

In this Report

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Personal facilities has been following a continuous upward trend over the last 12 months, increasing by 10% since April 2011 to end the month of April 2012 at KWD 9.23 bn, representing around 36% of banks' loan portfolios. During the first 4 months of 2012, personal facilities grew by 3.15%

Residents' Deposits with local banks, which represent 87% of local Banks' deposit base, decreased by KWD 117 mn or 0.4% to stand at KWD 27.8 bn. During the first 4 months of 2012, bank deposits grew by 4.3% while private sector deposits were up 3.9%.

M2 snapped the last eight month's upward trend, to fall by KWD 140 mn or 0.5% during April-12 and stand at KWD 28.9 bn.

Oil Market: Oil prices continued the downward trend for the 2nd consecutive month to reach the lowest levels so far this year.

OPEC Reference Basket, Kuwait Blend Spot Price and European Brent closed the month at USD 101.1/b, USD 100.4/b, and USD 103/b, respectively.

World oil demand for 2012 is forecast to grow by 0.9 mb/d to average 88.7 mb/d, broadly unchanged from last month.

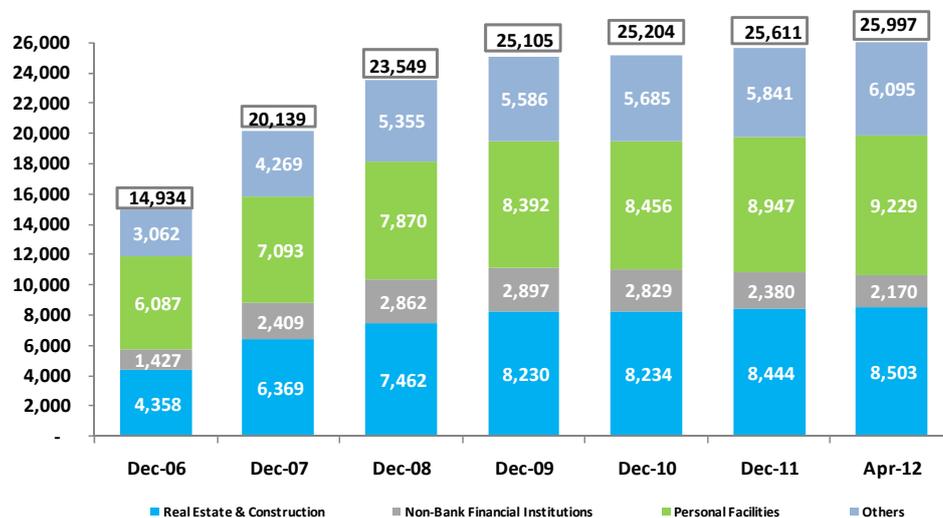
Credit Facilities by Kuwaiti Banks

During April-12, the credit facilities portfolio of local banks remained stagnant at KWD 26 bn. During the first 4 months of 2012, credit growth was sluggish at 1.51% with an addition of KWD 386 mn to banks' loan portfolios. However, this figure is favourable when compared to full year 2011 when credit facilities saw a marginal increase of 1.6% or around KWD 407 mn, indicating the ongoing challenges to the business environment for enterprises along with banks' conservative lending policies and the low appetite for credit. Currently, there is no clear sign of potential revival in credit in the short-term as demand for credit by the private sector is not picking up and the continuous delay in implementing the development plan is having an adverse impact on the credit market by delaying major projects that need financing from banks. The slowdown in credit growth will most likely continue to the second half of the year on the back of tight credit conditions, insolvency problems suffered by local firms, scarce investment opportunities in the local market along with a rise in default risk by distressed and highly indebted firms and the low demand for credit.

Personal facilities, the key growth driver of credit and its major component, has been following a continuous upward trend over the last 12 months, increasing by 10% since April 2011 to end the month of April 2012 at KWD 9.23 bn, representing around 36% of banks' loan portfolios. During the first 4 months of 2012, personal facilities grew by 3.15% fuelled by high consumption and robust growth in the retail sector accompanied with the significant increase in public sector salaries.

Credit facilities for the purchase of securities, which account for 29% of personal facilities, fell in April-12 by 0.3% to stand at KWD 2.67 bn. Given, the deterioration in the local and int'l equity markets due to the financial crisis, the structure of credit facilities, with the highest percentage of funds channelled into the equity market, has exposed banks to a high default risk by individual investors who are heavily invested in the local and regional bourses.

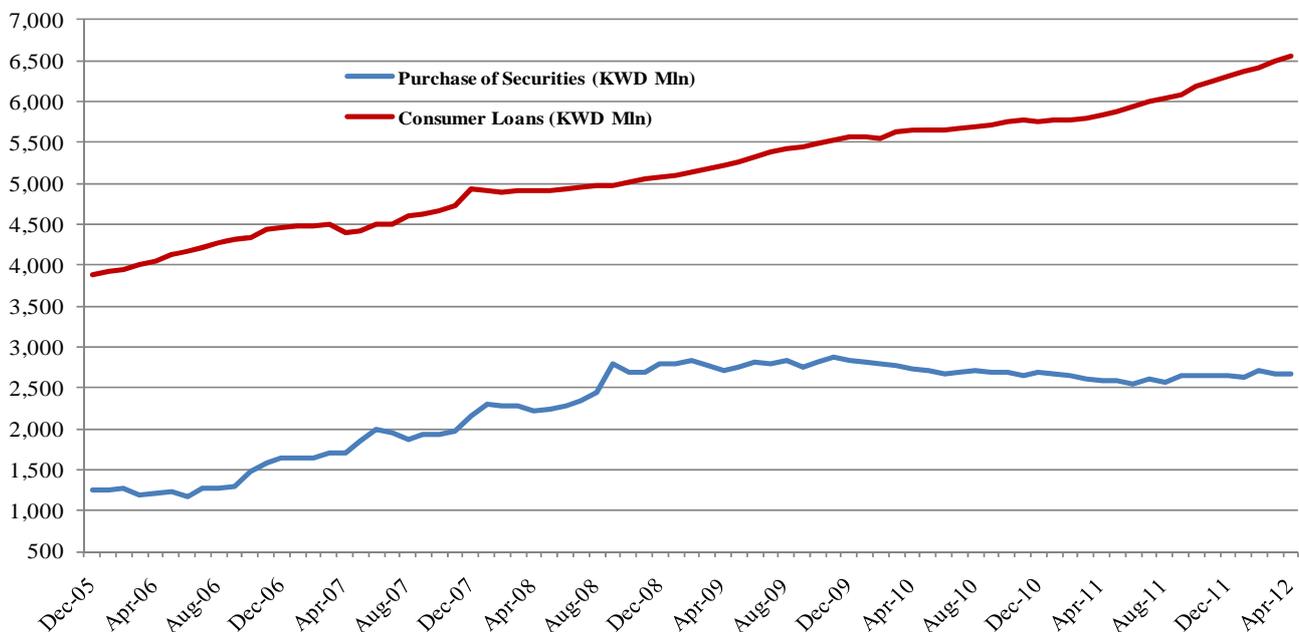
Chart 1. Development in Credit Facilities since December 2006



Source: KAMCO Research & Central Bank of Kuwait

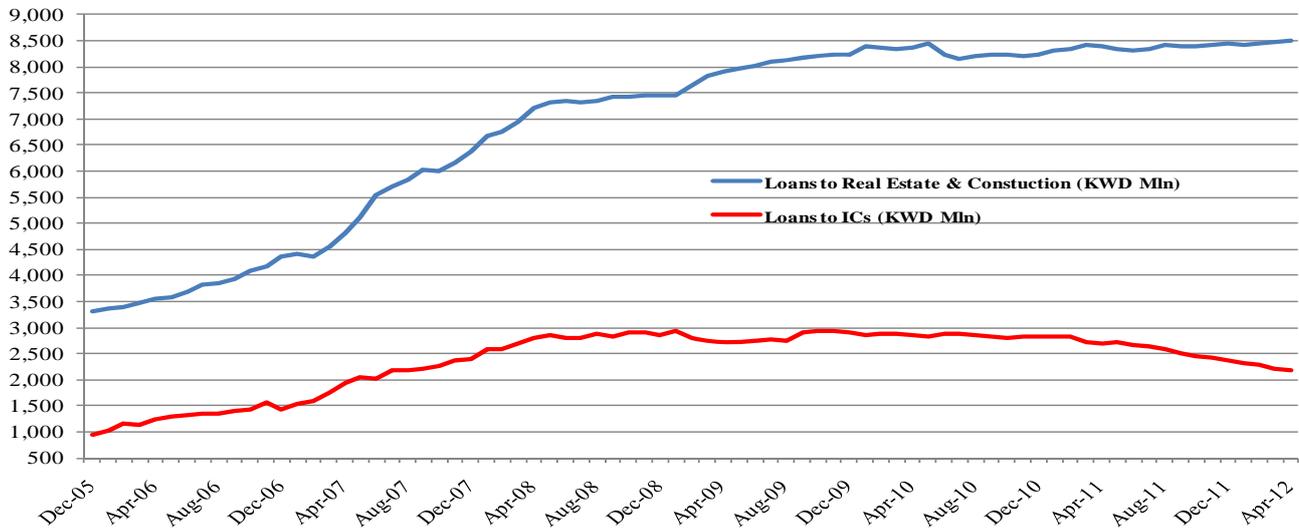
During 2011, credit to purchase of securities fell by 2% or KWD 56 mn in large part due to the deleveraging amid high market risk and volatility in local and international markets. This made banks shift their lending policy by extending credit to households and the productive economic sectors guaranteed by sustainable cash flows. Chart 2 shows the sustainable growth in consumer loans (excluding purchases of securities) since December 2005 indicating a robust growth amid increase in consumption and purchasing power fuelled by salary increase and economic prosperity. Consumer loans grew at a 6-year CAGR of 8.4% since 2005 up from KWD 3.9 bn to KWD 6.3 bn in Dec-11. During the first 4 months of 2012, consumer loans grew at 4% to KWD 6.56 bn fuelled by rise in salaries and banks focus on diversifying loan portfolios. On the other hand, following 5 consecutive years of strong growth rates over the period 2004-2008 with a CAGR of 34.5% fuelled by buoyant market and ample liquidity, growth in credit to the purchase of securities slowed down significantly during 2009 to 1% and then followed a downtrend in 2010 and 2011 with a yearly contraction of 5% and 2% respectively. However in the first four months of 2012, credit to purchase securities grew by 1% to stand at KWD 2.67 bn.

Chart 2. Evolution of Credit Facilities for Purchase of Securities versus Consumer Loans since Dec-05



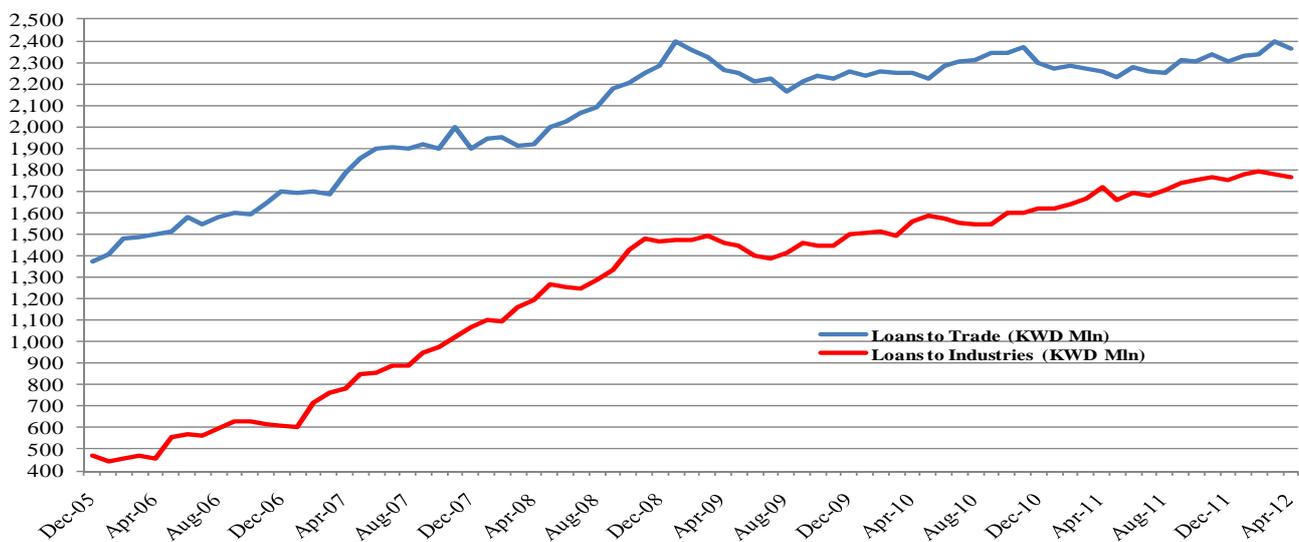
Source: KAMCO Research & Central Bank of Kuwait

Loans to the real estate and construction sectors, which have together comprised an average of 32% of banks' loan portfolios since Dec-2004, increased by KWD 27 mn during April-12 to reach an all time high at KWD 8.5 bn. During 2011, real estate loans grew 2.5% following stagnant growth in 2010. Chart 3 shows that since 2008, growth in the real estate loans has started to lose momentum driven by the slowdown in property market and the depreciation in asset prices. Following a 3-year CAGR of 40% over the period 2004-2007, growth in loans to the real estate & construction sectors dropped sharply to 17% in 2008 then to 10% in 2009 and remained flat in 2010. Given the slowdown in the real estate market and the challenging business environment faced by real estate companies and contractors in Kuwait, high exposure to this sector by banks indicates that further correction in the real estate market might expose local banks to higher credit risk and weigh down on asset quality.

Chart 3. Evolution of Loans to the Real Estate & Construction versus those to Investment Companies

Source: KAMCO Research & Central Bank of Kuwait

The most adverse impact of the credit crisis was on loans to non-bank financial institutions (Investment Companies- ICs); banks suddenly stopped lending to ICs in the last quarter of 2008 following easy credit in the pre-crisis period when loans to ICs grew at a CAGR of 55% over the period 2004-2007. Since then, credit slowed down to 19% in 2008 and 1.2% in 2009 and then followed a steep downward trend in the years that followed dropping by 16% in 2011. Banks remain cautious in extending additional credit to ICs given the challenging business environment and the deterioration in their financial standing and credit profile; accordingly, credit facilities to ICs fell in the first 4 months of 2012 by 8.8% to KWD 2.17 bn, representing 8.3% of banks' loan portfolios down from a percentage contribution of 12% before the crisis. We believe that banks' non-performing loans of ICs will most likely increase and as a result additional impact on banks' financial standing will be priced-in in the current year while current market conditions and possible deterioration in IC's financial standing along with delay in implementing restructuring plans could result in booking further provisions by banks.

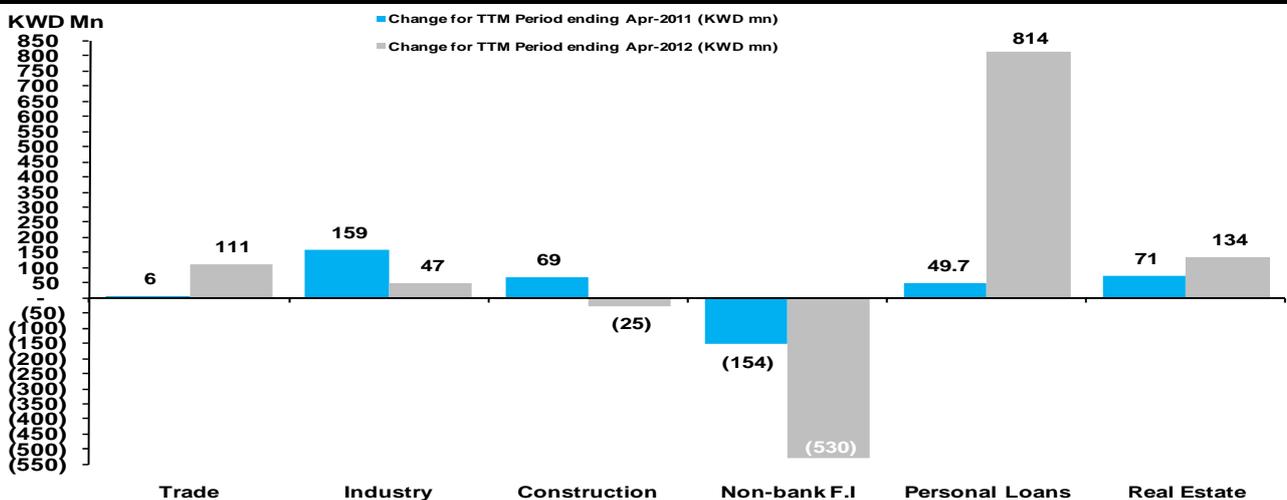
Chart 4. Evolution of Loans to Trade versus Industrial Loans

Source: KAMCO Research & Central Bank of Kuwait

After increasing by KWD 91 mn in Q1-12, loans to trade fell by KWD 31 mn in April to KWD 2.37 bn while loans to industry fell by KWD 16 mn to KWD 1.76 bn. Although loans to trade began 2012 on a positive note, the stagnant growth in loans to trade during the past three years was due to tight credit conditions. Meanwhile, industrial loans jumped KWD 132.5 mn in 2011 following a KWD 116.7 mn increase registered in 2010. The growth in industrial loans is part of an upward trend that began in 2007 as banks strategy shifted towards extending more funds to the productive economic sectors that are backed by real cash flows

Chart 5, which depicts the change in outstanding loans across the major economic sectors during the TTM period ending April-12 and April-11, reflects a considerable growth in personal loans and credit to real estate and industrial sectors along with shrinking credit to ICs due to the strict lending policies followed by local banks and the deleveraging strategy followed by most of the ICs.

Chart 5. Change in Loans extended by Kuwaiti Banks across different Sectors



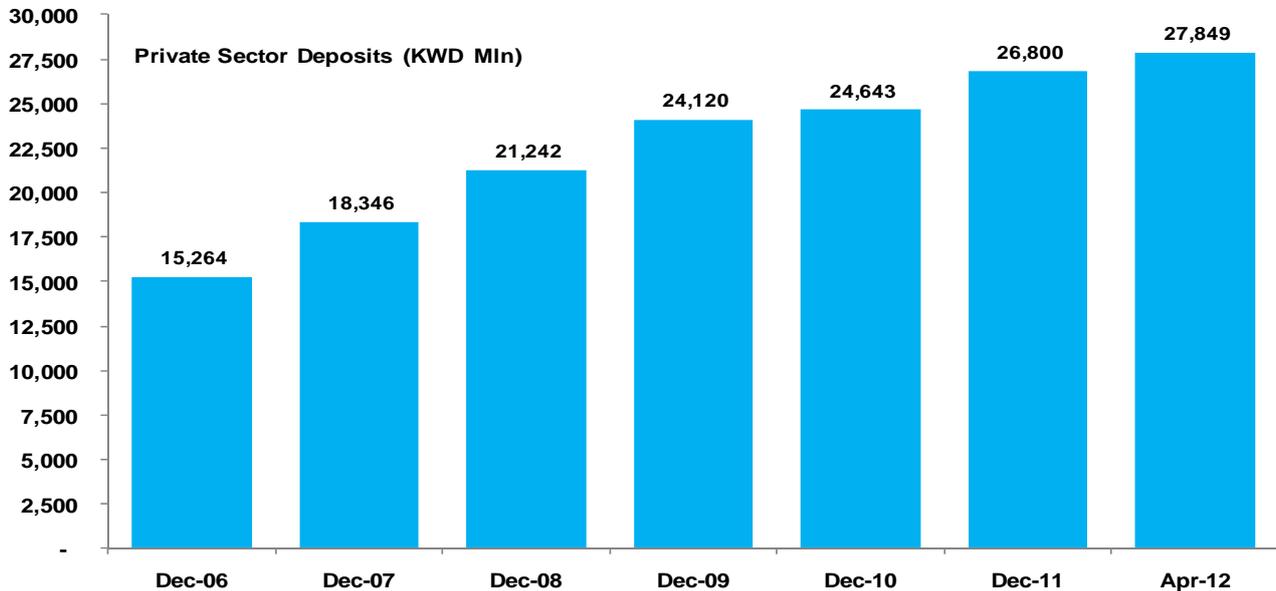
Source: KAMCO Research & Central Bank of Kuwait

During the trailing 12 month period ending Apr-12, credit to the real estate sector grew by KWD 134 mn, while growth in personal facilities showed significant improvement to KWD 814 mn. On the other hand, credit to ICs contracted by KWD 530 mn, indicating the deterioration in operating environment, weak financial standing of some major players along with the restructuring of some highly leveraged firms and the significant losses incurred by the sector originated mainly from drop in the prices of equities and real estate.

Personal facilities added KWD 814 mn over the last 12 months fuelled by the increase in consumption and the reassessment of banks strategies that became retail-oriented. The Industrial sector has gained a new credit of KWD 47 mn, lower than the KWD 159 mn witnessed during the comparable period in 2011. The sustainable growth in credit to the industrial sector since 2009 is mainly driven by the banks' new strategy to direct more funds to the productive economic sectors that are backed by real cash flows.

Deposits with Kuwaiti Banks

Banks' deposit base (public and private) was almost unchanged in April at KWD 31.9 bn. Private sector deposits, which represent 87% of local Banks' deposit base, decreased by KWD 117 mn or 0.4% to stand at KWD 27.8 bn. During the first 4 months of 2012, bank deposits grew by 4.3% while private sector deposits were up 3.9%. Growth in private sector deposits has accelerated during 2011 to record 8.8% compared to 2.2% in 2010. This growth was mainly fuelled by the Amiri grant which took place in February 2011 when private sector deposits increased by KWD 1.22 bn in addition to the volatility in financial markets which resulted in flight to safety.

Chart 6. Private Sector Deposits (KWD MIn)

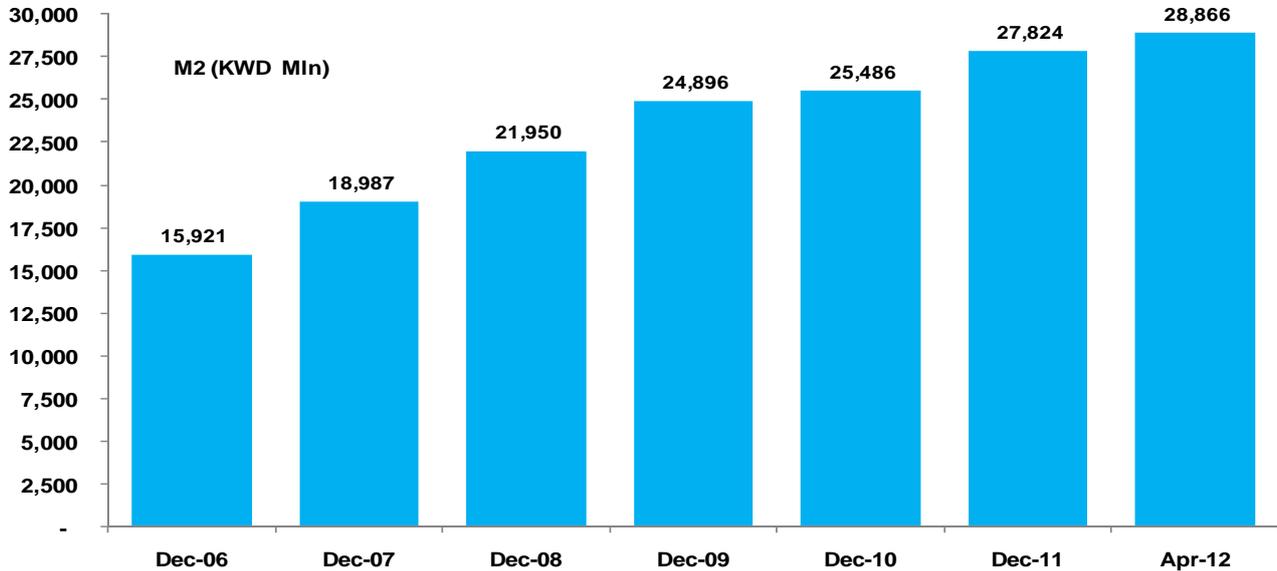
Source: KAMCO Research & Central Bank of Kuwait

Government deposits, which account for 13% of banks' deposit base, increased by 3% or KWD 119 mn during April to record KWD 4 bn; however during Q1-12, government deposits were up 3.8% or KWD 143.8 mn. After recording a significant increase of KWD 449 mn in 2009 driven by the government intervention in the banking system, government deposits during 2010 dropped by 4% or KWD 163 mn amid easing concerns about the financial standing of local banks; this was carried-over in 2011, seeing government deposits losing 1% or KWD 38.8 mn. Injecting public money to the banking system has maintained confidence in local banks and improved liquidity, however, it failed to stimulate credit growth as local banks remained reluctant in extending credit to some sectors, namely financial and real estate.

Money Supply

Kuwait's broad measure of money supply (M2) snapped the last eight month's upward trend, to fall by KWD 140 mn or 0.5% during April-12 and stand at KWD 28.9 bn. During the first 4 months of 2012, M2 grew 3.7% compared to a growth of 6.3% in the comparable period of 2011. The rise in M2 is mainly attributed to the increase in sight deposits by 12% or KWD 684 mn to stand at KWD 6.3 bn.

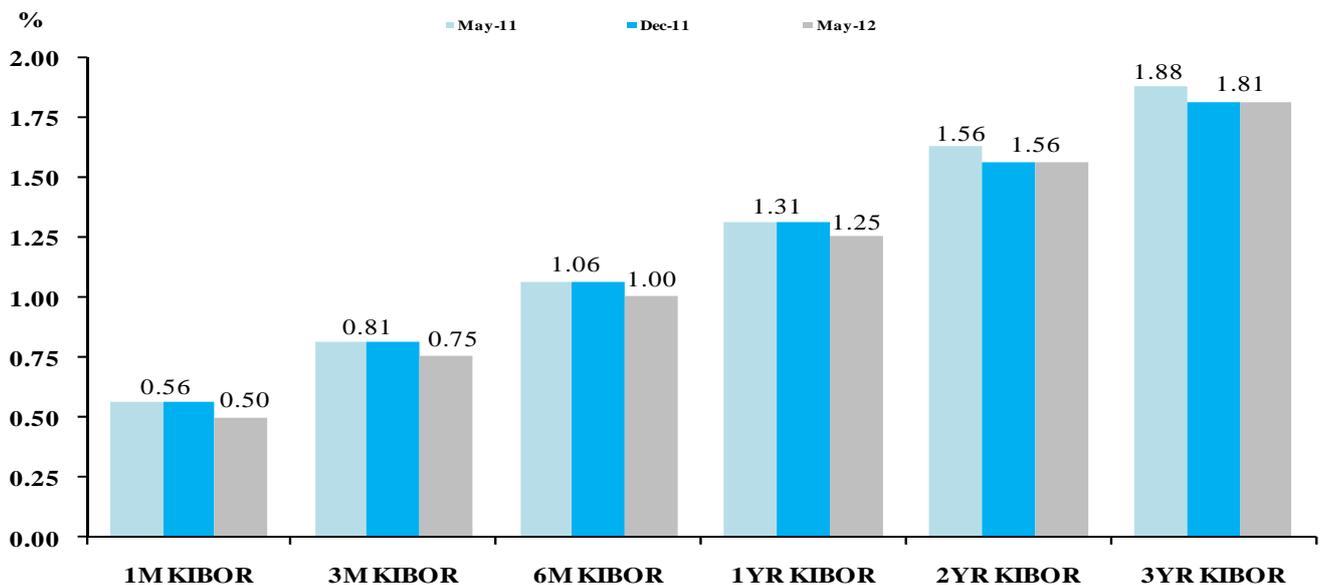
However, in an analysis of the evolution in money supply and its effect on credit facilities, it is evident that the significant expansion seen in money supply following the year 2008 failed to spur growth in the credit market as banks became more cautious in their lending policies.

Chart 7. Money Supply (M2) Since December 2006 (KWD Mln)

Source: KAMCO Research & Central Bank of Kuwait

Interest Rates

Kuwait Inter-bank Offered Rates (KIBOR) past 1-year maturities remained unchanged during May-12 while 1-year maturities and less all dropped by 6.25 basis points. The 1-month KIBOR declined to 0.5% while the 3-month KIBOR rate dropped to 0.75% and the 6-month and 1-year recorded 1% and 1.25%, respectively. Meanwhile, London Interbank Offered Rate (LIBOR) that banks charge each other for 3-month loans decreased by 0.1 bp to average 0.47% in May-12; likewise, the 6-month and 12-month LIBOR decreased by 0.8 bps and 2.2 bp averaging around 0.73% and 1.06%, respectively. Meanwhile, the spread between the 3M KIBOR and 3M LIBOR increased to 28 bps.

Chart 8. Average Daily KIBOR (May-11 to May-12)

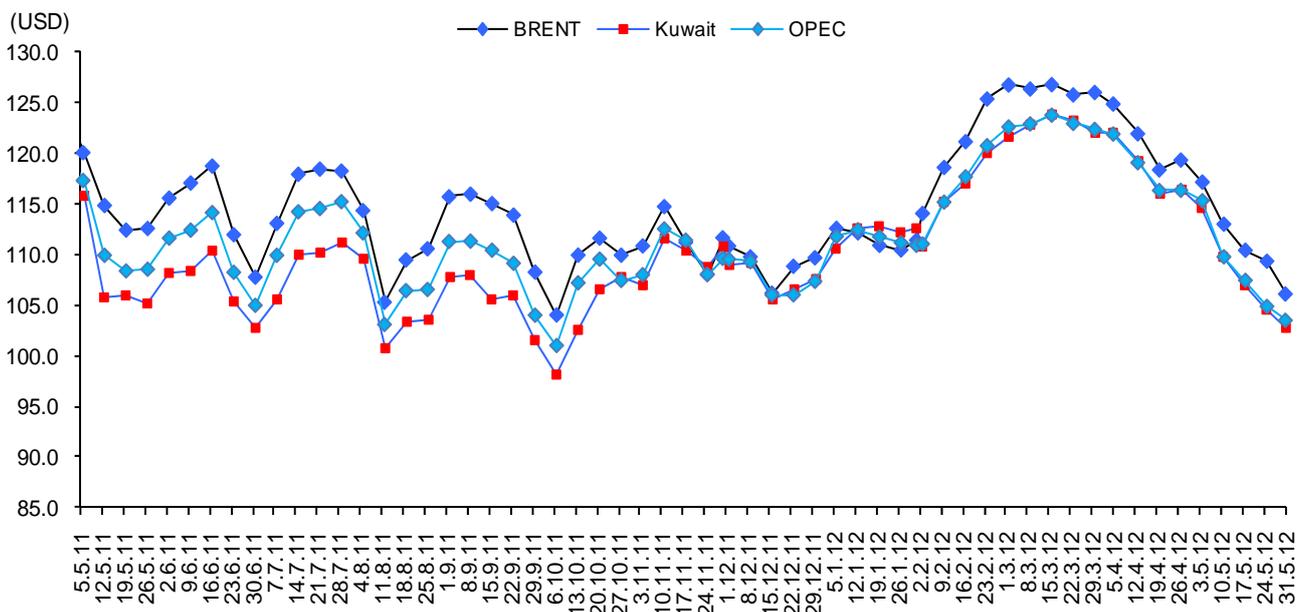
Source: KAMCO Research & Bloomberg

Oil Market

Oil prices continued the downward trend for the second month in a row, yet at a higher pace, to reach the lowest levels so far this year. Weaker demands, strong supply, signs of slowing US and Chinese economies, along with a temporary cessation of tensions over Iran have worked to lower oil prices during the month. As well, prices were further driven down with the expected recession across the European Union and the sharp appreciation of the US dollar. Crude oil prices keep on showing elevated volatility levels since mid-2011, resulting from the high sensitivity to ongoing macroeconomic developments, concerns about the economic uncertainties and the fluctuation in equity markets. Price volatility increased during the month with OPEC basket moving within a range of USD 101.1-117.1/b during May-12.

On a monthly basis, OPEC oil prices averaged USD 108.1/b during May-12, a decline of around 8.6% from last month's average of USD 118.2/b and closed the month at a low of USD 101.1/b. Nevertheless, the average YTD-12 price reached USD 115.6/b compared to an average of USD 106.2/b for the same period 2011, while the average price in 2010's comparable period was at USD 76.6/b. On the other hand, Kuwait Blend Spot Price FOB averaged USD 107.7/b, and closed the month at USD 100.4/b, down from USD 117.1/b recorded at the end of Apr-2012. As well, European Brent Blend Spot Price FOB averaged around USD 111.2/b, down by around 8.1% from an average of USD 120.9/b recorded during Apr-2012, to close the month at USD 103/b.

Chart 9. Daily Spot Oil Prices for OPEC Basket, Kuwait, and European Brent – May 2011 / May 2012



Source: KAMCO Research & Energy Info. Administration, US Dep. of Energy

World Oil Demand - Supply

World oil demand growth in 2012 now stands at 0.9 mb/d, broadly unchanged from the last month, to average 88.7 mb/d. Given the stabilization of the US economy and the shutdown of Japanese nuclear power plants, world oil demand growth has, at least for the short-term, stopped its declining trend to show some growth; as well, oil demand in non-OECD countries is also indicating a slight improvement.

Table 1. World Oil Demand Forecast 2011-2012, mb/d

	2011	Q1-12	Q2-12	Q3-12	Q4-12	2012
North America	23.5	23.19	23.34	23.65	23.44	23.41
Western Europe	14.27	13.86	13.89	14.42	13.85	14.01
OECD Pacific	7.85	8.75	7.31	7.76	8.34	8.04
Total OECD	45.62	45.8	44.54	45.82	45.63	45.45
Other Asia	10.46	10.51	10.72	10.66	10.8	10.67
Latin America	6.37	6.26	6.5	6.71	6.66	6.54
Middle East	7.56	7.64	7.59	8.02	7.68	7.73
Africa	3.36	3.37	3.4	3.28	3.43	3.37
T. Dev. Countries	27.75	27.78	28.21	28.67	28.57	28.31
FSU	4.29	4.24	4.09	4.51	4.75	4.4
Other Europe	0.7	0.69	0.65	0.69	0.77	0.7
China	9.41	9.45	9.98	9.81	9.99	9.81
T. Other Regions	14.4	14.38	14.72	15.01	15.52	14.91
Total World	87.77	87.97	87.47	89.5	89.72	88.67

FSU: Former Soviet Union

Source: OPEC Monthly Oil Market Report (May 2012)

Non-OPEC supply is expected to increase by 0.64 mb/d in 2012 to average 53.02 mb/d, representing an upward revision of 50 tb/d from last month's estimate. The adjustment to this year's growth was mainly due to the release of preliminary 1Q-12 data for actual production, particularly for the US. The overall supply forecast remains relatively stable, with North and Latin America expected to have the highest growth, followed by the FSU and China, while supply in Africa, the Middle East and OECD Western Europe is projected to decline. On a quarterly basis, non-OPEC supply is seen to average 53.19 mb/d, 52.66 mb/d, 52.88 mb/d and 53.36 mb/d respectively.

Total OPEC crude oil production averaged 31.62 mb/d in April-12, indicating an increase of 0.32 mb/d from the previous month. Iraq, Libya, Saudi Arabia, Nigeria, and Angola crude oil production experienced increases in April, while Iran crude output decreased. OPEC crude oil production, excluding Iraq, stood at 28.60 mb/d in April, up 105 tb/d from the previous month.

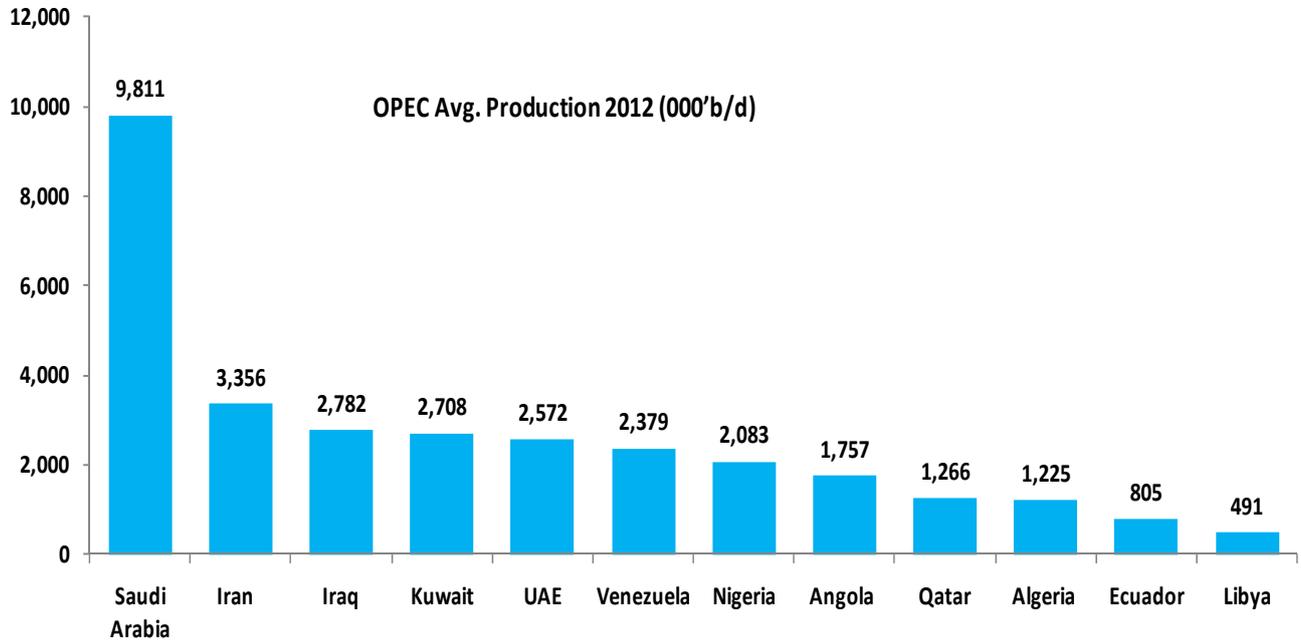
Table 2. World Oil Supply/Demand Balance, mb/d

	2011	Q1 12	Q2 12	Q3 12	Q4 12	2012
World Oil Demand	87.77	87.97	87.47	89.50	89.72	88.67
Non-OPEC Supply	52.39	52.19	52.66	52.88	53.36	53.02
OPEC NGL & non-conv.	5.31	5.49	5.60	5.73	5.86	5.67
Supply Excl. OPEC Crude	57.70	58.68	58.26	58.61	59.22	58.69
Difference	30.07	29.29	29.21	30.89	30.50	29.98

Source: OPEC Monthly Oil Market Report (May 2012)

Preliminary figures indicate that global oil supply experienced a minor decrease of 60 tb/d in April-12 compared to the previous month, to average 89.45 mb/d. This was due to a 0.38 mb/d decrease in non-OPEC supply as well as a 0.32 mb/d rise in OPEC crude production. The share of OPEC crude oil in global production increased to 35.2% in April.

Chart 10. OPEC YTD-12 Average Production by Country (000'b/d)



Source: OPEC Monthly Oil Market Report (May 2012)

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