

KUWAIT BOURSA

BANKING SECTOR REPORT FOR THE PERIOD 31 DECEMBER 2019

Market Sector : Banking Sector

Exchange : Kuwait Boursa

Date : 15 March 2020

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Department : Assets Management

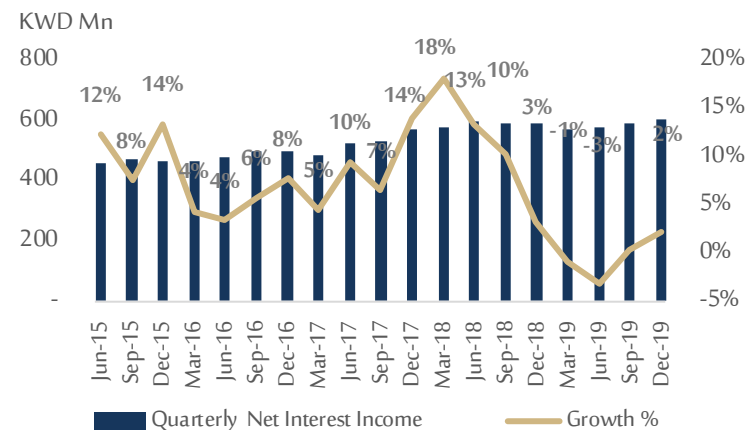


Banking Sector Report

Financial analysis - Income statements

Banks' Net Interest (Financing) Income

KWD Million	4Q-18	4Q-19	Q-o-Q (%)	2019 to 2018	2018 to 2017
National Bank of Kuwait	175.4	172.2	-1.8% ▼	-0.2% ▼	9.8% ▲
Gulf Bank	37.2	53.8	44.4% ▲	7.7% ▲	13.2% ▲
Commercial Bank of Kuwait	23.7	23.6	-0.5% ▼	3.6% ▲	10.4% ▲
Al Ahli Bank of Kuwait	31.7	32.4	2.1% ▲	4.8% ▲	3.0% ▲
Ahli United Bank - Kuwait	23.9	20.8	-12.9% ▼	-15.2% ▼	17.8% ▲
Kuwait International Bank	14.4	12.8	-11.5% ▼	-1.8% ▼	-1.4% ▼
Burgan Bank	45.3	41.9	-7.6% ▼	-9.2% ▼	9.7% ▲
Kuwait Finance House	122.4	134.7	10.0% ▲	0.6% ▲	2.9% ▲
Boubyan Bank	35.6	31.5	-11.7% ▼	-5.4% ▼	7.4% ▲
Ahli United Bank (B.S.C)	70.3	69.3	-1.5% ▼	1.7% ▲	3.6% ▲
Warba Bank	15.3	16.3	6.6% ▲	13.6% ▲	11.9% ▲
Total	595.5	609.2	2.3% ▲		



Net Interest (Financing) Income

- The banking sector had a modest increase in its net interest (financing) income by 2.3% during 4th quarter 2019 Q-o-Q to reach an amount of KWD 609.2 million. Additionally, the net interest (financing) income for the banking sector in Kuwait showed a similar level in 2019 compared to the performance of 2018 when the financing income grew by 11.1% in 2018 Y-o-Y to reach an amount of KWD 2.37 billion compared to KWD 2.14 billion in 2017.
- The Central Bank of Kuwait have declined the free interest rate by 0.25% during the 4th quarter 2019 to reach 2.75%. Moreover, the CBK have also decrease the free interest rate by 25 points in February 2020 and by 100 points on 15 of March 2020 to reach 1.5%. The previous drop in the free interest rate in 2020 was driven due to the fact that the CBK is trying to stimulate the economy advance due to the negative impact that may arise from the Corona Virus spread.
- Percentage wise, Gulf Bank showed the highest growth by 44.4% in 4Q-2019 to KWD 53.8 million Q-o-Q, while NBK accounted for the largest contribution of 28.3% amounted to KWD 172.2 million. However, the net interest income for Ahli United Bank—Kuwait deteriorated the most by 12.9% among the Kuwaiti banks followed by Boubyan Bank and Kuwait International bank by 11.7% and 11.5% to reach KWD 31.5 million and KWD 12.8 million, respectively.

Source: Thomson Reuters, Banks Financial Statements and Arzan Analysis

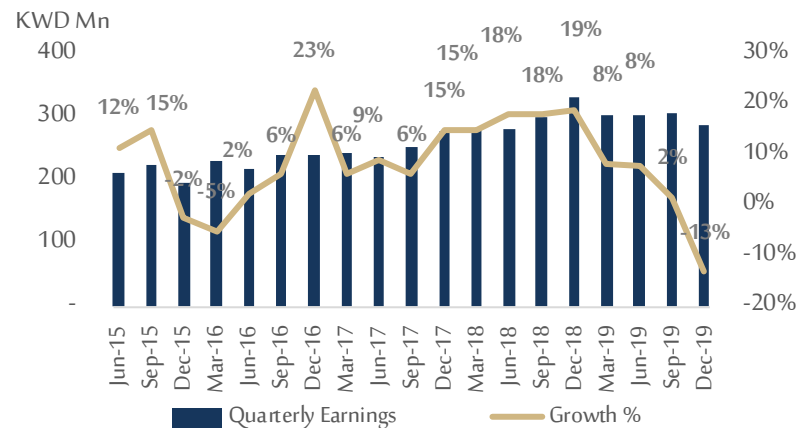


Banking Sector Report

Financial analysis - Income statements

Banks' Earnings

Banks' Name	4Q-18	4Q-19	Q-o-Q (%)	2019 to 2018	2018 to 2017
National Bank of Kuwait	98.3	99.1	0.8% ▲	8.2% ▲	15.0% ▲
Gulf Bank	14.1	26.5	88.6% ▲	12.2% ▲	11.8% ▲
Commercial Bank of Kuwait	48.5	(16.6)	-134.3% ▼	-100.0% ▼	10.0% ▲
Al Ahli Bank of Kuwait	15.1	13.3	-12.0% ▼	-31.9% ▼	9.8% ▲
Ahli United Bank - Kuwait	8.2	9.8	18.9% ▲	7.3% ▲	10.2% ▲
Kuwait International Bank	5.4	4.3	-19.7% ▼	-17.9% ▼	-2.8% ▼
Burgan Bank	11.6	17.2	48.3% ▲	2.5% ▲	-4.3% ▼
Kuwait Finance House	58.3	60.5	3.8% ▲	10.4% ▲	11.5% ▲
Boubyan Bank	15.8	17.4	10.3% ▲	11.7% ▲	15.9% ▲
Ahli United Bank (B.S.C)	51.3	52.1	1.6% ▲	5.3% ▲	8.6% ▲
Warba Bank	4.6	4.4	-4.7% ▼	29.8% ▲	189.5% ▲
Total	331.2	288.1	-13.0% ▼		



Net profit attributable to shareholders

- Net interest income of the banking sector had a modest increase in Q4-2019 which has a direct effects to impact the banks net profit's growth. In Q4-2019, the banking sector recorded a drop in its net profit for the first time among the previous quarters. In fact, net profit declined clearly in Q4 2019 by 13.0% to reach an amount of KWD 288 compared KWD 331 million occurred in the same period of the last year. This was also associated with a decrease in the net Interest income after loan loss Provision by 16.3%. In addition, the total amount of loan loss provision dedicated by the banking sector's constituents grew by 100% in Q4-19 to reach KWD 190 million compared to KWD 95 million in Q4-2019 mainly driven by the surge in the Commercial Bank's provision by 255% to reach KWD 40.8 million.
- The performance of the Kuwaiti banks in Q4 2019 were mixed as Gulf Bank topped the banking sector's constituents net profit growth by 88% to reach KWD 26.5 million Q-o-Q and followed by Burgan and AUB-Kuwait by 48% & 19%, respectively. In fact, the advances in net profit of Gulf Bank and Burgan Bank were mainly owing to the non-recurring items occurred in Q4-2019 as Gulf Bank recorded KWD 19.7 million and Burgan Bank recorded KWD 10 million as a non recurring income. Although Commercial Bank reported an operating profit amount of KWD 23.5 million but the bank occurred losses in Q4-19 by KWD 16.6 million due to the amount of provision was taken in the same period amounted to KWD 40.8 million.
- The Banking sector's net profit have been continuously growing during 2016-2018. This was evidenced by the fact that the banking sector showed a growth of 9.3% in its net profit to reach KWD 1.01 billion in 2017 and 17.7% growth in 2018 to reach KWD 1.19 billion. Nevertheless, the banking sector net profit in 2019 was at similar level of the previous year at KWD 1.2 billion mainly due to the increase in the loan loss provision amount by 7.9% to reach KWD 668 million in 2019. The growth in the bank's net profit during 2016-2018 were mainly owing to the development in the banking sector's operating profit after provisions which parallelly increased by 7.2% in 2017 YoY and 16.3% in 2018 to reach an amount of KWD 1,484 million and KWD 1,726 million, respectively

Source: Thomson Reuters, Banks Financial Statements and Arzan Analysis

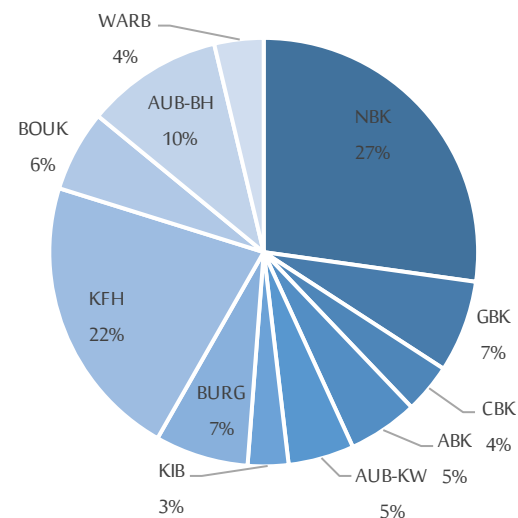


Banking Sector Report

Financial analysis - Balance Sheet

Banks' Loans

Banks' Name	4Q-18	4Q-19	Q-o-Q (%)	2019 to 2018	2018 to 2017
National Bank of Kuwait	15,503	16,553	6.8% ▲	6.8% ▲	6.9% ▲
Gulf Bank	3,950	4,225	7.0% ▲	7.0% ▲	3.7% ▲
Commercial Bank of Kuwait	2,253	2,267	0.6% ▲	0.6% ▲	0.7% ▲
Al Ahli Bank of Kuwait	3,026	3,216	6.3% ▲	6.3% ▲	-1.6% ▼
Ahli United Bank - Kuwait	2,800	3,019	7.8% ▲	7.8% ▲	4.8% ▲
Kuwait International Bank	1,606	1,866	16.2% ▲	26.9% ▲	21.2% ▲
Burgan Bank	4,263	4,284	0.5% ▲	0.5% ▲	-3.3% ▼
Kuwait Finance House	12,829	13,119	2.3% ▲	-0.5% ▼	-2.1% ▼
Boubyan Bank	3,262	3,729	14.3% ▲	14.3% ▲	13.4% ▲
Ahli United Bank (B.S.C)	5,912	6,282	6.3% ▲	6.3% ▲	0.5% ▲
Warba Bank	1,608	2,262	40.7% ▲	40.7% ▲	27.3% ▲
Total	57,012	60,820	6.7% ▲		



Highlights on Bank's Loans

- The banking sector in Kuwait showed an increased of 6.7% in the total loans to reach an amount of KWD 60.8 billion by the end of 31 December 2019 compared to an amount of KWD 57.0 billion on 31 December 2018. There were a remarkable increase in Warba Bank's total loans which grew by 40.7% to KWD 2.3 billion, followed by Kuwait International Bank and Boubyan Bank with a growth of 16.2% & 14.3% respectively to reach of KWD 1.9 billion, and KWD 3.7 billion, respectively. There was a continuous growth in the banks total loans between the period 2015-2019 by an annual growth of 7.5% in 2015, 1.2% in 2016, 7.3% in 2017, 4.5% in 2018 and 6.7% in 2019 to KWD 60.8 billion in 2019.
- The banking sector showed a growth in total loans of all the constituents of the banking sector without any exception for the period 4Q-2019_4Q-2018. Accordingly, National Bank of Kuwait "NBK" continued to lead the banking sector with its largest market share of loans of 27.2% to reach an amount of KWD 16.6 billion, followed by KFH as the bank had a total market share of loans 21.6% and an amount of KWD 13.1 billion as of 31 December 2019.

Source: Thomson Reuters, Banks Financial Statements and Arzan Analysis

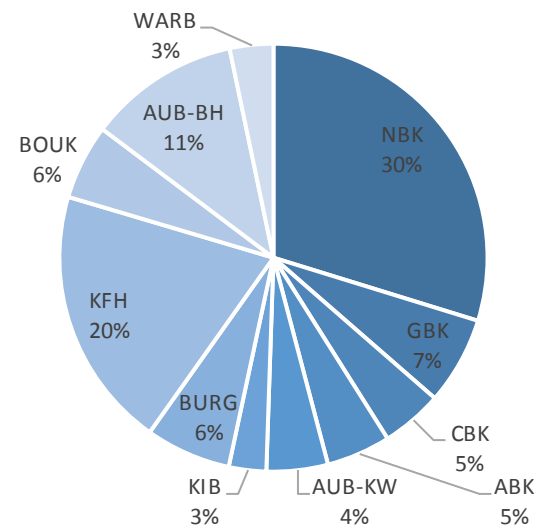


Banking Sector Report

Financial analysis - Balance Sheet

Banks' Deposits

Banks' Name	4Q-18	4Q-19	Q-o-Q (%)	2019 to 2018	2018 to 2017
National Bank of Kuwait	22,930	24,051	4.9% ▲	4.9% ▲	5.5% ▲
Gulf Bank	5,155	5,367	4.1% ▲	4.1% ▲	5.8% ▲
Commercial Bank of Kuwait	3,520	3,747	6.5% ▲	6.5% ▲	-0.4% ▼
Al Ahli Bank of Kuwait	3,616	3,920	8.4% ▲	8.4% ▲	2.3% ▲
Ahli United Bank - Kuwait	3,343	3,747	12.1% ▲	12.1% ▲	6.6% ▲
Kuwait International Bank	1,846	2,282	23.6% ▲	11.9% ▲	9.4% ▲
Burgan Bank	5,633	5,215	-7.4% ▼	-7.4% ▼	-6.3% ▼
Kuwait Finance House	14,469	15,980	10.4% ▲	10.4% ▲	0.8% ▲
Boubyan Bank	3,818	4,584	20.1% ▲	20.1% ▲	10.2% ▲
Ahli United Bank (B.S.C)	8,309	9,250	11.3% ▲	11.3% ▲	6.1% ▲
Warba Bank	1,888	2,659	40.8% ▲	40.8% ▲	19.4% ▲
Total	74,528	80,802	8.4% ▲		



Highlights on Bank's Deposits

- Total deposits in the Kuwaiti banking sector had an upsurge of 8.4% to reach an amount of KWD 80.8 billion by the end of 31 December 2019 compared to an amount of KWD 74.5 billion on 31 December 2018.
- Warba Bank leads the growth charts as its total deposits rose the most by 40.8% Q-o-Q compared to other banks in Kuwait to reach an amount of KWD 2.7 billion followed by Kuwait International Bank and Boubyan Bank which grew by 23.6% and 20.1% Q-o-Q to reach KWD 2.3 billion and KWD 4.6 billion as of 31 December 2019.
- Kuwait National Bank continued to prime the market with its largest market share of deposits and a weight of 29.8% to an amount of KWD 24.1 billion, followed by KFH with a total market share and a weight of 19.8% and amounted to KWD 16 billion on 31 December 2019.
- Burgan Bank were the only bank that had a decline in its total deposits. In fact, Burgan Bank showed a clear deterioration in its total deposits during the period 4Q-2019 by 7.4% Q-o-Q among the banking sector constituents in Kuwait to reach KWD 5.2 billion.

Source: Thomson Reuters, Banks Financial Statements and Arzan Analysis



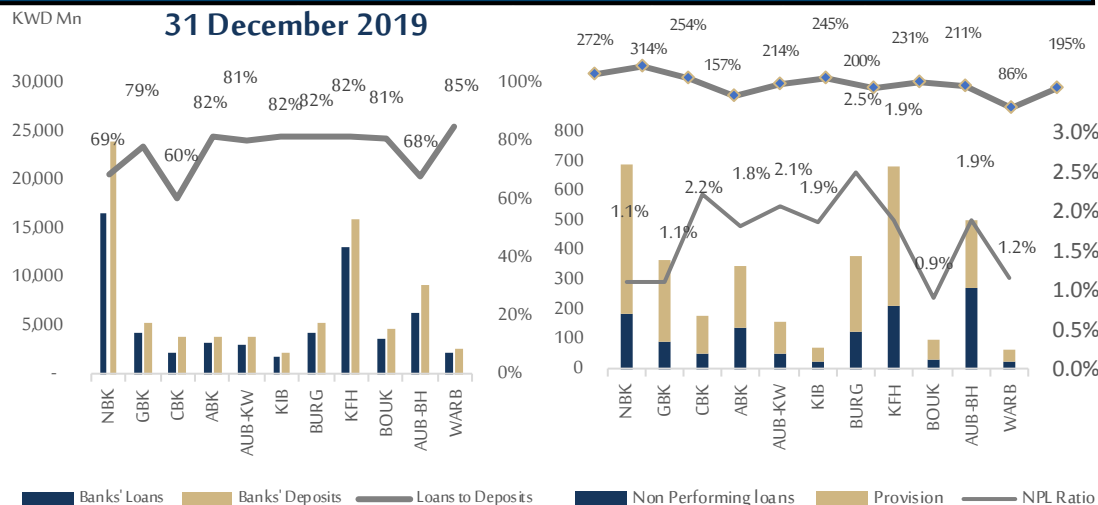
Banking Sector Report

Financial analysis - Balance Sheet

Banks' Name	Non Performing	Total	Coverage	NPL	Capital Adequacy
	loans	Provisions	Ratio	Ratio	Ratio
National Bank of Kuwait	186.9	508.7	272%	1.10%	17.8%
Gulf Bank	89.6	281.2	314%	1.10%	17.5%
Commercial Bank of Kuwait*	50.1	127.3	254%	2.21%	17.9%
Al Ahli Bank of Kuwait	136.0	213.2	157%	1.80%	19.2%
Ahli United Bank - Kuwait	54.1	104.0	214%	2.08%	17.2%
Kuwait International Bank	21.6	52.9	245%	1.86%	16.6%
Burgan Bank	126.3	252.4	200%	2.50%	16.8%
Kuwait Finance House	211.1	473.1	231%	1.88%	17.7%
Boubyan Bank	32.9	66.6	211%	0.90%	18.2%
Ahli United Bank (B.S.C)	271.5	233.2	86%	1.90%	16.4%
Warba Bank	22.1	43.2	195%	1.15%	18.5%
	1,202.2	2,356.0	196.0%	1.68%	17.62%

Ratio Analysis

- The Kuwaiti banking sector NPL level faced a decline in 2018 to reach an amount of KWD 896 billion and this accounted for 1.5% of total loans. During 2018 there was a huge settlement for Commercial and Gulf Banks which leads Non Performing Loans Ratio to reach to zero for CBK and 1% for Gulf Bank.
- In 2019, non performing loans have extremely increased to reach an amount of KWD 1.2 billion. There was a significant increase in the NPL of ABK by 164% to KWD 136 million, AUB-BH by 131% to KWD 271 million and CBK by 100% to KWD 50.1 million.
- The Banks' Capital Adequacy Ratio is at an average of 17.6% and the highest CAR went for Al-Ahli Bank of Kuwait at 19.2% in 2019.
- The coverage ratio for the Banking Sector reached 196% in 2019 and an amount of KWD 2.4 billion and this can introduced the financial strength for the banking sector in Kuwait. In addition, the highest coverage ratio is accounted for Gulf Bank, National Bank and Commercial Bank at 314%, 272%, and 254%, respectively indicating high financial strength against any upcoming financial difficulties.



Source: Thomson Reuters, Banks Financial Statements and Arzan Analysis

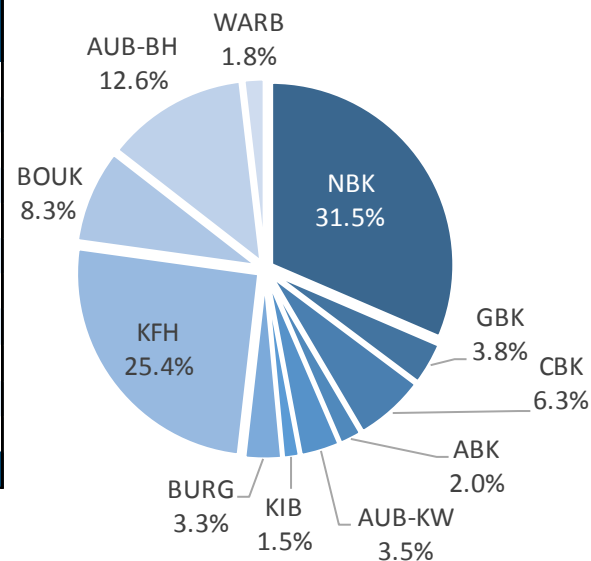


Banking Sector Report

Financial analysis - Market Performance

Banks' Name	Market Cap (KWD Mn)	PE*	BVPS (fils)*	P/BV*	Payout Ratio 2019	DY%*	Operating profit %*	Net profit %*	ROA %*	ROE %*
National Bank of Kuwait	4,977	12.4	599.1	1.41	58.3%	4.6%	49.2%	32.6%	1.4%	11.4%
Gulf Bank	597	9.4	229.2	0.94	50.1%	5.6%	31.2%	23.2%	1.0%	10.0%
Commercial Bank of Kuwait	996	-	376.1	1.36	0.0%	0.0%	38.8%	35.6%	0.0%	0.0%
Al Ahli Bank of Kuwait	316	11.0	429.5	0.47	50.0%	3.6%	28.8%	17.8%	0.6%	4.2%
Ahli United Bank - Kuwait	555	10.1	277.9	1.11	54.0%	5.6%	44.1%	30.1%	1.3%	11.0%
Kuwait International Bank	232	13.5	382.9	0.67	46.6%	3.3%	30.6%	20.6%	0.7%	5.0%
Burgan Bank	522	6.2	344.5	0.59	49.8%	6.0%	33.8%	19.2%	1.2%	9.5%
Kuwait Finance House	4,018	16.0	298.7	2.07	54.9%	3.5%	40.0%	26.2%	1.3%	12.9%
Boubyan Bank	1,315	21.0	247.7	2.19	44.1%	2.0%	40.1%	27.1%	1.3%	10.4%
Ahli United Bank (B.S.C)	1,999	9.0	166.5	1.44	63.6%	6.7%	65.6%	39.3%	1.9%	15.9%
Warba Bank	292	17.7	196.2	1.03	0.0%	0.0%	26.8%	9.7%	0.6%	5.8%
	15,817.9	12.5		1.55	52.4%	4.5%	39.0%	25.6%	1.1%	9.6%

Note: * Is calculated based in the LTM as of 15 March 2020.



Market Indicators

- The total market cap for the banking sector have increased in the 4th quarter to KWD 21.9 billion as of 31 December 2019 compared to KWD 19.3 billion in 30 September 2019.
- As of 15 March 2020 the market cap of the banking sector declined significantly driven by the expected negative effect on the economy from Corona Virus spread to reach KWD 15.8 billion. Nevertheless NBK continued to have the largest market cap in Kuwait Bursa and accounted for the largest rate of 31.5% of the banking sector with a market cap of KWD 4.98 billion, followed by KFH with a 25.4% with a market cap of KWD 4.0 billion as of 15 March 2020
- When comparing banks in terms of dividend payout ratio, AUB-BH and NBK topped the list chart with 63.3% followed by NBK and KFH of 58.3% and 53.5%, respectively. Dividend Yield of the banking sector reached 4.5% and where AUB-BH gave the highest dividend yield of 6.7% followed by Burgan Bank and Gulf Bank by 6.0% and 5.6% respectively and was calculated based on the 15 March 2020 market prices using the latest annual distribution for all the banks.
- As of 31 December 2019, NBK topped the banking sector based on its book value per share reached 599 fils followed by Al-Ahli Bank of Kuwait with BVPS of 430 fils. Al-Ahli Bank has the lowest P/BV among the banking sector with P/BV of 0.47x as of 15 March 2020 while the lowest PE of 6.2 went to Burgan Bank. On the other hand, the highest PE and P/BV both went for Boubyan Bank at 21x and 2.19x.



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