



شركة الساحل للاستثمار والتنمية والاستشارات (مغلقة)  
COAST INVESTMENT & DEVELOPMENT CO. K.S.C. (CLOSED)

2009  
Special Study

A qualitative Analysis of National Bank of  
Kuwait

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شركة الساحل للاستثمار والتنمية والاسـتشارات شـركـة مـتـمـنـة  
COAST INVESTMENT & DEVELOPMENT CO. K.S.C. (CLOSED)

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**Overview:**

Since its foundation in 1952 as the first national bank and the first joint stock company in the Gulf Region, NBK has been operating in commercial and investment banking, asset and fund management, portfolio and real estate investment, IPO and private equity placement, credit and finance, financial brokerage and insurance. NBK manages over 40 funds including money market, equity, Islamic and alternative investment funds. Among Arab banks, NBK has a very wide regional and international network, which includes more than 155 branches, subsidiaries and representative offices in New York, London, Paris, Geneva, Lebanon, Jordan, Bahrain, Qatar, Dubai, Egypt, Singapore, China, Iraq, Turkey and Saudi Arabia.

During the 80's, NBK proved its strong position by overcoming the stock market crash in 1982, better known as the "Manakh Crisis". Also, during the Iraqi invasion of Kuwait, NBK was the only Kuwaiti bank that was able to continue operating from its branch in London. In the 1990's after the invasion, NBK played a vital role in rebuilding the Kuwaiti Economy by providing finance to different institutions such as the 1991 loan for the Kuwaiti government for a total of 5.5 billion US dollars, considered the biggest loan in the Arab region. In addition to financing Equate Petrochemical Company the amount of 1.2 billion US dollars.

NBK has been rated “The Highest Rated Bank in the Middle East” by international rating agencies like Moody’s, Standard and Poor’s and Fitch Ratings. Figure 1 , Figure 2 and Figure 3 show awards gained by NBK from The Banker magazine, Economy magazine and Banker Middle East.

**Figure 1**



Source: NBK

**Figure 2**



Source: NBK

**Figure 3**



Source: NBK

NBK's investment banking subsidiary, NBK Capital, offers financial advisory services on mergers and acquisitions, debt and equity restructuring and placement, and private equity investment in Kuwait, Beirut, Dubai and Istanbul. NBK Capital carries out its private equity business through a subsidiary, NBK Capital Equity Partners, and a private equity investment vehicle, NBK Capital Equity Partners Fund. NBK's subsidiaries and associates are summarized in Table 1 & Table 2 respectively.

*Table 1*

As of 2008	Country	Holdings
NBK Banque Privee (Suisse)	Switzerland	100.00%
National Bank of Kuwait (International) blc	United Kingdom	100.00%
National Investors Group Holdings	Cayman Islands	100.00%
Al Watany Bank of Egypt	Egypt	98.50%
Watani Investment Company	Kuwait	96.80%
Watani Financial Brokerage Company	Kuwait	86.70%
NBK (Lebanon) S.A.L	Lebanon	85.50%
Credit Bank of Iraq	Iraq	75.00%
NBK Investment Management Limited	United Kingdom	60.00%

*Source: NBK Annual report*

*Table 2*

As of 2008	Country	Holding
Mecca company for investments	Egypt	30.00%
Turkish Bank	Turkey	40.00%
International Bank of Qatar	Qatar	30.00%
International company for Postal Services	Egypt	20.00%

*Source: NBK Annual report*

### **NBK Recent Achievements:**

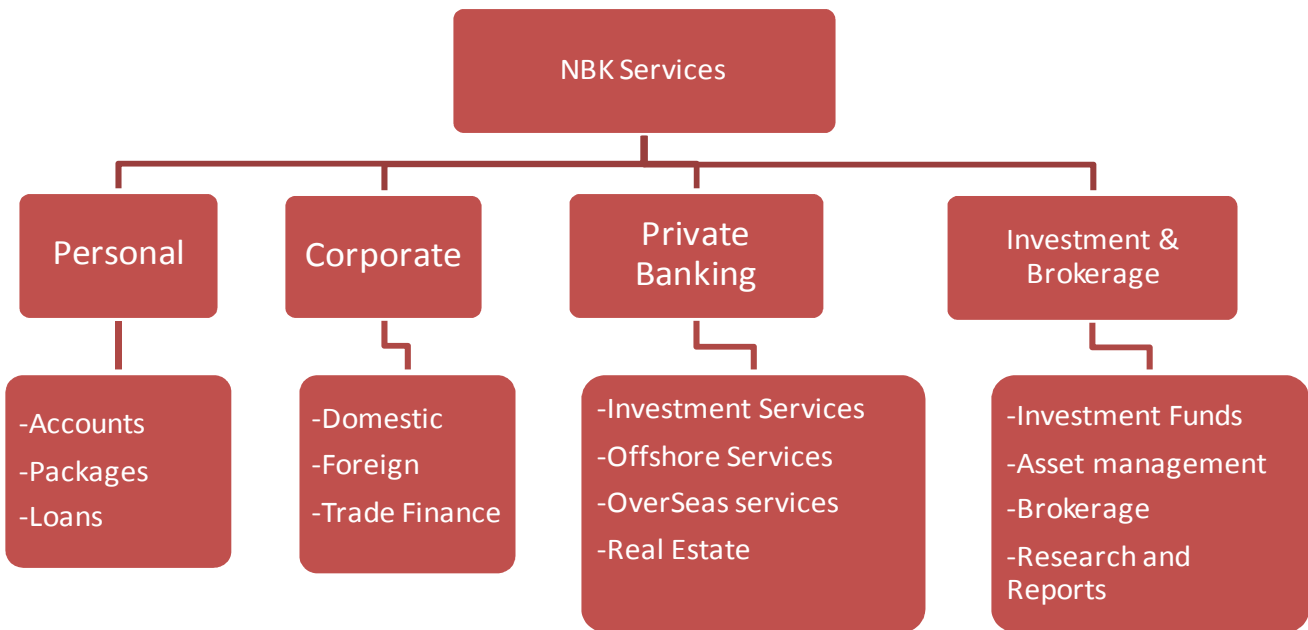
In 2007, NBK increased its ownership in International Bank of Qatar from a 20% to 30% stake. In September 2007, NBK increased its capital 20%. In early 2008, because NBK showed interest in the Egyptian market as the largest arabic market in population with a reform minded government, Alwatany Bank of Egypt merged with NBK group. NBK also acquired 40% of Turkish Bank. National Bank of Kuwait launched its first multi asset fund for its Thahabi clients that allows investing in eight different asset classes within a single fund. NBK issued 10% bonus shares and 75% cash dividends in February, 2008. NBK launched its First Investment Fund in Indian Private Equity in May, 2008.

In February 2009, NBK launched the First World MasterCard Credit Card in Kuwait only for Thahabi customers which provides its holders best-in-class lifestyle through very powerful spending power. NBK issued 10% bonus shares and 45% cash dividends. In March 2009, NBK was the only GCC and Arab financial institution that was ranked one of the world's 50 safest banks 2009 by Business Week.

**NBK Services:**

NBK offers wide variety of services divided into four main categories; Corporate, private, investment and brokerage services and personal as shown in Figure 4.

*Figure 4:*



*Source: NBK*

**1. Corporate Services**

Financial solutions are customized to every corporate requirements and carefully served from ranging from simple financial solutions up to the most complex structured finance projects. The corporate banking group consists of three main departments:

- Domestic Corporate Banking
- Foreign Corporate Banking
- Trade Finance

Additional corporate services include;

- Credit facilities
- Structured finance
- Corporate treasury
- Investment Banking
- International network which is spread over 14 different countries worldwide
- Corporate credit cards
- Employees Banking services

## 2. Private

A wide array of Private services is offered by NBK including;

- **Investment Service**

- Asset Management (select deposits and manage the maturity structure)
- Agency Accounts(buy/sell securities and equities traded in major financial markets)
- Custodial Services(provide record keeping, disbursements and other allied services of customer`s securities, equities and bonds)
- Execution(Execution of all orders with brokers and dealers in the markets for the respective securities)
- Collection(Collection of interest, dividends and redemption payments)

- **Offshore Services**

NBK assists in structuring of investment holding companies in offshore centers, which are economically and politically stable with a sophisticated financial infrastructure to effectively protect assets without restricting growth. Also, offshore trusts provide the advantage of no tax implications on income or capital gains or inheritance tax. In order to manage assets and income to reduce or eliminate offshore and capital gains taxation, NBK provides the services of offshore personal holding company.

- **Oversees Banking**

NBK`s international network offers a wide range of services and products including;

- Foreign exchange and money market activities
- Short and medium term loans
- Corporate finance
- Trade finance and documentary credits
- Real estate services
- Financial advisory services
- Checking accounts and deposit facilities in all major currencies

- **Real Estate Services**

- Buying, selling residential or commercial properties on your behalf.
- Personal or business introductions to expert professional advisors, such as lawyers, surveyors or valuers.
- Provision of offshore companies to hold property in the USA, UK and France most tax-efficient manner.
- General assistance with the successful completion of real estate transactions.
- Bill-paying service provided through Real Estates Departments at NBKI London and NBK Lebanon, to ensure that regular bills for electricity, rent, local taxes, telephones, etc., are paid promptly while our customers are absent from the United Kingdom and Lebanon.

- Advice on financing of property transactions.

### 3. Investment and brokerage

NBK has more than 30 funds categorized into money market funds, equity funds, Ijara funds, alternative funds and multi asset funds. Also, NBK offers asset management business services. Brokerage is another service that NBK offers to help customers trade in Kuwait and USA. In addition to research and reports preparation services.

### 4. Personal

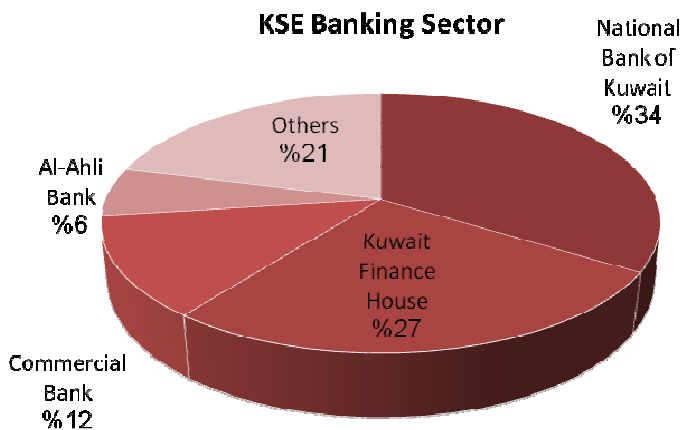
NBK offers individuals a wide array of personal services including accounts, loans and special packages.

### NBK in KSE:

NBK is the largest player in the banking sector in Kuwait Stock Exchange in terms of market capitalization as seen in Figure 5 and Figure 6 . Several Kuwaiti merchant families collectively hold 80% of the bank's shares, while the remaining 20% is publicly traded on the Kuwait Stock Exchange. The shares are widely held and none of the individual shareholders owns more than 5% of the capital.

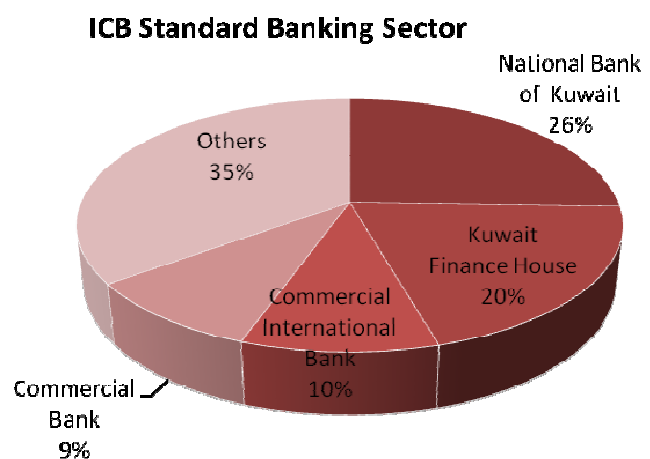
Under sectors classification of KSE, NBK holds 34% of total market capitalization of the banking sector while it holds 26% under the ICB sectors classification. NBK recorded a market capitalization growth rate of -34% for the period May, 2008-May, 2009.

Figure 5



Source: Coast Research

Figure 6

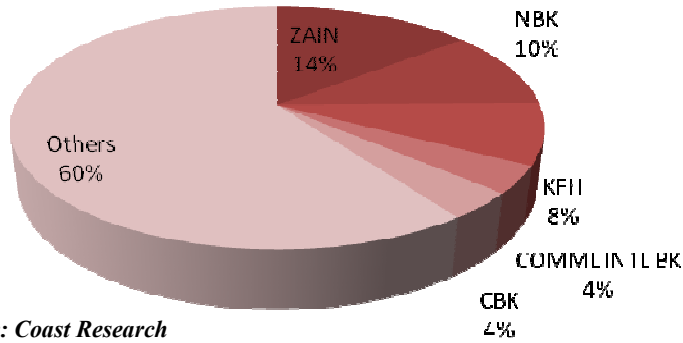


Source: Coast Research

Figure 7 shows the classification of the top five KSE listed companies by market capitalization as of 24<sup>th</sup> Jun, 2009 in which NBK ranked second.

Figure 7

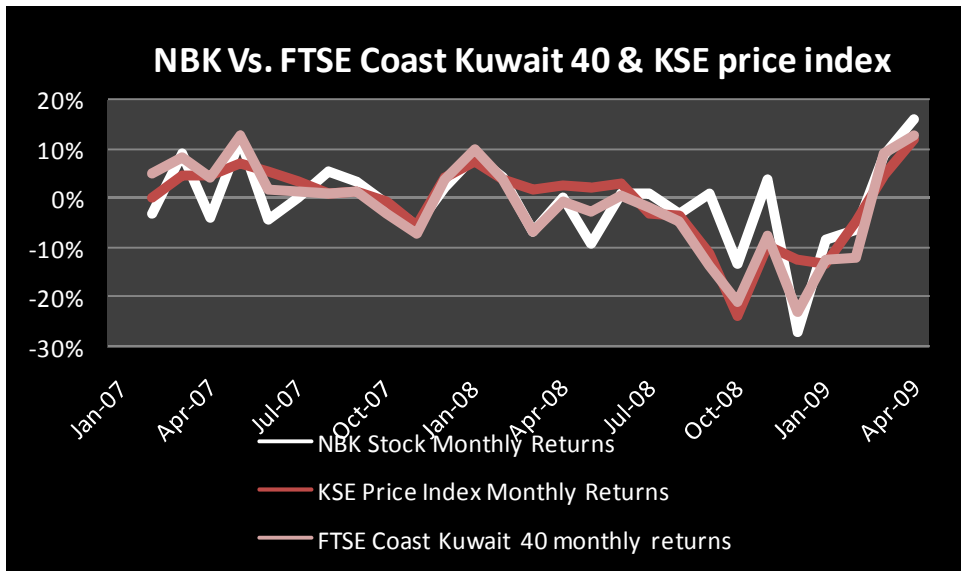
### KSE Top 5 Companies by Market Capitalization



Source: Coast Research

Figure 8 compares NBK's monthly returns to those of KSE price index and those of FTSE Coast Kuwait 40. Starting from mid 2008, negative returns were recorded for KSE price index, NBK and FTSE Coast Kuwait 40 to reach their maximum decline by October and December, 2008 affected by the global economic recession. Returns initiated their upward trend starting from 2009.

Figure 8





Source: Reuters, Coast Research

The global economic recession had its effect on all listed companies and their profits. For the period 2005-2007 the bank's net profit was rising to reach its maximum in 2007 then the down turn started when the net income recorded a growth rate of -7% for the period 2007-2008 as seen in Figure 9 as compared to -93% growth rate of the banking sector's net income for the same period. Moreover, EPS growth rate of -24% was recorded for the same period as seen in Figure 10 as compared to -95% growth rate of the banking sector's EPS for the same period.

Figure 9

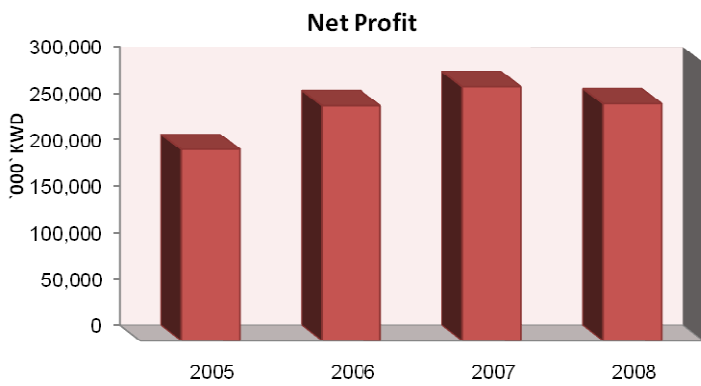
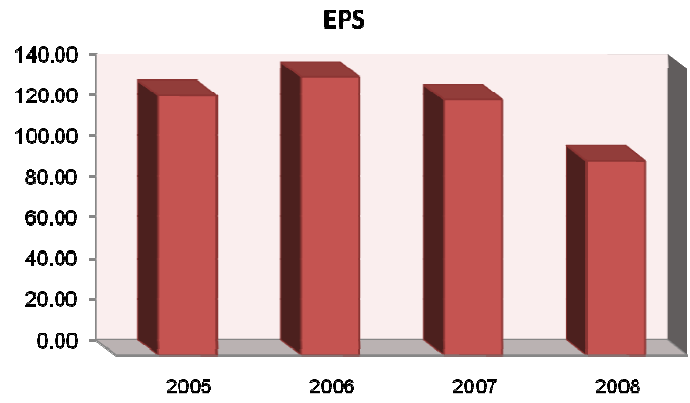


Figure 10



Source: KSE

Source: KSE

Table 3 shows NBK's Cash dividends and Bonus shares distribution for the past five years. As noticed, the decline in profits for 2008 had obviously affected the cash dividends to drop 40% than the regular cash dividends distribution rate of NBK.

Table 3

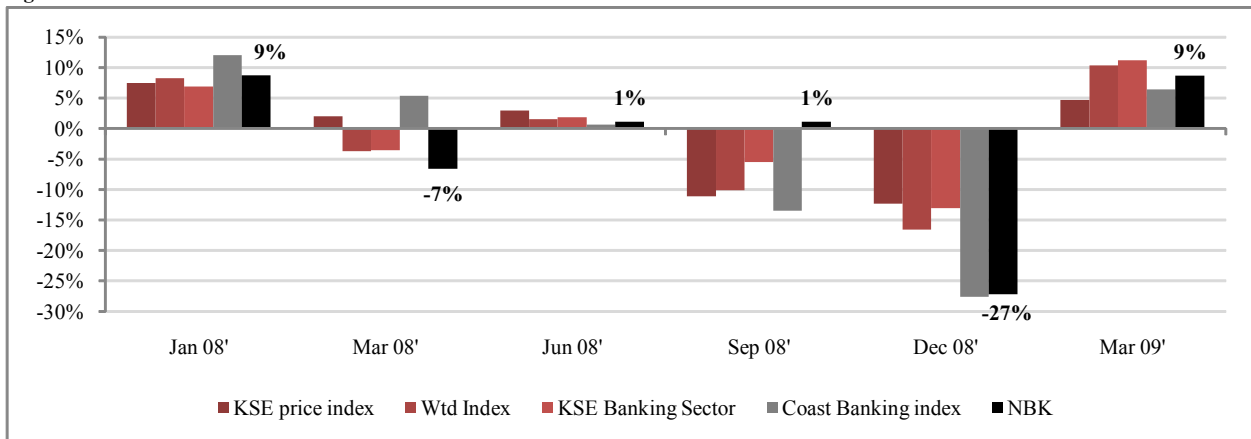
	Cash Dividends	%Growth	Stock Dividends	% Growth
2004	60%		5%	
2005	70%	17%	10%	100%
2006	75%	7%	5%	-50%
2007	75%	0%	10%	100%
2008	45%	-40%	10%	0%

Source: Kuwait Stock Exchange

## NBK Stock Performance

NBK's stock had an interesting trend during 2008 in terms of returns. The stock was measured up against different benchmarks: KSE Price Index, KSE Weighted Index, KSE Banking Sector Index, and Coast Banking Index. This comparison resulted in a mixed performance for NBK's stock returns, notably beating all the benchmarks during July 2008 – November 2008, and again in January 2009 in the midst of the global economic crisis that had its effects on the local market. However, NBK recorded the biggest decline in March and May 2008, failing to beat any of the indices. The following graph displays the stock performance for selected months during January 2008 to March 2009.

Figure 11



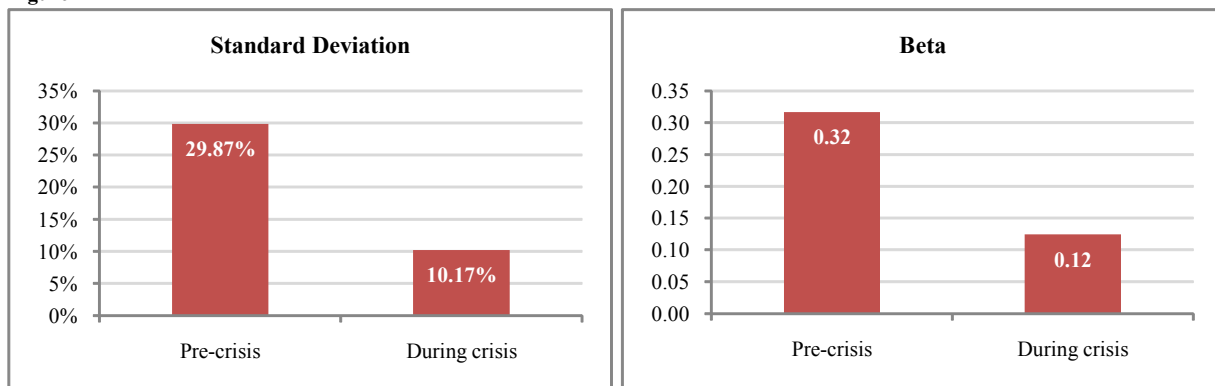
Source: KSE, Coast Research

## Statistical Measures

This section is comparing the performance of the stock during two different time periods. The first period starts in 2004 and ends in April 2009 whereas the second period starts in 2008 until April 2009. Although both periods include the recent market downturn, we will refer to the first period as the pre-crisis period and refer to the second period as the crisis period.

When looking at the Beta Coefficient for NBK's stock returns as compared to the returns of the KSE price index in the pre-crisis period, the figure stood at 0.32, which indicates a typical low volatility ideal for a blue-chip stock. It's worth noting that NBK's Beta shrunk even more during the crisis period to reach 0.12, proving the low risk level and the sustainability in price when compared to a plummeting market. This is backed by the Standard Deviation of the stock which decreased during the crisis period to 10.17 percent, down from 29.86 percent in pre-crisis period.

Figure 12



Source: Ibbotson EnCorr, Coast Research

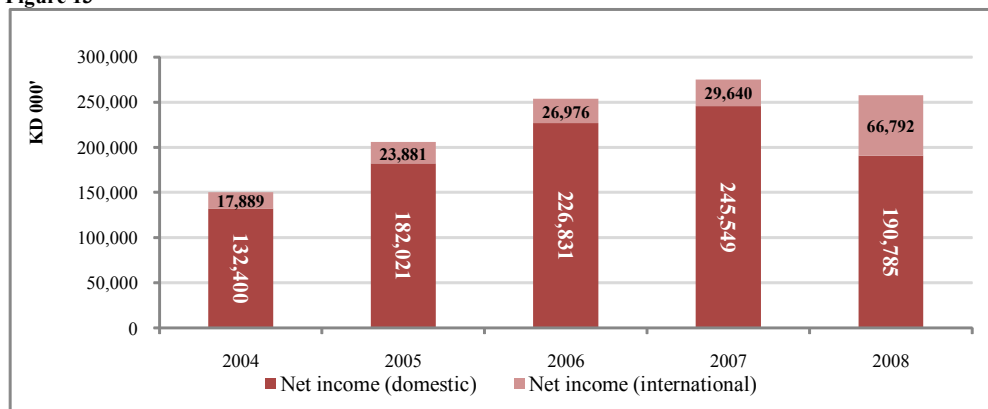
## Operations

### Geographic activities

NBK's total loans and advances to its clients in 2008 witnessed an increase in terms of amount, totaling KD 7.2bn before deducting the provision for bad debt. However, it witnessed a decrease in terms of growth, sliding down to 17.84 percent in 2008, from 37.91 percent growth for 2007. For the past 4 years, the Middle East and North Africa region occupied more than 93 percent of NBK's loans destination, growing at a CAGR of approximately 28 percent in the period 2005-2008. The bank's total loans to the MENA slowed in momentum 2008 recording a negative growth, but what's interesting is that loans to other geographic regions, specifically Europe, have doubled in amount. Also, loans to Asian countries witnessed a strong comeback after declining for two consecutive years. While North America's loans received from NBK witnessed a slight increase.

In terms of the geographic attribution of NBK's net income, the domestic market remained dominant, with more than 85 percent of the bank's net income registered to its domestic operations. However, this dominance has retreated to give a space for more income generated through international activities, which has more than doubled in 2008, a sign that NBK has become more active on the international level.

Figure 13

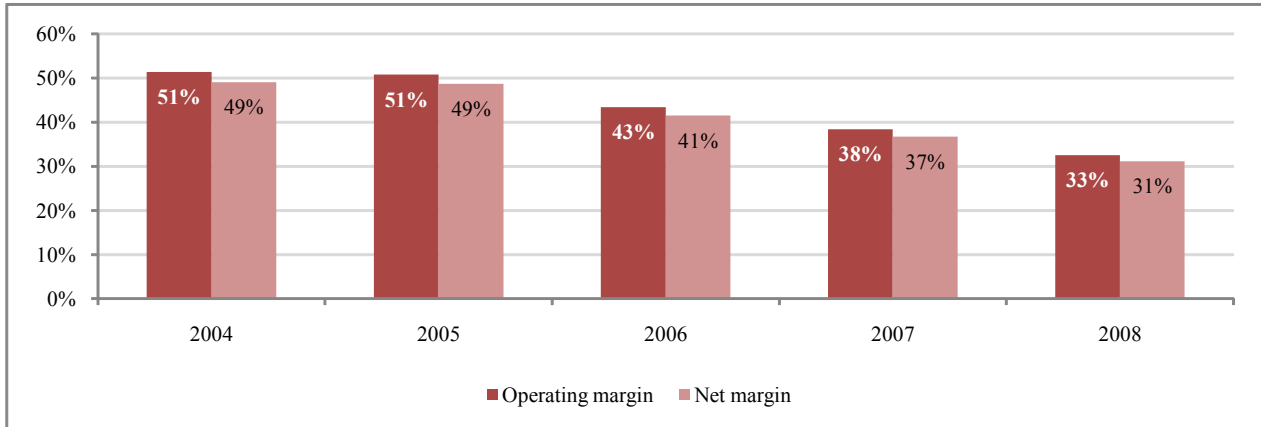


Source: Coast Research

## Profitability

NBK's net profit scored a CAGR of 14 percent during 2004-2008. Although it had fallen 6.4 percent during the economic downturn, but net profit achieved healthy growth rates previous to that slight fall. NBK's net profit margin and operating income margin are moving in a parallel trend alongside each other, scoring the maximum numbers in 2004 and starting a gradual descend after, which is chiefly attributed to the increase in the bank's operating expenses.

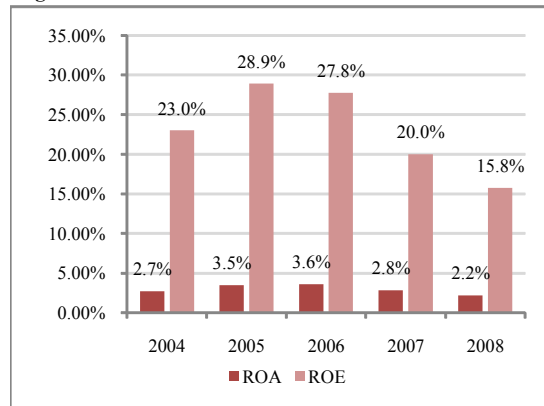
Figure 14



Source: Coast Research

Since 2006, NBK's ROE has entered a descending phase to reach 15.8 percent by the end of 2008 (2007: 20 percent). This decrease is coupled with a decrease in ROA to reach 2.2 percent for the same period, (2007: 2.8 percent). This is mainly because the growth in the bank's net income did not match the pace of its growing equity base, and the contribution of negative growth in net income for 2008.

Figure 14



Source: Coast Research



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