September 2020

Kuwait Banking Sector Outlook 2020 – Asset quality under pressure as operating environment turns challenging

Research Highlights:

Analyzing the impact of COVID-19 on Kuwait's banking sector in 2020

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Chapter 1

Executive Summary

Table 1.1: Kuwait Banking Key Metrics

Period	2019	2020 (F)
Loan Growth (YoY)	6.8%	4.0%
Deposit growth (YoY)	8.1%	5.0%
Net Interest Spread	5.2%	4.7%
Gross Non-Performing Loans to total loans (%)	1.8%	4.7%
Loan Loss Provisions (% of Gross Loans)	1.2%	1.9%
Cost to Income ratio	38.5%	43.3%
Total Loans (KD million)	57,327	59,620
Total Deposits (KD million)	80,013	84,013
Total Assets (KD million)	99,426	101,564
Total Equity (KD million)	12,228	13,426
Net Income (KD million)	1,202	592

Source: Refinitiv, Marmore Research, Note: Aggregate data based on listed banks

Key Highlights

- COVID-19 is expected to add considerable strain to Kuwait's banking sector in 2020 and 2021. Lockdown measures and subsequent plunge in oil prices is expected to reduce economic activity to levels not seen in decades.
- The unique nature of the crisis, where both the supply and demand has been impacted needs to be effectively addressed by policy measures. Lack of sizeable fiscal stimulus to support the economy and spurt in distressed businesses could increase the burden for banking sector and the costs in the long-term could be prohibitive.

- With the business environment immensely challenged amidst the COVID-19 pandemic, demand for financing and credit to sustain businesses (particularly SMEs) amid near zero revenues has surged. Kuwait government has extended benefit measures for the SMEs in the form of subsidized loans (interest waivers). However, the onus of loan origination, administration and due diligence checks fall on banks exacerbating operational risk.
- Credit growth is expected to fall to 4.0% for 2020 on year-on-year basis due to the fall in economic output. Supply-side constraints like labor force shortfalls in expat dominated sectors are also expected to keep economic activity subdued.
- Deposit growth is expected to fall to 5.0% for 2020, down from 8.1% witnessed in the previous year. Possible job losses and lower interest rates for deposits are expected to drive the contraction. Further interest rate cuts to stimulate economic growth will have negative outcomes in deposit mobilization.
- Defaults are likely to be more in sectors such as real estate, where the financial leverage of some borrowers may be relatively large. Gross NPLs are expected to shoot up to 4.7% in 2020, up from 1.8% in 2019.
- During the Global Financial Crisis (GFC), Kuwait economy contracted by 7.1% largely due to fall in oil economy while non-oil sector witnessed growth. The losses in financial market percolated through Investment Companies (ICs), which accounted for 13% of loans outstanding in 2009. Subsequently, gross NPAs increased to 11.8% of total loans in 2009 from an earlier value of 6.8% in 2008.
- Profitability for 2020 is expected to fall, with net income reducing from KD 1,202 million in 2019 to KD 592 million in 2020, due to lower operating income consequent to shrinking net interest spreads (down from 5.2% in 2019 to 4.7% in 2020) and lower non-interest income due to lower reduced business activity.
- Our prognosis could change under the following conditions: provision of additional fiscal stimulus to assuage the economic damage, rebound in oil prices, active privatization measures and aggressive reforms on the upside and increase in case count, return of lockdown restrictions and further deterioration of economic activity on the downside. Positive developments on potential vaccine for COVID-19 would be a game changer.
- The pandemic would be a driver for greater digitization in the banking sector. More customers will start demanding contactless payments, branchless account opening and digitized lending. Banks might have to partner with smaller fintech firms in the short term to avail digital services that the new-age banking customer demands.

Chapter 2

Operating Environment turns Challenging as Stimulus Measures Fall Short of Expectations

The COVID-19 pandemic has altered the operating environment for banks. Kuwait economy activity could witness the steepest decline in decades following the lockdown measures and subsequent plunge in oil prices. Kuwait Central Bank announced some measures as stimulus package. While the key elements of the measures announced are presented in the table below, the main takeaway of the CBK measures is to provide interest relief on loans to SME's, individuals and companies.

Exhibit: Central Bank of Kuwait measures to address the COVID-19 induced crisis

Monetary Policy

- Discount rate was slashed by a cumulative 125bps (basis points) during March 2020, bringing the rate down from 2.75% to 1.5%. Repo rate was also cut by 100bps.

Prudential Regulations

- Several liquidity requirements were eased: Liquidity Coverage Ratio and Net Stable Funding Ratio were reduced from 100% to 80%; Regulatory liquidity Ratio was curtailed from 18% to 15%; Maturity Ladder Limits were relaxed.
- Maximum Lending Limit was increased from 90% to 100%.
- Capital Conservation Buffer (2.5%) was released.
- Loan to Value limits for investment real estate loans in residential areas were eased.
- Credit risk weight for SME lending was reduced from 75% to 25%.
- All customers affected by COVID-19 were allowed to delay payments up to six months without any penalty.

Other measures

- Fees/charges on POS/ATM/Online Banking were waived up to 6 months.
- The limit on contactless payments was increased from KD 10 to KD 25 to reduce the need for cash payments.

Source: Central Bank of Kuwait

Given the scale of the problem of COVID-19 and going by what global economies have done to respond to this crisis through massive fiscal stimulus, these measures fall short of expectations.

The crisis unfolding due to COVID-19 is unique in nature, where we are witnessing a simultaneous demand and supply shock. People are not able to consume and companies are not able to produce. Unlike previous crisis, when harsh downturns penalized companies that were most vulnerable financially or inefficient compared to competition, this crisis can be all encompassing. Survival of the fittest does not apply here. This crisis will not differentiate between healthy companies and unhealthy ones, it can wipe out industries and sectors that are necessary for the wellbeing of the society, and which took many decades to build. Hence, the economic response should address measures that can revive demand and ease supply bottlenecks.

The crisis calls for fiscal response more than monetary response as it involves both demand and supply pressures. The monetary policy levers work primarily through interest rate and liquidity management. Given the fact that Kuwait's currency is mostly pegged to a basket of global currencies including USD, it will have to reasonably mirror the USD Fed interest rate movements. With interest rates nearing almost zero, this provides very limited headroom to tackle the problem. Monetary policy can solve the short-term liquidity problem faced by businesses and individuals, but cannot provide solution to solvency problem. The government should use its resources to save the economy; otherwise, the long-term cost will be prohibitive.

Table 2.1: Fiscal stimulus measures across countries to tackle COVID-19 induced crisis

Category	Country	Fiscal Support (USD bn)	Fiscal Support (as % of 2019 GDP)
Developed	U.K	82	3.0%
	U.S	2,300	10.7%
	Japan	1,008	19.6%
Emerging	India	32	1.1%
	China	368	2.6%
	Russia	49	3.0%
	Brazil	120	6.5%
	Singapore	44	12.2%
GCC	Oman	n.a	0.0%
	Kuwait	2	1.4%
	UAE	8	2.0%
	KSA	25	3.2%
	Bahrain	2	5.5%
	Qatar	21	10.7%

Source: IMF;

COVID-19 will result in several distressed businesses unable to meet their operating and growth expenditure in a scenario where revenues are almost hitting nil. Distressed businesses will need both direct and indirect support. Direct support includes waiver of fees/taxes, payment of salaries for 3 to 6 months and indirect liquidity support through banks and clearing of payment dues from government. This will provide the needed strength and therefore revive confidence.

Real estate will face pricing and rental pressures. Pricing pressures will lead to inventory build-up while rental pressures will result in liquidity pressures. This will affect bank profitability where they have sizeable exposure to Real Estate sector in their loan books. If the fiscal stimulus is not all encompassing, swift and substantial, we run the risk of prolonged recession that will impose unfair share of burden on the banking sector.

Chapter 3

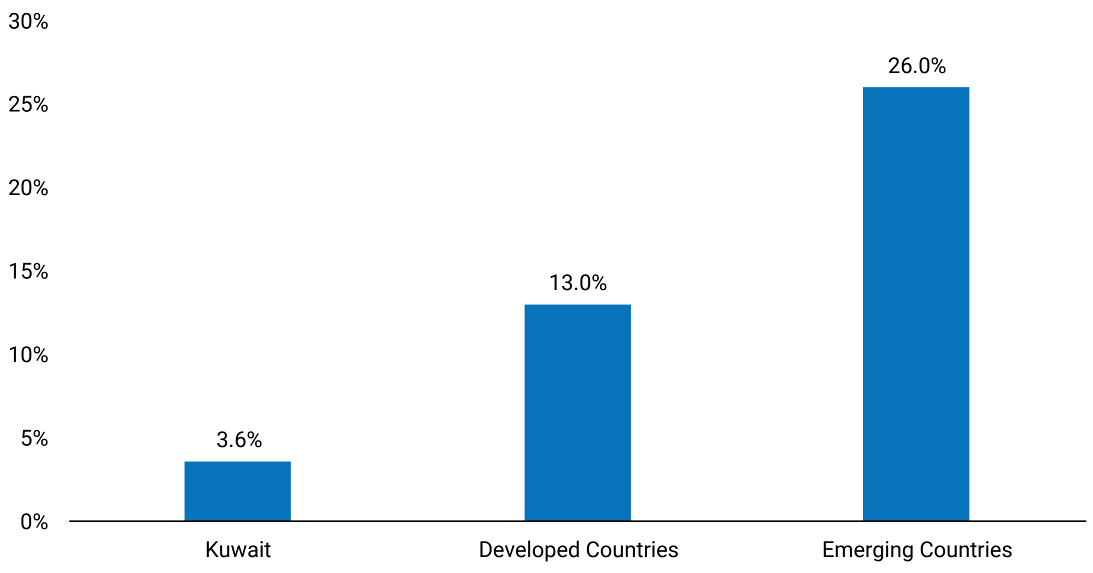
SMEs in a spotlight of bother

COVID-19 triggered downturn is expected to have stark impact on a number of establishments in the country, and particularly SMEs. Most of the small enterprises have limited cash reserves, and therefore the loss of revenue, negative demand shock and temporary business closure will have severe impact on its cash flow. The production and demand loss will essentially affect SMEs ability to resume work.

Labor shortage due to restrictions on movement will have strong impact on SMEs, especially on the hotel, restaurants and retail segment that constitute majority of the total SMEs in Kuwait. Similarly, small businesses that operate for manufacturing industries have less resilience in dealing with the high costs of raw material transportation due to the global and regional supply chain disruptions that has led to the shortage of parts and other intermediate goods. SMEs in Kuwait are also strongly represented in sectors like construction, which is again significantly impacted by the lockdown measures taken to contain the outbreak. In addition, small businesses will face difficulties to adopt to a new digital working model forced by the pandemic to continue their operations. Thus, SMEs are more vulnerable to the risks posed by the COIVD-19 pandemic due to the low capital availability and limited resources.

World Bank studies show that SMEs are less likely to be able to obtain bank loans than large firms. In Kuwait, their estimated lending to the SME sector is around KD 1.3billion, which represents 3.6% of overall loan book, compared to around 30% for the OECD countries.

Figure 3.1: Credit availed by SMEs



Source: Kuwait Financial Stability Report, World Bank & IFC

Banks refrain from lending to the SMEs because of the high default risk for these loans. Many of these borrowers are in service sector, and the COVID-19 has impacted this sector more than others thus threatening to burden Kuwaiti banks by large non-performing loans from this sector. The NPAs from the SME sector at end of 2020 CY, assuming an economic recovery during 2020 Q3 and 2020 Q4 are estimated to be around 4.8% compared to overall NPA ratio of 1.8% as of December 31, 2019. These estimates are tentative as many SMEs could face higher permanent or long-lasting damage due to Covid-19 as sectors such as restaurants, travel, transportation, trade, and construction are expected to have been severely impacted by this crisis as noted from various trade body and other studies such as the Kuwait Business Impact Survey conducted by Bensirri Public Relations.

Central Bank of Kuwait (CBK) has extended incentives to banks to lend to SMEs by reducing the risk weights for SME loans, but further lending to the SMEs by the banks (expected at 20% of total loans, with KNF funding 80%) may not be easily forthcoming due to credit default risks.

Table 3.1: CBK relief package

Part-1 (Rules)	Use of financing only for operational expenses like salaries and rents. The financing cannot be used to repay instalments or loans. No dividend payout till the loan is paid off.
Part-2 (Loans to SME's)	A loan for up to 3 years with a one-year grace period. Interest cannot exceed 2.5%. The government will pay the interest for the first 2 years and share the burden with the SME in the 3rd year. The banking sector and the SME fund will co-loan while the banking sector will charge 2.5% on the loan the SME fund will not charge interest. The banking sector is in charge of the due diligence. The banking sector shall inherit all risk.

Source: Various

As part of CBK rescue measures, banks will have to effectively play the role of credit appraisers, and other credit administration functions like credit disbursement, monitoring and recovery for the loans extended by KNF. Making banks a party to SME lending is fraught with consequences as banks exposure to SME's are currently minimal and their balance sheet structure do not encourage them to take such risks. The CBK measures mandate banks to take all the credit risk, which is quite unusual, as this will burden Kuwaiti banks in terms of higher non-performing loans. In addition, post-COVID19 banks will turn risk averse due to poor fundamentals in the economy. In addition, the operational challenge in setting up and maintaining the electronic portal can be daunting, as banks have to monitor on the usage and make sure that it is used for salaries and rent expenses.

Small and Medium Enterprises (SME's), which contributes the bulk of private employment should be protected and revived through direct zero-cost funding and favorable procurement policies. In addition, the SME stock market concept can be accelerated to increase access to equity investment and help fund existing projects. Failure to save and protect the SMEs at this crucial juncture could prove to be expensive as it is far more costly to rescue companies than to resuscitate them.

Chapter 4

Credit Growth

Credit growth is expected to moderate in 2020 due to the fall in economic activity and output caused by the restrictions laid by the government. Even as the government eases restrictions, consumer demand is expected to stay muted until 2020 Q4 or maybe into 2021. Supply-side constraints like labor force shortfalls in expat-dominated sectors are also expected to keep economic activity subdued. Economic activity in Kuwait navigates in tandem with oil prices. When prices are low, economic activity across sectors are usually muted.

Change in economic output, money supply and investments are expected to dictate the credit demand in the coming quarters as well. Credit demand for the full year 2020 has been forecasted to decline mildly and grow by 4.0%.

Table 4.1: Credit Demand in Kuwait

Period	Total Loans (KD Mn.)	Loan Growth (YoY %)
2009	29,516	4.3%
2010	26,066	-11.7%
2011	27,581	5.8%
2012	31,858	15.5%
2013	39,751	24.8%
2014	44,073	10.9%
2015	47,352	7.4%
2016	47,847	1.0%
2017	51,345	7.3%
2018	53,661	4.5%
2019	57,327	6.8%
2020f	59,620	4.0%

Source: Refinitiv, Marmore Analysis; Note: Aggregate data based on listed banks

Despite a sharp contraction in economic growth during the current year, demand for credit is not expected to fall as sharply due to stimulus measures taken by the government and the regulatory support provided by Kuwait's Central Bank.

Chapter 5

Deposit Growth

Growth in banking sector deposits is expected to slow down because of lower incomes levels due to stalling of economic activity. Possible job losses and lower interest rates for deposits are also likely to aggravate the contraction of bank deposits. Further cuts in interest rates by Central Bank of Kuwait to stimulate economic growth, will have negative outcomes in deposit mobilization. A flight in deposits to alternative asset classes such as stocks can also happen given the lower deposit rates or flight to investments in other asset classes like government securities or bonds issued in other emerging market economies where better yields continue to prevail.

Taking into account the GDP forecast for remaining three quarters of 2020 and the deposit growth rates experienced in Kuwait in previous economic contractions during the global financial crisis in 2009, the deposit growth is estimated to decline to 5.0% for full year of 2020.

Table 5.1: Deposit Growth of Banks

Period	Total Loans (KD Mn.)	Deposit Growth (YoY %)
2009	42,007	2.2%
2010	42,921	2.2%
2011	45,962	7.1%
2012	51,521	12.1%
2013	57,971	12.5%
2014	65,503	13.0%
2015	67,609	3.2%
2016	67,413	-0.3%
2017	70,768	5.0%
2018	74,017	4.6%
2019	80,013	8.1%
2020f	84,013	5.0%

Source: Refinitiv, Marmore analysis; Note: Aggregate data based on listed banks

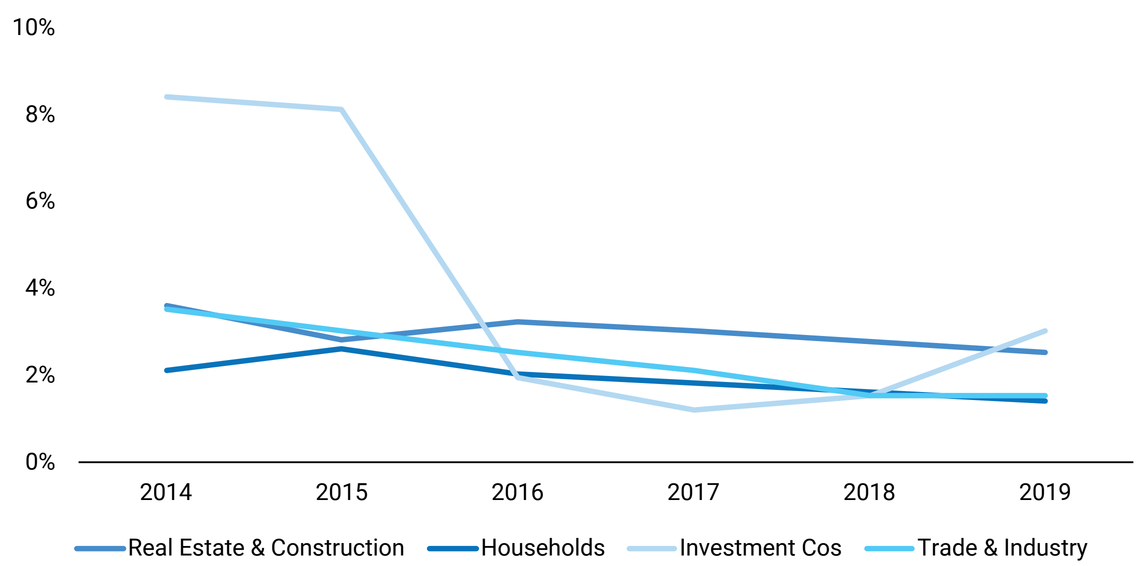
Chapter 6
Non-Performing Assets

The deterioration in economic conditions is expected to cause financial stress to borrowers in all economic sectors, resulting in a spike in Non-performing Assets (NPAs) for banks. Gross NPA for Kuwaiti banking sector are estimated based on available data and behavior during previous crisis. Gross NPAs to gross loans is expected to increase to 4.7% for 2020, rising from 1.8% in 2019.

Defaults are likely to be more in sectors such as real estate, where the financial leverage of some borrowers may be relatively large, leading to difficulty in weathering stress from contraction in business due to fall in economic output. Smaller businesses and sectors like restaurants and hotels are the next largest economic sector in which banks can be expected to see high NPAs. Borrowers in other segments like trade, industry and construction are also expected to face financial stress resulting in NPAs for the banks. Currently, the visible impact on asset quality has been masked by the deferment in loan payments offered to customers. Once these relaxations are removed, there is a high likelihood of many loans being reclassified as bad loans, thereby producing a spike in NPLs.

Kuwaiti banks have the highest loan loss allowances of all GCC countries, owing to precautionary reserves (representing about 50% of total loan loss allowances) as imposed by the CBK over and above the specific and collective loan loss allowances. These provide good buffers for the banks to absorb higher and unexpected losses from the current crisis without consuming their capital. Loan loss provisioning, measured as available provisions to gross non-performing loan, that stood at 38.5% during Global Financial Crisis is now at 270% (2019-end). Presence of adequate provisions during the good times could buttress the fall in profitability to an extent.

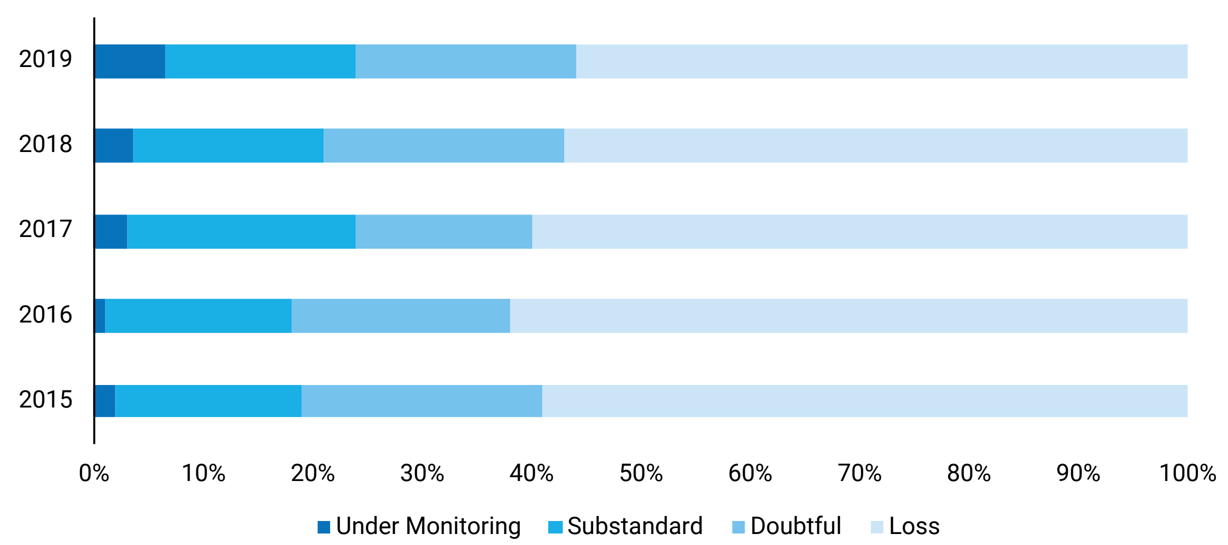
Figure 6.1: Non-performing Loans (NPL) by sector



Source: Central Bank of Kuwait

Non-performing loans have fallen from the highs of 2014, with the NPLs of investment companies falling drastically after 2015. Effective exposure of Kuwait Banks to real estate sectors stands at 59% of total loans. Kuwaiti banks are highly exposed to real estate (about 23% of loans in Kuwait at end-2019), construction (about 5%) and personal installment loans (31% of total loans), which are all likely to be under pressure in the current crisis. Age-wise NPL trend has seen loans classified under the 'loss' category gradually reduce from 2016. However, loans in the category 'under monitoring' and 'substandard', as classified by the Central Bank of Kuwait, have increased in 2019 compared to the previous year. This indicates a build up in new NPLs during the year and could turn worse in the upcoming year due to sluggish economic activity in 2020.

Figure 6.2: Age-wise distribution of NPLs



Source: Central Bank of Kuwait

Given the impact of COVID-19 that has led to sharp fall in economic activity and added to this effect of sharply lower oil price, we expect a surge in non-performing loans. For estimation of the likely defaults and consequent NPAs, we used the financial indicators of listed companies in Kuwait and the GCC as proxy for the larger universe of businesses in Kuwait's economy.

Table 6.1: Forecast of NPAs for Banks

Period	Gross NPL (KD Mn.)	Gross NPL to Total Loans	Loan Loss Provision (KD Mn.)	Loan Loss Provision to Total Loans
2009	3,394	11.5%	779	2.7%
2010	2,320	8.9%	539	1.9%
2011	2,013	7.3%	672	2.5%
2012	1,657	5.2%	720	2.4%

Period	Gross NPL (KD Mn.)	Gross NPL to Total Loans	Loan Loss Provision (KD Mn.)	Loan Loss Provision to Total Loans
2013	1,431	3.6%	739	2.1%
2014	1,278	2.9%	510	1.2%
2015	1,136	2.4%	619	1.4%
2016	1,053	2.2%	523	1.1%
2017	976	1.9%	539	1.1%
2018	859	1.6%	562	1.1%
2019	1,032	1.8%	665	1.2%
2020f	2,773	4.7%	1,127	1.9%

Source: Marmore Analysis; Note: Aggregate data based on listed banks

Table 6.2: Latest NPA numbers

Non-Performing Loan Ratio	2019	Q2, 2020	Increase from 2019
NBK	1.1%	1.7%	+60bps
KFH	1.9%	2.2%	+30bps
Gulf Bank	1.1%	2.2%	+110bps
Burgan Bank	2.5%	4.8%	+230bps

Source: Respective Banks

In so far, based on the latest Q2 2020 results, we don't see an alarming situation as witnessed during the GFC crisis, where the impact was sudden and drastic.

How do our current NPA estimates compare with the 2008 Global Financial Crisis?

The Global Financial Crisis (GFC) in 2008 and the resultant effects were largely confined to the financial markets and institutions. In Kuwait, subsequent to the crisis in October, 2008 Investment Companies (ICs) bore the brunt and registered losses due to their exposure to various financial assets. Kuwait Banks had an exposure of 12% (by loans outstanding) to non-bank financial institutions. Due to secondary effects, that became apparent in 2009, Kuwait economy contracted by 7.1% as Oil price fell 36% and production declined 16%. Gross NPAs eventually increased to 11.8% of outstanding loans in 2009 for the Kuwait banking sector.

Table 6.3: How does the current situation fare against GFC?

Kuwait	2009	2020f
Real GDP, %	-7.1	-5.1 to -6.7
• Oil Real GDP, %	-14.7	na
• Non-Oil Real GDP, %	2.1	na
Average Brent Price ($/bbl)	62.5	40.0
Oil Production (mbpd)	2.26	2.10 (June)
Oil Price Fall (YoY)	-36%	-38%
Oil Production Fall (YoY)	-16%	-22% (June)
Gross NPL to total loans, %	11.5 (2008: 6.8)	4.7 (2019: 1.8)

Source: IMF, IIF, CEIC, Marmore Research;
Note: IIF expects 2020 economic growth to be -5.1%, NBK -6.0%, Fitch Ratings -6.1% and Marmore at -6.7%.

Table 6.4: How does provisions made for COVID-19 differ from GFC?

Loan loss provisions (KD mn)	Q4' 2007 & Q1' 2008	Q4' 2008 & Q1' 2009	YoY	H1 2019	H1 2020	YoY
Al Ahli Bank of Kuwait KSCP	11.1	37.3	237%	28.3	37.8	34%
Ahli United Bank BSC	1.9	24.7	1230%	10.4	na	na
Ahli United Bank KSCP	4.9	14.0	189%	4.8	11.8	145%
Boubyan Bank KSCP	0.6	22.1	3867%	13.8	23.9	73%
Burgan Bank KPSC	(2.9)	33.8	nm	15.8	31.6	100%
Commercial Bank of Kuwait KPSC	16.9	56.4	234%	48.2	41.0	-15%
Gulf Bank KSCP	16.2	337.3	1989%	30.1	31.1	3%
Kuwait Finance House KSC	12.1	239.6	1882%	100.0	186.2	86%
Kuwait International Bank KSCP	(5.4)	19.7	nm	6.6	10.0	53%
National Bank of Kuwait SAKP	9.6	70.3	632%	66.5	99.2	49%
Warba Bank KSCP	na	na	na	9.6	28.1	193%
Aggregate	**64.8**	**855.3**	**1220%**	**323.6**	**500.9**	**55%**

Source: Refinitiv, Marmore Research

Due to bank's exposure to ICs and financial assets directly, provisions made by banks following the Lehman Brothers fallout in October 2008 increased to KD 855mn (aggregate provisions for Q4 2008 and Q1 2009), a staggering rise of 12 times over provisions made for the same period in the earlier year. Compared to the provisions made during GFC, present provisions made by banks on expectations of loans turning sour remain timid. Kuwait banks have increased provisions by 55% in the first half of 2020, compared with the same period a year back. However, it is to be noted that the loans loss provisions coverage stood at around 38.5% during Global Financial Crisis necessitating increased provisions as compared to the current value of 270% (2019-end)

The current situation, wherein the economy was locked down is unprecedented. The impact percolated through all economic sectors and at all levels. With the case count still increasing, the crisis continues to unfold as we speak. It is expected that the Oil price, on an average could be lower by 38% and the production volume in June is already lower by 22%. Easing of regulations pertaining to loan repayment and capital requirements by Kuwait's Central Bank will provide relief to domestic banks and help in mitigating the impact of lockdowns on their asset quality. Though the banks have done well to reduce exposure to ICs (3% of overall loans outstanding), exposure to real estate sector (installment loans, construction and real estate sector) is high at 59% as of 2019-end.

The consensus is that Kuwait economy would contract but the extent of it is largely uncertain. Current practice of loan moratoriums extended to individuals and affected firms' clouds the ability to assess the extent of damage inflicted by COVID-19. Therefore, our estimates are passive but might change depending on the rebound of economic activity and change in regulations.

Chapter 7

Net Income

Profitability of banks during this COVID-19 phase is expected to take a hit. Business activity will witness a sharp decline, with 2021 faring slightly better depending on how banks are able to adapt to the new normal. Increased provisioning due to asset quality deterioration, higher impairment charges, write-offs and shrinking net interest margins are factors that are likely to drive down profits. The Net Income forecast builds on the Net Income Margin and the credit demand estimate to forecast the Net Interest Income. The Non-interest Income of the banks that represents income from fees and services for a host of banking services is expected to be impacted by the lower economic activity.

The operating expense forecast considers the likely job reductions in the banking sector due to lower volume of banking services. The salaries approximately account for 40% of banks operating expenses[1] and the remaining expenses may see some belt tightening by banks but the effects thereof being currently difficult to estimate have not been considered. Ultimately, the estimated provisions assumed in estimating the Net Income for the banks for 2020. Cumulative net income of banks for the year 2020 is expected to be at KD 592 million, down from a profit of KD 1,202 million in 2019. Our income estimates have limitations about likely variations in the level of permanent NPA increase and required provision estimates as well as difficulty in predicting the pace and shape of economic recovery in the forthcoming quarters.

Table 7.1: Net Income Forecasts

(in KD Millions)	2016	2017	2018	2019	2020f
Net Interest Income	**1,969**	**2,140**	**2,369**	**2,367**	**2,300**
(Loan Loss Provision)	523	539	562	665	1,127
Net Interest Income after LLP	**1,446**	**1,601**	**1,807**	**1,702**	**1,174**
Non-Interest Income	837	869	861	959	821
(Non-Interest Expense)	-1,199	-1,293	-1,297	-1,282	-1,352
Profit Before Tax	1,084	1,177	1,372	1,380	643
Profit After Tax/Net Income	**931**	**1,015**	**1,196**	**1,202**	592

Source: Marmore analysis; Note: Aggregate data based on listed banks

[1] Refinitv

Chapter 8

What could change the narrative for Kuwait banking?

It is an unusual period in the history and the outlook for the banking sector is largely uncertain. We believe the following set of events could inject the much-needed optimism and change the current narrative of Kuwait banking sector.

Additional stimulus

COVID-19 led health and economic crisis has pushed many governments around the world to respond with a wide armor of fiscal and monetary actions that far exceed the measures taken in the past when the Global Financial Crisis happened in 2009.

Kuwait offered monetary stimulus packages in the form of central bank interest rate cuts, liquidity support to its banks in the form of reduction in liquidity ratios, capital adequacy ratios and risk weights for some category of assets like MSMEs and higher lending ratios to their important non-oil sectors like real estate. Loan installments were also deferred for individuals and affected borrowers for a period of six months.

However, fiscal stimulus measures were constrained by budgetary deficits due to low oil price and delayed passing of debt law. If Kuwait could unleash a fresh round of fiscal stimulus measures, it could provide the much-needed fillip to the wider economy and the banking sector. Some examples of such stimulus measures as we observed globally and in GCC is presented in Annexure.

Table 8.1: Stimulus measures to tackle COVID-19 crisis

Country/Region	Fiscal Stimulus (% of GDP)
United States	13.9%
Japan	42.2%
China	4.1%
GCC Countries	
Kuwait	1.4%
United Arab Emirates	2.0%
Saudi Arabia	3.2%
Bahrain	5.5%
Qatar	13.0%
Oman	n.a

Source: IMF; Ceyhun Elgin (Columbia Economic Professor)

Active privatization & aggressive reforms

Limiting the role of state participation in the economy in an effort to boost the private sector is imperative to unlock economic growth and boost productivity. Kuwait Government should consciously move away from businesses by selling their stakes to appropriate stakeholders. The current environment offers a window of opportunity to move ahead with privatization that has been in talks for long. Reducing monopolies, encouraging private sector with profit as a central objective could create the much needed market competition. Consumers would stand to benefit from efficient service, citizens from job opportunities, and the government from reduced public spending. Improving the ability of private sector to operate across sectors, improving the business environment, making it easier to start and wind-up companies would help in this regard.

Bounce back in oil prices

Oil prices collapsed by almost 60% due to COVID-19 driven drop in demand and a production war between Russia and OPEC. The drop in oil prices has direct implications for Kuwait whose reliance on petrodollars is high. Subsequent agreements and production restraint has resulted in a bounce back. However, the oil price is still below the fiscal breakeven oil price for all GCC countries, including Kuwait. Production volume for Kuwait that stood at 2.8 million barrels per day (mbpd) in March 2020 reduced to 2.1 mbpd in June. Bounce back in oil prices could reduce the stress on government finances and boost the confidence of private sector.

A potential vaccine

Global medical community is working at an unprecedented pace on developing a vaccine that could counter COVID-19. It is widely believed that the vaccine could be available by mid-2021, after about 18 months the new virus first emerged[2]. However, there are no guarantees about its effectiveness. Vaccine development on an average has took about 10years. Currently, scientists are working at a rapid pace and there are about 140 potential candidates in various stages of development. Of these around 20 of them are presently being tested on people as part of clinical trials. If successful, it may still take time to be commercially produced and distributed across the world. However, any positive developments in the clinical trial phase would be a potential game changer and could swing the fortunes of the banking industry.

[2] BBC

Chapter 9

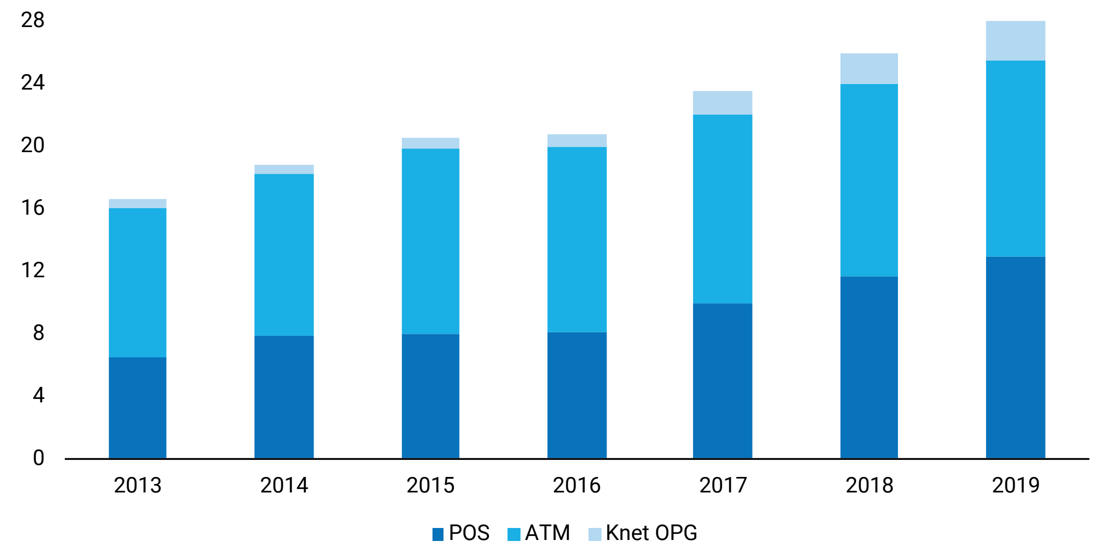
Digitization trends

Mitigation measures taken to prevent the spread of COVID-19 are likely to spur demand for digital banking services in Kuwait. Consumer behavior will undergo a transformation that is likely to sustain beyond the suppression of the pandemic. The shift towards a cashless society will gain further momentum, with digital modes of payments becoming the norm over cash and check payments. Traditional Banks with legacy system will start revamping their core IT systems to incorporate newer technology such as cloud-based systems, analytics, automation etc. to future-proof their technological infrastructure for the long-term. In the short-term, there will be more collaborations between banks and fintech players to serve the growing digital-friendly customer base.

Kuwait's cash usage has been diminishing in recent times, with more and more customers switching to digital forms of payments. However, there is still a large portion of payments that are done through cash and checks. As per the guidelines of the World Health Organization, currency notes could be a medium for the spread of coronavirus. Therefore, the organization recommended the usage of contactless payments as much as possible. Several online retailers are also encouraging the use of online payment channels to their customers. These changes will quicken the adoption of cashless modes of payment for several customers who have preferred to use traditional forms of payments. In terms of infrastructure, many Kuwaiti banks have been launching several contactless payment services such as Tap to pay, NFC-enabled pay, Apple Pay, Fitbit Pay etc. With the new COVID-19 restrictions kicking in, consumers will start using these services more. Banks that do not offer these services might be forced to provide these services due to the risk of customers switching to competitors who provide them.

The value of total transactions through ATMs, POS terminals and Knet online payment gateway in Kuwait increased by 11.8% in 2019 compared to the previous year. This was driven primarily by the growth in POS and Knet transactions, which surged 13.8% and 84% respectively. Comparatively, ATM transactions grew at a much lesser pace, increasing by merely 0.8% in 2019, indicating the shift in preference of customers towards digital forms of payments.

Figure 9.1: Use of e-banking (value), KD billions

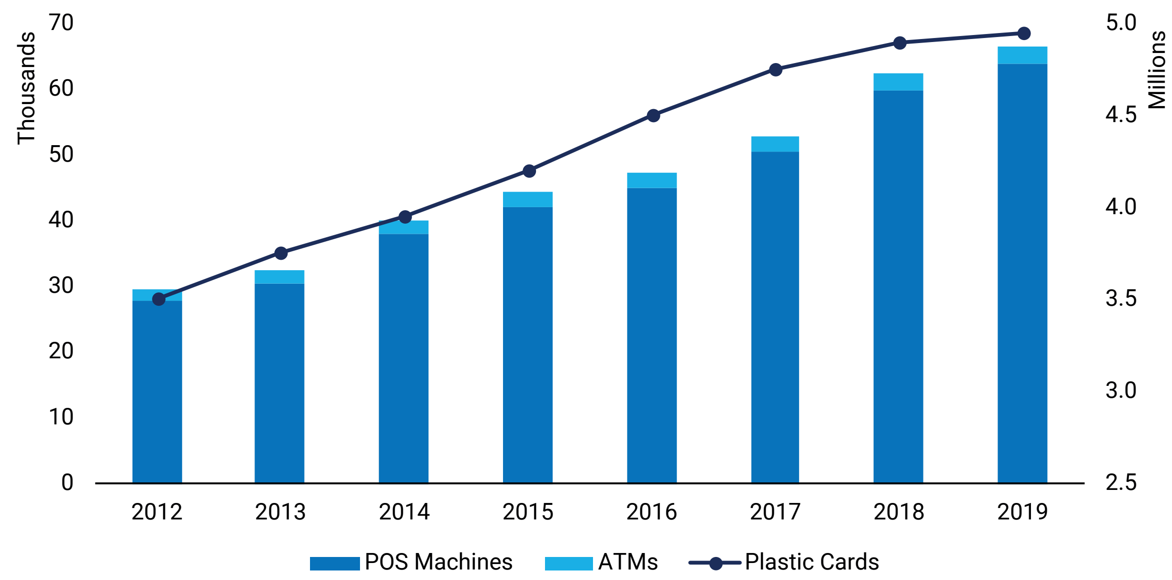


Source: Central Bank of Kuwait, OPG – Online Payment Gateway

Mobile wallets will also grow in prominence, with token-based wallet systems starting to be preferred to physical card-based payments. Customer-facing businesses will have to upgrade their payment channels to allow customers to make contactless payments. This could be used as an opportunity for banks to strengthen their merchant network by forming partnerships and providing the necessary infrastructure. Peer-to-peer wallet transactions may also be favored in future with regulators also encouraging the move towards digital payments. Recently, the Central Bank of Kuwait announced that it would be increasing the limit for contactless payments to KD 25 from KD 10.

E-banking infrastructure has also been ramped up steadily in Kuwait. During 2019, the number of POS machines and ATMs grew by 9.1% and 12.5% respectively.

Figure 9.2: E-banking infrastructure in Kuwait



Source: Central Bank of Kuwait

E-commerce business will also see a surge in customers due to current restrictions in place. As more users would now prefer making online purchases, this presents an opportunity for banks to collaborate with e-commerce players to provide additional benefits to customers. Promotions and discounts would become more attractive advertisement techniques compared to traditional offline methods.

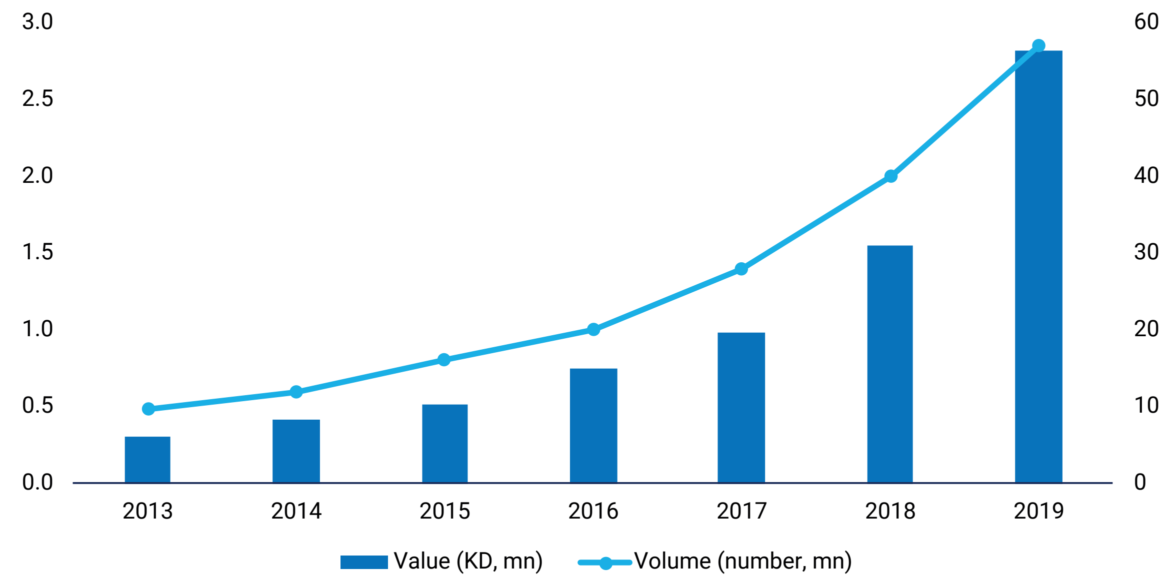
Availing loans through online channels would also increase during these times as customers would not prefer to visit branches. Banks need to use this opportunity to onboard more customers by offering convenient methods of availing loans. Like in the case of payments, partnership with fintech companies that are small but technologically advanced could help banks to encourage digital lending.

The change in customer behavior towards digital channels will warrant banks to ramp up their innovation efforts in order to stay competitive. They will have to adopt more agile and scalable digital technologies such as cloud platforms, Artificial intelligence, and machine learning, which reduce the costs and increase the time to market. The presence of legacy systems and the high cost involved in replacing them will force banks to collaborate with fintech companies instead, to launch digitalized services in the short run.

Another shift that is likely to be seen is that banks would have to focus more on engagement rather than servicing. As customers will spend more time on their banking apps rather than physical branches, selling of products and services will happen more through digital channels in the future. Banks, which have developed banking applications primarily for services like checking balances and making transfers, will also have to use them as primary modes of selling products such as loans, insurance policies etc. This would require banks to build an ecosystem of value-adding services, which will keep the customers engaged with the platform and buy products digitally. Engaging customers by providing multi-faceted services through the banking apps will be the way forward and replace the current servicing models where the apps are primarily used to check balances and doing money transfers.

Adoption of digital banking services appears to be high from a broad level, with all banks providing basic digital services. However, it is observed that customers do not use them for all types of services. According to a McKinsey study, customers lean towards using digital channels for services such as checking account balances and transferring but prefer to raise complaints or open account or take loans by visiting the bank branches. In some cases, regulatory barriers prevent banks from offering services such as opening an account without a branch visit. But for certain services, customers find more comfort in visiting a branch. With restrictions due to COVID-19 shifting consumer behavior, customers are in a way nudged to try out these services through digital channels. Banks need to make entailing these services a hassle-free experience so that customers find comfort in using digital channels in the future as well.

Figure 9.3: Knet Online Payment Gateway



Source: Central Bank of Kuwait

Transactions through Knet online payment gateway has been growing at a rapid pace in the past few years. In 2019, number of transactions grew by 45%, which was higher than the 42% rate that it grew in 2018. This is a clear indication that customers have started to gravitate towards cashless payment modes. Main reasons for the sharp growth in recent years in the growth of e-commerce and the government's growing use of e-payments to charge for various government services. Some of Kuwait's leading banks have already taken steps towards enabling contactless payments for their customers.

Chapter 10

Conclusion

Kuwait's banking system, much like its counterparts around the world, finds itself in a less than ideal situation due to the current economic crisis fueled by COVID-19. COVID-19 induced demand destruction due to lockdown of economy has plunged oil prices and reduced global economic activity. Realizing the pain inflicted and damage that it caused the economy many countries were quick to rush with large-scale fiscal stimulus measures. Stimulus measures initiated by Kuwait state has been primarily on monetary front and much more needs to be done on the fiscal side to assuage the economy.

The challenging business environment wherein revenues has collapsed to near zero levels has fueled demand for credit to sustain business operations and pay salaries. Kuwait government has extended benefit measures for the SMEs in the form of subsidized loans (interest waivers). However, the onus of loan origination, administration and due diligence checks fall on banks exacerbating operational risks.

Credit growth is expected to fall to 4% in 2020 compared to the previous year. Deposit growth rate is expected to be muted at 5% in 2020 due to economic contraction leading to lower incomes and expected job losses both of which will cut into savings. Reduced interest rates in the economy will also exert pressure on deposit growth as alternative asset classes for savings may pose competition to bank deposits as a savings avenue.

The NPAs of the banks are expected to see a sharp rise to 4.7% in 2020 from an earlier value of 1.8%, due to the deterioration of the financial position of borrowers. Bad loans in Kuwait banking system peaked during GFC in 2009. However, the impact on asset quality in the current scenario is likely to be much lesser, as Kuwait banks weathered COVID-19 pandemic from a position of strength. The consensus is that Kuwait economy would contract but the extent of it is largely uncertain with estimates ranging from -4% to -6.7%. Exposure to real estate market is high at 59% of total loans.

Overall, we expect the profitability of Kuwait banks to be lower by 51% at KD 592 million in 2020 from an earlier value of KD 1,202 million due to contracting net interest margins, reduced income and higher provisions. Provision of additional fiscal stimulus, rebound in oil price level, aggressive privatization, accelerated reforms and positive developments on potential vaccine could alter our estimates.

Further, the impact of COVID-19 will be felt in other ways such as changes in consumer behavior, which would have an indirect impact on the banking sector. In our view, the pandemic would be a driver for greater digitization in the banking sector. Marketing and sales of products would start flowing from digital channels, as customers tend to avoid physical visits to bank branches and ATMs. High smartphone penetration and a young demographic profile would help in quicker adoption of digital banking channels. More customers will start demanding contactless payments, branchless account opening and digitized lending, with banks moving towards a customer engagement model as against a servicing model adopted right now. Banks will have to upgrade their legacy systems accordingly to keep up with the advancements in the financial service space and might have to partner with smaller fintech firms in the short term to avail digital services that the new-age banking customer demands.

Appendix

Key policy responses by various countries to COVID-19 pandemic

U.S.	Fed launches emergency lending facilities to provide USD 2.3trillion in loans Quantitative easing restarted; asset purchase expanded beyond USD 700 limit Benchmark interest rates slashed cumulatively by 150bps to essentially zero. USD 2.2trillion CARES act signed into law Approved USD 3trillion relief package providing USD 500billion funding to states, USD 375billion to local governments and stimulus checks to individuals
U.K	100% state-guaranteed Bounce Back loans scheme for small business GBP 1.25billion package to help start-ups and SMEs focussed on R&D GBP 30billion fiscal stimulus package GBP 20billion in tax cuts and grants
Japan	Emergency stimulus package raised to Yen 117trillion Planned cash handouts to all citizens totalling more than Yen 12trillion Yen 1.5trillion in two packages, including loans for SMEs
Saudi Arabia	SAR 120billion package; including SAR 50bilion to support banks, financial institutions and SMEs Saudi Arabia's budgeted spend will be cut by SAR 50billion, that corresponds to 5% of the budget, in areas with least social and economic impact.
UAE	Abu Dhabi: AED 9billion announced by the government as part of the ongoing "Ghadan-21" fiscal stimulus program; provide additional water and electricity subsidies. Dubai rolled out a AED 1.5billion economic stimulus package which includes a 15 point plan that primarily aims to reduce the cost of doing business and simplify business procedures, especially in the commercial, retail, external trade, tourism, and

Kuwait	The cabinet approved a bill to increase the budget of ministries and governmental departments by KD 500million for the 2020/21 fiscal year. The CBK set up a KD 10million fund to combat coronavirus impacts. The CBK stimulus package provided an additional borrowing space of KD 5billion.
Qatar	Stimulus package for the private sector of QAR 75bn was announced by the Qatar government. Exemption of utility payments for six-month. Logistics areas and SMEs are exempted from rent payments for six months.
Oman	Oman reduced its budget for civil, military and security agencies by 5% for the year 2020. Postpones loan instalments for SME (fees payable to Al Raffd Fund) for the next six months. Postponement of electricity and water dues for a period of three months for affected firms. Affected SMEs are to be permitted to pay in instalments.
Bahrain	The government of Bahrain announced a comprehensive USD 11.4bn economic stimulus to support individuals and companies. Bahrain cut spending by ministries and government agencies by 30% Exemption is provided to all individuals and businesses from municipal fees for three months.

Source: IMF, S&P Global, Marmore Research

Profile – Conventional Banks

National Bank of Kuwait

National Bank of Kuwait	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	13,551	13,611	14,503	15,503	16,553	17,571
Total Deposits (KD Mn)	20,021	20,372	21,740	22,930	24,051	24,402
Total Assets (KD Mn)	23,598	24,204	26,035	27,428	29,271	29,680
Profitability						
Net Income (KD Mn)	282	295	322	371	401	133.6
Operational Efficiency						
Cost to income ratio (%)	39.01	39.7	36.14	35.36	37.08	37.7
ROAE (%)	11.73	11.25	11.65	12.92	12.74	8.17
ROAA (%)	1.31	1.31	1.36	1.47	1.5	1.50
Key Ratios						
Non-performing Loans (% of total loans)	1.34	1.28	1.42	1.38	1.1	-
Capital Adequacy Ratio	16.8	17.7	17.8	17.2	17.8	-
Loan Loss Provision (% of Loans)	1.02	0.93	1.24	1.13	0.79	-
Stock Performance						
Dividend Yield (in %)	3.57	4.29	3.92	3.43	3.12	3.85
Share Price (in KWf)	612	535	629	756	1,019	866

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Gulf Bank

Gulf Bank	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	3,634	3,446	3,809	3,950	4,225	4,189
Total Deposits (KD Mn)	4,825	4,700	4,871	5,155	5,367	5,224
Total Assets (KD Mn)	5,438	5,467	5,683	6,016	6,245	6,025
Profitability						
Net Income (KD Mn)	39	43	48	57	64	12.3
Operational Efficiency						
Cost to income ratio (%)	40.56	49.79	39.8	45.66	40.89	38.81
ROAE (%)	7.78	8.09	8.56	9.66	10.31	8.40
ROAA (%)	0.72	0.79	0.86	0.97	1.04	1.04
Key Ratios						
Non-performing Loans (% of total loans)	2.6	2.4	1.7	1	1.1	-
Capital Adequacy Ratio	15.56	18.49	17.8	17.53	17.1	-
Loan Loss Provision (% of Loans)	1.77	1.22	1.74	1.31	1.51	-
Stock Performance						
Dividend Yield (in %)	-	1.67	2.94	3.57	3.3	5.14
Share Price (in KWf)	260	240	238	252	303	214

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Burgan Bank

Burgan Bank	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	4,088	4,224	4,408	4,263	4,284	4,412
Total Deposits (KD Mn)	5,577	5,770	6,013	5,633	5,215	5,515
Total Assets (KD Mn)	6,825	7,269	7,415	7,312	7,081	7,109
Profitability						
Net Income (KD Mn)	52	68	65	83	85	28.12
Operational Efficiency						
Cost to income ratio (%)	49.01	51.31	50.77	43.51	42.73	52.28
ROAE (%)	9.35	9.67	9.91	10.76	10.74	4.54
ROAA (%)	0.88	0.95	0.94	1.14	1.18	1.18
Key Ratios						
Non-performing Loans (% of total loans)	1.4	1	2.7	2.7	2.5	4.8
Capital Adequacy Ratio	15.6	16.7	16.2	17.4	16.8	-
Loan Loss Provision (% of Loans)	1.32	1	0.96	1.44	1.15	-
Stock Performance						
Dividend Yield (in %)	3.71	5.9	1.55	2.4	3.76	6.03
Share Price (in KWf)	333	263	278	265	304	199

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Commercial Bank of Kuwait

Commercial Bank of Kuwait	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	2,297	2,250	2,237	2,253	2,267	2,296
Total Deposits (KD Mn)	3,340	3,390	3,534	3,520	3,747	3,279
Total Assets (KD Mn)	4,037	4,125	4,395	4,468	4,873	4,422
Profitability						
Net Income (KD Mn)	46	50	55	64	-	1
Operational Efficiency						
Cost to income ratio (%)	29.97	15.02	75.36	31.18	42.77	27.94
ROAE (%)	8.55	8.93	9.24	9.64	0.01	-1.23
ROAA (%)	1.12	1.23	1.3	1.44	0	0.0
Key Ratios						
Non-performing Loans (% of total loans)	0.9	0.5	0.5	-	-	-
Capital Adequacy Ratio	-	-	-	-	-	-
Loan Loss Provision (% of Loans)	2.04	2.93	-0.93	1.66	4.02	-
Stock Performance						
Dividend Yield (in %)	3.6	2.99	3.41	3.27	3.44	-
Share Price (in KWf)	354	308	331	455	529	500

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Al Ahli Bank of Kuwait

Al Ahli Bank of Kuwait	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	3,047	3,029	3,075	3,026	3,216	3,241
Total Deposits (KD Mn)	3,695	3,635	3,536	3,616	3,920	3,800
Total Assets (KD Mn)	3,904	3,692	3,666	3,914	4,351	4,733
Profitability						
Net Income (KD Mn)	30	32	36	42	29	-1
Operational Efficiency						
Cost to income ratio (%)	34.34	43.13	39.75	40.38	40.5	50.3
ROAE (%)	6	6.59	6.98	7.52	4.9	-0.8
ROAA (%)	0.77	0.75	0.83	0.95	0.61	0.61
Key Ratios						
Non-performing Loans (% of total loans)	2.3	2.6	1.7	1.8	1.5	-
Capital Adequacy Ratio	17.23	17.67	17.23	19.15	18.69	-
Loan Loss Provision (% of Loans)	2.15	1.67	1.88	1.84	2.28	-
Stock Performance						
Dividend Yield (in %)	3.47	3.33	3.79	4.07	5.47	4.09
Share Price (in KWf)	385	328	301	269	326	171

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Profile – Islamic Banks

Kuwait Finance House

Kuwait Finance House	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	8,095	8,176	9,216	9,385	9,337	9,864
Total Deposits (KD Mn)	13,763	13,541	13,845	14,476	15,986	17,443
Total Assets (KD Mn)	16,527	16,499	17,358	17,770	19,391	20,582
Profitability						
Net Income (KD Mn)	124	203	184	227	251	81
Operational Efficiency						
Cost to income ratio (%)	53.35	51.59	47.36	49.17	38.71	35.6
ROAE (%)	10.68	12.44	13.25	15.41	15.79	10.7
ROAA (%)	1	1.21	1.27	1.5	1.41	1.41
Key Ratios						
Non-performing Loans (% of total loans)	-	-	2.7	1.99	1.88	-
Capital Adequacy Ratio	16.67	17.88	17.76	17.47	17.67	-
Loan Loss Provision (% of Loans)	1.73	1.18	1.51	0.97	2	-
Stock Performance						
Dividend Yield (in %)	2.53	2.86	2.68	2.53	2.24	2.89
Share Price (in KWf)	335	369	433	505	737	630

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Boubyan Bank

Boubyan Bank	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	2,172	2,517	2,877	3,262	3,729	4,519
Total Deposits (KD Mn)	2,782	3,021	3,466	3,818	4,584	5,190
Total Assets (KD Mn)	3,133	3,482	3,970	4,345	5,301	6,131
Profitability						
Net Income (KD Mn)	35	41	48	56	63	19
Operational Efficiency						
Cost to income ratio (%)	51.38	55.9	54.25	50.17	46.48	45.0
ROAE (%)	11.98	11.69	11.47	12.59	11.55	8.2
ROAA (%)	1.22	1.25	1.28	1.35	1.3	1.30
Key Ratios						
Non-performing Loans (% of total loans)	0.9	0.8	0.8	0.9	0.9	1.2
Capital Adequacy Ratio	17.04	21.35	19.41	18.19	20.32	-
Loan Loss Provision (% of Loans)	0.5	0.23	0.38	0.49	0.5	-
Stock Performance						
Dividend Yield (in %)	1.08	1.21	1.31	1.19	1.11	1.47
Share Price (in KWf)	325	306	355	478	610	583

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Warba Bank

Warba Bank	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	544	828	1,263	1,608	2,262	2,391
Total Deposits (KD Mn)	678	1,025	1,582	1,888	2,659	2,790
Total Assets (KD Mn)	776	1,127	1,773	2,193	3,144	3,396
Profitability						
Net Income (KD Mn)	1	3	7	13	17	-15
Operational Efficiency						
Cost to income ratio (%)	77.61	66.33	48.18	40.42	38.92	53.2
ROAE (%)	1.13	2.84	5.68	6	6.13	-3.6
ROAA (%)	0.15	0.27	0.51	0.64	0.62	0.62
Key Ratios						
Non-performing Loans (% of total loans)	2.84	3.01	-	1.39	1.1	3.4
Capital Adequacy Ratio	26.07	18	-	24.26	18.49	-
Loan Loss Provision (% of Loans)	0.64	0.74	1.15	1.12	0.99	-
Stock Performance						
Dividend Yield (in %)	-	-	-	-	-	-
Share Price (in KWf)	173	196	203	200	262	200

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Ahli United Bank Kuwait

Ahli United Bank Kuwait	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	2,680	2,706	2,673	2,800	3,019	3,099
Total Deposits (KD Mn)	3,491	3,194	3,135	3,343	3,747	3,835
Total Assets (KD Mn)	3,904	3,692	3,666	3,914	4,351	4,427
Profitability						
Net Income (KD Mn)	43	40	44	51	55	19
Operational Efficiency						
Cost to income ratio (%)	44.97	37.48	35.37	31.93	32.31	45.2
ROAE (%)	10.81	9.86	10.21	11.18	11.43	7.8
ROAA (%)	0.93	0.99	1.21	1.35	1.33	1.33
Key Ratios						
Non-performing Loans (% of total loans)	-	-	1.4	1.3	-	-
Capital Adequacy Ratio	15.51	18.23	18	16.55	16.02	-
Loan Loss Provision (% of Loans)	0.97	1.15	1.21	1.11	0.57	-
Stock Performance						
Dividend Yield (in %)	1.72	1.11	3.18	4.17	4.18	5.45
Share Price (in KWf)	385	328	301	269	326	262

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Kuwait International Bank

Warba Bank	2015	2016	2017	2018	2019	H1 2020
Financial Position						
Net Loans (KD Mn)	1,374	1,377	1,401	1,698	2,155	2,227
Total Deposits (KD Mn)	1,025	1,136	1,214	1,329	1,487	1,592
Total Assets (KD Mn)	1,790	1,846	1,916	2,169	2,688	2,746
Profitability						
Net Income (KD Mn)	16	18	18	21	17	0
Operational Efficiency						
Cost to income ratio (%)	35.4	50.72	55.34	55.6	62.09	68.3
ROAE (%)	7	7.71	7.29	8.26	5.62	2.1
ROAA (%)	0.93	1	0.95	1.03	0.71	0.71
Key Ratios						
Non-performing Loans (% of total loans)	1.43	1.4	1.4	2.5	1.8	-
Capital Adequacy Ratio	21.68	20.54	19.05	16.63	19.24	-
Loan Loss Provision (% of Loans)	2.79	0.88	0.72	0.51	0.41	-
Stock Performance						
Dividend Yield (in %)	3.98	4.37	4.39	3.79	3.86	3.85
Share Price (in KWf)	207	189	209	242	261	173

*Source: Refinitiv, NPL ratios from Company Annual Reports, Note: The current stock price is as of Sep 02, 2020; * NPA data as of Q2, 2020*

Foreign banks in Kuwait

Kuwait International Bank	Headquarters	Services	Branch location
Bank of Bahrain and Kuwait	Bahrain	Conventional	Safat
BNP Paribas	France	Conventional	Safat
HSBC Middle East	UAE	Conventional	Safat
First Abu Dhabi Bank	UAE	Conventional	Safat
Citibank	U.S.A	Conventional	Safat
Qatar National Bank	Qatar	Conventional	Dasman
Doha Bank	Qatar	Conventional	Safat
Mashreq Bank	Qatar	Conventional	Dasman
Al-Rajhi Banking and Investment Corporation	Saudi Arabia	Islamic	Safat
Bank Muscat	Oman	Conventional	Souk Al-Dakhly
Union National Bank	UAE	Conventional	Safat
Industrial and Commercial Bank of China Limited	China	Conventional	Safat

Source: Central Bank of Kuwait

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