

Al-Shall Report

Performance of traditional banks slightly better than Islamic

Kuwaiti banks register growth in profits

Interest Rates

Only in the last quarter of the last century some central banks in economies of scale began to put down a declared or undeclared goal for the targeted inflation rate, which is usually humble as economies do not endure low inflation rates, i.e. close to or below zero. More dangerous still is the uncontrolled inflation rate. After the 2008 global financial crisis, the U.S. Federal Reserve Bank (FRB), with the US dollar being the global reserve currency, tried to link raising the interest rate with a low unemployment rate, i.e. -6.5%, when the unemployment rate then was close to 10%. Later in 2012, it identified a goal for inflation at about 2% which seems appropriate to stimulate economy. With rise growth rates of the American economy, FRB began a serious talk about beginning to raise interest rates, especially after the suspension of the quantitative easing, says Al-Shall Economic Report prepared by Al-Shall Consulting Co headed by Jassem Al-Saadoun.

Forecasts were almost unanimous that the FRB meeting on Sept 17 would result in a decision to start lifting interest rates. But the events of last August such as the Greek crisis and the fall of the Chinese stock market lowered such prospects of the increase decision. The FRB meeting the week before last maintained the interest rate fixed close to zero not because of August events but due to special justifications pertinent to the American economy and its projections of weak global economy growth. This occurred despite an excellent growth rate in the second quarter at 3.7% and despite lower unemployment rate and better than most of the advanced economies -5.1% in August, the goal of inflation remained remote at about 0.2% only in August.

As interest rates remained low for long periods, funds went to stock markets whose most indexes regained their pre-2008 crisis levels and even surpassed them. Last August and due to three justifications, i.e. the Chinese crisis, the Greek crisis and probable lifting of the interest rate, global markets were subject to a major correction process. But if the interest rate is lifted or becomes confirmed, it may cause another correction process.

The experience at the beginning of the third millennium and the burst of the internet companies bubble in 2000 and then September 11, 2001 events in the USA, and the mistake of the FRB in maintaining the interest rates low until the mid of 2004. The incubation for the 2008 crisis was too obvious before the decision making authorities. Therefore, it is certain that the decision of raising the interest is coming within no more than half a year. The only impediment that may postpone it is the occurrence of something unexpected and bad in our disturbed world.

Aggregated Performance for Banks' Sector - First Half 2015

We completed last week our last analysis for the individual performance of nine Kuwaiti banks in the first half of the current year. With our analysis this week to Warba Bank, we complete the analysis of the entire banking sector.

Consolidated figures show that the net banks' profits, after deducting taxes and equities rights, scored KD 371.2 million, a rise by KD 43.7 million, 13.3%, vis-a-vis KD 327.5 million in the same period 2014. The first half of the current year is considered the best half period since the financial crisis in 2008. Profits of the five traditional banks scored about KD 256.6 million representing 69.1% of the total net profits of the 10 banks rising by 13.5% compared with the same period last year. Islamic banks achieved about KD 114.7 million representing 30.9% of the total net profits of the 10 banks rising by 12.9% above their results in the same period last year. This means the performance of the traditional part is slightly better. All banks achieved growth in their profits with varying rates.

On the banks level, NBK continued to achieve the highest value in the 10 banks' profits by achieving KD 163.4 million, 44% of the 10 banks' net profits, achieving a growth rate by 12.8% compared with last year. KFH achieved the second highest profits by KD 62.3 million, 16.8%, of the 10 banks' net profits, a growth rate by 14.2% compared with the same period 2014. Warba Bank was the least contributor to the balance of seasonal profits. It achieved KD 315 thousand (compared to KD 43 thousand) achieving the highest percentage of growth in profits value by 632.6%. But it is a start from a low base for a bank in its beginning.

Compared with the same period of last year, financial performance statements indicate a healthy rise by 9% in total operations revenues of the banks compared with less rise in the value of operations expenditures by 0.2% only. This resulted in a rise in net operations expenditures prior to provisions and distribution of depositors' shares to about KD 875.8 million (KD 764.5 million), a 14.6% rise.

Provisions balance during the first half of the current year rose by KD 24.1 million, 9.9%. Total provisions to net profits scored 72.4% down from 74.7% in the same period of last year. Distributions to depositors increased by KD 17.4 million, 12.7%, compared with the same period last year. Merging Boubyan statements with those of the National Bank of Kuwait was not taken into account. Price multiplier/earning (P/E) in the banking sector scored 34.5 times, improved, compared with 42.5



The file photo shows a view of KSE trading floor. The bourse has been trading lower during the month amid falling oil prices and fragile global economic backdrop.

times in the same period of 2014. Return on assets of the sector achieved a modest rise to 1.1% (1%). And so did the return on equities which achieved 8.4% (8.3%).

Al Juman Center states that banks differ in the ratio of their provisions to the balance of their loans and advances. The highest is the Commercial Bank of Kuwait by about 7.6%, then the Gulf Bank by 7.1%, Warba Bank by 1.4%. The overall average to the 10 banks scored 5%. The concentration of loans and advances is still high. The NBK share from the net loans and advances scored 31.7% and for KFH it was 20.6%. This means that two of the banks alone captured 52.3% thereof and the other 8 banks captured less than half, or 47.7%. The lowest belonged to Warba Bank which captured 1.1% and Kuwait International Bank by 2.7%, both of which are Islamic banks.

The statistical bulletin (June 2015) of the Central Bank of Kuwait states that the balance of total credit facilities to the residents in Kuwait scored KD 31.749 billion, 55.1% of total local banks assets, a rise by KD 1.566 billion, over its amount in the end of June 2014, a growth rate by 5.2%. Total personal facilities from the total were KD 12.974 billion, 40.9%, of total credit facilities (KD 11.933 billion in the end of June 2014), a growth rate by 8.7%. Installment loans formed KD 8.637 billion, 66.6%, of total personal facilities, KD 2.838 billion for buying stocks, or 21.9% of total personal facilities. Consumer loans scored KD 1.201 billion. The last two activities are not healthy growth indicators.

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Syrian Refugees - The Economic Dimension

While Arabs and Moslem look for various justifications to kill one another, the West grants life to the survivors. Certainly, the humanitarian factor to the West is a main drive to grant them life, but the interest drive is acceptable as long as it does not conflict with the humanitarian motive. In Western countries, welcoming the refugees is in proportion to the economic prosperity level. The North European countries like Germany and

Austria, economically prosperous, welcome the refugees more warmly than the east and south states, or the troubled states, or those that broke away from the socialist block.

In those countries, prosperity is synonymous to the stop in demographic growth rates. But the need for continued prosperity increased demand on non-available labor force. In Germany, for instance, the government and the Industries Union - and even sports clubs - welcome more humanitarian as well as one of interest. Germany's announcement of its readiness to receive 800,000 refugees in one year and then rationalize their flow at high rates still in the next years drove the welcoming policies to refugees in all prosperous Europe to overcome stringent measures.

One of the main motives that encouraged Germany to welcome the influx of refugees might be an old reading to the Japanese pattern where the population is decreasing. More importantly perhaps is a comparison now between the Chinese and Indian models. The one child policy in China reduced considerably the demographic growth rates at the age of the economic activity which increased the sustenance rates. On the other hand, there is a superior youth power in India and with economic prosperity, that youth force became a large basis for production and consumption. Therefore, India's GDP growth at 7.5% in 2015 may excel that of China at 6.8%-7% in 2015 and it will continue in the future. Though they (in Europe) know that a large number of refugees will go back to their home if conditions settle there, yet they see the positive element in that. Returning persons will enrich their countries with their acquired knowledge, values and languages. They will also return the favor to the countries which sheltered them and will be their favorites.

In brief, the mischiefs of the Arabs and Moslems whether in wasting the lives of their youth in absurd wars or expulsion of the remaining lives, might be interpreted as benefits to states that are aware of their own interests. While the refugees live under miserable conditions in border camps in the distressed neighbors, they enter the real production process in the remote countries. The difference is the positive environment in states that employ human resources to make the future and that environment where resources are wasted to withdraw to the past or at least to preserve a bad present.

Warba Bank Financial Results - First Half 2015

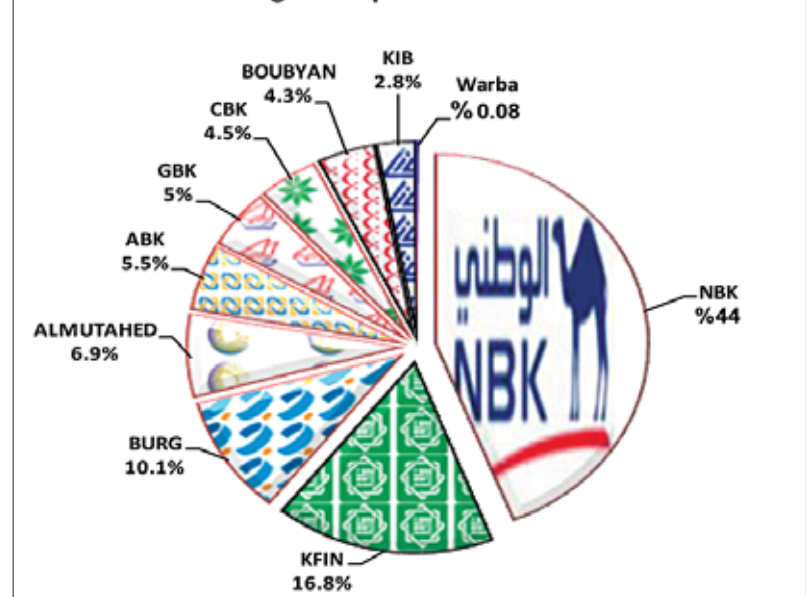
The bank announced results of its business for the first half of this year which indicate that the net bank profit - after tax deductions - scored KD 315 thousand vis-a-vis KD 43 thousand loss in the same period of 2014. The reason for this profit is due to the rise in total operating income by a higher value than the rise in total operating expenses.

In details, total operating income increased by about KD 1.4 million and scored KD 7.6 million (KD 6.1 million in the same period 2014) due to a rise in the item of net financing incomes by KD 1.5 million to KD 5.5 million (KD 4 million in the same period 2014). But the item of net fees and commission dropped by KD 109 thousand to KD 196 thousand (KD 305 thousand).

Total operating expenses rose by less value than the rise in total operating

income. They increased by KD 1.2 million, or by 22.7%, to KD 6.5 million now (KD 5.3 million in the first half of 2014). Total operating expenses to total operating income scored 85.1% (85.6%) while item of the drop in value provision for impairment decreased by KD 44 thousand, or by 5.2%, and scored KD 798 thousand (KD 842 thousand in the same period 2014). This explains the rise in net profit margin before discounting the provision

Ten banks sharing of net profit sector in first half 2015



	30/06/2015 (Thousand KD)	30/06/2014 (Thousand KD)	Value	Change %
Total Assets	645,364	497,148	148,216	29.8%
Total Liabilities	553,173	405,275	147,898	36.5%
Total Equity	92,191	91,873	318	0.3%
Total Operating Revenues	7,582	6,145	1,437	23.4%
Total Operating Expenses and Estimated Distribution to Depositors	6,452	5,260	1,192	22.7%
Provision	798	842	(44)	-5.2%
Tax	17	0	17	N/A
Net Income	315	43	272	632.6%
Ratios				
** Return on Average Assets (ROA)	0.1%	0.02%		
** Return on Average Equity (ROE)	0.7%	0.1%		
** Return on Average Capital (ROC)	0.6%	0.1%		
Earnings per share (EPS) - (Fils)	0.3	0.04	0.3	700%
Closing Price	214	275	(61)	-22.2%
Price to Book Value Multiples (P/B)	2.3	3.0		

** Indicators Ended June 03, 2015 on an annual basis
** Calculated based on the average rate of the financial data at the end of December 2014 and 30 June 2015

for impairment of drop in value to 14.9% for the current half compared with 14.4% in June 2014.

The bank's financial statements indicate that the bank's total assets increased by KD 50.6 million, or by 8.5%, and scored about KD 654.4 million (KD 594.8 million in the end of 2014). Rise in total assets scored KD 148.2 million, or by 29.8%, when compared with KD 497.1 million in the first half of 2014. Item of financing debtors increased by KD 68.5 million, or by 17.6%, to KD 456.6 million (70.8% of total assets) compared with KD 388.2 million (65.3% of total assets in the end of 2014). It however increased by 50.2%, KD 152.7 million, compared with KD 304 million (61.1% of total assets in the same period 2014). Item of deposits at banks decreased by KD 33.6 million, 27.4%, to KD 89 million (13.8% of total assets) compared with KD 122.6 million (20.6% of total assets in the end of 2014). It decreased by 10.4%, i.e. KD 10.4 million compared with KD 99.4 million (20% of total assets in the same period of 2014).

Figures indicate that the bank's liabilities (without calculating equities rights) increased by KD 50.2 million, or by 10%, and scored KD 553.2 million (KD 502.9 million in the end of 2014) and increased by KD 147.9 million, or by 36.5%, compared with the total in the end of the first half of last year. Ratio of loans and advances to deposits scored 83.4% (75.6%).

Results of analyzing the bank's financial statements calculated on annual basis indicate that all profitability indexes rose compared with the same period 2014. The return on average equities (ROE) rose to 0.7% compared with 0.1% in the same period 2014. Likewise, the return on average capital (ROC) increased to 0.6% (compare to 0.1%). Likewise, return on average bank assets (ROA) rose to 0.1% (compare to 0.02%). EPS profit scored 0.3 fils versus 0.04 fils. (P/B) scored 2.3 times (compare to 3 times).

During the first half of the year, the bank managed to secure several financing deals for local and regional corporations including issuing sukuk (bonds) in the amount of US\$ 500 million to the Indonesian Airline in addition to participating in a deal for leasing aircraft to Kuwait Airways. It also acquired a financing portfolio from Al Mulla International for Financing through a deal worth KD 20 million. The bank is still young in age and such activities will be reflected positively on its future performance.

The Weekly Performance of Kuwait Stock Exchange

The performance of Kuwait Stock Exchange (KSE) for the last week (3 working days due to Eid Al'Adha Holidays) was more active than the previous one, with all major indices showing an increase as well as the general index. AlShall Index (value weighted) closed at 383.3 points at the closing of last Tuesday, showing an increase of 6.4 points or about 1.7% compared to previous week's closing. However, the index is down by 60.7 points or about 13.7% compared to its closing at year end 2014.

The following tables summarize last week's performance of KSE

Description	Week 38 22/09/2015	Week 37 17/09/2015	Diff %
Working days	3	5	
AlShall index (38 Companies)	383.3	376.9	1.7%
KSE index	5,754.5	5,714.0	0.7%
Value Trade (KD)	47,656,750	58,593,921	
Daily average (KD)	15,885,583	11,718,784	35.6%
Volume Trade (Shares)	373,174,470	598,206,741	
Daily average (Shares)	124,391,490	119,641,348	4.0%
Transactions	9,080	14,383	
Daily average (Transactions)	3,027	2,877	5.2%

Most Active Sectors & Companies

Description	Value Traded KD	% of Total Market
Commercial Bank Of Kuwait	15,412,650	32.30%
Mobile Telecomms Company (Zain)	6,621,197	13.90%
Kuwait Finance House	2,181,361	4.60%
Mabaneh Company (S.A.K.C)	1,813,652	3.80%
Zima Holding Co. K.S.C.Holding	1,318,826	2.80%
Total	27,347,687	57.40%
Description	Value Traded KD	% of Total Market
Banking Sector	22,114,722	46.40%
Telecommunications Sector	7,810,924	16.40%
Real Estate Sector	5,752,912	12.10%
Financial Services Sector	5,586,335	11.70%
Industrials Sector	2,375,215	5.00%
Al Shall Index	Week 38	Week 37
	22/09/2015	17/09/2015
Increased Value (# of Companies)	18	8
Decreased Value (# of Companies)	4	20
Unchanged Value (# of Companies)	16	10
Total Companies	38	38

Al-Shall Index

Company Name	Thu 22/09/2015	Mon 17/09/2015	Diff % 2010	Close %	Diff %
1 The National Bank Of Kuwait	406.3	395.9	2.6	435.9	(6.8)
2 The Gulf Bank	215.3	215.3	0.0	224.4	(4.1)
3 Commercial Bank Of Kuwait	442.6	434.5	1.9	506.9	(12.7)
4 Al-Ahli Bank Of Kuwait	216.1	209.5	3.2	268.4	(19.5)
5 Kuwait International Bank	237.6	235.5	0.9	258.4	(8.0)
6 Ahli United Bank	432.2	418.2	3.8	465.7	(7.2)
7 Burgan Bank	364.4	364.4	0.0	428.3	(14.9)
8 Kuwait Finance House	1,118.7	1,118.7	0.0	1,306.8	(14.4)
9 Commercial Facilities Co	135.7	134.2	1.1	198.5	(31.6)
10 International Financial Advisors	336.4	312.1	7.8	332.3	1.2
11 National Investments	140.9	140.9	0.0	191.3	(26.3)
12 Kuwait Investment Projects	1,314.8	1,314.8	0.0	1,559.9	(15.7)
13 Coast Investment & Development	54.0	52.6	2.7	79.3	(31.9)
Investment Sector	370.4	367.8	0.7	455.4	(18.7)
14 Kuwait Insurance Company	68.4	66.2	3.3	64.0	6.9
15 Gulf Insurance Company	359.3	342.2	5.0	342.2	5.0
16 Al-Ahelia Insurance Company	150.2	150.2	0.0	185.9	(19.2)
17 Warba Insurance Company	90.1	88.5	1.8	95.0	(5.2)
Insurance Sector	1400.0	135.8	3.1	143.8	(2.6)
18 Kuwait Real Estate Company	101.8	100.1	1.7	116.5	(12.6)
19 United Realty Company	193.7	191.7	1.0	203.9	(5.0)
20 National Real Estate Company	174.7	172.5	1.3	274.6	(36.4)
21 Salhiyah Real Estate Company	1,292.1	1,312.3	(1.5)	1,514.2	(14.7)
Real Estate Sector	174.3	174.0	0.2	216.7	(19.6)
22 The National Industries	132.2	130.4	1.4	169.8	(22.1)
23 Kuwait Cement Co	527.6	527.6	0.0	603.0	(12.5)
24 Refrigerating Industries Co	109.8	111.4	(1.4)	109.8	(0.0)
25 Gulf Cable & Electrical Industries	173.9	175.9	(1.1)	275.8	(36.9)
26 Contracting & Marine Services Co	69.7	69.7	0.0	72.1	(3.3)
Industrial Sector	176.1	175.8	0.2	219.7	(19.8)
27 Kuwait National Cinemas	627.7	627.7	0.0	615.2	2.0
28 Kuwait Hotels Company	97.9	97.9	0.0	97.9	0.0
29 The Public Warehousing Co	2,289.7	2,212.1	3.5	2,735.1	(16.3)
30 Mobile Telecommunications Co - ZAIN494.3	463.1	463.1	6.7	915.7	(46.0)
31 Safat Energy Co	15.5	15.5	0.0	22.8	(32.0)
Services Sector	757.2	725.9	4.3	1,074.4	(29.5)
32 Livestock Transport & Trading Co	105.0	105.0	0.0	121.7	(13.7)
33 Danah Aalsat Foodstuff Company	82.8	81.8	1.2	76.7	8.0
34 Kuwait United Poultry Co	59.3	59.3	0.0	60.0	(1.2)
35 Kuwait Food Co	2,345.2	2,364.9	(0.8)	2,759.0	(15.0)
Food Sector	797.9	804.1	(0.8)	932.7	(14.5)
36 Sharjah Cement Co	350.0	350.0	0.0	371.7	(5.8)
37 Gulf Cement Co	322.6	322.6	0.0	387.1	(16.7)
38 Umm Al-Qaiwain Cement Industries	610.7	610.7	0.0	750.5	(18.6)
Non Kuwaiti Companies	228.0	228.0	0.0	249.2	(8.5)
General Index	383.3	376.9	1.7	444.0	(13.7)