.3
Non-Performing Loans



3.4
Provision Coverage Ratio



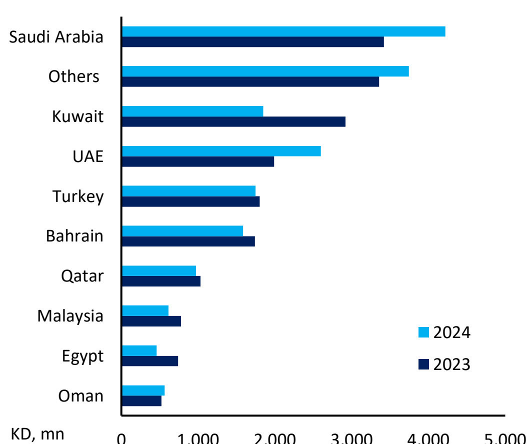
In line with the high interest rates, and as expected, the non-performing loans (NPLs) ratio rose slightly in 2024 to 1.5% (Figure 3.3), remaining one of the lowest in the region. This increase came amid an 11.3% increase in NPLs. It is worth noting that the increase in NPLs is generally in line with the average growth rate of NPLs over the past four years, which was around 10.3%. Most economic sectors experienced an increase in the NPL ratio during the year, with the increase mainly concentrated in the Industry, Households, and Real Estate sectors. It is worth noting that the increase in the Real Estate and Households sectors is considered normal compared to previous years and in line with expectations amid the prevailing elevated interest rate enviroment. As for the increase in the Industry sector, it was driven by the default of only one company, rather than being a sector-wide trend.

Despite the slight increase in the NPL ratio, NPL coverage declined to 264% at the end of 2024 compared to 303% at the end of 2023 (Figure 3.4), albeit remaining among the highest in the region. These provisions have the capacity to absorb a 3.5 percentage point increase in the NPL ratio (with the conservative assumption of 100% provisions coverage of new NPLs), i.e. the NPL ratio could rise to 5.0%

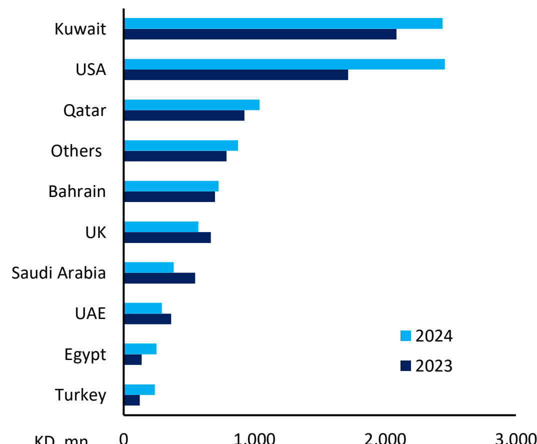
[10] The Households sector is considered among the most stable sectors as it is secured by employee salaries, the majority of which are paid by the government.

before banks are required to record any additional provisions. Furthermore, netting collaterals brings the coverage ratio up to 443%, with real estate assets constituting the largest share of these collaterals. While real estate collaterals are considered to be somewhat illiquid and subject to model-derived valuations, they benefit from lower price volatility. All in all, the high coverage ratios are a result of CBK's prudent measures to build buffers during periods of economic outperformance, increasing banks' readiness to absorb any future losses.

3.5
FI Investments Geographical Distribution

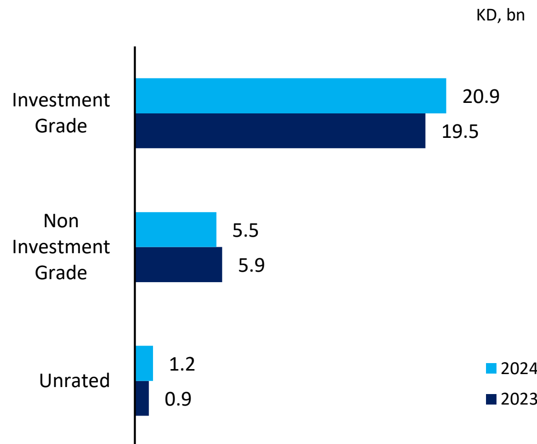


3.6
Interbank Placements Geographical Distribution



In terms of other credit exposures, fixed-income investments witnessed a modest increase of 0.4% during the year, reaching 18.3% of total credit exposures. This contrasts with growth of 15% in the previous year. The slowdown in growth is primarily due to a decline in fixed-income investments in Kuwait by 36% (mainly Kuwaiti government and CBK bonds), while investment in securities issued by the United Arab Emirates and the Kingdom of Saudi Arabia grew by 31% and 23%, respectively (Figure 3.5). As for interbank exposures, they constituted approximately 9.2% of total credit exposures at the end of 2024, achieving growth of 17%. This increase was concentrated in both the United States and Kuwait, at about 43% and 17% respectively (Figure 3.6). The relative stability in fixed-income investments compared to the increase in interbank placements may signal that banks are maintaining high levels of liquidity in anticipation of potentially more-profitable future financing opportunities.

3.7
Credit Rating (FI investments and Interbank Placements)



In light of the developments above, the share of fixed-income investments and interbank placements increased slightly, reaching 27.7% of total credit exposures as of the end of 2024, compared to approximately 27.6% in the previous year. These exposures continue to be of high-credit quality, with the investment-grade portion still making up the majority at 76% (Figure 3.7), and accounted for the bulk of the growth during the year.

Looking ahead, lower borrowing costs and increased government capital spending are expected to positively impact borrowers and productive economic sectors. However, recent global developments point to the potential for further fragmentation in trade and economic relations, the effects of which are likely to be felt domestically given the Kuwaiti economy's dependence on imports. With that said, and given what was previously mentioned, the local banking sector has sufficient buffers to absorb any unexpected shocks. Additionally, CBK will continue to closely monitor developments and changes, while taking proactive measures when deemed necessary.

Liquidity Risk

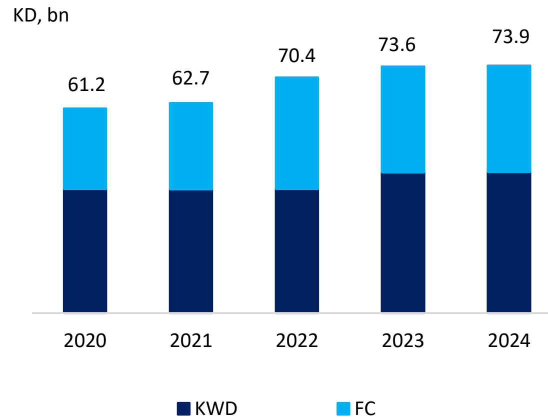
Liquidity is considered a key element affecting the efficiency and performance of the banking sector. It is influenced by numerous factors, leading to the emergence of a risk that may effect the ability of banks to adequately fulfill their financial role, especially in regards to meeting their short-term financial obligations. Managing

liquidity risk is essential for banks as their core function involves utilizing funding sources such as deposits, which are often in the form of short-term liabilities, to finance long-term assets such as loans and other financing operations. As such, this necessitates regulatory authorities to manage and monitor liquidity risks prudently and continuously to avoid potential negative spillovers during times of stress. The domestic banking sector has consistently demonstrated this strength, supported by a prudent regulatory system adopted by CBK.

The year 2024 marked the beginning of the end of the global monetary tightening cycle that began in March 2022, with CBK cutting its discount rate by 25 basis points in September 2024 to reach 4%. However, the financial environment remains characterized by high interest rates, which has contributed to attracting more deposits, albeit at a slower pace than the previous year. Accordingly, local banks continued to demonstrate their ability to meet regulatory liquidity requirements. This section will discuss further details and changes related to regulatory liquidity and their impact on the banking sector.

As previously mentioned, banking sector deposits continued to rise during 2024, recording growth of 0.4% compared to 4.6% in the previous year, reaching KD 73.9 bn at the end of 2024 (Figure 3.8). Deposits in both local and foreign currencies grew during the year, but the growth in total deposits was primarily driven by a 0.7% increase in foreign currency deposits, accounting for 43% of the total deposit base, thus compensating for part of the decline witnessed in the previous year. It is worth noting that the increase in these deposits was primarily driven by the rise in the share of government deposits. Local currency deposits continued to rise during the year by 0.1%, a significant difference from the increase of 13.4% in the previous year, which led to its share remaining stable at approximately 57% of the total.

3.8
Banking Sector Deposits



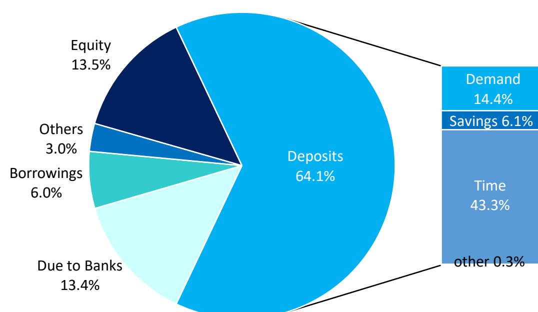
An analysis of the changes by depositor type shows that the increase in total banking sector deposits was mainly driven by the rise of government deposits, which grew by 7.3% to make up 10.3% of total deposits at the end of 2024 (9.7% in 2023). On the other hand, private sector deposits (represented by individual and corporate deposits) declined by 0.6% during the year to account for 79.2% of total deposits (80% in 2023).

That said, non-resident deposits declined by 4.8% in 2024 compared to an increase of 8.5% in the previous year. Accordingly, the share of non-resident deposits declined to 31.3%. Given its size, the segment introduces an element of diversity to the composition of deposits and a source of potential volatility. Thus, this requires the continous monitoring from banks and efforts to attract more stable deposits to foster a less volatile depositor base.

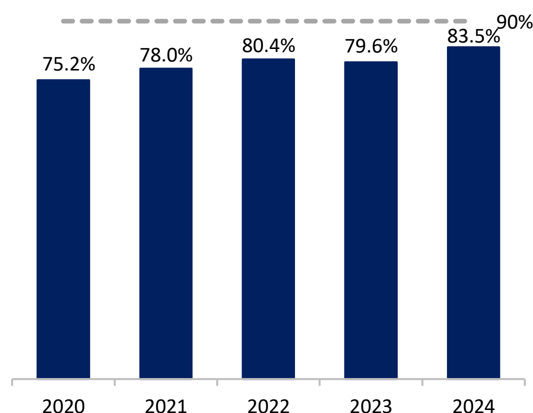
Despite the aforementioned increase in deposits seen during the year, the share of deposits from total liabilities and shareholders' equity declined by 2.5 percentage points, to reach 64.1% of the total sources of funds in 2024 compared to 66.7% in 2023 (Figure 3.9). Demand deposits witnessed a decline during the period, leading to a decline in their share by 1.4 percentage points to account for 14.4% of the total liabilities and shareholders' equity base by the end of 2024. The share of banking sector deposits was impacted by the increase in amounts due to banks, which grew by 23% in 2024, resulting in a two percentage point rise in their share of total

funding sources. This increase was concentrated in interbank deposits in foreign currencies.

3.9
Breakdown of Banks' Liabilities & Equity



3.10
Maximum Lending Limit

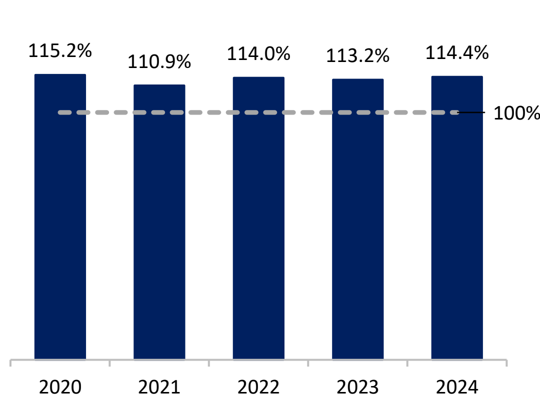


From a liquidity standpoint, and considering the loan-to-available funding ratio (on a local level), banks deployed their available liquidity by expanding lending operations (numerator of the ratio) by 15.3% during 2024. This exceeded the increase witnessed in sources of funds (denominator of the ratio), which grew by 10%, mainly supported by higher government deposits and long-term borrowings. Accordingly, the ratio witnessed an increase during the year, reaching 83.5% compared to 79.6% in the previous year (Figure 3.10). As a result, banks' available lending capacity declined by KD 1.7 bn during the year. Nevertheless, the banking sector continues to maintain a sufficient lending capacity, estimated at KD 3.9 bn, when measured relative to the the maximum lending limit of 90% (without considering other liquidity requirements which may decrease this capacity). With that said, it is worth noting that the majority of the available sources of funds within the sector were employed in the form of loans directed mainly to productive economic sectors and the real estate sector. For more details on the banking sector's credit portfolio, refer to the "Credit Risk" section of this chapter.

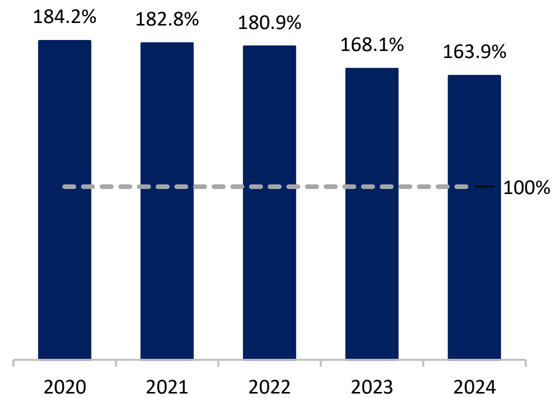
The Net Stable Funding Ratio (NSFR), which aims to ensure more stable liquidity to cover banks' requirements over a one-year horizon, increased by 1.22 percentage points to reach 114.4% in 2024 (Figure 3.11), compared to 113.2% at the end the year prior (well above CBK's minimum requirements). This increase was due to faster

growth seen in available stable funding (numerator of the ratio) than in required stable funding (denominator of the ratio), which grew at 2.8% and 1.7% respectively, in line with the growth in the various sources of funds.

3.11
NSFR



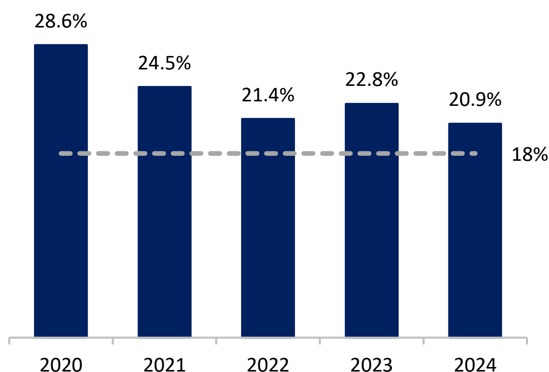
3.12
LCR



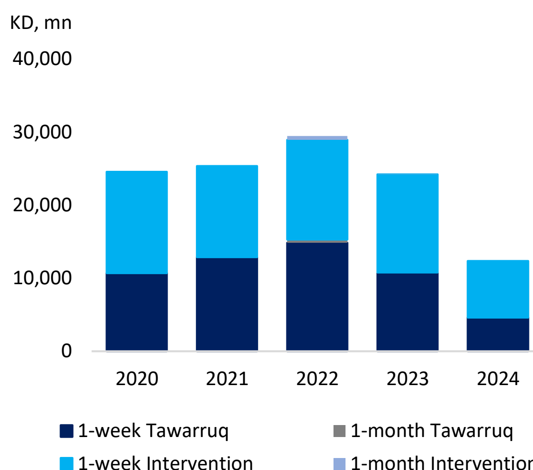
As for the Liquidity Coverage Ratio (LCR), the ratio continued to decline during the year (Figure 3.12) despite the increase in high-quality liquid assets (HQLA) (numerator of the ratio) by 3.4%. The ratio fell by 4.2 percentage points as the growth in net cash outflows (denominator of the ratio) outpaced that of HQLAs. Total net cash outflows rose by 6%, driven by a 7.1% increase in cash outflows.

The Regulatory Liquidity Ratio (RLR) declined by 2 percentage points during 2024, reaching 20.9%, still comfortably above the minimum required ratio of 18% (Figure 3.13). It is worth noting that the decrease is due to faster growth in local KD deposits (denominator of the ratio) during 2024 compared to balances with CBK (numerator of the ratio), which grew at 10.1% and 0.7% respectively.

3.13
RLR



3.14
CBK Interventions



Open market operations carried out by CBK to regulate local liquidity continued to decline during 2024, driven by a decrease in the CBK's weekly interventions. These intervention operations fall under CBK's monetary policy framework, with the objective of managing liquidity levels in the banking sector, and are directly influenced by the various stages of the economic cycle. Accordingly, liquidity absorption operations witnessed a noticeable decline of 49% in 2024 compared to the previous year. This resulted in a decrease in intervention levels (Figure 3.14), which reached an average of KD 1 bn in 2024 compared to KD 2 bn in 2023. This decline in inteventions was attributed to the outcomes of monitoring various financial and economic indicators and encouraging banks to direct their liquidity to other channels, such as financing operations and the interbank market.

The decline in total interventions was seen in both conventional and Islamic bank interventions. However, the decline in intervention tools directed at Islamic banks was more severe at 57.3%, compared to a decline of 42.4% for conventional banks. This is due to the fact that 2023 figures include interventions with Ahli United Bank, which merged with Kuwait Finance House in 2024. Accordingly, Islamic banks' share of total interventions declined to 37.2% by year-end compared to 44.5% in the previous year. On the other hand, conventional banks' share of interventions increased to 62.8% at the end of the aforementioned period compared to 55.5% in 2023. Additionally, longer-term open market operations, primarily represented by CBK bonds, witnessed a decline of 16.1% in total issuances, settling at KD 7.5 bn by year-end compared to KD 8.9 bn in the year prior.

Overall, liquidity in the banking sector continued to be abundant in 2024, granting banks the ability to effectively carry out their role as financial intermediaries without compromising on the sector's financial stability. In terms of liquidity requirements, specifically regulatory liquidity standards, local banks continue to benefit from sufficient buffers that position them well for future growth. In light of global economic developments, CBK will continue to perform its role of vigilantly monitoring liquidity levels in the banking sector, including the ongoing monitoring of deposit movements and the sector's diverse funding sources.

Box (3.1): Kuwait Overnight Interest Average (KONIA)

For decades, global financial markets relied heavily on the London Interbank Offered Rate (LIBOR) as a benchmark for pricing a wide range of financial instruments, from commercial loans to derivatives. However, the credibility of this benchmark was severely undermined in the aftermath of the 2008 financial crisis, when it came to light that multiple banks were manipulating their reported rates (either to signal greater financial strength or to profit from positions tied to the rate). This scandal exposed a fundamental flaw in the methodology used to calculate LIBOR: its dependence on estimates provided by the banks themselves regarding their interbank borrowing costs, as opposed to actual transactions.

As confidence in LIBOR declined, regulatory bodies such as the Financial Stability Board (FSB) and central banks globally began advocating for the adoption of alternative benchmark rates that offer greater credibility, transparency, and alignment with actual market conditions. This shift led to the introduction of several risk-free rates across various countries, such as the Secured Overnight Financing Rate (SOFR) in the United States of America and the Euro Short-Term Rate (€STR) in the euro area (Figure A).[11]

In light of these developments, and with the objective of enhancing the country's financial infrastructure

Figure A

Key Alternative Reference Rates

European Central Bank
- The Euro Short-term Rate (€STR)

Federal Reserve Bank
- Secured Overnight Financing Rate (SOFR)

Bank of England
- Sterling OverNight Index Average (SONIA)

Swiss National Bank
- Swiss Average Rate Over Night (SARON)

Bank of Canada
- Canadian Overnight Repo Rate Average (CORRA)

Bank of Japan
- Tokyo InterBank Offered Rate (TONAR)

Central Bank of the UAE
- Dirham Overnight Index Average (DONIA)

Central Bank of Kuwait
- Kuwait Overnight Interest Average (KONIA)

[11] To learn more about the topic of discontinuing the LIBOR reference interest rate, you can refer to Box 1.1 in the Financial Stability Report 2022 via the following link: https://www.cbk.gov.kw/en/statistics-and-publication/annual-publications/financial-stability-report

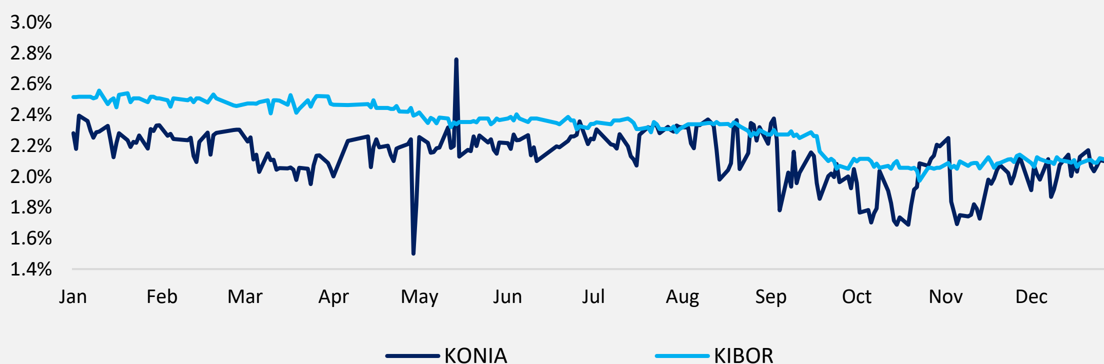
while aligning it with global best practices, and supporting ongoing efforts to ensure financial stability and establish reliable financial benchmarks in the local market, CBK launched a new reference rate in September 2024 known as the Kuwait Overnight Interest Average (KONIA). This benchmark reflects actual interest rates paid on overnight interbank deals within Kuwait. It is designed to better capture local market dynamics, improve pricing reliability and lending practices, and contribute to greater transparency and efficiency in Kuwait's financial transactions.

KONIA is based on actual overnight transactions in Kuwaiti dinars, thus offering a realistic assessment of market perceptions regarding liquidity and risk conditions, and consequently the true cost of interbank funding. The index is calculated as a volume-weighted average of interest rates on overnight interbank transactions denominated in Kuwaiti dinars.

Accordingly, KONIA represents the actual rates of funds exchanged between local banks for overnight durations, offering a more transparent gauge of domestic market liquidity than the Kuwait Interbank Offer Rate (KIBOR). Unlike KONIA, KIBOR reflects estimated rates announced daily by banks for various maturities ranging from overnight to three years. As such, the KIBOR index represents the screen rates quoted by local banks, which may not necessarily correspond to the actual cost of funds. Figure B illustrates the difference between estimated (KIBOR) and actual (KONIA) interbank lending rates in Kuwait during 2024.

Figure B

Comparison Between Estimated Rates (KIBOR) and Actual Rates (KONIA) for Interbank Funds in Kuwait (2024)

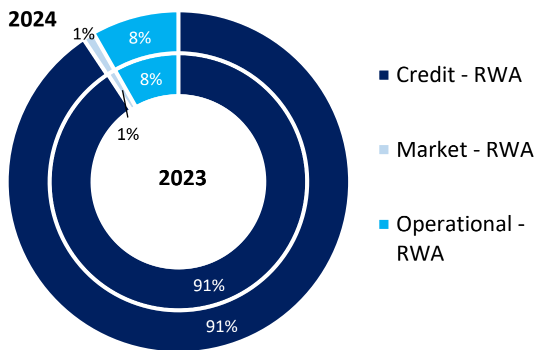


Publishing of the KONIA index on CBK's official website and its contributor page on trading platforms such as Bloomberg and Workspace, has been ongoing since September 2024. So far, the index has proven effective in identifying funding costs and assessing liquidity conditions in the banking sector by providing an accurate representation of the supply and demand dynamics for the Kuwaiti dinar among financial institutions. The publication of this benchmark represents another step in the ongoing efforts to develop Kuwait's financial infrastructure, contributing to enhanced financial stability and improved liquidity efficiency in the domestic market.

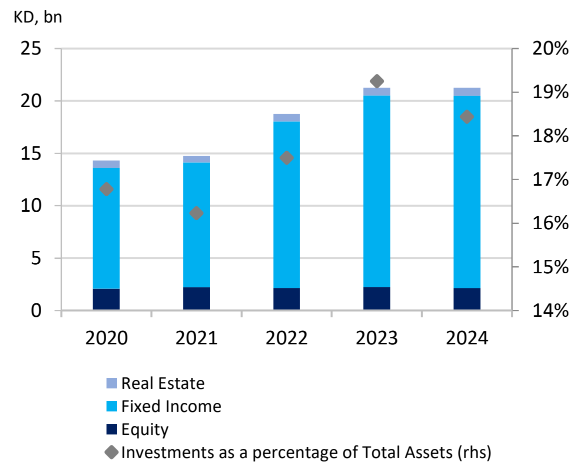
Market Risk

Market risk for banks arises from exposures to adverse movements in interest rates, equity prices, foreign exchange rates, and/or commodity prices, which may eventually lead to potential losses. In terms of risk weighted assets (RWAs), the market category remains the smallest component, making up only 1% (KD 0.83 bn) of total RWAs in 2024 (Figure 3.15). The relatively minor contribution of market risk is primarily attributed to the conservative investment policies adopted by banks, along with CBK's macroprudential framework. Nevertheless, analyzing these exposures provides valuable insights into banking operations and offers a thorough understanding of inherent risks.

3.15
Risk Weighted Assets



3.16
Banks' Investments by Category



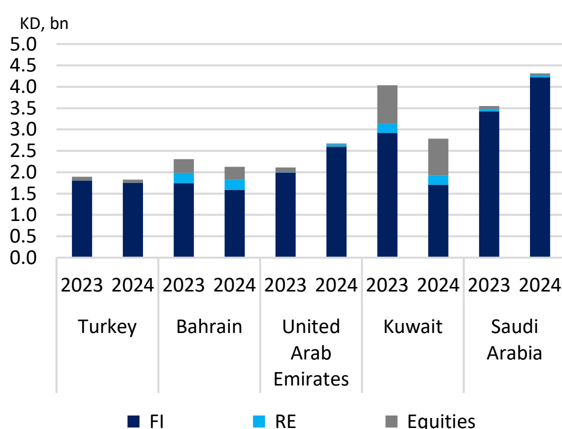
In 2024, banks' investment portfolios remained relativly unchanged compared to the year prior (Figure 3.16), with only minor shifts across different asset classes. Specifically, equity investment exposures posted the largest decline at 4.9% (KD 110 mn) compared to a 3.8% increase in 2023. The decline was primarily driven by a broad reduction in local and GCC equities. Fixed income and real estate investments, on the other hand, ticked up by 0.4% (KD 74 mn) and 3.2% (KD 24 mn) respectively, notably lower than the previous years' increase of 15.0% and 8.8%, respectively. The slower growth in fixed income investments can be attributed to the decline in global interest rates, as well as banks' preference to retain excess liquidity rather than invest in fixed-income instruments in anticipation of a projected increase in consumer loan demand. Given the modest increases in

investments, their share of total assets declined by 0.8 percentage points during 2024 to 18.4%; nevertheless, the ratio remains comfortably above historical levels. Overall, Kuwaiti banks' investment portfolios are of a reasonable size and composition, with risks within tolerable thresholds.

Looking at the geographical allocation of investments, growth in 2024 was primarily driven by GCC fixed income investments, most notably in Saudi Arabia and the United Arab Emirates, with fixed income investments in those countries up 23% and 31% respectively from the previous year. These investments were mostly government securities. Local fixed income investments, on the other hand decreased by 36% (Figure 3.17), the majority of which were CBK bonds. The overall decline in local fixed income investments was also partly due to the low availability of Kuwaiti sovereign fixed income investments following the expiration of the public debt law in 2017. With that said, the law was passed in early 2025, which may result in a sharp reversal of the downward trend seen in holdings of local fixed income securities over the past few years. As a result, banks have had a growing interest in channelling funds into GCC issuances given their proximity and established operations there, in addition to the fact that these countries have comparable economic characteristics to Kuwait. Saudi Arabia now accounts for the largest share of local bank investments by geographical distribution, with investments in Kuwaiti issuances falling by 28%.

3.17

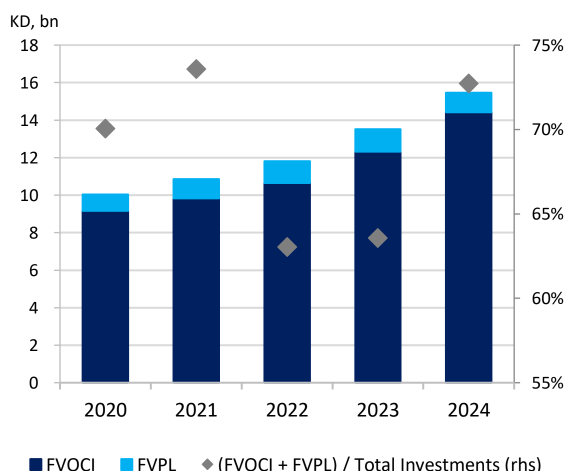
Kuwaiti Bank Investments - Top 5 Countries



Note: RE Investments are only held by Islamic banks

3.18

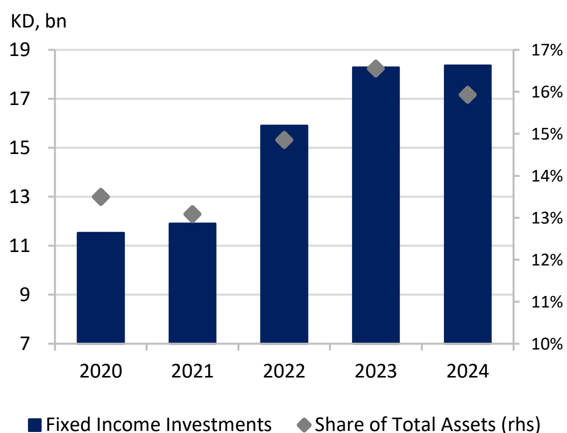
FVOCI and FVPL Investment Portfolio



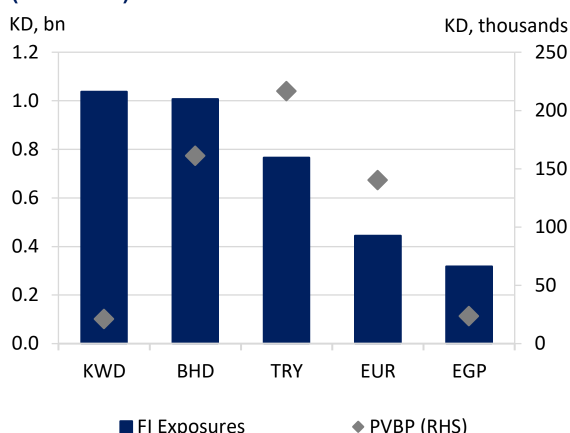
Banks' sensitivity to fluctuations in investment markets ticked up in 2024, with investments categorized as fair value through other comprehensive income (FVOCI) and fair value through profit & loss (FVPL) accounting for 72.7% of total investments, compared to 63.6% in 2023 (Figure 3.18). FVOCI investments saw an increase of 17.0% in 2024 compared to 15.8% in 2023, driven almost entirely by non-Kuwaiti government fixed income securities as well as corporate fixed income securities. While these investments provide the benefit of reduced income volatility, as they are recorded directly under capital, they result in the banks' capital being more susceptible to fluctuations. That being said, banks' OCI investments remain within tolerable levels, given their business models and the need for efficient liquidity management with minimal impact on operating results. As for investments classified at FVPL, they declined by 13.2% in 2024, compared to a growth of 1.5% the previous year, indicating potentially more stable earnings profiles for certain banks. The decline was primarily from a decrease in local government fixed income securities.

Accounting for the majority of total investments, fixed income instruments made up 86% of the portfolio and 15.9% of the sector's total assets at the end of 2024 (Figure 3.19). These investments experienced yearly growth of only 0.4%, compared to 15.0% in 2023. Specifically, despite government fixed income instruments jumping 9.1%, mainly fueled by a surge in investments in Saudi Arabian government bonds, overall growth in fixed income securities was offset by a decline in Kuwaiti government bonds and Central Bank of Kuwait Bonds. Generally, the level of exposure to fixed income securities is considered acceptable as banks tend to utilize these instruments to secure low-risk steady income, while simultaneously applying strategies for liquidity and liability management (e.g. duration matching and cash flow matching).

3.19
Fixed Income Investments



3.20
FI Currency Exposures - Top 5 (exc. USD)



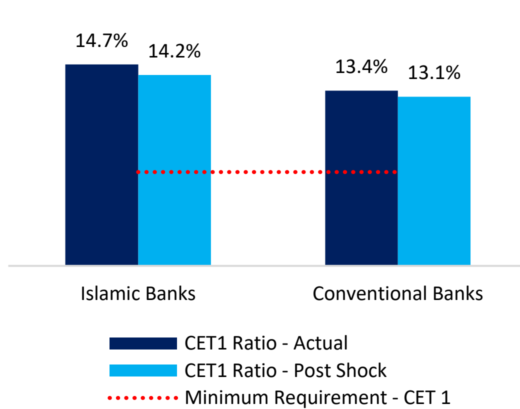
Examining the currency denomination of fixed income investments, the majority of banks holdings continue to be denominated in USD, followed by KWD, BHD, TRY, EUR and EGP, respectively (Figure 3.20). The price value of a basis point (PVBP) is calculated to assess the interest rate sensitivity of bank's investments across different currencies.[12] Kuwaiti banks were most vulnerable to changes in USD interest rates, with a PVBP for USD denominated fixed income exposures reaching KD 5.40 mn (i.e. for every 1 basis point change in US interest rates, local banks' USD-denominated fixed income exposures would be impacted by KD 5.40 mn, assuming all other factors remain unchanged). This exposure grew compared to last year, when the USD PVBP was around KD 4.55 mn, suggesting greater sensitivity of investment portfolios to fluctuations in USD interest rates, and was driven by an increase in the value of USD-denominated fixed income securities with longer durations. Investments denominated in TRY and BHD ranked second and third, respectively, in terms of interest rate sensitivity, standing at KD 217,000 and KD 161,000 respectively, down from KD 371,000 and KD 206,000 seen in 2023. The decline in both of these duration exposures resulted from lower fixed income holdings in both currencies.

On a broader scale, examining the sensitivity of fixed income investments between conventional and Islamic banks, both segments saw a modest increase in duration exposure – more pronounced within the conventional segment. Specifically, the weighted average duration of Islamic banks' fixed income books stood at 3.77

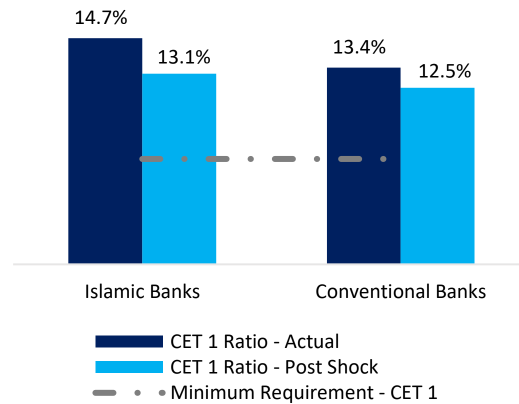
[12] A measure of bond sensitivity using a bond's price and duration.

years, with conventional banks at 2.98 years, increasing from 3.71 and 2.55 years respectively in 2023. Accordingly, assuming a 50-basis point increase in interest rates, the conventional and Islamic banking segments – assuming all else constant – would experience decreases of 0.3 and 0.5 percentage points in the Common Equity Tier 1 (CET1) Ratios respectively (Figure 3.21).[13] Thus, the effect on banks' capital levels remains moderate, with CET1 levels well above the minimum requirements of 9.5%. The impact would be further reduced when accounting for banks' existing hedges, which were excluded from this calculation to maintain conservativeness.

3.21
Sensitivity Analysis to Fixed Income Exposures (Under a 50 bps hike in rates)



3.22
Sensitivity Test to Equity Exposure



In 2024, banks' equity investments experienced a drop of 4.9% (KD 110.3 mn), mainly stemming from lower equity investments in the United Arab Emirates followed by a decrease in local investments. Equity securities represent an attractive investment opportunity for banks given their liquidity (listed equities), and potential for diversification and enhanced returns. Kuwaiti banks invest in equities both directly and through asset managers and investment funds. With that said, despite the potential advantages of investing in equities, significant exposure to listed equities can result in volatile net income and heightened sensitivity to market fluctuations, especially when held for trading purposes. With that said, banks' exposure to equities remains limited, representing only 1.8% of total assets. This modest exposure is further highlighted by a hypothetical shock to equity

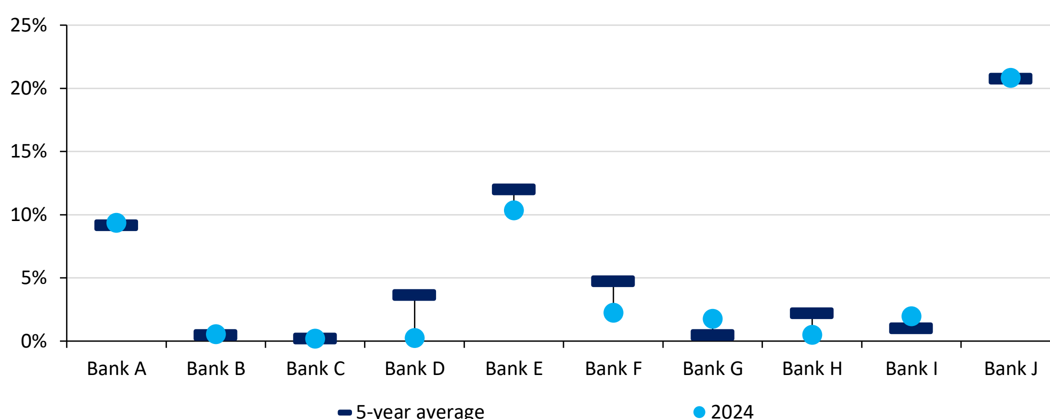
[13] The calculation assumes no hedging, and includes fixed income securities classified at amortized cost.

prices, which shows minimal effects on the capital of both conventional and Islamic banks (Figure 3.22).[14]

In addition to fixed income and equity investments, Kuwaiti banks also invest in real estate albeit to a lower extent.[15] The stable and inflation-hedging nature of real estate makes it an appealing diversification option in Islamic bank's investment portfolios. In 2024, real estate investments continued to rise, but at a slower rate compared to 2023, recording a 3.2% increase compared to 8.8% in 2023. This growth was driven significantly by a single banks' investment in a property located in the United Arab Emirates. Overall, real estate holdings continue to make up 0.7% of total bank assets, of which 29% were located in Bahrain and 29% in Kuwait.

Foreign exchange risk refers to the potential for banks to suffer losses on FX exposures caused by fluctuations in currency values. This risk arises for banks with asset holdings in currencies other than their home currency, resulting in net open positions. In general, risks from severe currency fluctuations were limited as the open positions of local banks in 2024 stayed within prudent limits, representing only a minor share of regulatory capital and below/near the 5-year average for most banks (Figure 3.23). This trend can largely be attributed to banks' steadily growing their regulatory capital, improving their capacity to prudently increase FX exposures while mitigating excess risk.

3.23
FX open positions as a % of Regulatory Capital



[14] A shock to Islamic and conventional banks' CET1 Ratios if their respective total equity investments were shocked under a CVaR of 99.9% using daily returns data from the past 10 years.

[15] Only Islamic banks are permitted to directly invest in real estate assets.

Overall, Kuwaiti banks continue to exhibit limited exposure to market risk in its various forms during 2024. With that said, it remains imperative to maintain vigilance about market dynamics in the upcoming year, particularly in light of growing geoeconomic fragmentation, the monetary pivot, and concerns about a possible global recession. These issues are already influencing market dynamics, shaping investors' expectations, and inducing elevated volatility in asset prices. Nonetheless, due to their modest market exposures and sufficient buffers, Kuwaiti banks are expected to navigate these developments prudently, with limited impact on the sectors' performance and financial stability.

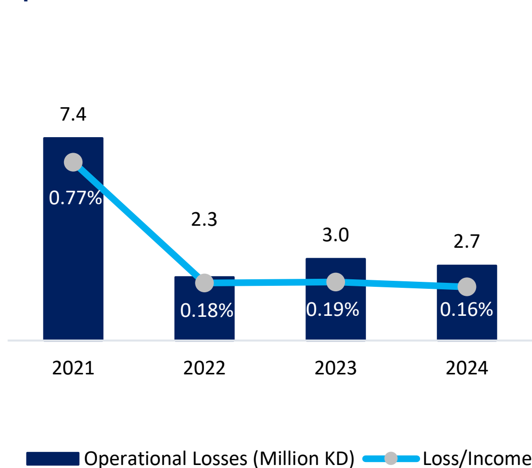
Operational Risk

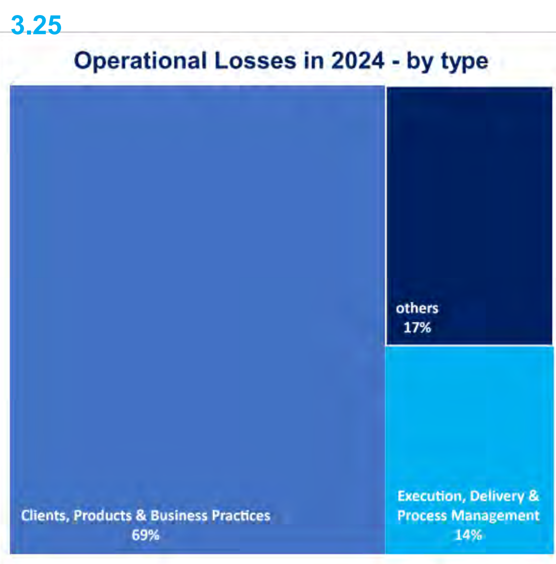
According to the Basel Committee on Banking Supervision (BCBS), operational risk refers to risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, alongside legal risk.[16] Operational risk is among the most significant factors affecting financial stability, particularly amid the increasing complexity of operations and growing reliance on technology. Consequently, this topic has prompted greater attention from global regulatory authorities, with banks striving to achieve greater understanding and enhanced abilities to evaluate and manage these risks effectively. The impact became tangible in 2024, when a glitch resulting from a global security software update caused widespread disruption to systems worldwide, including vital sectors such as aviation, reaffirming the need to prepare for such events. However, despite the clarity of the definition and the significant efforts recently made to quantify these risks, it remains difficult to reduce the totality of operational risks to a single measure.

Locally, CBK is intensively monitoring and supervising these risks. Relevant regulatory frameworks are being continuously developed by the bank, guided by global standards, and applied through both on-site and off-site supervision, as well as ongoing development and training of CBK and banking sector employees. Both the supervisory approach and reporting are based on a combination of static and dynamic operational risk indicators. Examples of static indicators include failures,

[16] Basel III: Finalizing post-crises reforms (Bank for International Settlements, December 2017).

fines, and gaps, while dynamically generated indicators include measures such as value-at-risk assessments (derived loss-distributions). The analysis below sheds light on the main operational risk indicators in the local banking sector, and offers a view of the sector's readiness to withstand cyber-security threats.



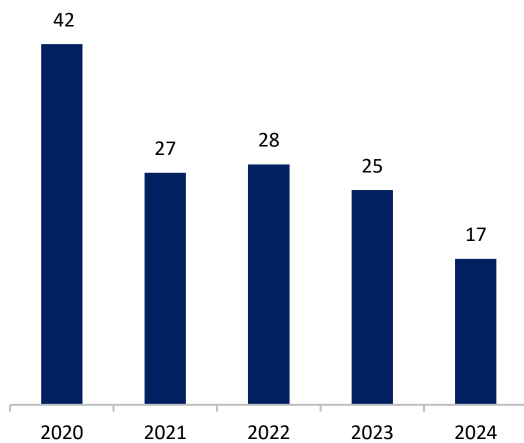


Operational losses decreased by 8.2% in 2024, reaching KD 2.7 mn, representing 0.16% of Kuwaiti banks' net profits during the same period, compared to KD 3 mn in 2023 (Figure 3.24). Despite the small size of operational losses recorded in 2024 and their limited impact on the total income of Kuwaiti banks, it is important to understand their nature and examine their source along with the factors that led to their occurrence, given their potential to induce large losses. Clients, Products, and Business Practices constituted the largest proportion of operational losses, accounting for 69% of total losses (Figure 3.25), compared to 1% in 2023. This was due to a potential loss in a legal case involving one bank, amounting to KD 1.82. On a positive note, a significant decline was observed in the share of losses resulting from external fraud, which became almost negligible in 2024, representing only 0.22% of total losses. This reflects the impact of CBK's efforts to encourage banks to develop their systems to address any suspicious external transactions, protect customer information, and ensure banks' immediate response. This improvement is also attributed to the joint efforts between CBK and the Kuwait Banking Association through the "Diraya" campaign, which aimed to continuously educate and raise customer awareness to prevent recurring fraud.

Among the indicators related to operational risks are the penalties imposed on banking units by CBK, issued within the framework of its on-site and off-site supervision of the local banking sector. These penalties are divided into two categories: financial and non-financial, with the aim of deterring unsound practices and ensuring that the quality of standards applied within the sector does not deteriorate. As evident by the number of penalties imposed, banks have continued to demonstrate their ability to maintain the effectiveness of their internal controls, with the total number of penalties decreasing to 17 in 2024 compared to 25 in 2023 (Figure 3.26). Another key indicator of operational risk is the employee churn rate,[17] which recorded a slight increase to 14.4% in 2024, compared 13.2% in 2023 (Figure 3.27). Nonetheless, the employee churn rate in the local banking sector remains within acceptable levels, reflecting a continuation of standard turnover trends within the sector.

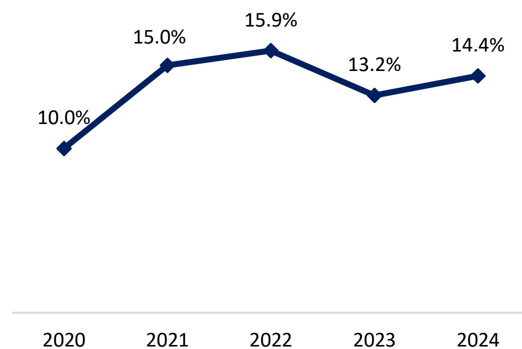
3.26

Penalties from CBK



3.27

Employee Churn Rate for Sector



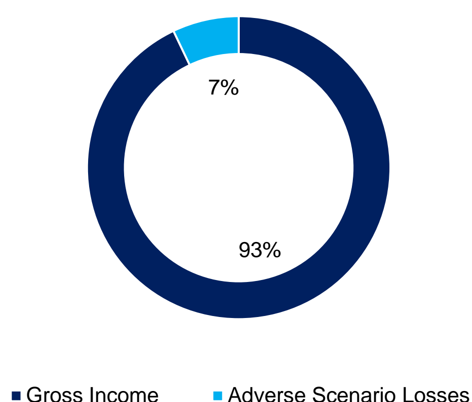
As part of its forward-looking approach to operational risk management, CBK conducts several simulations analyzing the distribution of losses at both the aggregate and individual levels. These simulations aim to enhance the understanding of potential operational incidents and their financial implications. In 2024, two main simulations were conducted to assess the severity of banks' operational losses. The first simulation was based on the degree of operational losses for the overall banking sector, while the second simulation combines both

[17] The employee churn rate estimates the percentage of employees leaving the organization per year.

the sector's frequency and magnitude of losses derived from a specialized operational risk database. Furthermore, additional severe losses (tail-events) were added to the two simulations mentioned above, bringing the total number of scenarios to four, with varying outcomes for each.

When analyzing these four scenarios, the maximum estimated operational loss for the sector amounted to approximately KD 260 mn under the most severe scenario. Relatively, this loss does not exceed 7% of the average gross income of banks over the past three years (Figure 3.28). Accordingly, these results highlight the robustness of banks' financial positions and affirm their ability to withstand the materialization of severe operational risks.

3.28
Adverse Scenario Losses from Sector's Gross Income (3-year Average)

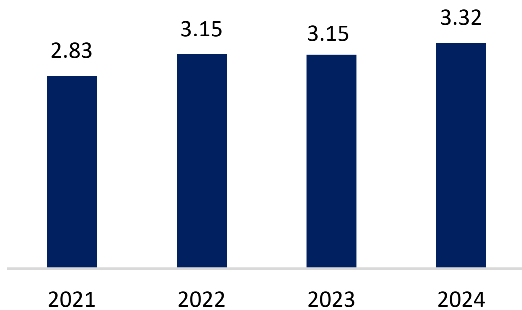


The following section outlines the efforts undertaken by CBK and the local banking sector to mitigate the potential impact of operational risks, with a focus on cybersecurity-related initiatives in the banking sector.

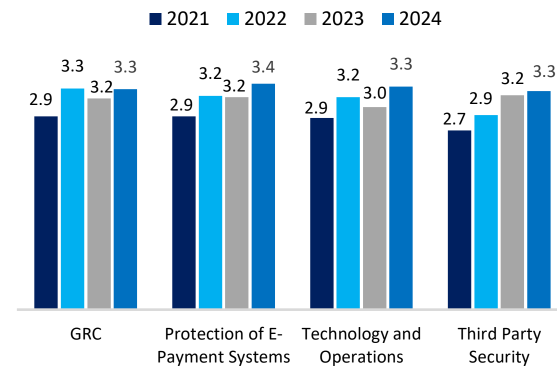
In light of the cybersecurity risk management requirements and standards identified within the strategic framework, the general indicator for compliance with security controls in the local banking sector reflected an improvement in the sector's overall cyber maturity, with the score rising to 3.32 points (Figure 3.29). The increase was attributed to the overall improvement in the assessment of cybersecurity maturity indicators across all domains specified within the strategic framework. This demonstrates the sector's ability to keep pace with developments

in all areas of cybersecurity. It also reflects the ongoing monitoring of cybersecurity risk management and the efforts to empower cybersecurity specialists in the sector to enhance security levels and promote cybersecurity concepts in general. This was achieved through continuous monitoring and the provision of general guidance, which can be directly observed in the indicators' increase across all areas (Figure 3.30).

3.29
Cybersecurity Framework Overall Maturity



3.30
Cybersecurity Framework Domain Level Maturity

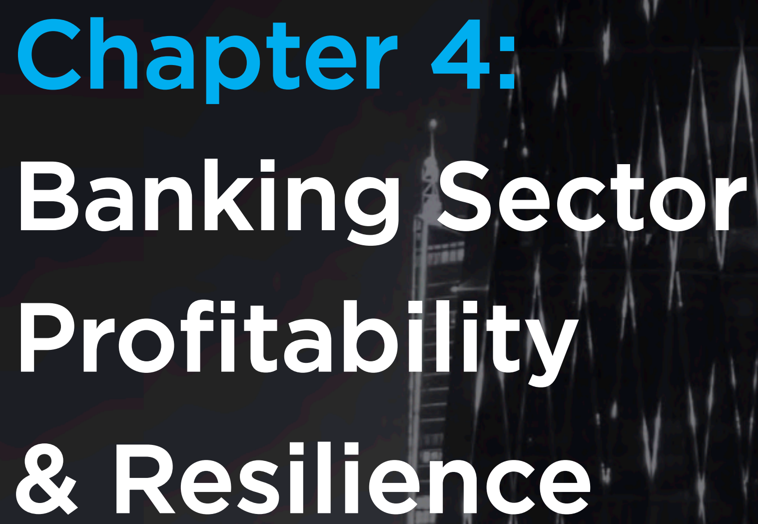


These improvements came in light of the rapid and significant expansion of digital banking services, and warranted infrastructure development to keep up. This included a significant increase in the scope of securing technological infrastructure and operations, as well as protecting e-payment systems. The maturity index for third-party risks continued to rise, following the implementation of security controls and general guidelines for both third-party and cloud services.

Furthermore, the observed increases demonstrate that following the launch of the Cybersecurity Strategic Framework in 2020, the sector has complied with the minimum requirements across all domains. Not only that, but it also become fully capable of ensuring the sector's overall security by adhering to standards and adopting best practices to address general cybersecurity challenges and enhance the overall level. This reflects the sector's commitment to progressing its cybersecurity system. CBK also confirms its continued support to relevant entities in the sector, and its collaborative efforts in developing cybersecurity-related

aspects, contributing to the enhancement of financial stability and customer protection.

In conclusion, local banks have demonstrated resilience in keeping pace with rapid technological developments, as evidenced by the low level of operational losses amid continuous system updates and heightened readiness for unexpected shocks, thereby boosting the confidence of all relevant stakeholders. However, this should not result in complacency among banks in managing operational risks, as they remain among the most prominent risk sources with potentially widespread repercussions if not addressed appropriately. This underscores the neccessity for banks to continuously enhance their assessment tools and strengthen institutional readiness to efficiently and flexibly manage these risks. CBK will continue to monitor banks to ensure their capability to manage operational risks in an evolving environment.



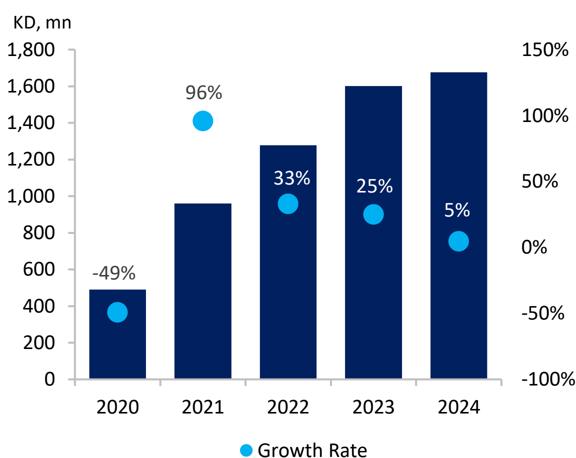
Chapter 4:
Banking Sector Profitability & Resilience

This chapter aims to examine the soundness of the Kuwaiti banking sector through the analysis of key profitability indicators, followed by the assessment of solvency measures to gauge the system's resilience.

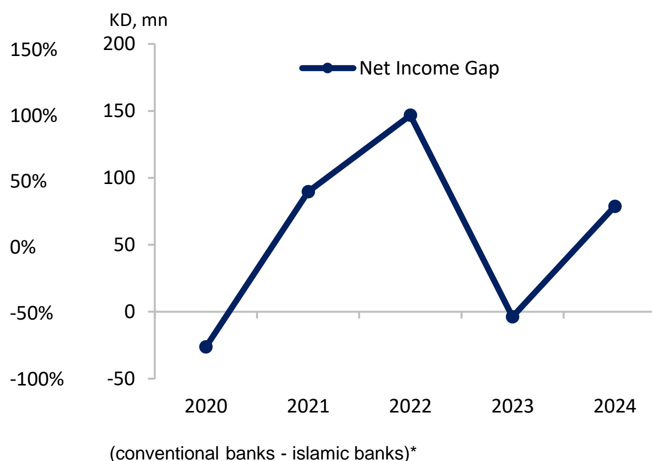
Banking Sector Profitability

The Kuwaiti banking sector's profitability continued to grow in 2024 maintaining the upward trend witnessed in the previous years. This was driven by growth in the loan portfolio and relatively elevated interest rates. As such, the banking sector recorded net profits of KD 1.68 bn in 2024, a 5% increase from the KD 1.60 bn recorded in 2023 (Figure 4.1). Despite the slowdown in profitability growth compared to previous years, this was expected in light of the effects of higher interest rates on credit quality, as well as the global economic challenges of 2024 in light of geopolitical tensions.

4.1
Banks' Net Income



4.2
Conventional VS Islamic Net Income Gap*

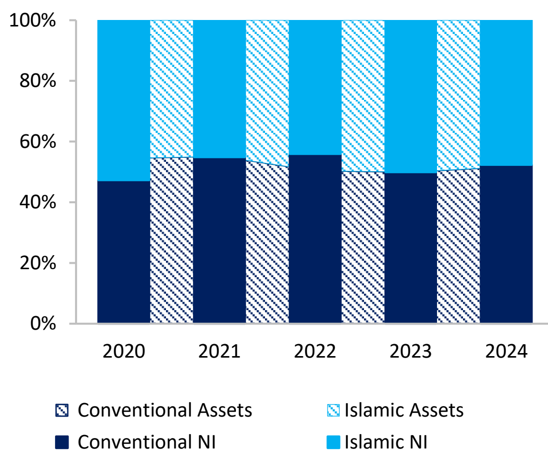


(conventional banks - islamic banks)*

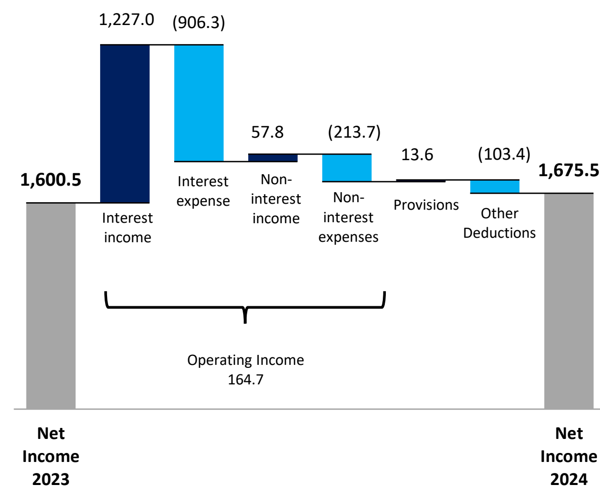
With regards to the conventional and Islamic segments, and in contrast to the previous year, conventional banks' net profits significantly outpaced that of their Islamic counterparts in 2024, with profits increasing by approximately KD 75 mn (9.5%), reaching KD 863 mn at the end of the year. In contrast, Islamic banks' net profits declined slightly by about KD 8 mn (1%) settling at approximately KD 784 mn by year-end. Accordingly, the profit gap reversed to its previous position in favour of conventional banks, amounting to KD 79 mn (Figure 4.2).

Accordingly, the share of conventional banks in the sector's net profits attributable to shareholders rose by approximately 2.2 percentage points compared to the previous year (51.5% in 2024 vs 49.3% in 2023). In terms of contribution to the sector's total assets, the share of conventional banks exceeded Islamic banks, increasing by around 2 percentage points compared to the previous year. In contrast, Islamic banks witnessed relative stability in the size of their assets, which led to a decline in their share of total sector assets (Figure 4.3).

4.3
Share of Net Profits & Assets



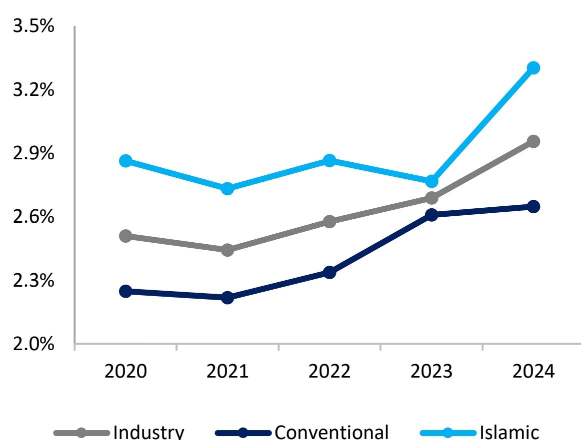
4.4
Change in Net Income (KD, mns)



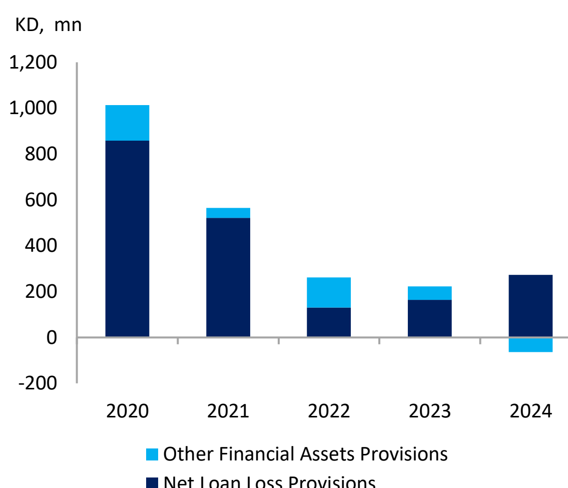
Looking at the developments in the banking sector's net income, interest income continued to grow at a faster pace than interest expenses. Interest income increased by KD 1.2 bn (20.1%) in 2024, while interest expenses increased by KD 0.9 bn (25.3%) during the same period, leading to higher net interest income and enhanced sector profitability (Figure 4.4). This increase was mainly driven by growth in the loan portfolio during the year, as well as Islamic banks' benefit from higher profit rates, as a significant portion of these banks' assets exhibit lagged repricing. In terms of expenses, the increase in non-interest expenses was mainly due to banks' expansion of investments directed towards digital transformation as part of a strategy aimed at enhancing operational efficiency and achieving higher long-term returns. In addition, the increase may also be partly attributed to the rise in employees' expenses, especially amid the high inflation experienced in some countries where certain banks operate.

Moreover, the net interest margin (NIM), which is one of the key indicators of bank profitability, continued to rise in 2024, marking the second consecutive year of growth following several years of decline. Specifically, the NIM compares interest income and expenses relative to interest-bearing assets. Banking sector data showed an increase in the indicator by 0.3 percentage points to reach 3.0% compared to 2.7% recorded in previous year, underscoring the sector's strong profitability levels (Figure 4.5). This was mainly driven by a 0.5 percentage point increase in Islamic banks' NIM (3.3%), alongside the stability in conventional banks' NIM (2.6%). The main reason for the divergence between the two segments is the abovementioned nature of Islamic banks' sensitivity towards profit rate fluctuations.

4.5
Net Interest Margin

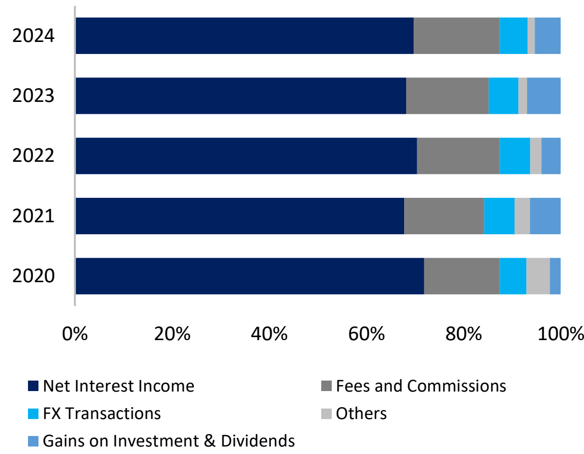


4.6
Provisions



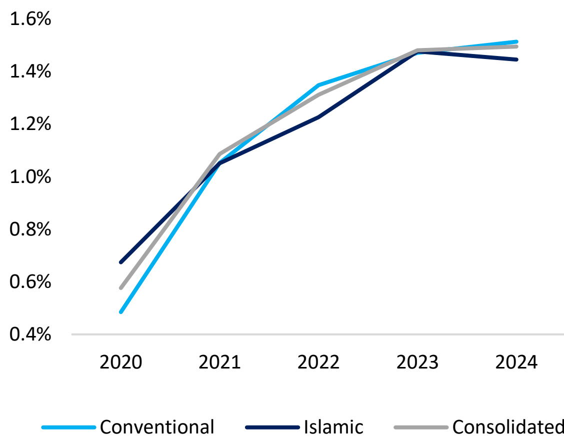
Provisions charged on the income statement declined by 6% in 2024, considerably lower than the declines of 15% and 54% recorded in 2023 and 2022 respectively (Figure 4.6). The decline seen in 2024 was mainly driven by lower provisions for 'other financial assets' which fell by 210% as some provisions made for certain investments were no longer deemed necessary. On the other hand, loan loss provisions increased by 66.5% during the year, mainly driven by higher general provisions amid the growth of the loan portfolio, in addition to higher specific provisions due to a modest increase in non-performing loans. With that said, the Kuwaiti banking sector remains amply provisioned, enabling it to withstand financial pressures and mitigate potential losses.

4.7
Breakdown of Gross Income

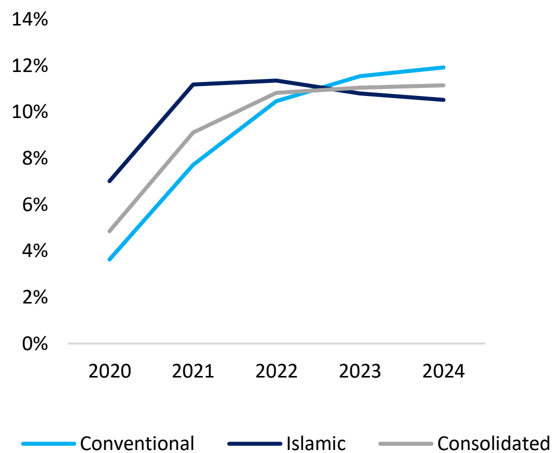


The share of net interest income as a percentage of gross income increased by 2 percentage points in 2024, accounting for around 70% of banks' gross income, up from 68% in 2023 (Figure 4.7). This reinforces the quality of the banking sectors' profitability and affirms its ability to maintain the strength and resilience of its core profit-driving operations. On the other hand, the increase in the share of net interest income as a percentage of gross income resulted in a decline in the share of non-interest income during the year, which fell to 30% (32% in 2023) despite exhibiting growth of 4.9% during the period.

4.8
ROAA

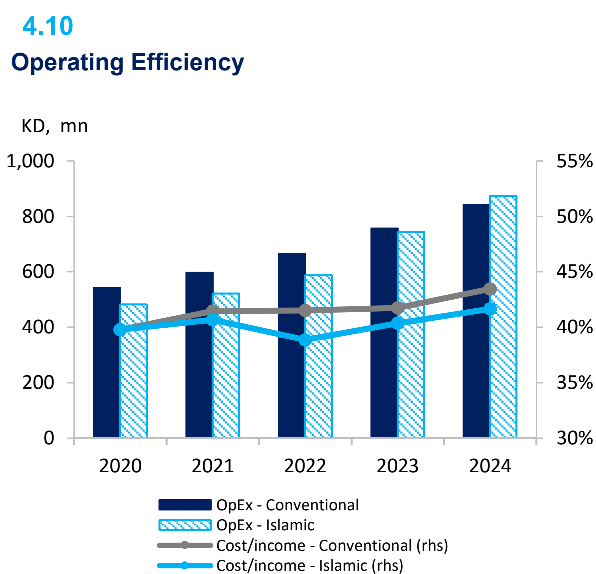


4.9
ROAE



Looking at the performance indicators of the banking sector, the growth in profits played a key role in the improvement of these indicators, with return on average assets (ROAA) and return on average equity (ROAE) both increasing during the year (Figure 4.8 and Figure 4.9). More specifically, ROAA increased from 1.48% in 2023 to 1.49% in 2024, mainly driven by the higher profitability of conventional banks during the period. Similarly, ROAE rose to 11.15% in 2024, from 11.05% in 2023, surpassing pre-pandemic levels for the second consecutive year. When comparing conventional banks with their Islamic counterparts, and in light of the aforementioned fact that the profitability gap is shifting towards conventional banks due to the slight decline in Islamic banks' profitability during the year, conventional banks outperformed their Islamic counterparts in both ROAA and ROAE.

4.10
Operating Efficiency



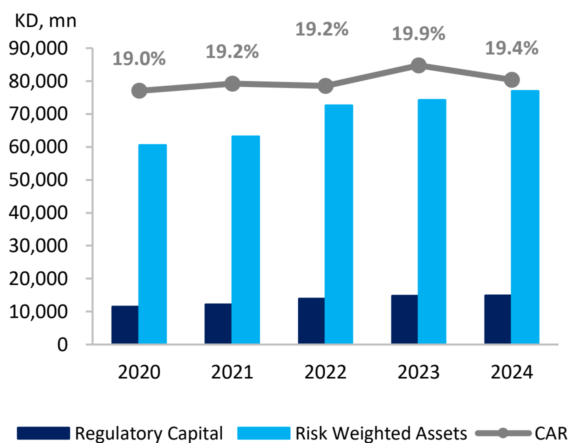
In terms of operational efficiency, the cost-to-income ratio rose by 1.4 percentage points, reaching 42.5% by the end of 2024. This increase was mainly driven by the aforementioned increased investment towards digital transformation. The gap between conventional and Islamic banks' cost-to-income ratios widened in 2024 due to the conventional segment seeing a 1.7 percentage point yearly increase in the ratio, a sizeable change compared to the 0.2 percentage point increase seen over the previous two years (Figure 4.10). On the other hand, Islamic banks saw a 1.3 percentage point increase in the cost-to-income ratio.

In general, the local banking sector witnessed positive performance in 2024, achieving growth in profits from sustainable sources. This positive performance is expected to continue in 2025 supported by anticipated growth in the loan portfolio, as the stance of monetary policy is expected to remain accommodative. Also expected to contribute to this performance is the launch of new development projects financed by local banks, and the introduction of certain anticipated government reforms. Despite global challenges such as geopolitical tensions, tariff increases, and supply chain disruptions, the local banking sector possesses sufficient buffers to withstand such developments.

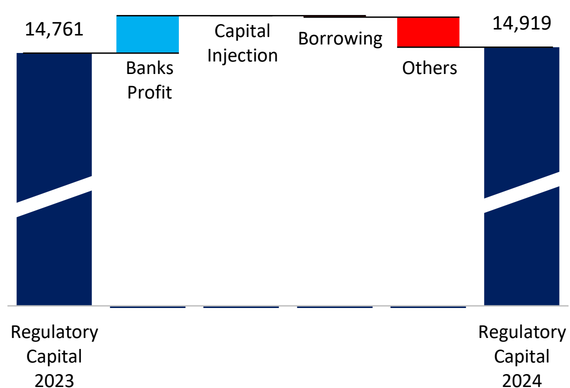
Resilience

The Kuwaiti banking sector remained resilient during 2024, which was reflected in the high capital adequacy ratio (CAR) of 19.4%. Despite decreasing compared to the 19.9% seen in 2023, the CAR remains high relative to historical levels (Figure 4.11) and comfortably exceeds minimum requirements set by the Central Bank of Kuwait (CBK). The decline was driven by growth in the banking sector's assets during the year, which prompted risk-weighted assets (RWAs) to grow at a faster rate than regulatory capital. The increase in regulatory capital during the year was mainly driven by the increase in banks' profitability, but was partially offset by deductions of treasury shares, which grew during the year as a result of the merger between two local Islamic banks (Figure 4.12).

4.11
Capital Adequacy Ratio

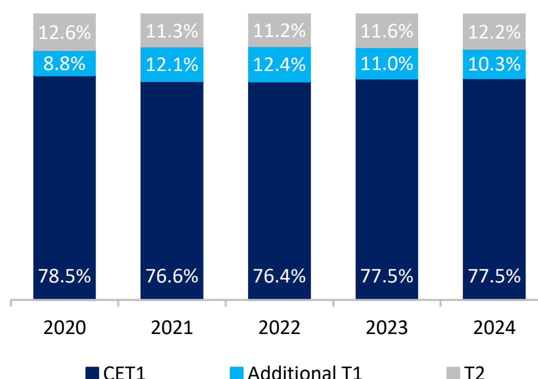


4.12
Changes in Regulatory Capital (KD, mn)



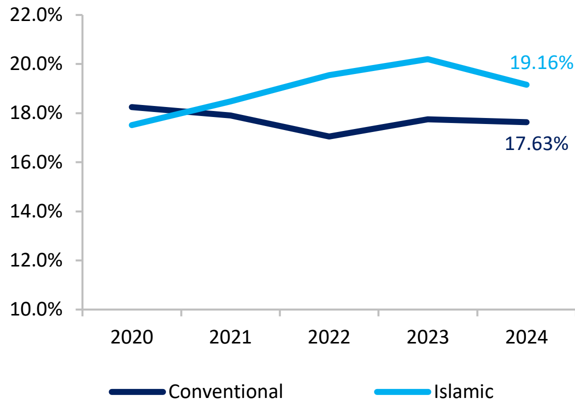
The components of capital further confirmed the banking sector's high solvency, with common equity tier 1 (CET1) comprising the largest share of the sector's total regulatory capital at 77.5% by the end of 2024. This maintained last year's level (Figure 4.13) and further enhances the sector's ability to absorb potential losses. As such, the stable share of CET1 in the regulatory capital base contributed to a decrease in the CET1 ratio, which settled at 15.0% compared to 15.4% in 2023. Nonetheless, it remains above both Basel III and CBK minimum requirements of 7% and 9.5%, respectively. On the other hand, the share of Tier 2 capital (T2) in the sector's total regulatory capital increased by 0.6 percentage points during the year to reach 12.2%, primarily driven by a bank's issuance of bonds eligible as T2 capital, in addition to an increase in general provisions amid higher asset growth.

4.13
Capital Composition

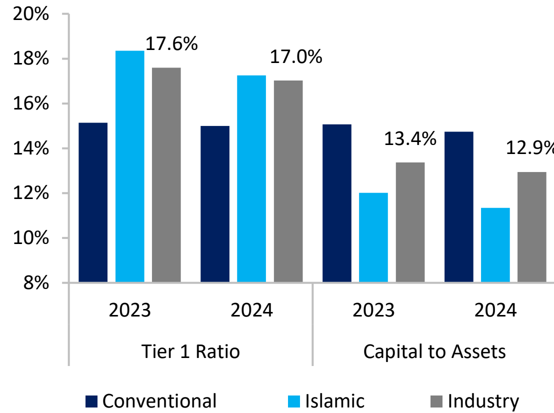


Regarding conventional and Islamic banks, the CAR for conventional banks declined by 0.1 percentage points to reach 17.6% in 2024 while the CAR for Islamic banks decreased by 1.0 percentage point to reach 19.2% (Figure 4.14). In line with the decline in the CAR, the Tier 1 ratio also declined during 2024 across both segments (Figure 4.15).

4.14
Conventional vs Islamic CAR

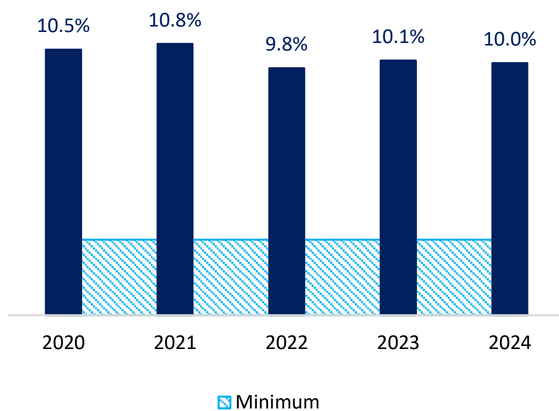


4.15
Other Solvency Ratios by Sector

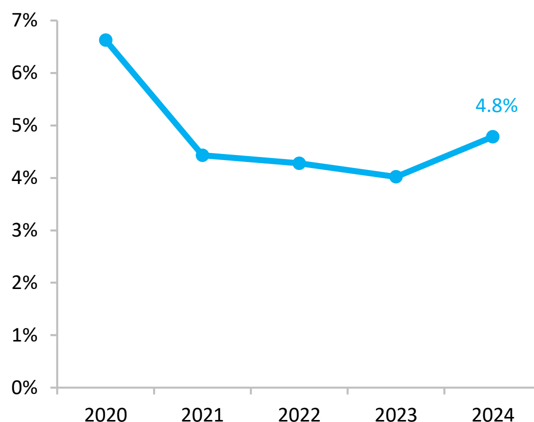


The local banking sector's Basel III leverage ratio (which measures total Tier 1 capital to total exposures) experienced a 0.1 percentage point decrease in 2024 to reach 10.0%. The high ratio reflects the sector's strength as it remained above the Basel III minimum requirement of 3% (Figure 4.16). These elevated levels were seen in both the Islamic and conventional segments, providing support for banks' expansionary strategies and further underscoring the banking sector's robust loss absorbing capacity.

4.16
Basel III Leverage Ratio



4.17
Net NPLs to Capital



As for the ratio of net NPLs to capital, which measures potential capital risk in the event of losses arising from NPLs not covered by specific provisions, the ratio stood at 4.8% by year-end, increasing by 0.8 percentage points compared to 2023 (Figure

4.17). This came amid a slight increase in NPLs during the year, compared to the limited growth in capital. The ratio slightly improved for conventional banks due to a 7% increase in their specific provisions and a 6% increase in total regulatory capital during 2024. On the other hand, the ratio increased for Islamic banks by 2.0 percentage points due to the aforementioned decrease in total regulatory capital. With that said, banks continue to maintain strong coverage of NPLs through available provisions (Chapter 3 of the report provides further details on provision coverage and credit risk).

The local banking sector continued to demonstrate soundness and resilience against economic developments in the year 2024, evident in strong solvency indicators that underscore the sustainability and stability of the sector and its ability to weather unforeseen economic shocks. Looking forward, the local banking sector is expected to continue in its key role of supporting the economy, empowered by large capital buffers that enable it to withstand potential turbulence in 2025 in light of elevated global uncertainty and escalating risks. To that end, CBK continues its close monitoring of the banking system, managing a suite of macro-prudential tools to minimize systemic risks and enhance financial stability.

Box 4.1: A Decade of Implementing the Basel III Capital Adequacy Standard in Kuwait

Introduction

The Basel Committee on Banking Supervision (BCBS) is an international regulatory body established in 1974 by the central bank governors of the Group of Ten countries (G10). The BCBS was formed to address weaknesses in banking supervision exposed by financial crises. As a standard-setting body, the BCBS develops guidelines and recommendations to strengthen regulatory practices and ensure consistent supervision of banking institutions across jurisdictions. These international guidelines and regulations aim to promote financial stability and strengthen the resilience and efficiency of the global banking system. One of the most notable outcomes of the BCBS is the capital standards known as the Basel Accords, which have evolved through three main phases: Basel I, Basel II, and finally Basel III, along with its subsequent amendments.

Basel III was introduced in November of 2010 following the 2008 financial crisis and included stricter capital, liquidity, and leverage requirements to address systemic vulnerabilities. Its primary objective was to strengthen banks' resilience by improving both the quality and quantity of their capital, thereby ensuring greater stability within the financial system. Despite regional variations in implementation, the Basel III framework has strengthened the resilience of the global banking sector and fostered regulatory cooperation.

Basel III Highlights

The Basel III capital adequacy standard calls for basic amendments to the Basel II standard (Table 1), including:

- An increase in overall capital requirements by introducing additional buffers, such as the capital conservation buffer and the countercyclical capital buffer.
- Redefining regulatory capital to enhance its quality by increasing the core capital component (mainly Common Equity Tier 1), excluding financial instruments with

lower loss-absorbing capacity, enforcing stricter criteria for recognition of Tier 2 capital instruments, and elimination of Tier 3 capital.

- Expanding the scope of regulatory capital deductions[18] to include components that were previously not deducted, aiming to improve the quality of regulatory capital.
- Setting higher requirements for banks identified as being systemically important.

Table 1:
Basel II vs Basel III

Component	Basel II	Basel III
Minimum Capital Adequacy Ratio	8% of RWAs	8% of RWAs
Minimum Tier 1 Capital Ratio	4% of RWAs	6% of RWAs
Minimum Common Equity Tier 1 (CET1) Ratio	None	4.5% of RWAs
Capital Conservation Buffer	None	2.5% of RWAs in the form of CET1
Countercyclical Capital Buffer	None	0% - 2.5% of RWAs in the form of CET1
Capital Buffer for Systemically Important Banks	None	0% - 3.5% of RWAs in the form of CET1

The Basel III reforms also introduced other standards related to liquidity and leverage, however, these changes lie outside the scope of this box.

Basel III Impact on the Kuwaiti Banking Sector – A 10-Year Assessment

On February 1st 2014, CBK's Board of Directors approved the structure of the Basel III capital adequacy standard and the transitional phase of its implementation. Within the framework of the Basel III guidelines implementation plan, initiatives were taken such as forming a steering committee headed by CBK with representatives from local banks to oversee the drafting of the Basel III regulatory framework, along with a quantitative-impact study to evaluate the potential effects of implementing the new capital adequacy standard. Finally, to ensure the

[18] Deductions from regulatory capital are items excluded from the calculation of a bank's regulatory capital because they are not considered reliable sources of support during crises, or because they may artificially inflate capital.

standards' proper implementation and system-wide alignment, training programs were conducted for local banks as well as CBK staff.

In light of the results of the quantitative-impact study, and in line with the global best practices for Basel III implementation, CBK's Board of Directors approved a minimum capital adequacy ratio of 13.0% to be gradually phased in as per the following timeline:

Beginning of 2014	12.0%
Beginning of 2015	12.5%
Beginning of 2016	13.0%

Later that year, specifically on June 24th 2014, CBK's Board of Directors approved the final version of the instructions for the "Basel III Capital Adequacy Standard".

Kuwait was among the first countries in the region to implement the Basel III framework, with the Central Bank of Kuwait adopting regulatory requirements that are more conservative than the international minimums—particularly in terms of capital adequacy ratios and the quality of capital instruments. This conservative approach did not come at the expense of the banking sector's ability to grow, as over the past ten years, the sector achieved strong growth across key indicators. This includes a 74% increase in total assets, and a 77% increase in total loans. This equates to increases of KD 48.8 bn and KD 31.5 bn, respectively, and translates into a compounded annual growth rate of approximately 5.7% for assets and 5.9% for the loans.

This expansion was matched by a parallel increase in the size and quality of the banking sector's regulatory capital, in line with Basel III standards. Regulatory capital increased by more than 100%, totalling an increase of KD 7.5 bn over 10 years, reaching a balance of KD 14.9 bn by the end of 2024. This was supported by sustained profitability in the sector, with banks reinvesting a portion of their earnings to strengthen their capital base as outlined below.

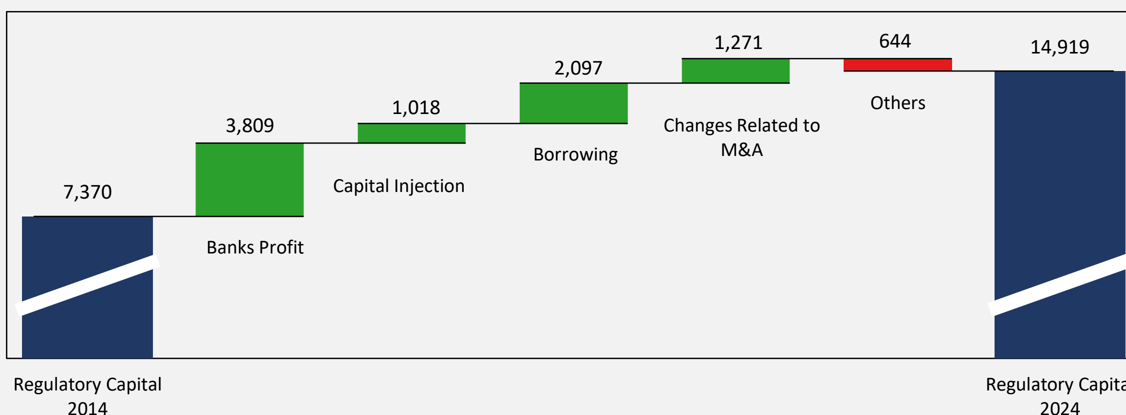
The following section will examine the changes in the local banking sector's capital adequacy between 2014 and 2024 in detail, including the sources of capital growth,

and how the implementation of Basel III enhanced the sector's resilience—particularly during the COVID-19 crisis, when banks played a pivotal role in supporting local authorities and assisting them in overcoming challenges, in addition to fulfilling their vital role in supporting the local economy.

1. Changes in Capital Levels Between 2014 and 2024

The Figure below illustrates the change in the banking sector's regulatory capital over the last 10 years, and the following points highlight the key sources of this growth:

Figure 1:
Changes in Regulatory Capital (KD, mn)



- Banks' Profits

The local banking sector generated total profits of KD 9,857 mn over the past 10 years, with a portion injected into the local economy and the remainder used for capital growth. Total profits that were directed to strengthen regulatory capital amounted to approximately KD 3,809 mn, representing around 39% of total realized profits. These profits were included in the capital in the form of retained earnings (41.4%), reserves (20.0%) and bonus shares (38.6%). Self-generated profits are considered the most efficient, cost-effective, and highest quality means of bank growth.

- Public Offerings

  Throughout the period, seven banks had successfully initiated capital increases to their capital base through public offerings, averaging an issuance of KD 145 mn. These injections are considered beneficial as they enhance resilience and support credit growth, while spurring equity market activity. With that said, it can be a double-edged sword as excessive reliance on capital markets to fund growth may hamper stakeholder confidence as it may signal weak profitability and low sustainability of profits. With that said, banks did not excessively rely on this source, as it contributed only 13.5% (KD 1,018 mn over 10 years) of the total increase in regulatory capital.

- Borrowing from Markets

  Another form of capital that banks rely on is borrowing from markets, which mostly comes in the form of capital instruments (bonds/sukuk), specifically Additional Tier 1 (AT1) and Tier 2 (T2) capital. Over the past 10 years, banks issued bonds and sukuk with a total value of approximately KD 2,097 mn, contributing to 28% of the total increase in regulatory capital, of which 65% were AT1 issuances and 35% T2 issuances.

- Changes Related to Mergers & Acquisitions

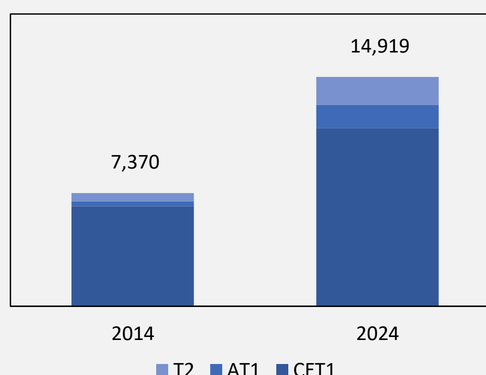
  Over the specified time period, the Kuwaiti banking sector witnessed the acquisition of an international bank by a local bank. This deal contributed to 16.8% of the total growth in capital, equivalent to KD 1,271 mn.

- Others Sources

  This consists of all items that were not included in the above-mentioned sections, primarily fair value reserves and capital deductions, including goodwill and other intangible assets. During that period, these sources contributed to a reduction in capital by around KD 644 mn. Despite the size of these deductions, it is worth noting that they help enhance the quality of regulatory capital by omitting assets that do not actually absorb losses under stressed conditions.

The aforementioned changes clearly show how the local implementation of the Basel III standards has contributed to enhancing the quality of capital, motivating greater reliance on high quality capital (CET1) and less on lower loss-absorbing capital (T2), as retained earnings, capital increases through public offerings, and changes related to M&A all fall under CET1. More specifically, CET1 and AT1 accounted for 67% and 16% of the increase in regulatory capital, respectively (with T1 making up 83%), while T2 accounted for the remaining 17%.

Figure 2:
Regulatory Capital Breakdown (KD, mn)



2. The Role of Basel III in Enhancing Financial Stability During Crises

In April 2020, following the spread of the Covid-19 pandemic, CBK revised its regulatory instructions and macroprudential policy tools to enable banks to continue fulfilling their vital role in the economy under these new conditions. The measures were aimed at encouraging banks to extend more loans and financing to productive economic sectors and customers affected by the pandemic. At the time, customers needed liquidity to continue their activities without interruption, in order to prevent their liquidity shortages from turning into long-term problems that could impact their financial solvency.

In this regard, steps were taken to reduce the regulatory burden on local banks while simultaneously directing credit to entities in need. These include SME's, whose portfolio credit-risk weight was reduced from 75% to 25% for the purpose of calculating banks' capital adequacy ratio, with the aim of encouraging the banking sector to provide more financing to this vital segment. Moreover, CBK's new instructions allowed banks to release capital conservation buffers, hence effectively lowering capital requirements and creating additional room for banks to grow and continue supporting economic activity. This move resulted in the release of around KD 1.7 bn of regulatory capital. Subsequently, on October 11th, 2021, CBK's Board of Directors decided to begin the gradual unwinding of the regulatory relief measures related to capital adequacy, with a return to pre-

crises levels by January 1st, 2023. The reduced risk-weight for SMEs' (25%) was maintained.

In conclusion, the effective implementation of Basel III standards has significantly contributed to strengthening the resilience of the local banking sector and enhancing its ability to withstand challenges. This has enabled the sector to continue growing while maintaining its stability, even under the exceptional circumstances it has faced over the past decade. For its part, the Central Bank of Kuwait will continue to closely monitor the banking sector and will maintain a proactive approach in developing and updating regulations—in line with international best practices—to further promote financial stability.

Chapter 5:
Payment Ecosystem

Payment system infastructure is considered a key element of financial markets and a necessity for the stability of the financial system. This chapter explores the local shifts in e-payment transactions during 2024 and provides an assessment of local payment systems and infrastructure.

2024 Payment Infrastructure Highlights

(Year-on-year)

+8.1%
Number of POS Machines

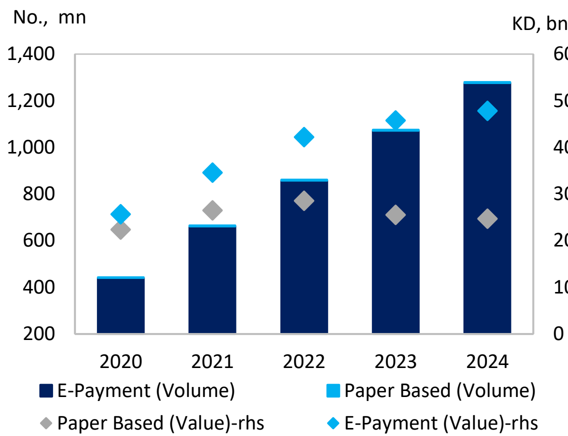
-2.2%
Number of ATM Machines

-2.0%
Number of Branches

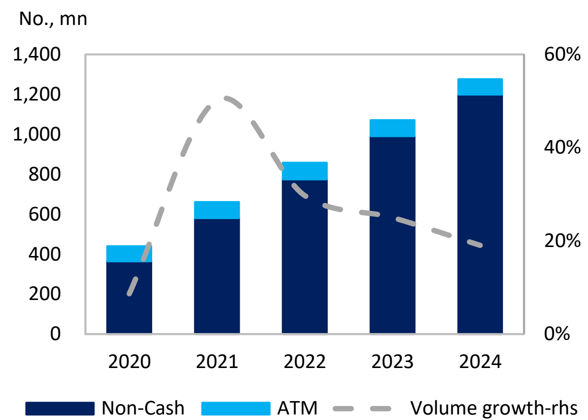
The year 2024 saw notable development in electronic payment (E-payment) channels and continued expansion in payment infrastructure. A new instant payment service (WAMD) was launched at the end of June 2024, a service that allows the instantaneous transfer and receipt of funds between customers of local banks, requiring only the customers' mobile number. The introduction of this service resulted in an increase in E-payment transactions and demand for E-payment services over paper-based alternatives.

For the fifth consecutive year, E-payment transactions continued to dominate over other payment types, with the gap between E-payment and paper-based transactions widening during 2024 (Figure 5.1). This expansion was attributed to the decrease in the volume and value of paper-based transactions and the coinciding rise in E-payments. This accelerating trend highlights the growing adoption of financial technology and emphasizes consumer confidence in the local E-payment infrastructure.

5.1
Paper Based Vs E-Payment

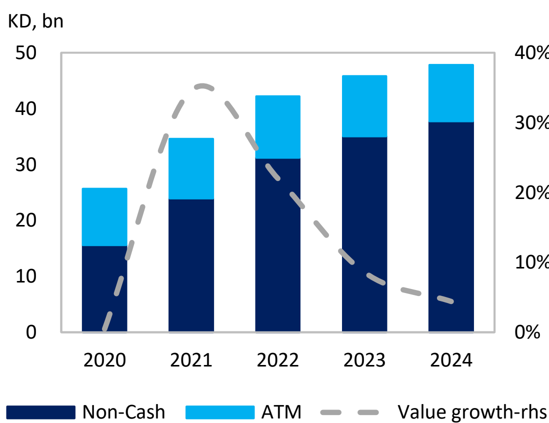


5.2
Use of E-Payment (Volume)

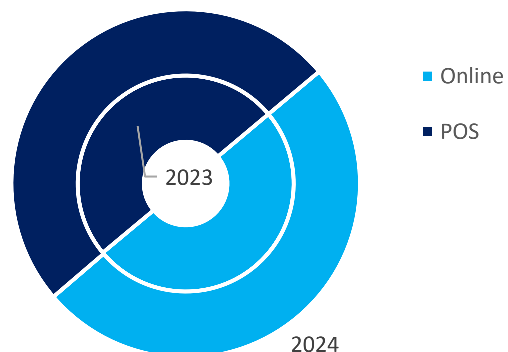


Looking closer at some key figures, the volume of E-payment transactions grew by 19.0% in 2024 compared to 25.0% in 2023 (Figure 5.2). Similarly, the value of E-payment transactions recorded growth of 4.4% in 2024 versus 8.6% in 2023 (Figure 5.3). Despite the reported slower growth in terms of the volume and value of E-payment transactions compared to the previous year, when taking into account the transactions processed through the WAMD service, growth rates climb to 20.6% and 7.6%, respectively, thus approximately reaching the pre-pandemic levels of growth. In this regard, it is worth highlighting that a great deal of transfers among individuals were previously carried out through banks' E-payment links, which pass through the E-payment Gateway (classified as non-cash transactions). Thus, the WAMD service serves as an effective substitute to these payment links. This service proved to be a highly successful alternative with 1.29 mn registered users by the end of 2024.

5.3
Use of E-Payment (Value)



5.4
Value of Non-Cash Transactions



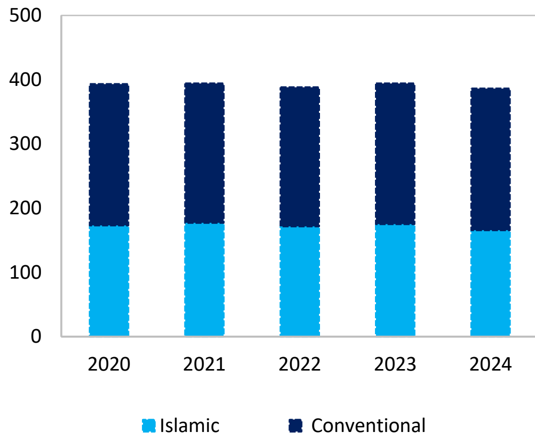
The growth in E-payment transactions, whether in terms of volume or value, was mainly driven by non-cash transactions.[19] These transactions saw growth in both volume and value equivalent to 21.1% and 7.6% respectively during 2024. This contrasts with declines of 5.6% and 5.9% respectively for traditional cash transactions (where ATMs transactions are used as a proxy). These developments further emphasize the increased consumer confidence in E-payment mediums, and highlight a general shift towards reducing reliance on traditional payment methods such as cash.

Looking closer at the value of non-cash transactions shows that POS and online transactions maintained their share, with both accounting for 50% of total non-cash transactions recorded in 2024 (Figure 5.4). Additionally, the value of both POS and online transactions recorded a growth of 8.0% and 7.1%, respectively. In that regard, as part of CBK's continuous efforts to boost innovation, enhance E-payment services, and ensure high quality service delivery, approval was granted for the registration of 14 companies to operate E-payment services locally, in accordance with the new regulations issued by CBK in 2023 (for more details about the regulations, please refer to Box 5.1 of the Financial Stability Report for 2023).

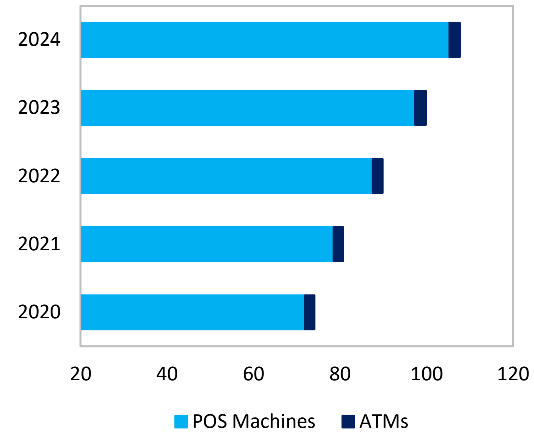
Moreover, the number of local banks' branches declined by 2.0% in 2024, driven mainly by a drop in the number of Islamic bank branches which witnessed nine branch closures, with one conventional bank branch opening over the same period (Figure 5.5). The decline in Islamic bank branches was due to the merger of two local Islamic banks in 2024, which resulted in the closure of branches that were no longer needed. The merger also affected the number of ATM machines, which witnessed a decline of 2.2% in 2024 compared to 4.1% in the previous year (Figure 5.6). On the other hand, the number of POS devices grew by 8.1% in 2024 compared to 11.3% in 2023 amidst the shift towards E-payment transactions. With that said, despite customers' continued preference for electronic channels for financial services, branches remain important to banking services by reinforcing banks' presence, as well as catering to the needs of customers who are not proficient in digital technologies (thus enhancing and promoting financial inclusion).

[19] Non-cash transactions include POS and online transactions.

5.5
Banks' Branches in Kuwait

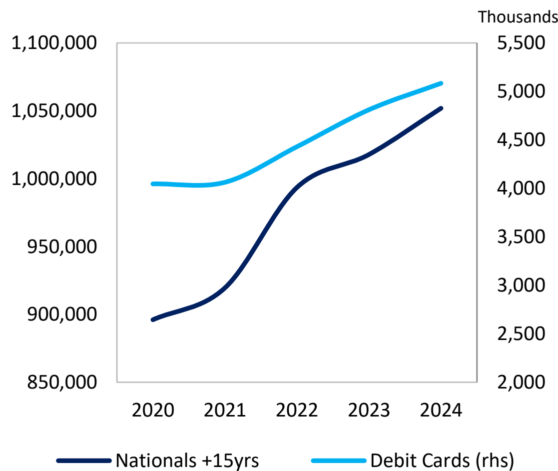


5.6
E-Payment Infrastructure in Kuwait
(No., thousands)



Further, the number of plastic cards continued to grow in 2024, increasing by 7.2% compared to 9.7% in 2023. This growth was driven by an increase in both credit and debit cards. Credit cards grew 12.1% during the year to constitute 24% of the total plastic cards issued, while debit cards recorded growth of 5.7%, in line with the continued growth in the relevant demographic (Figure 5.7)[20]. In general, the continued competition among banks to acquire customers by providing financial and non-financial incentives will continue to play a key role in the overall growth of plastic card issuance.

5.7
Debit Cards



[20] Total number of nationals above the age of 15.

Moving on to CBK's role in facilitating E-payments and ensuring that a sound and stable payment infrastructure is maintained, CBK manages Kuwait's Automated Settlement System for Inter-Participant Payments (KASSIP) which enables real-time settlement of all local payments and transfers between banks and customers. This is carried out through CBK's secure Virtual Private Network (VPN), which serves as the primary settlement channel. KASSIP employs best practices for payments and settlements and complies with international standards related to financial and payment messages (ISO20022), along with the Bank for International Settlements' principles for financial market infrastructures.

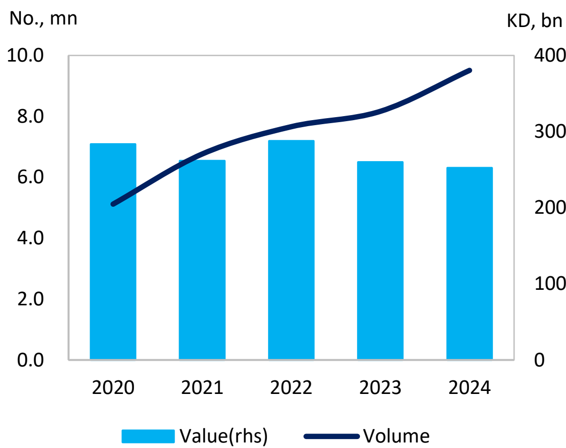
On this topic, the value of transactions executed through KASSIP decreased by 2.9% in 2024 compared to a decline of 9.6% in 2023 (Figure 5.8), with total transaction volume increasing by 16.5% in 2024. It is worth noting in this regard that, as part of the ongoing efforts by the Central Bank of Kuwait to enhance the quality and sustainability of financial services in the banking sector, and in line with its vision to provide round-the-clock financial services that meet the needs of various segments of society and serve all sectors of the national economy, the Central Bank of Kuwait extended the operating hours of KASSIP by two additional hours during 2024. The system's operating hours are now from 7:00 AM to 7:15 PM instead of ending at 5:15 PM, operating in two shifts. The first extension in 2024 occurred on February 20, 2024, with an additional one hour extension, followed by a second extension on April 22, 2024, which added another hour. This extension has contributed to improving work quality and meeting the needs of beneficiaries, namely bank customers, by allowing fund transfers for two additional hours.

On another front, the extension of KASSIP's working hours supports the reliable execution of financial transactions and ensures real-time availability of funds to beneficiaries, in addition to reducing delays associated with banks' working hours. This allows for an immediate processing of transactions and reduction of settlement risk. The extension of KASSIP's working hours has also contributed to reducing the backlog of pending transactions and their associated risks.

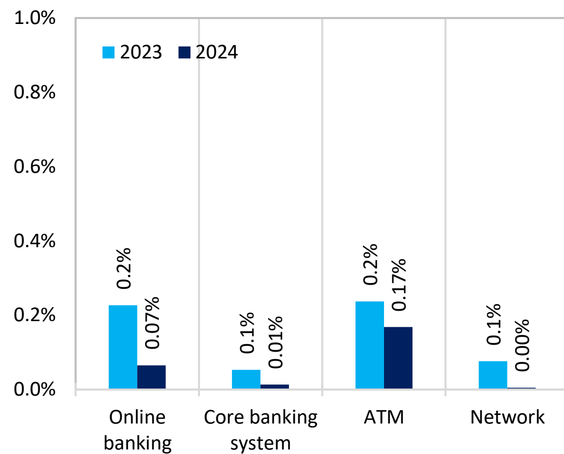
CBK vigilantly monitors the performance of payment infrastructures through a set of key risk indicators that provide a comprehensive performance assessment, highlighting strengths and weaknesses that require further improvement. Despite

the impact on internet services in 2024 and the disruption of numerous systems and services worldwide due to the update carried out by a global cybersecurity technology company, the unplanned systems downtime rate recorded an improvement in all indicators. These indicators maintained their positive levels during 2024, with the unplanned systems downtime rate staying below 0.2% across all indicators (Figure 5.9). The core banking system, specifically, maintained an operating rate of more than 99.9%, underscoring the operational resilience of the local banking sector's infrastructure under challenging circumstances.

5.8
Transactions via KASSIP



5.9
Unplanned Systems Downtime



In conclusion, Kuwait's payment and settlement systems maintained their quality and efficiency throughout 2024, achieving notable progress despite both local and global challenges. This underscores the resilience of the banking sector and its ability to adapt. Within this context, the Central Bank of Kuwait continues its diligent oversight of these systems, remaining committed to their ongoing development and to empowering financial institutions to deliver optimal services. This helps ensure a stable, efficient, and secure payment environment, aiming to foster confidence among market participants and strengthen financial stability at the domestic level.