Investment Sector: Too Important to be left

Policy Options

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Research Highlights:
To evaluate the performance of investment companies in Kuwait

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With the onset of the financial crisis and its ravaging impact during the last 3 years, Kuwait investment companies face enormous challenges. This includes reduction in overall assets managed, difficulty to recapitalize, lackluster stock market and increased regulatory pressures. The erstwhile business model which emphasized the more volatile investment income rather than the stable fee income did not help matters as well. Also, the product focus has been mostly index-based with lack of skill-based sophisticated products.

Having said this, it may be too hasty to write off the sector given the important role of intermediation that it plays in the Kuwait economy alongside the banking sector. While the banking sector, as the deposit taking institutions, play the intermediary role to fund industrial development, investment companies, as non-deposit taking institutions, can supplement this process through various types of funding to include equity, mezzanine, bonds, Sukuks, convertibles, etc. Investment companies can secure access to institutional investors and high net worth individuals to fund projects that require in-depth specialist understanding. Also, they could structure and deliver innovative products that can spread the risks among various stakeholders thereby enhancing the bankability of projects. Such an intermediation function not only enhances funding opportunities for investors, but also enhances the liquidity in the system which is a key requirement in the current distressed situation. In this way, the end cost to customers can be significantly reduced. The intermediation role of investment companies is especially important in a setting where the risk appetite for banks have reduced due to financial crisis. Thus, the health, shape and performance of investment companies matter in the bigger picture of accelerating development, providing employment and enabling capital. The sector is a key stakeholder for Kuwait's development process and hence it is imperative for all concerned to take practical measures to restore the sector back to health. Facilitating an orderly process for consolidation whereby distressed companies merge with stronger ones, for

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example, can restore the recovery process far sooner than otherwise possible.

From a performance point of view, it is heartening to note that losses have been coming down over the years (2008: KD 810 m loss; 1H 2011: KD 82 m loss). Among other opportunities, the market place offers huge opportunities for distressed asset pick up aided by Basel-3. As the sector moves from a "liquidity" crunch to a "solvency" problem, the probability of good assets available at good price increases.

Looking ahead, investment companies can do well to configure a different business model that focuses on alternative assets like debt, distressed assets, private equity and real estate.

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1. Rescuing the Investment Sector – Policy Options

Defining the Problem & Assessing the Impact

Most investment companies are distressed. Only 5 have been able to restructure in 3 years (Global, Aayan, The Investment Dar, IIG, Al Mal). The core business has been hit at the core (read: Asset Management). The sector today manages far fewer assets than before (**2007:** KD 18.56bn, **1H 2011:** KD 9.46bn). AUM's dropped by 27% in 2011 as against 24% during 2008 crisis indicating that it was *not* one-off crisis triggered by the global financial crisis. Management fees declined as a consequence. Only three companies (Markaz (4%), NIC (1.45%) and Securities Group (0.26%)) made positive gross margin. Total Assets have fallen by half from KD 8.1bn in 2007 to KD 4.2bn at the end of 1H11. The sector has made losses every year since 2008, losing a combined KD1.8bn in the past three years (2008 to 2010).
The D/E ratio declined from 1.6 to 1.45 in 2011 mainly through liquidation of liquid assets leaving illiquid assets on the books. High bank spreads have kept borrowing rates high, crowding out distressed companies and prolonging the illness. The judicial system is not tailored for speedy process of bankruptcies or financial distress which is a serious bottleneck for death.

The broad description above has multiple implications in terms of various components of the sector.

Defining the Problem	Assessing the Impact
Business Models Investment companies can be categorized into three: Asset Management/Investment Banking (category 1); Consumer Finance Companies (Category 2) and Merchant Banks (Category 3). While the business definition of Category 1 and 2 is quite simple, the same is not true for Category 3. They are basically leveraged private equity funds investing their proprietary and client money in long-term illiquid assets using short-term borrowings on the back of swash of liquidity availability combined with negative real interest rates. Due to this inherent easy money, some Category 1 and 2 companies also ventured into Category 3 business due to poor regulatory oversight. This ballooned into a debt problem after the financial crisis.	- The CBK has kept the discount rate artificially high thereby enabling high spreads for banks subsidizing their losses from non-performing loans. - The high spreads also crowded out distressed investment companies from rolling over debt. - Insistence on short maturity roll-overs meant that long-term sustainable solutions could not be implemented. Due to this "Circular reference", banks have reduced their exposure to investment companies.
Judicial Bottleneck - The Judicial system is not designed to deal swiftly with bankruptcies. - Liquidation is equated with value destruction for creditors - Creditors have little or no bargaining power in negotiating fair settlement	- The risk-premium for Kuwait has gone up due to higher perceived legal risk by institutional creditors. This adds costs to healthy companies as well. - 'Zombie' companies continue to bleed and waste resources, which could otherwise be used for better purposes.
Collective Investment Vehicles Investment companies have become collective investment schemes capable of aggregating capital	Investment companies are no longer playing this critical role thereby hampering the country's development process

and investing in large projects. The egalitarian nature of the society with fair distribution of wealth among many helped this process. However, many such schemes failed due to poor due diligence, flaws in implementation of accounting standards and serious lapses in corporate governance.	
Mutual Funds Many of them had poor investment guidelines, poor quality and untrained investment professionals, and poor corporate governance. Many companies engaged in supporting their own investment vehicles.	AUM's experienced a serious fall.
Money-market funds Much against investing in secure short-term debt instruments, they became a vehicle for raising short-term funding for companies in Kuwait in direct breach of CBK regulations. Also, the lending happened to low credit quality companies thereby risking capital.	Hinders the process for introducing low risk investments like Mezzanine lending and Convertible Debt
Consumer Lending This is an alternative source for bank lending to finance the retail segment to boost credit sales. They rely on debt financing. Due to their non-classification as a financial institution, they suffer high borrowing cost thereby passing it to end consumer. Also, the term of loan is short-term.	Reduction in business volumes
Investment Banking Mainly involves creation of start-up paper companies in order to feed their funds with investments. Many companies failed to segregate the asset management function from investment banking.	Losses to many companies
Regulations CMA was launched in 2010 when investment companies were reeling under severe distress contributing to bad timing leading to additional burdens. Also, the regulations were out of touch with market reality with a single focus on reducing investment risk for retail investors disregarding the needs of institutional investors. The CMA forced a reduction in concentration risk (which was not the cause of the problem), failed to address necessary investment products such as private equity and bond funds and created an added layer of scrutiny without disclosing what they are looking for.	Liquidity was sharply down. Value traded in KSE decreased from $134bn in 2008 to $22bn in 2011. (**2009:** $75bn, **2010:** $44bn) Lack of fixed income funds that would otherwise provide investors a long-term and low risk alternative to bank deposits.

Measuring the Progress

Government assistance, in the form of stimulus packages, lines of credit, equity injections, repurchase agreements etc have been the most visible of responses to the global financial crisis. Yet, nothing substantial happened along these lines in Kuwait.

The Financial Stability Law (FSL), which was passed as an emergency bill in 2009, was a plan conceived as an orderly and efficient mechanism for facilitating debt restructuring of solvent companies through legal protection and would facilitate access to sufficient financing in order to support recovery. The plan took its own time to materialize and was used for the first time in Mar-2010 by The Investment Dar. Utilization of FSL loan guarantees has reportedly been very limited since they came with a very heavy price tag. Apart from uncertainty regarding court rulings and debt rescheduling process, Central Bank of Kuwait (CBK) gets the power to mandate cost cuttings, change organizational structure, force mergers and the government has the right to become a shareholder.

Only **Gulf Bank** resorted to the use of public funds for recapitalization (through a rights issue) in which the Kuwait Investment Authority (KIA) purchased the unsold shares representing 32% of the new capital. According to an IMF report, "A*s of May 2010, the restructuring of investment companies involved no fiscal cost to the government….*[1] "

The Case for Government Intervention

This paper argues for serious and committed government intervention (not bail-out) which at the outset may have the following benefits:

1. Revival of the sector,
2. Increase confidence of various stakeholders (investors, lenders, rating agencies, multilateral agencies etc),
3. Orderly windup of nonviable firms,
4. Provides sufficient financing to viable firms,
5. Paves way for merger of smaller companies to make up a larger, stronger entity,
6. Creates efficient regulatory framework to avoid future problems,

A government backed fund to buy toxic assets, on the lines of Troubled Asset Relief Program (TARP) could have provided much needed liquidity for the investment sector. Till date, the US TARP has recovered 77% of the funds disbursed to purchase investments[2].

The often cited criticism for bailing out ailing companies in the west was - the use of tax payer's money. As Kuwait doesn't impose any tax on citizens/corporates, it would have faced relatively little resistance in the use of public funds for bailouts. Moreover, Kuwait runs a fiscal surplus and is not burdened with large government debt.

In an IMF paper on Corporate Debt Restructurings (CDRs)[3], the fund observes that CDRs has taken various forms in different countries. During the Asian crisis, key elements included government financial intervention, the establishment of state restructuring agencies, the implementation of legal and regulatory

[1] http://www.imf.org/external/pubs/ft/scr/2010/cr10236.pdf
[2] http://www.treasury.gov/initiatives/financial-stability/results/Pages/TarpTracker.aspx
[3] http://www.imf.org/external/pubs/ft/spn/2010/spn1002.pdf

reforms, and out-of-court settlements. The current global financial crisis necessitated significant government support to the financial sector, particularly in light of substantial systemic cross-sectoral linkages.

On the flip side, a study has been done by **Sharon L. Poczter** of University of California, Berkeley[4] on *The Long Term Effects of a Bank Bailout Program*. The author has concluded that recapitalization leads to more risk-taking and increased lending by banks, and these effects are persistent in the long run. Other researchers have often cited the problems of moral hazard and large social costs associated with bailouts.

Few Case Studies:

- After the fall out of Lehman Brothers, Bank of America purchased Merrill Lynch & Co in an all-stock deal worth $50bn. The deal was reportedly structured in less than 48 hours with intervention from the government. If Bank of America hadn't acquired Merrill, it is likely that Merrill would have collapsed. U.S. Treasury reportedly provided funds to keep the deal going. After 3 years, the combined entity has repaid taxpayers money and is continuing businesses as usual.
- Late in 2008, General Motors (GM) sought aid from the US government as it was running out of cash. The government approved a bailout plan and gave GM and Chrysler $13.4bn. GM borrowed another $4bn from Treasury in May 2009. After filing for bankruptcy protection in June 2009 and selling off assets, General Motors returned to the stock market in November 2010 to raise $20.1bn, and bring down government ownership from 61% to 33%.
- During the crisis, CEO of Morgan Stanley (John Mack) was advised by Henry Paulson, Tim Geithner and Ben Bernanke to sell Morgan Stanley. Mack has stated that he was under enormous pressure from them to save the bank by merging with another player[5]. Japan's Mitsubishi UFJ injected $9bn in equity for a 21% interest in the Company. Although there are question marks over the practice of forced mergers by government, this ultimately saved the investment bank.
- In 2008, the CEO of an Indian IT company (Satyam Computers) admitted of inflating its financial results and fudging its cash balances to the tune of $1.2bn. The Indian government stepped in and reconstituted the board with eminent business leaders. While the board was on lookout for strategic investors, the market regulator relaxed takeover norms to lower the open offer price. The government also gave an extension for publishing of quarterly results. In April 2009, the board selected another Indian IT company (Tech Mahindra) as strategic investor and handed over day-to-day operations.
- In November 2008, the UAE government merged Amlak Finance and Tamweel, two leading mortgage lenders in the UAE, under Abu Dhabi's state-owned Real Estate Bank and the shares were stopped from trading. The two lenders were affected as the crisis squeezed their access to credit and slowed the property market. The government appointed a Steering Committee to restructure the companies. In November 2010, Tamweel resumed lending after Dubai Islamic Bank increased its shareholding and in May 2011, Tamweel recommenced trading in Dubai Financial Market. Tamweel has reported profits for FY10 and 9M11.
- In October 2008, Qatar Investment Authority (QIA) said it would buy 10%-20% of local listed banks to restore confidence and provide liquidity. QIA bought 5% stake in all local banks in 2008 and took

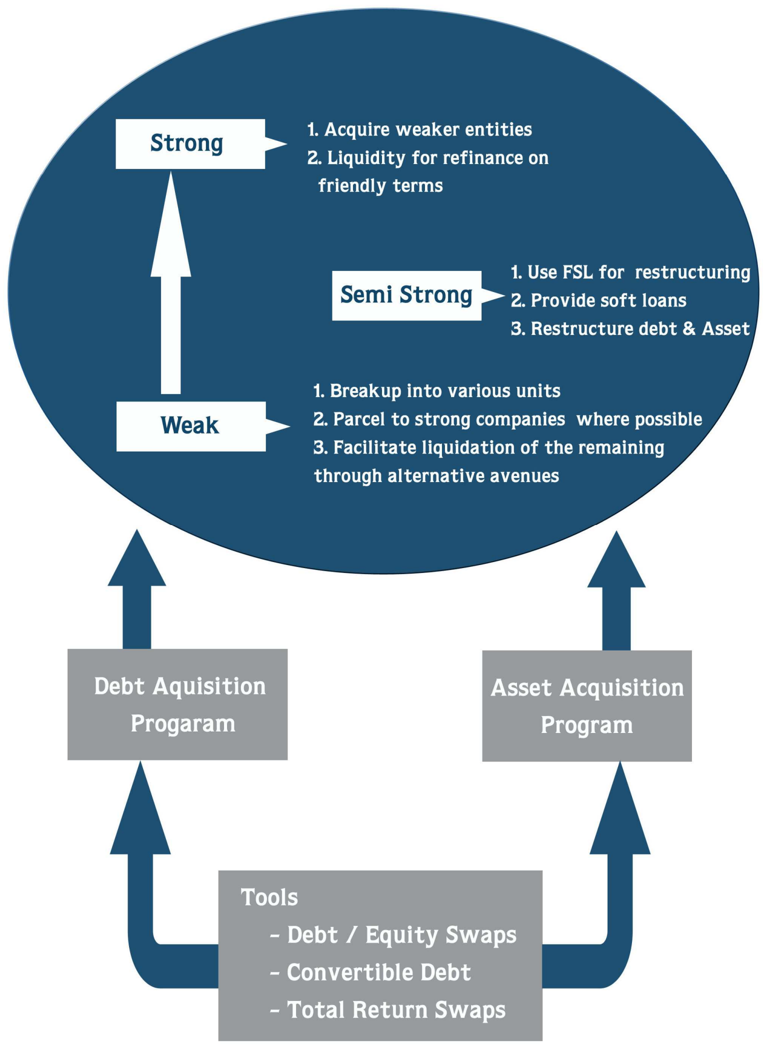
[4] http://businessinnovation.berkeley.edu/WilliamsonSeminar/poczter102110.pdf
[5] http://knowledge.wharton.upenn.edu/article.cfm?articleid=2357

another 5% stake in late 2009. In the first half of 2009, Qatar also announced plans to buy real estate investments worth up to $4.1bn from local banks to support the financial sector against the fallout from the credit crunch.

- Long-Term Capital Management (LTCM), founded in 1994, was an absolute-return hedge fund that took on highly leveraged arbitrage bets. Success in initial years swelled the fund assets and financing was also easy to come by. In early 1998, the firm had equity of $4.7bn and had borrowed close to $125bn. It reportedly had off-balance sheet derivative positions with a notional value of $1.25tn. 1998 financial crisis and Russian bond default weighted heavily on the fund as it lost most of its equity. Due to its systemic importance, Federal Reserve Bank of New York organized a bailout of $3.6bn to avoid a wider collapse. The fund was liquidated in 2000 and the consortium of banks that financed the bailout had been paid back.

- Arthur Andersen was once one of the "Big Five" accounting firms employing close to 85,000 worldwide. Its consultancy arm was split from the accountancy side in 1987 and was renamed 'Accenture' in 2000. After the Enron scandal broke, the investigations committee concluded that Andersen did not fulfill its professional responsibilities. In 2002, the firm surrendered its license and other accounting firms bought most of its practices. In 2005, US Supreme Court overturned the verdict and allowed Andersen to resume operations. Arthur Andersen is still not formally dissolved nor has it declared bankruptcy.

Possible Policy Actions



At the heart of the problem is the different degree to which investment companies have achieved distress. Hence, it becomes crucial to classify investment companies based on their current and expected state of health into three categories viz., Strong, Semi-strong, and Weak. Recommended actions for each of these is enumerated below:

Strong Companies

1. Encourage them to acquire the viable units of weak companies,
2. Enable liquidity on favorable terms to undertake the consolidation/takeover,
3. Provide opportunity (via debt acquisition program) to shift debt and release liquidity.

Semi-Strong Companies

1. Facilitate restructuring of debt for semi-strong companies to nurture them back to health either using the FSL or using the debt acquisition program,
2. Enable liquidity (soft loans) on favorable terms allowing them to sell these assets at a slower pace and at recovered prices,
3. Allow a private-public fund to acquire debt from the books of money market funds, private investors and banks. Such a fund can fill the vacuum of lack of skill to deal with distressed debt,
4. Acquire distressed assets through asset acquisition program with the objective of deploying patient capital towards generating significant risk-adjusted returns. This would result in creating a floor for

asset pricing; preserve values. Most importantly puts the distressed assets in the hands of professionals who are more likely in succeeding to recover value.

Weak Companies

1. Break-up the weak companies into various units (asset management, investment banking, private equity),
2. Parcel viable units which have continued economic importance (like asset management) to strong companies in order to retain investor trust as well as knowledge talent for which Kuwait is known for,
3. Facilitate liquidation of unviable units of weak companies through asset acquisition program.

2. Performance of the Kuwait Investment Sector[6]

a) Long-term trend

All major metrics show that the sector has shrunk by nearly 50% between 2007 and 2010; be it total assets, AUM or equity (Table 1). However, the composition of assets has changed for the better with level-3 assets now constituting only 37% of the total in 2010 as against 40% in 2009. The asset liability mismatch has come down with 45% short-term debt in 2010 compared to 66% in 2009. The compliance to CBK guideline ratios (Debt and leverage) has been increasing. Within the universe of our study, the compliance for Debt/Equity ratio has increased from 79% to 85% while the same for quick ratio increased from 42% to 55%.

However, several structural issues remain within the sector, mainly those concerning the business model. Investment firms have found it difficult in current market conditions to beef up fee-generating business, which is a more stable revenue stream versus Investment Income. Likewise, the same market conditions have made it difficult for companies to dispose of distressed assets and have led to continued depreciation in investment values, which ultimately will negatively impact both income statement and balance sheet figures.

Net Profit for the investment sector has swung wildly over the past 5 years

Table 1 : Kuwait Investment Sector

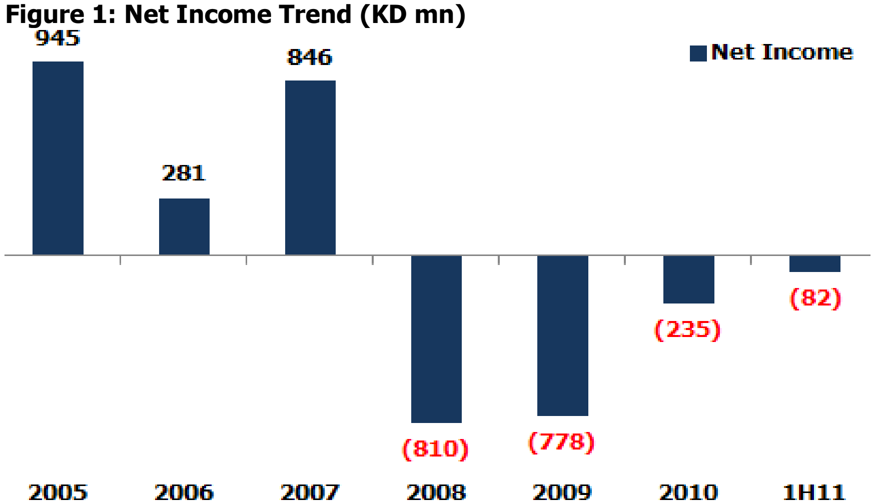
KD billion	2007	2008	2009	2010	1H11	CAGR %
Total Assets under management	18.56	14.21	11.7	12.9	9.46^	-12%
Total Assets	8.09	8.15	6.79	5.90	4.21	-10%
Total Equity	3.86	3.14	2.42	2.44	1.71	-14%
Net Income	0.846	(0.810)	(0.778)	(0.235)	(0.082)	NM

^ 1H11 figures representative of 33 Investment firms with full 2Q11 financials
Source: Markaz Research

The losses continued for the third consecutive year as the Kuwait Investment sector posted a net loss of KD 235mn in 2010 after losing a combined KD1.6bn in the past two years. This pattern continued in 2011 with a net loss of KD 82mn in the first half of the year due to persistent write-offs and depreciation of assets among investment firms in addition to a weak asset management environment.

The sector's balance sheet contracted at a compounded rate of 10% between 2007-2010

Figure 1: Net Income Trend (KD mn)



Source: Reuters Knowledge, Company Financials

[6] For consistency purposes, the "investment sector" figures are an aggregate of the figures for 33 listed investment firms with 2Q11 released financials.

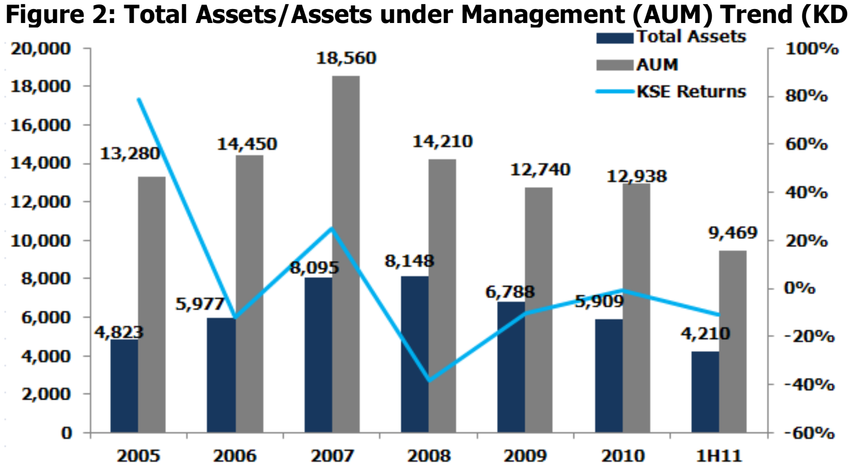
The sector's balance sheet grew at a CAGR of 4.15% between 2005-2010; with Total Assets peaking at over KD 8 bn before falling to KD 5.9 bn in 2010 as companies began aggressively writing off distressed/impaired assets.

Meanwhile, Assets under Management (AUM) also experienced high growth before falling dramatically as the global financial crisis took hold. AUMs peaked at KD 18.56bn in 2007 before dropping to KD12.7bn in 2009. Companies were able to increase their AUMs by 2% in 2010 to KD 12.9bn as they focused on more income generating business rather than investment income.

AUMs were down 4% in 1H11 to KD9.5bn while Total Assets were down 14% YoY to KD 4.2bn.

Assets under Management experienced high growth as gulf economies boomed, peaking at KD 18.56 bn in 2007

Figure 2: Total Assets/Assets under Management (AUM) Trend (KD mn)



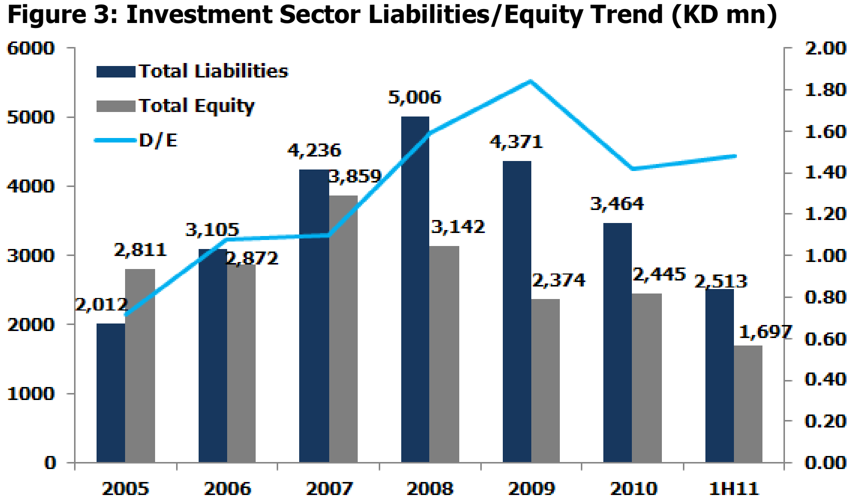
Source: Company Financials, Reuters

The sector saw Total Liabilities steadily increase since 2005, at a CAGR of 11.5% between 2005-2010, peaking at KD 5 bn by the end 2008 (Figure 3). In 2010, Total Liabilities for the sector declined by 21% to KD 3.5 bn as companies aggressively sought to lower debt. Equity has registered a negative CAGR of -2.7% between 2005-2010 and has been steadily eroding since 2008. Consequently, the leverage ratio jumped from 0.72 in 2005 to 1.84 in 2009, before falling to 1.42 in 2010.

1H11 saw total liabilities decline 13% to KD 2.5bn, bringing the D/E ratio up slightly to 1.48x.

The leverage ratio jumped from 0.72 in 2005 to 1.5 in 1H11

Figure 3: Investment Sector Liabilities/Equity Trend (KD mn)



Source: Company Financials, Reuters

b) 2010 Performance

The Kuwait investment sector has spent the last three years getting its house in order; focusing on fee-based income to boost revenue streams, writing off distressed assets in addition to restructuring and paying down debt. Moreover, all of this has been done in a less than favorable investment climate, with volatile regional and global markets, tight credit conditions and regulatory changes.

Consequently, the investment sector saw another year of losses, with a bottom line net loss of KD235mn, 55% narrower than that of 2009. This came due to an 8% decline in fee income in addition to an investment loss of KD81mn as companies continue to write-off assets.

The sector lost KD 235 mn in 2010 due to a decline in investment income

Table 2 : 2010 Net Income

KD mn	2009	2010	% Change
Assets Under Management (AUM)	11,737	12,938	10%
Fee Income	90	83	-8%
Investment Income	-138	-81	-41%
Quoted Investments	1,172	1,215	4%
Unquoted Investments	1,028	881	-14%
Net Income	-526	-235	-55%

Note: Figures exclude firms with no full 2010 financials

Source: Company Financials; Markaz Research

In terms of quoted investments; which are tied to their respective markets, these were up 4% in 2010 as markets were slightly up after the losses of 2008/2009, coming in at KD1.2bn. Unquoted investments, by nature, are harder to quantify; and many companies took advantage of the IAS 39 amendments in order to minimize bottom line declines. Consequently, Unquoted investments decline by 14% to KD 881 mn.

Classification of Investments

We saw Unquoted investments decline by 14% to KD 881 mn

In our previous report, we analyzed the classification of investments among the firms as per the "Amendments IFRS 7 Financial Instruments; Disclosures" which require additional disclosures on fair value measurements of certain investments, namely those held at Fair Value through Income Statement and Available for Sale (AFS). The fair value measurements are classified in a three-level fair value heirarchy reflecting the extent to which they are based on observable market data.

The fair value levels are measured as follows:

- **Level I:** Quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level II:** Inputs other than quoted prices included within Level I that are observable for the asset/liability, either directly (prices) or indirectly (derived from prices)
- **Level III:** Inputs for the assets/liabilities that are not based on observable market data

A screening of the 39 companies with 2010 results showed that 38% (or KD 657 mn) of investments among listed firms were categorized as Level I followed by 37% in Level III while the remaining 25% were within Level II. The distribution between asset levels has not altered significantly from 2009, although total investments have fallen 9%, led by a 16% fall in Level III assets.

	2010		2009	
	Total Investments (AFS+FV through IS)	**% of total**	**Total Investments (AFS+FV through IS)**	**% of total**
Level I	657	38%	717	37%
Level II	435	25%	426	22%
Level III	651	37%	774	40%
	1,743		**1,917**	

Note: Total Investments does not include investments carried at cost
Source: Company Financials

We found that the majority of investments were in the Available for Sale category (72%)

A further breakdown of investments by a majority of companies was given between those investments which are at Fair Value through the income statement versus those which are Available for Sale. We found that the majority of investments were in the Available for Sale category (72%) which we would attribute to the adoption of the IAS 39 amendments which many investment companies made use of. The IAS 39 amendments allowed for a reclassification of assets from "Held for Trading" to "Available for Sale". Of those assets which are Available for Sale, the majority (40%) are within Level III as of 2010 versus 42% in 2009 while the percentage in Level I has remained unchanged.

	Available for Sale			
	2010	**% of total**	**2009**	**% of total**
Level I	469	37%	507	37%
Level II	285	23%	280	21%
Level III	509	40%	570	42%
	1,263		**1,357**	

Note: Total Investments does not include investments carried at cost
Source: Company Financials

As for Investment at Fair Value through the Income Statement, Level III assets dropped from 37% of total to 30% in 2010. Moreover, assets classified as Level I increased slightly from 37% to 39%.

	Investment at FV through IS			
	2010	**% of total**	**2009**	**% of total**
Level I	188	39%	209	37%
Level II	150	31%	146	26%
Level III	142	30%	205	37%
	480		**560**	

The group reported a net loss of KD 82 mn in 1H11, a 7% widening of net losses from 1H10

c) 1H 2011 Performance

As of the date of this writing, 33 investment companies had reported their 2Q11 earnings. The group reported a net loss of KD 82 mn in 1H11, a 7% widening of net losses from 1H10, which amounted to KD 76mn.

Fee Income declined due to unfavorable market conditions, contracting by 19% to KD29mn. On the other hand, Investment Income, which was the main driver of the severe crisis impacting the sector, suffered a loss of KD52mn, 13% narrower than the loss of 1H10.

Kuwait's losses continue to dwarf those of its neighbours

Table 3 : 1H11 Performance Summary (KD mn)	1H11	1H10	YoY %
Total Assets	4,210	4,875	-14%
Equity	1,709	1,986	-15%
Total Liabilities	2,523	2,889	-13%
Net Income	(82)	(76)	7%
Fee Income	29	36	-19%
Investment Income	(52)	(60)	-13%
D/E	1.50	1.45	
Quick Ratio	9.9%	10.5%	

Source: Company Financials

Total Assets group were down 14% to KD 4.2 bn while Equity contracted 15% to KD 1.7 bn (Table 3). Total Liabilities were down by a similar rate which led to a slight increase in the Debt to Equity ratio to 1.5 in 1H11 from 1.45 in the same period of the previous year. The Quick Ratio, as defined by the Central Bank of Kuwait in their new regulations on the sector, dipped to 9.9% in 1H11 from 10.5% in 1H10. The CBK has set a minimum of 10% for the sector.

GCC Comparison

The Kuwait investment sector loss continues to dwarf that of its neighbours, due to its large size as compared to the rest of the GCC. In 1H11, Kuwait has registered a USD 281 mn loss. The GCC has shown an aggregate loss of USD 181 mn in 1H11, a 6x expansion due to declining earnings in the UAE and Oman.

Table 4 : GCC Corporate Earnings - Investment Sector

USD mn	No. of companies	2009	2010	1H11	1H11 YOY Change%
KSA	5	23	47	15	57
UAE	7	313	-37	14	-91
Kuwait	**33**	**-2,052**	**-806**	**-281**	**7**
Qatar	4	30	37	35	13
Oman	22	100	184	29	-65
Bahrain	9	-1,535	-241	-3	-94
Total	**80**	**-3,121**	**-816**	**-191**	**NM**

Source: Reuters Eikon; Markaz Research

3. Debt Restructuring Progress

Given the amount of leverage incurred by the sector over the boom period and the asset/liability maturity mismatch, it comes as no surprise that the majority of the post-crisis period has been spent with companies engaging their creditors in debt restructuring talks. Some have failed and some have been drawn out over an extended period of negotiation, but – by and large – most creditors have been willing and flexible in rescheduling facilities and restructuring covenants.

The relative ease of the restructurings taking place in the region could bespoke to a close and – for the most part – undamaged relationship with creditors; additionally, it could also be due to the realization on the part of creditors that extending repayment schedules is preferable to taking possession of difficult-to-sell assets.

Consequently, several restructuring deals were finalized in 2011 in addition to varying degrees of progress made on deals which were reached in 2009/2010.

Global Investment House

In December 2009, Global Investment House finalized the deal for restructuring its USD 1.7 bn in debt over a three year period (for full details of the deal, see our earlier Kuwait Investment Sector report).

In December 2009, Global Investment House finalized the deal for restructuring its USD 1.7 bn in debt over a three year period

Table 5 : Global Investment House Debt Deal

	Repayment Schedule		Actual Payments	
Debt Repayment Schedule	**% of Principal**	**KD mn**	**Amount KD mn**	**% of total**
Year 1	10%	49.50	49.06	10%
Year 2	20%	99.00	15.03^	3%
1H Year 3	15%	74.25		
2H Year 3	20%	99.00		
End of Year 3	35%	173.25		
Total	**100%**	**495**	**64.09**	**13.2%**

Note: Year 1 is 2010
^ Denotes Payments as of 9M11
Source: Company Financials , Markaz Research

As of September 2011, Global announced that it made repayments of KD15.03mn ($54.4mn), bringing total repayments on the deal to KD 64.09mn ($232.8mn) - or 13.2% of the original principle. The firm has asked bank creditors to defer December payments in order to allow for "a more comprehensive restructuring of Global's debt obligation". In addition, the firm asked to defer increases in interest rates after December and a waiver of "certain covenants" within the restructuring deal[7].

Global has also asked for a deferral of "any increase in rate of interest from December 2011 onwards and waiver/deferral of certain covenants applicable to Global under its debt arrangement." The company sent this request in early November 2011 and a December 5th meeting resulted in creditors agreeing to Global's requests. Additionally, Global will seek a waiver to defer principle repayment of KD45mn in bonds maturing on 25 April 2012 to 10 June 2012[8].

The repayments are made primarily through the exit of principle investments, which have been difficult given economic and market conditions over the last few years.

[7] Global Investment House, 2Q11 earnings release
8 Global Investment House, 9M11 earnings release

Another source of funds for replayments is meant to come from a USD 250 mn deposit with National Bank of Um AlQaiwain (NBQ). The deposit was placed with the bank in 2008 as part of an investment plan that was subsequently abandoned. NBQ refused to return the funds (totaling USD250mn plus USD65mn in interest), leading to a long legal dispute, which Global won. However, the funds remain locked up as NBQ has filed an appeal.

Aayan Leasing & Investment Company

In May 2011, Aayan finalized a KD205mn, 5-yr, debt restructuring deal with nine creditors

In May 2011, Aayan finalized a KD205mn ($743.6mn) 5-yr, debt restructuring deal with nine creditors, including Kuwait Finance House, Gulf Bank and Burgan Bank. The deal amounts to a restructuring of 62% of the firm's total debt. As part of the deal, the creditors have agreed to write-off 10% of KD205mn amount while 15% will be transferred to shares in the firm. Moreover, the firm will increase capital by KD10mn through a right's issue while KD51mn will be paid in cash[9]. Aayan has nearly USD 1.4 bn of debt, the majority of which is short-term.

The Investment Dar

June 2011 saw the culmination of a two year debt crisis for The Investment Dar, which was one of the first firms to default on its debt in mid-2009 (See our earlier report for full history of the debt troubles).

The finalized restructuring deal, covering KD1.4bn (USD 5bn) in debt under the protection of the Financial Stability Law (FSL) which the company applied for in March 2010.

Under the plan, KD82mn (USD 296mn) will be paid out in the first year to individuals and small non-financial institutions while the second, third, fourth and fifth years will comprise a fixed payment to banks and other investors, followed by a final pay-out in June 2017. The plan includes all the usual commercial restrictions and covenants including a freeze on dividends and new investments.

Noor Financial Investment Company (Noor)

June 2011 saw the culmination of a two year debt crisis for The Investment Dar

In October 2011, Noor completed a restructuring agreement with Commercial Bank of Kuwait to reschedule its debt of KD 11 mn to a six-year tenor maturing in 2017; this amounts to 10% of the company's total debt.

In August 2011, Noor, a subsidiary of National Industries Group (NIG), concluded a restructuring deal with Gulf Bank of Kuwait regarding KD 62.5 mn in loan facilities (40% of its total debt). This deal also converts the facilities to a six-year tenor, maturing in 2017. Consequently, Noor has managed to reschedule half of its total outstanding debt and is currently in talks to restructure the remaining balance.

[9] Reuters, 23rd May 2011

4. Challenges Ahead

As we see it, there are three main challenges for the sector to contend with as they move ahead:

1. Reorienting the business model

The local asset management industry has been thrown for something of a loop with the advent of the CMA regulations

For the past decade, investment firms in Kuwait have taken advantage of the booming economies by investing in various assets across the region, and generating profits from the sale of such investments. Wealth management and other fee-generating business lines have also been exercised, but have often been overshadowed by the profit potential found in investments.

Additionally, fee-generating business lines have not evolved past very basic, "vanilla" offerings such as mutual funds, and basic portfolio management. The reasoning behind this is partly due to the ease with which managers have generated alpha in the region over the last decade with these products, while another is due to the high degree of retail investors in the region who do not demand highly sophisticated investment products.
Reorienting the sector's business model is liable to be a long, arduous road as market and economic conditions have been unfavorable over the last few years and have, consequently, made it harder for firms to move away from Investment Income-based activities and into the more stable fee-generating businesses.

2. Regulatory challenges

The industry has been cautious in 2011 and will likely continue to be in 2012

a. Capital Market Authority (CMA) Challenges

The local asset management industry has been thrown for something of a loop with the advent of the CMA regulations and what they mean for funds which manage about $5.4bn in assets.

There is remains a great deal of opacity in terms of "specialized funds" like sector-specific, Private Equity, Hedge, Real Estate etc, which often employ leveraged positions, higher investment concentration, Board control etc which contradict the CMA regulations and remain to be addressed.

There is also a regulation against overlapping Board members in companies which constitute an investment in the firm's funds (Article 317). The regulation is meant to safeguard against individuals being biased for or against one entity when they have a decision making role in two entities with overlapping interests. However, the provision that independent members of the fund's Board of Directors may not serve as Board members may induce reluctance on the part of eminent people from accepting board positions in investment funds as it will preclude them from being board members for several companies that form part of the investment fund. Hence, over a period of time, the quality of board of directors of investments funds may suffer to the detriment of funds performance.

However, there is some contention in complying with this rule, given the high degree of interlocked firms in Kuwait (i.e. firms which share Board members); some studies have shown that the percentage of directors serving on more than one board in Kuwait is at 15.8%[10]. Additionally, there are mutual benefits to overlapping control; companies benefit from a wider range of resources, knowledge and support. Kuwait, in particular, has a large network of cross-holdings due to the limited talent pool and the tight knit nature of the society.

10 Interlocking Directorates among Publically Listed Companies in Kuwait; A.AlMajid, October 2010

Consequently, the industry has been cautious in 2011 and will likely continue to be in 2012, which will impact investment companies as they have been aiming to switch their focus to fee-based income rather than the more volatile investment income.

As of 1H11, the 33 investment firms whose financials were released showed a D/E ratio of 1.50x

b. CBK New Regulations

In June 2010, The Central Bank of Kuwait (CBK) issued a set of regulations which the Investment Sector must comply with by June 2012, in an effort to increase transparency, accountability and overall health of the sector. The regulations cover; leverage, liquidity and foreign exposure.

At the time, the CBK announced that out of 100 companies in the sector, 94 met at least one criteria, 82 met 2 out of 3 while 49 companies met all three criterias. However, the CBK did not provide further breakdown of which criterias the companies met or the specific names of the firms in its count. Consequently, we conducted a screening of 32 listed investment firms to ascertain compliance.

Given the handover of jurisdiction to the newly created CMA, many questioned whether or not compliance with these new regulations would continue to be monitored. Our understanding of the matter is that CBK continues to accept and file quarterly reports from investment companies detailing these ratios and investigates them on an 'exceptional' basis, i.e. in cases of non-compliance.

Leverage

In terms of leverage, the CBK mandate requires a maximum debt to equity ratio of 2x for the sector. As of 1H11, the 33 investment firms whose financials were released showed a D/E ratio of 1.50x, only slightly higher than the 1.45x registered in 1H10. Of course, this not representative of the full industry as it does not take into account distressed firms who are no longer reporting financials nor those firms that have not yet released 2Q figures.

Leverage was the core problem for the industry beginning in 4Q08

As of 1H11, 28 (85%) of the companies are in compliance with the regulation while 5 companies carry a D/E higher than 2x; this is in contrast to 1H10 whereby 79% of firms were in compliance.

	Debt to Equity Ratio (D/E)	
	1H11	1H10
Group D/E	1.50	1.45
Average D/E	1.41	1.53
# of firms in compliance	28	26
% of group total	85%	79%

Source: Reuters Knowledge

Leverage was the core problem for the industry beginning in 4Q08. Companies relied too heavily on debt to finance expansions, operations and even dividends as credit was readily available and inexpensive to come by. This high leverage continued into 2009, though the ratio's expansion (from 1.59 in 2008 to 1.84 in 2009) was more a result of declining equity rather than increased borrowings.

Equity erosion, declining 19% and 24%, respectively, in 2008 and 2009, saw a decline of 10% in 2010 as Total Assets and Total Liabilities were down 17% and 15%, respectively, for the year. This caused the D/E ratio to ease slightly to 1.74.

Table 6 : The Investment Sector Balance Sheet				
KD Mn	Total Assets	Total Liabilities	Total Equity	Debt/Equity
2007	8,095	4,236	3,859	1.10
2008	8,148	5,006	3,142	1.59
2009	6,788	4,371	2,374	1.84
2010	5,606	3,715	2,139	1.74

Source: Company Filings, Markaz Research

Our group of 33 companies show a compliance of 55% with the ratio, up from 42% in 1H10

Liquidity

The CBK, in an effort to increase the health of the sector, mandated a minimum Quick Ratio of 10% for investment firms. The ratio is a function of Quick Assets over Current Liabilities. However, the CBK provided a more stringent definition for the ratio; with quick assets constituting Cash & Equivalents and highly rated sovereign debt that can be liquidated within a month, excluding marketable securities and receivables which are traditionally used in the ratio. The CBK also constricts the ratio by mandating that the coverage be on total liabilities rather than current liabilities.

Our group of 33 companies show a compliance of 55% with the ratio, up from 42% in 1H10. However, the group as a whole show a quick ratio of 9.9%, i.e. just under the limit, compared to the 10.5% in 1H10. Average liquidity is high at 14% due to smaller/medium firms which enjoy high ratios.

	Quick Ratio	
	1H11	1H10
# of firms in compliance	18	14
% of group total	55%	42%
Group ratio	9.92%	10.52%
Average	14.24%	10.85%

Source: Reuters Knowledge

Foreign Exposure

The sector's foreign exposure stood at 21% (of total liabilities) as of July 2011 versus 26% in August of 2010

This regulation is prohibitively difficult to screen for as companies are not required to report the origin of debt, or even its denomination. Consequently, we have used CBK data on the whole sector (listed and unlisted). The sector's foreign exposure stood at 21% (of total liabilities) as of July 2011 versus 26% in August of 2010. The majority of debt is with conventional firms (63%) versus Islamic (37%). Total Foreign Liabilities fell 24% during the period versus Total Liabilities, which were down 9%.

	Foreign Exposure of Sector	
	Jul-11	Aug-10
Total Foreign Liabilities	2,675	3,538
Total Liabilities	12,521	13,783
FL/TL	21%	26%
% of FL with Conv Firms	63%	58%
% of FL with Islamic Firms	37%	42%

Source: Central Bank of Kuwait

3. Leverage and Restructuring

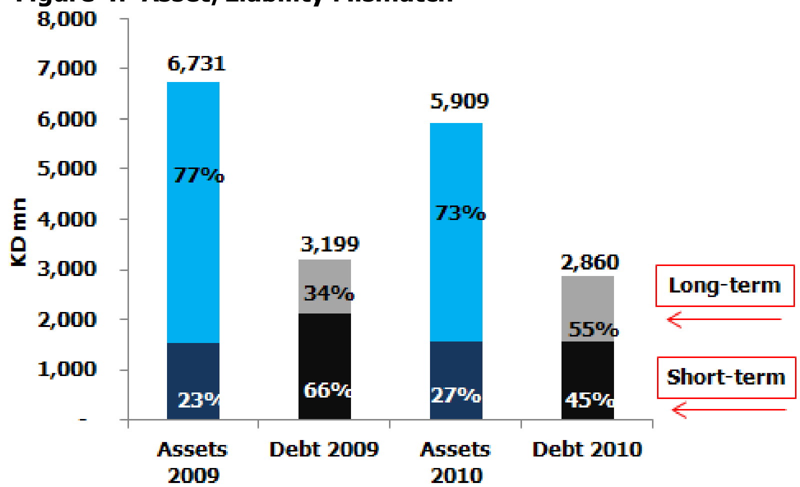
a. Asset/Liability Mismatch

One of the main issues plaguing the investment sector was a marked mismatch in the maturities of assets versus liabilities; i.e. companies were incurring massive amounts of short term debt backed by long-term and illiquid assets.

The financial crisis caused many firms to seek restructuring or rescheduling of their debt obligations while attempted to restore a degree of health to balance sheets. Consequently, we have seen an effort to equalize the balance between the two items; Assets continue to be more long-term in nature, at 73% in 2010 versus 77% in 2009. Meanwhile, debt restructuring has led to a 55/45 split between long and short term debt as many firms have managed to push obligations 3-7 years into the future.

Debt restructuring has led to a 55/45 split between long and short term debt

Figure 4: Asset/Liability Mismatch



Source: Company Financials, Markaz Research

b. Accumulated Losses

Given the high degree of devaluation that asset levels are being subjected to, some companies' accumulated losses have topped 75% of capital, which as per Law (171) of the Kuwait Commercial Law compels the firm to call an Extraordinary Assembly to discuss the company's options, whether to: a) Dissolve the firm, b) Decrease the firm's Capital or c) explore additional options afforded to the firm legally.

Several investment firms have announced losses exceeding this 75% limit

Additionally, according to Article 25 of the Capital Market Law, such firms are liable to be de-listed from the exchange permanently if the firm does not make concerted efforts towards rectifying its financial situation within 6 months of trading suspension.

Several investment firms have announced losses exceeding this 75% limit and consequently must now call an extraordinary meeting to address the matter;

- Noor Financial Investment Company (Noor) announced that its shareholders have approved the writing off of KD 35.83mn of losses by decreasing Issue Premium Reserves. The remaining balance of accumulated losses and reserves would then amount to KD22.38mn and KD 5.9mn, respectively.
- At least three other investment firms have also exceeded the 75% limit as of September 2011. They are: GulfInvest, Kuwait Finance and Investment Company (KFIC), and Global Investment House (Global), who were

subsequently suspended from trading on the KSE. Global Investment House is currently appealing the decision.

We compiled the ratio for the 17 investment firms that released full 3Q11 financials and found 12 firms with accumulated losses. These ranged from a low 9% of Share Capital to a high of 80% and a group average of 41%. Although several firms have successfully lowered the ratio since the same period of last year, by a lessening of losses, increase of capital or some combination of the two.

Table 7 : Accumulated Losses of Kuwait Investment Firms

		Accumulated Losses/Share Capital	
		Sep-11	Sep-10
1	Global Investment House KSCC	80%	149%
2	Gulf Investment House KSC	69%	36%
3	Al Ahlia Holding Co KSC Closed	67%	58%
4	Ekttitab Holding Co SAKC	63%	55%
5	Sokouk Holding Co SAKC	60%	35%
6	Coast Investment and Development Co KSC Closed	49%	30%
7	Al Deera Holding Co KSCC	37%	73%
8	Al Madina for Finance and Investment Co KSCC	25%	16%
9	Strategia Investment Company KSCC	12%	76%
10	Al Salam Group Holding Co KSCC	12%	7%
11	Taiba Kuwaiti Holding Company (Formerly Damac)	12%	24%
12	Kuwait Syrian Holding Co KSC	9%	3%

Source: Company Financials

5. Company Review

a. Kuwait Financial Centre "Markaz"

In 1H11, Markaz reported a Net Income of KD 0.745 mn

In 1H11, Markaz reported a Net Income of KD 0.745 mn, a 48% YoY decline due to booking of investment losses amounting to KD 1.05 mn. Fee Income mitigated the bottom line decline by growing 29% to KD 4.88mn.

Total Assets were up 4% for the period while Liabilities were down 2%. A 7% increase in equity brought the debt to equity ratio slightly down to 0.41 from 0.45 in 1H10, well below the CBK mandate of 2x.

Table 8 : Markaz 1H11 Results

KD Mn	1H10	1H11	% Change
Fee Income	3.77	4.88	29%
Investment Income/Loss	0.25	-1.05	NM
Net Income/Loss	**1.44**	**0.74**	**-48%**
Total Assets	121.5	126.8	4%
Total Liabilities	37.96	37.04	-2%
D/E	0.45	0.41	

Source: Reuters Knowledge

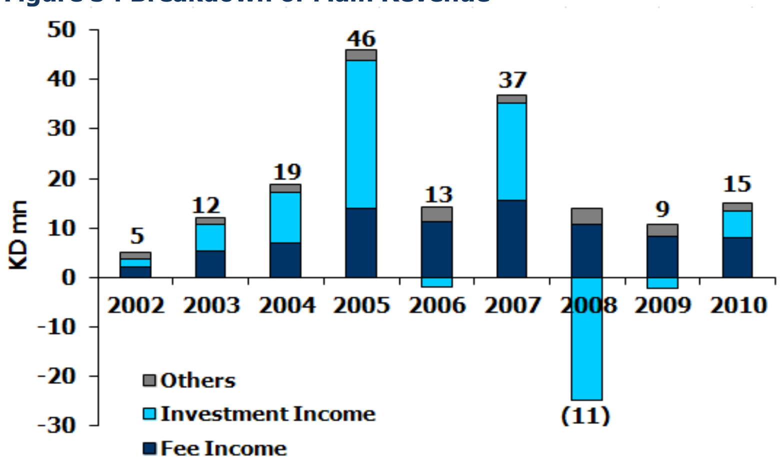
Income Stream

Like most investment firms in Kuwait, Markaz saw its investment income surge in the boom years of 2005 and 2007, coming in at KD 30mn and KD 20mn, respectively, in those two years. This surge was instrumental in pushing Total Revenue to a peak of KD 46mn in 2005 followed by another high of KD 37mn. In line with sector performance, write-offs resulted in an investment loss of KD25mn in 2008 pushed Total Revenue to a loss of KD11mn that same year, mitigated by strong fee income.

However, throughout the period, Markaz has maintained a focus on fee-generating business as fee income has accounted for nearly half of the firm's revenue.

Markaz has maintained a focus on fee-generating business as fee income has accounted for nearly half of the firm's revenue

Figure 5 : Breakdown of Main Revenue



Source: Company Financials

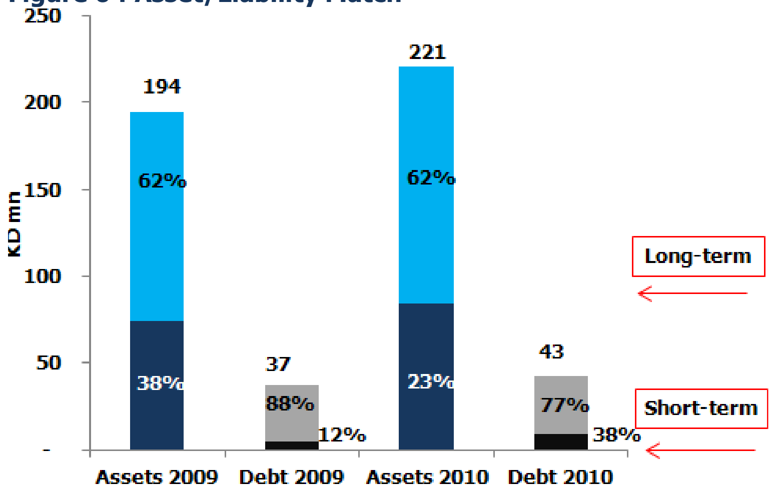
Asset vs. Debt

In 2010, Markaz had Total Assets of KD 221 mn, a 14% annual increase. 62% of total assets were characterized as Long-term, consistent with the 2009 distribution.

In 2010, Markaz had Total Assets of KD 221 mn, a 14% annual increase

On the debt side, Markaz had total liabilities of KD 42.5 mn, an increase of 14% from 2009. 23% of liabilities were classified as Short-term while 77% were Long-term in nature.

Figure 6 : Asset/Liability Match



Source: Company Financials

Bond Issuance

In late 2011, Markaz closed a KD 22mn bond issuance, due in 2016. The bond, with an oversubscription of 50%, was placed mainly with High Net Worth and Institutional Investors and garnered a "BBB" rating by Capital Intelligence. The bond was issued in two tranches; the first paying a fixed interest rate of 5% while the other pays a floating rate of 2.5% over the discount rate.

Investment Classification

In late 2011, Markaz closed a KD 22mn bond issuance, due in 2016

The classifications of investment assets by the firm remained in the same composition between 2009 and 2010; 48% of investments were held at Fair Value through the Income Statement while the remaining 52% were in Available for Sale assets. Level I assets declined to 9% of the total in 2010 while Level II were up to 55% and Level III edged up slightly to 36%.

Table 9 : 2010 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	9.67	34.95	7.47	**52**	**48%**
Available for Sale	0.28	24.78	31.77	**57**	**52%**
Total	**9.95**	**59.72**	**39.24**	**109**	
% of Total	**9%**	**55%**	**36%**		

Note: Figures do not include investments carried at cost
Source: 2010 Annual Report

Table 10 : 2009 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	9.78	27.69	3.69	**41.17**	**47%**
Available for Sale	0.60	19.21	27.38	**47.19**	**53%**
Total	**10.38**	**46.90**	**31.07**	**88.35**	
% of Total	**12%**	**53%**	**35%**		

Note: Figures do not include investments carried at cost
Source: 2009 Annual Report

b. National Investment Company

NIC saw a 36% decline in its bottom line in 1H11 to KD 3.92mn due to a 20% decline in fee income to KD 3.05mn in addition to booking KD 3.61mn in investment losses. The bottom line decline was mitigated by high dividend income.

NIC saw a 36% decline in its bottom line in 1H11 to KD 3.92mn

Total Assets were down 12% while Liabilities were down more than half resulting in a D/E drop from 0.33x to 0.14x.

Table 11 : NIC 1H11 Results

KD Mn	1H10	1H11	% Change
Fee Income	3.80	3.05	-20%
Investment Income/Loss	0.24	-3.61	NM
Net Income/Loss	**6.17**	**3.92**	**-36%**
Total Assets	258	227	-12%
Total Liabilities	64	28	-55%
D/E	0.33	0.14	

Source: Reuters Knowledge

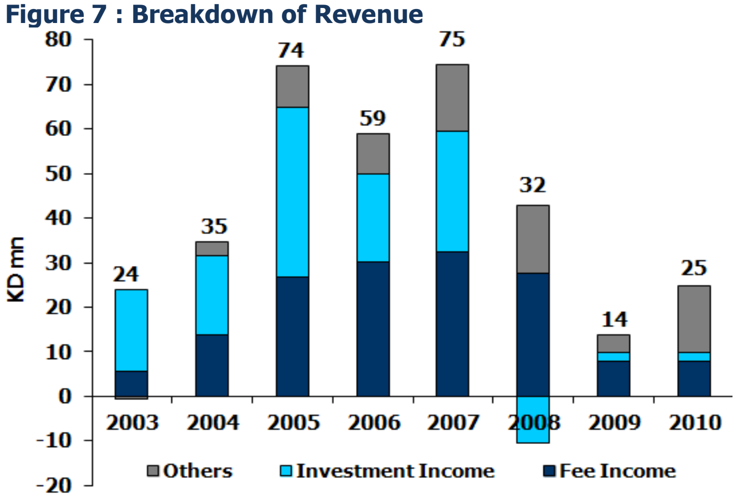
Income Streams

NIC increased its focus on fee income, rising to about KD 32mn or 43% of Total Revenue in 2007, which coupled with an investment gain of KD 27mn brought Total Revenue to KD 75mn. The firm managed to contain its investment losses to KD10mn in 2008 while fee income of KD 28mn kept Total Revenue at KD32mn.

Throughout the period, NIC has ensured that an average of 40% of total revenue is accounted for by fee income.

NIC has ensured that an average of 40% of total revenue is accounted for by fee income

Figure 7 : Breakdown of Revenue



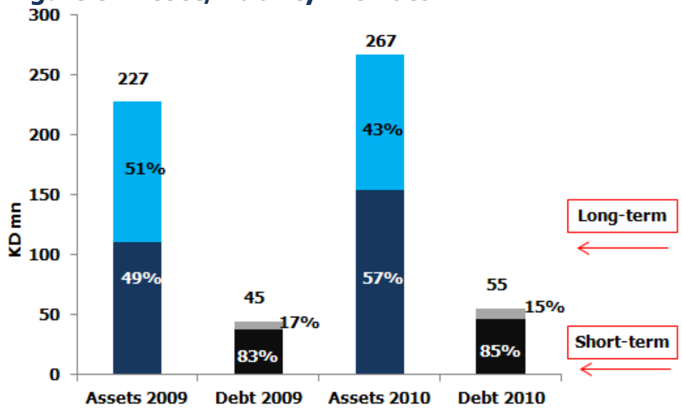
Source: Company Financials

Assets vs. Liabilities

NIC had total assets of KD 267 mn in 2010, an 18% annual increase. In 2010, 43% of total assets were Long-term in nature, down from 51% in 2009. The debt breakdown did not change in 2010.

NIC had total assets of KD 267 mn in 2010, an 18% annual increase

Figure 8 : Asset/Liability Mismatch



Source: Company Financials

Investment Classification

87% of NIC's investments are in Available for Sale assets. The majority is in Level I at 75%, up from 59% in 2009, while Level II was at 23% (down from 31% in 2009).

87% of NIC's investments are in Available for Sale assets

Table 12 : 2010 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	12.96	5.56	0.06	**18.58**	**13%**
Available for Sale	97.57	27.84	3.33	**128.73**	**87%**
Total	**110.52**	**33.40**	**3.39**	**147.31**	
% of Total	**75%**	**23%**	**2%**		

Note: Investments do not include those carried at cost
Source: 2010 Annual Report

Table 13 : 2009 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	9.53	5.35	0.06	**14.94**	**13%**
Available for Sale	56.05	29.05	11.77	**96.87**	**87%**
Total	**65.58**	**34.39**	**11.83**	**111.81**	
% of Total	**59%**	**31%**	**11%**		

Note: Investments do not include those carried at cost
Source: 2009 Annual Report

c. Kuwait Investment Company

Kuwait Investment Company (KIC) showed a 52% decline in net income to KD 4.14 mn in 1H11, with fee income growing at 4% YoY to KD 3.71mn while Investment Income was under KD 1 mn. Total Assets came in at KD 239mn, 9% lower than the same period of the previous year while Liabilities were down 11%. The Leverage Ratio edged down to 1.11x from 1.17x in 1H10.

Table 14 : KIC 1H11 Results

KD Mn	1H10	1H11	% Change
Fee Income	3.55	3.71	4%
Investment Income/Loss	-1.21	0.83	NM
Net Income/Loss	**8.57**	**4.14**	**-52%**
Total Assets	263	239	-9%
Total Liabilities	142	126	-11%
D/E	1.17	1.11	

Source: Reuters Knowledge

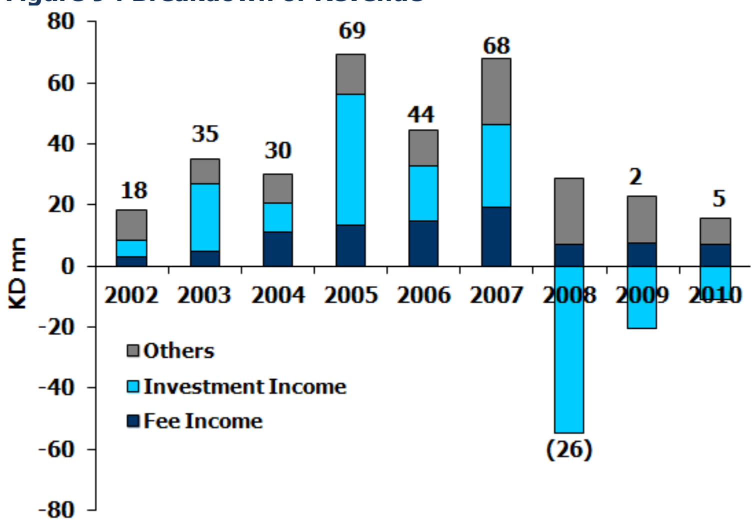
Income Streams

Kuwait Investment Company (KIC) showed a 52% decline in net income to KD 4.14 mn in 1H11

Total Revenue for KIC came in at KD 5mn in 2010, a far cry from the double digit revenue posted in earlier years. This is due to continued investment losses which amounted to KD 10.8mn in 2010; this also constitutes the third consecutive year of investment losses for the firm.

Fee income for the firm has come down, reaching KD 7.2mn in 2010 from a high of KD19mn in 2007, amounting to an average of 25% of Total Revenue.

Figure 9 : Breakdown of Revenue



Source: Company Financials

Investment Classification

All of KIC's investments are classified as Available for Sale; 48% are listed as Level II, followed by 40% as Level III and 11% as Level I.

Table 15 : 2010 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	0.00	0.00	0.00	**0.00**	**0%**
Available for Sale	21.25	91.43	76.47	**189.15**	**100%**
Total	**21.25**	**91.43**	**76.47**	**189.15**	
% of Total	**11%**	**48%**	**40%**		

Note: Investments do not include those carried at cost
Source: 2010 Annual Report

Table 16 : 2009 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	0.00	0.00	0.00	**0.00**	**0%**
Available for Sale	24.39	90.17	88.69	**203.25**	**100%**
Total	**24.39**	**90.17**	**88.69**	**203.25**	
% of Total	**12%**	**44%**	**44%**		

Note: Investments do not include those carried at cost
Source: 2009 Annual Report

d. KIPCO Asset Management Company (KAMCO)

KAMCO recorded a net income of KD 0.46mn in 1H11, 65% lower than 1H10

KAMCO recorded a net income of KD 0.46mn in 1H11, 65% lower than 1H10 due to an impairment charge of KD 1.039mn and a 17% decline in fee income. Total Assets were down 9% to KD 154mn while Liabilities declined 19%. The leverage ratio fell to 0.75x from 0.73x in 1H10.

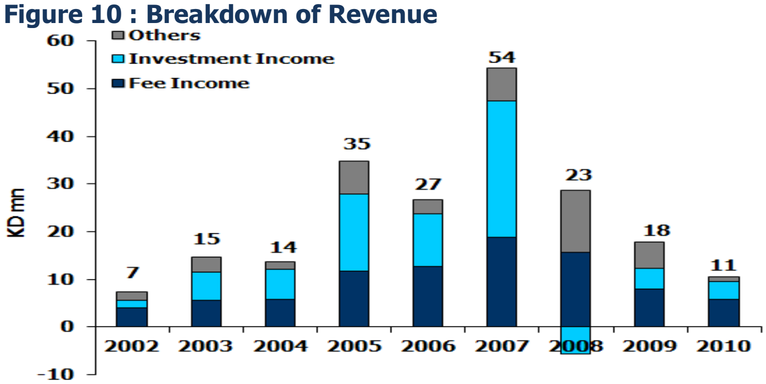
Table 17 : KAMCO 1H11 Results			
KD Mn	**1H10**	**1H11**	**% Change**
Fee Income	2.85	2.37	-17%
Investment Income/Loss	0.39	3.24	NM
Net Income/Loss	**1.33**	**0.46**	**-65%**
Total Assets	169	154	-9%
Total Liabilities	82	66	-19%
D/E	0.93	0.75	

Source: Reuters Knowledge

Income Streams

KAMCO's fee income fell to KD 5.8mn in 2010 from a high of KD 19mn in 2007 and has typically accounted for between 45%-55% of the firm's Total Revenue. Likewise, Total Revenue has dropped from KD 54mn in 2007 to KD 10.5mn in 2010 as fee-generating business has weakened and investments continue to be written off or devalued.

Figure 10 : Breakdown of Revenue



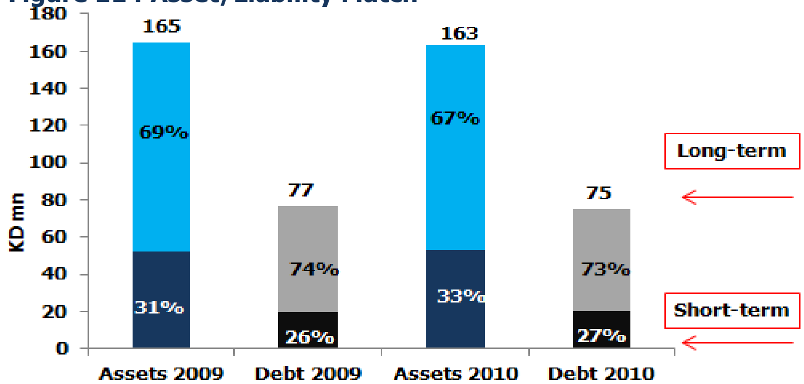
Source: Company Financials

KAMCO had total assets of KD 163 mn in 2010

Assets vs. Liabilities

KAMCO had total assets of KD 163 mn in 2010, a 1% decline from 2009. The firm's Assets and liability maturities are well matched; 67% of total assets were Long-term in nature while 73% of debt was long term.

Figure 11 : Asset/Liability Match



Source: Company Financials

Investment Classification

KAMCO's investments are mainly classified as Available for Sale (81%); around half of which are Level II, followed by 30% as Level I and 21% Level III. The distribution is not much changed from 2009.

Table 18 : 2010 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	7.58	0.00	0.00	**7.58**	**19%**
Available for Sale	4.21	19.50	8.19	**31.90**	**81%**
Total	**11.79**	**19.50**	**8.19**	**39.48**	
% of Total	**30%**	**49%**	**21%**		

Note: Investments do not include those carried at cost
Source: 2010 Annual Report

Table 19 : 2009 Investment Classification (KD mn)

	Level I	Level II	Level III	Total	% of Total
Investments at Fair Value through IS	5.28	0.00	0.00	**5.28**	**12%**
Available for Sale	8.77	20.48	11.14	**40.39**	**88%**
Total	**14.05**	**20.48**	**11.14**	**45.67**	
% of Total	**31%**	**45%**	**24%**		

Note: Investments do not include those carried at cost
Source: 2009 Annual Report

Appendix 1: Investment Classification in 2010 as per IFRS 7 Amendments

		Investment Classification 2010		
	Company	**Level I**	**Level II**	**Level III**
1	Aayan Leasing and Investment Co	1%	48%	51%
2	Al Ahlia Holding Co KSC Closed	19%	57%	24%
3	Al Aman Investment Co	3%	95%	2%
4	Al Deera Holding Co	47%	3%	48%
5	Al Madina for Finance and Investment Co	10%	25%	65%
6	Al Mal Investment Co	0%	39%	46%
7	Al Masar Leasing and Investment Co	0%	0%	74%
8	Al Qurain Holding Co	0%	0%	100%
9	Al Safat Investment Co	16%	3%	81%
10	Al Salam Group Holding Co	80%	0%	20%
11	Alimtiaz Investment Co	15%	3%	82%
12	Amwal International Investment Co	0%	0%	0%
13	Bayan Investment Co	61%	10%	0%
14	Coast Investment and Development Co KSC	66%	16%	0%
15	Commercial Facilities Co SAK Closed	28%	56%	0%
16	Damac Kuwaiti Holding Company	32%	68%	0%
17	Ekttitab Holding Co SAKC	70%	7%	23%
18	First Investment Co	16%	0%	84%
19	Global Investment House	34%	17%	49%
20	Gulf Investment House KSC	7%	0%	54%
21	Gulfinvest International	49%	24%	0%
22	Housing Finance Co KSC Closed	11%	36%	53%
23	Industrial and Financial Investments Co	18%	28%	18%
24	International Finance Co KSC Closed	56%	32%	11%
25	International Financial Advisers KSC Closed	37%	3%	29%
26	KIPCO Asset Management Co KSC Closed	15%	25%	10%
27	Kuwait and Middle East Financial Investment Co KSC Closed	45%	53%	0%
28	Kuwait Finance and Investment Company	71%	9%	20%
29	Kuwait Financial Centre SAK Closed	9%	55%	36%
30	Kuwait Investment Co SAK	11%	46%	38%
31	Kuwait Syrian Holding Co KSC	22%	0%	0%
32	Manafae Investment Company	13%	9%	59%
33	National International Co Holding	7%	0%	44%
34	National Investments Co	55%	17%	2%
35	Osoul Investment Co KSC Closed	64%	32%	4%
36	Securities Group Co	63%	8%	0%
37	Sokouk Holding Co SAKC	23%	0%	0%
38	Strategia Investment Company	62%	10%	0%
39	Tamdeen Investment Co	91%	9%	0%
	Total	**38%**	**25%**	**37%**

Note: Percentages may not tally 100% as Investments Carried at cost are not subject to classification
Source: Company Financials

Appendix 2: Company Rankings

	KD '000	Fee Income			AUM's			Fee/Aum	
		2010	2008	% Change	2010	2008	% Change	2010	2008
1	Global Investment House	20,693	51,000	-59%	1,429,342	2,217,220	-36%	1.45%	2.30%
2	Kuwait Financial Centre	8,088	10,854	-25%	1,029,723	820,541	25%	0.79%	1.32%
3	National Investments Co	7,921	13,139	-40%	3,722,843	2,243,926	66%	0.21%	0.59%
4	Kuwait Investment Co	7,194	6,942	4%	2,300,000	2,600,000	-12%	0.31%	0.27%
5	KIPCO Asset Management Co	5,798	15,614	-63%	2,360,000	2,600,000	-9%	0.25%	0.60%
6	Al Aman Investment Co	4,360	3,671	19%	422,261	469,465	-10%	1.03%	0.78%
7	Kuwait and Middle East Financial Investment Co	4,142	6,506	-36%	732,000	973,000	-25%	0.57%	0.67%
8	Kuwait Finance and Investment Company	3,242	3,202	1%	342,919	406,079	-16%	0.95%	0.79%
9	Alimtiaz Investment Co	2,916	11,370	-74%	178,519	284,187	-37%	1.63%	4.00%
10	Industrial and Financial Investments Co	2,229	4,120	-46%	53,131	87,820	-40%	4.20%	4.69%
11	Securities Group Co	1,840	4,470	-59%	1,177,183	623,007	89%	0.16%	0.72%
12	Al Safat Investment Co	1,556	4,380	-64%	89,665	168,753	-47%	1.74%	2.60%
13	Al Mal Investment Co	1,531	2,250	-32%	28,373	10,386	173%	5.40%	21.66%
14	International Financial Advisers	1,491	4,880	-69%	NA	NA	NA	NA	NA
15	Gulf Investment House	1,141	1,966	-42%	NA	NA	NA	NA	NA
16	Coast Investment and Development Co	1,021	2,038	-50%	NA	NA	NA	NA	NA
17	Housing Finance Co	936	1,110	-16%	NA	NA	NA	NA	NA
18	Aayan Leasing and Investment Co	926	2,192	-58%	NA	NA	NA	NA	NA
19	Al Madina for Finance and Investment Co	653	2,835	-77%	26,946	39,653	-32%	2.43%	7.15%
20	Strategia Investment Company	615	590	4%	76,920	80,297	-4%	0.80%	0.73%
21	Gulfinvest International	522	4,714	-89%	315,413	503,620	-37%	0.17%	0.94%
22	First Investment Co	487	1,347	-64%	170,348	216,267	-21%	0.29%	0.62%
23	Al Masar Leasing and Investment	442	1,340	-67%	NA	NA	NA	NA	NA
24	Manafae Investment Company	285	980	-71%	NA	NA	NA	NA	NA
25	Bayan Investment Co	167	3,280	-95%	16,813	28,928	-42%	0.99%	11.34%
26	Tamdeen Investment Co	152	225	-33%	254,415	180,295	41%	0.06%	0.12%
27	Amwal International Investment	113	420	-73%	1,027	7,234	-86%	11.03%	5.81%
	Total	**80,460**	**165,435**	**-51%**	**14,727,840**	**14,560,678**	**1%**	**0.55%**	**1.14%**

Appendix 3: Kuwait Investment Companies –Key Financials 2010 (KD mn)

sr.	Company	Total Assets	% Change	Total Liabilities	% Change	Total Equity	% Change	Net Income	% Change	AUM	% Change
1	Aayan Leasing and Investment Co	475	-7%	422	-3%	53	-28%	-24	-67%	NA	NA
2	Al Ahlia Holding Co KSC Closed	132	-22%	100	-4%	32	-50%	-22	-58%	NA	NA
3	Al Aman Investment Co	49	-15%	26	-3%	22	-27%	8	-54%	422	15%
4	Al Deera Holding Co	154	-13%	62	-9%	92	-15%	-13	8%	NA	NA
5	Al Madina for Finance and Investment Co	152	-7%	77	1%	74	-15%	-8	-14%	29	-28%
6	Al Mal Investment Co	200	1%	105	-7%	95	12%	12	NM	28	-4%
7	Al Masar Leasing and Investment Co	33	-8%	15	-2%	18	-13%	-3	-16%	108	4%
8	Al Qurain Holding Co	30	-20%	5	-45%	25	-13%	1	NM	NA	NA
9	Al Safat Investment Co	142	-24%	65	-7%	77	-34%	-30	83%	90	-35%
10	Al Salam Group Holding Co	39	-9%	17	-8%	22	-11%	-2	NM	NA	NA
11	Alimtiaz Investment Co	387	-39%	143	-68%	245	33%	41	168%	178	-26%
12	Amwal International Investment Co	19	-24%	1	36%	19	-25%	-7	NM	1	-82%
13	Bayan Investment Co	78	-22%	40	-20%	38	-24%	-13	-34%	17	-19%
14	Coast Investment and Development Co KSC Closed	144	-1%	88	-9%	56	16%	6	NM	324	26%
15	Commercial Facilities Co SAK Closed	297	-8%	136	-21%	161	5%	17	20%	NA	NA
16	Damac Kuwaiti Holding Company	20	11%	3	0%	17	13%	-3	-40%	NA	NA
17	Ekttitab Holding Co SAKC	34	-31%	9	-27%	25	-32%	-6	-60%	NA	NA
18	First Investment Co	219	-6%	125	0%	94	-14%	-11	-54%	170	-19%
19	Global Investment House	675	-19%	566	-7%	109	-51%	-73	-51%	1,429	-16%
20	Gulf Investment House KSC	82	-22%	57	-8%	24	-42%	-18	-14%	NA	NA
21	Gulfinvest International	10	-53%	45	-4%	-34	39%	-10	-78%	315	31%
22	Housing Finance Co KSC Closed	191	-7%	154	-10%	37	8%	2	-89%	NA	NA
23	Industrial and Financial Investments Co	126	-7%	86	0%	40	-20%	-2	NM	53	-35%
24	International Finance Co KSC Closed	101	-24%	23	-54%	78	-6%	-7	NM	3	-30%
25	International Financial Advisers KSC Closed	596	-4%	452	1%	144	-17%	-18	9%	NA	NA
26	KIPCO Asset Management Co KSC Closed	163	-1%	75	-2%	88	0%	2	-70%	NA	NA
27	Kuwait and Middle East Financial Investment Co KSC	65	-25%	27	-31%	38	-19%	-9	-6%	732	6%
28	Kuwait Finance and Investment Company	102	-43%	134	-10%	-32	-202%	-23	NM	343	-1%
29	Kuwait Financial Centre SAK Closed	136	14%	43	14%	94	14%	8	216%	1,029	29%
30	Kuwait Investment Co SAK	257	-7%	138	-14%	119	5%	-3	-77%	2,300	-8%
31	Kuwait Syrian Holding Co KSC	51	18%	10	NM	41	-4%	0	NM	NA	NA
32	Manafae Investment Company	26	-23%	1	-92%	25	-7%	-1	NM	NA	NA
33	National International Co Holding	45	-16%	8	10%	37	-21%	-7	38%	NA	NA
34	National Investments Co	268	18%	55	23%	213	16%	4	NM	3,723	45%
35	Osoul Investment Co KSC Closed	25	-10%	6	-25%	19	-4%	-1	-85%	2	-20%
36	Securities Group Co	131	12%	71	38%	60	-9%	0	-100%	1,311	11%
37	Sokouk Holding Co SAKC	76	-28%	11	-26%	65	-29%	-26	-10%	NA	NA
38	Strategia Investment Company	23	99%	7	5%	16	Nm	-1	-80%	77	-12%
39	Tamdeen Investment Co	158	25%	58	-1%	100	47%	3	52%	254	125%

Source: Company Filings

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