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ASSETS-LIABILITY MANAGEMENT: A COMPARATIVE STUDY OF NATIONAL COMMERCIAL BANK AND NATIONAL BANK OF KUWAIT

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ABSTRACT

The study aimed to compare asset liability management of Saudi Arabia banking system and Kuwait banking system. The study had used financial statement found in the company's website for comparing the performance of NCB and NBK between year 2012 and year 2015. Besides, the study had used of various financial ratios in the process of assessing Asset-Liability management. The study had used return on assets, average total equity and return on equity, average total assets and gap analysis technique to compare asset-liability management. The indicator of financial performance such as return on operating assets were crucial in indicating the NCB and NBK were using their assets to increase revenue generation. The comparative research method was used in the comparing management of assets and liabilities of NCB and NBK. This method proved to be useful as ensured necessary comparison was done to guarantee proper and effective findings of the financial performance and financial ratios

INTRODUCTION

The banking industry in Saudi Arabia and Kuwait is facing numerous challenges that affect the ability to survive and growing in the competitive industry. Both the economy of Saudi Arabia and Kuwait has been relying on oil as the primary source of revenues for the economic growth where oil forms more than 90% of the overall exports. As a result of stiff competition in the financial markets, the various banks, therefore, seek greater effectiveness through the management of their both assets and also liabilities. However, the

significant issue concerning the management of the asset liability lies on the balance sheet of NCB and NBK [1].
Besides, an accurate evaluation of a specific performance of the NCB and NBK is quite difficult due to the banks usually differ in the term of their sizes, hence this aspect affects the objectives of management, liquidity and also the profitability. In most cases, the assets and the liabilities of a given bank have impacts on the valuation of its market and its ability to be obtained at a better price. Therefore, the balance sheet of a bank should be evaluated well in order to help in forecasting their future performance [2]. However, all the profits which are realized by the various banks are mostly used by the same banks in the process of achieving their major objective which is the maximizing the wealth for the shareholders. There are some components which are considered when determining the profits realized by a bank, such as assets, liabilities and capital.

The management of both liabilities and assets in a given bank is described as the simultaneous planning of all those assets and the positioning of responsibility in the balance sheet of a given bank. Besides, the statistical cost accounting considers the management objectives of various banks as well as their market constraints [3]. The main purpose is to mitigate the interest rate risk through the provision of liquidity as well as developing the value of a bank.
Financial performance of any bank is usually better when its profit is high, and the risks are high. However, since the majority of the investors are believed to be risk averse, therefore, assume that high profits according to them means acceptance of high risks. Therefore, the management of various banks should establish a better trade-off between the risks and the returns [4]. However, there are some ratios which are used in measuring certain risk level in the banking industry and are divided into various groups which are credit risks, capital risks and liquidity risk.

The interest rate risk can be managed by restructuring the balance sheet to amend the characteristics of both assets and liabilities which are contractual [5]. Meanwhile, the synthetic method applies various instruments which include interest rate swaps as well as the customized agreements to manage the risk exposure which is related to the balance sheet.

The interest rate swaps usually involve a contractual agreement with a certain financial institution with the counterparty whereby they exchange cash flows at an agreed periodic interval and in agreement with the notional amount. Importantly, the primary functions of the interest rate swap are to manage the various risks which affect the interest rate, whereby an arrangement with another party to give just an assumption concerning its payment of the interest rates [6]. However, various financial institutions can make use of these swaps in their process of converting their floating rate of their liabilities to the fixed rates of the liabilities.

Micro edge can be used to give protection to the whole balance sheet since its applicable only to individual assets or transactions. A buyer with existence position will purchase a future contract if the interest rates are likely to fall.

Otherwise, sellers of the future contract would take a short position to cope with the rising rates. The protection offered by financial futures is directly proportional to losses and gains [7]. Forward contracts, on the other hand, are available to fight exchange rate risks since their risks also accompany them. The main risk is the basic risk which is mostly prevalent to cross high risks.

The various financial institutions should also concentrate mainly on the aspect of the hedging ratio, whereby the managements should be very much careful in their process of following both regulatory rules as well as the accounting rules which govern the utilization of the future contract. However, by making use of the risk options which are provided to the hedge interest rate, they can be applied in the process of creating the return profiles for a certain myriad risk by using essential ingredients such as the calls and puts [8]. The call option is the strategies which are advantageous in the cases of the interest rate.

The study was aimed in obtain the necessary concerning the financial performance of two banks. The financial statement of banks from year 2012 to 2015. The data helped in establishing comparing the assets liability management of two banks.

METHODOLOGY

The comparative study method created critical reflection in terms of culture between various boundaries of disciplines such as nation or language. The study had concerned with the comparative studies had made lot of efforts in their process of constructing knowledge as well as dynamic which were related to the power. The comparative analysis was strategy method played significant roles in comparing process in diverse branches such as the humanities and social sciences.

RESULT AND DISCUSSION

Result

The bank growth had calculated with year 2012 as base year. The National Commercial Bank had higher total assets on average of four years than National Bank of Kuwait. However, NCB had lower growth rate than NBK. Thus, NCB estimated 6.80% of growth rate and NBK had growth rate of 7.42%. Based on this result, the bank with higher total assets did not had higher growth rate. NCB had higher total assets but growth rate was lower than NBK.

Total assets were determined by financial base of the organization which higher financial base, higher possibility of improving performance. The assets were important in ensured proper balance between liabilities and assets by improved the ability of an organization in generated more revenues. Besides, it’s an indication that NCB had higher capability generated higher amounts of revenues and ensured Asset-Liability balances.

Table 1. Total Assets in Thousand Billion USD

Year	2012	2013	2014	2015	Growth	Average

					rate	
NBK	58.4	63.5	74.4	77.8	7.4%	68.5
NCB	92.1	100.6	116.0	119.8	6.80%	107.1

Based on Table 2, NCB had higher total liabilities on average of four years than NBK. However, NCB had lower growth rate than NBK. NCB estimated 6.52% of growth rate and NBK estimated 8.05% growth rate. The bank with higher total debts did not had higher growth rate. The NCB had higher total liability but growth rate was lower than NBK.

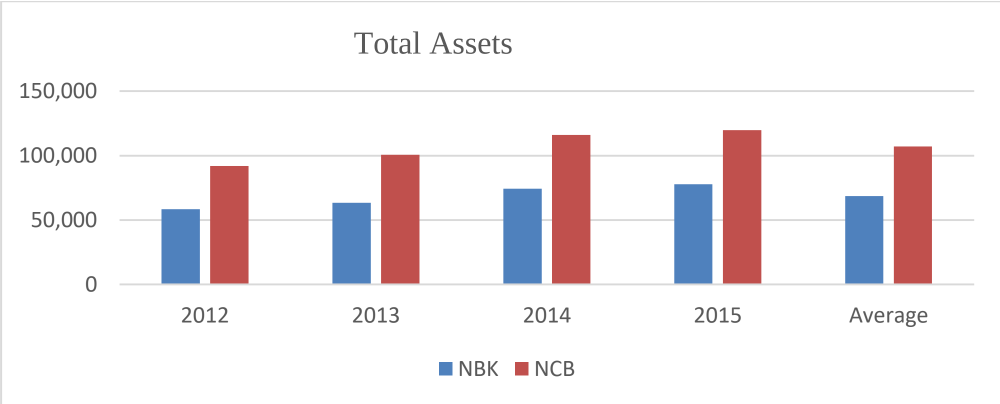

Figure 1. Total Assets of NBK and NCB.

Total liability had determined by revealed whether the bank was created profit or losses. Liabilities were important aspect of any institution as used to finance operations and paid for significant expansions. Besides, it's helped transactions between business more efficient by ensured proper matched between liabilities and assets to generate more revenues. Thus, it's an indication that NCB had higher efficiency generated higher revenues amount and ensured healthy asset liability balance.

Table 2. Total Liabilities in Thousand Million USD

Year	2012	2013	2014	2015	Growth rate	Average
NBK	49.3	54.3	64.6	67.2	8.05%	58.6
NCB	81.6	89.3	103.5	105.0	6.52%	94.8

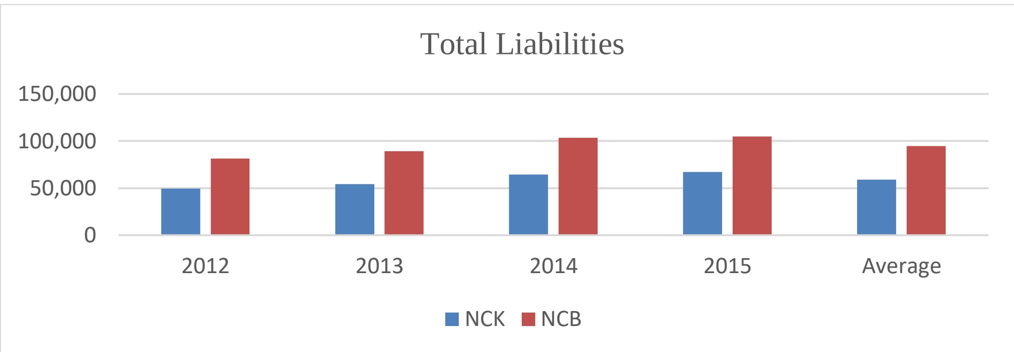

Figure 2. Total Liabilities of NCB and NCK.

The ratio of return on assets was calculated provided from year 2012 to 2015 for both NCB and NBK. NCB had higher ratio of 2.02% than NBK which only had 1.44%. Meanwhile, NCB had higher return rate without necessarily had higher total assets in average.

Return on assets measured the efficiency of an organization in utilizing process that available assets to maximize return. Higher the efficiency of the management of an organization in the company assets utilization which higher return on assets rate invested been achieved. The result also indicated NCB was more efficient in assets utilization than NBK.

Table 3. Return on Assets in Percentage

Year	2012	2013	2014	2015	Average
NBK	1.88	1.35	1,26	1.26	1.44
NCB	1.92	2.12	2.02	2.04	2.02

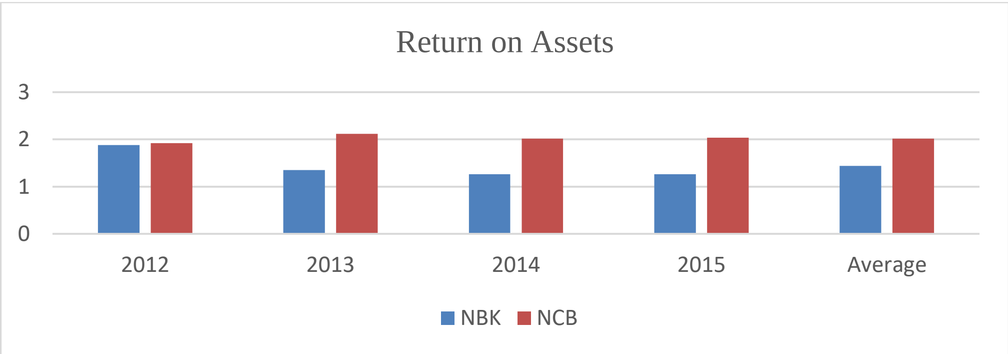

Figure 3. Return on Assets of NBK and NCB.

Table 4. Total Equity in Thousand Million USD

Year	2012	2013	2014	2015	Growth rate	Average
NBK	9.1	9.3	9.8	10.5	3.79%	9.7
NCB	10.5	11.3	12.5	14.8	8.96%	12.3

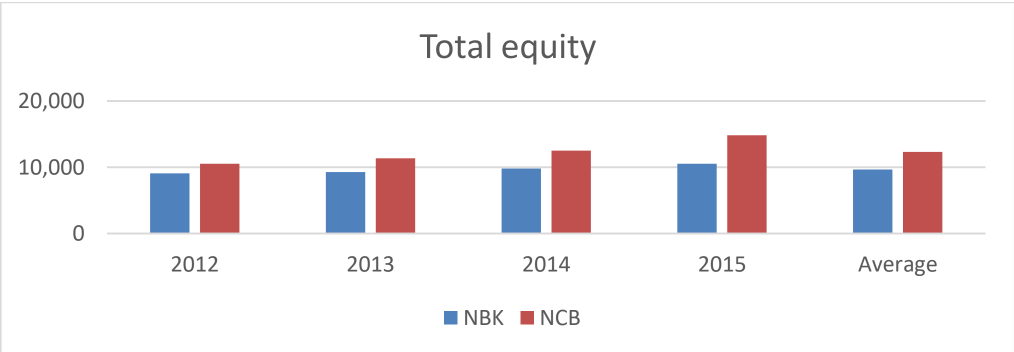

Figure 4. Total Equity of NBK and NCB.

The average return on equity was higher in NCB and NBK had lower return on equity. The return on equity communicated ability of company to ensure maximum return of invested funds were realized. The financial management skills among the employees were crucial in ensured shareholders could realize best from their invested funds. Maximizing the returns of invested funds was indication that management of organization was managing the business while considering interest of shareholders of wealth maximization.

Table 5. Return on Equity in Percentage

Year	**2012**	**2013**	**2014**	**2015**	**Average**
NBK	12.72	10.03	10.31	10.76	10.95
NCB	17.54	19.52	19.45	16.89	18.35

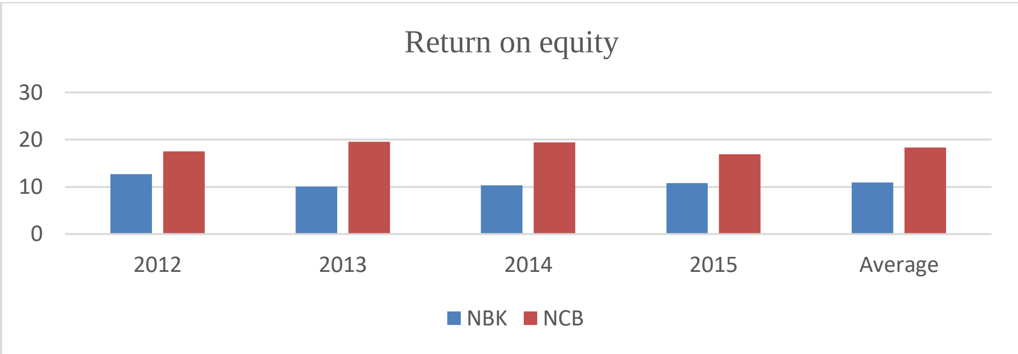

Figure 5. Return on Equity of NBK and NCB.

The gap analysis was one of ALM techniques that measured the bank interest rate risk which many financial institutions used this method.

Table 6. Interest Rate and NII Scenario.

The impact of interest rate on Net interest income (NII)			
	Increase in IRs	Stable IRs	Decrease in IRs
Negative mismatch RSA ≤ **RSL**	NII decreased	No impact	NII increased
Zero mismatch RSA=RSL	No impact	No impact	No impact
Positive mismatch RSA	NII increased	No impact	NII decreased

Table 7. NBK Interest Rate Sensitivity and Gap Analysis

Liabilities		**Assets**	
		Deposits with bank	4,700,754
Due to banks and another financial	24,074,026	Investment	9,174,082

Ins		securities	
Customer deposits	39,733,783	Central bank of Kuwait bonds	2,648,863
Total	63,807,809	Total	16,523,699

Three transactions had been adjusted regarded to changeability of interest rate in gap analysis measurement. Total rate sensitive assets as in Table 5 was less than total sensitive liability. Thus, total gap equals negative gap by $47,284 million which indicated short-term liabilities exceeds short-term assets besides fixed assets financed by rate sensitive liabilities. The gap ratio showed the RSA and RSL due to changeability of interest rate. NBK had gap ratio of 0.25 which showed that its liability-sensitive bank such as interest deposit which likely increased as interest rate decreased.

Table 8. NCB Interest Rate Sensitivity and Gap Analysis

Liabilities		**Assets**	
		Cas and balance with SAMA	7,349,199
Due to banks and another financial ins	12,725,378	Investment	35,466,456
Customers' deposits	86,209,683	Due from banks and another financial Inst	5,360,738
Total	98,935,061	Total	48,176,393

In additions, three transactions from NCB financial position that affected from the changeability of interest rate. As in Table 6, total RSA was less than total of RSL indicated negative gap which bank short term debts. Nevertheless, NCB gap ratio was less than one that was equal of 0.48 which showed NCB was liability-sensitive bank.

DISCUSSION

Overall, the vision of NBK became bank of people choice which mostly trusted in establishing the core values of people as well as the expertise. According to this vision, NBK was still going on protecting its top position in the market by putting a lot efforts to understand various customer needs. For instance, in retail banking, the NBK had introduced number of both products and service which launching the brands which were new in the market. Besides, NCB had kept itself at forefront in offered support to the nation development plan in wholesale banking.

From year 2009, NBK had converted Boubyan Bank into fully consolidated subsidiary. IN additions, the bank had made significant progress by launching stronger development of Islamic banking. NBK on the regional front sector was still concentrated on merging operation which were international to acquire their values.

NCB was organizing various periodic forums to join all corporate banker as to pull efforts in exploring chances for cross sell process. Besides, NBK was took advantages from Islamic Banking as result of diversification as this bank continued to see positive changes took places in Boubyana bank whereby it was produced 24.8% of total net profit in every year. However, the ratio for the capital adequacy in NBK was almost hitting 16.8% at the end of 2015. This adequacy ratio was even more than regulatory requirement. In additions, National Bank of Saudi Arabia had recorded highest net income in history estimated SAR 1.9 billion as 19,24% of return on equity at year 2015. The bank assets increased by 3.3% year on year to SAR 449 billion. NCB launched Tier 1 Islamic Sukuk grossed SAR 5.7 billion to reinforce the Bank capital adequacy in compliance with Shariah guidelines and international banking regulations.

CONCLUSION

In conclusion, study primary idea to ensure comparison of financial performance of Saudi banking system and Kuwaiti banking system. The comparison was made using financing ratios and financial performance indicators that were used to communicate the bank ability to manage their assets and liability in the right way. The result showed NCB had higher average total assets, total equity at average, return on assets and return on equity than NBK. The gap analysis indicated that both NBK and NCB had negative gap which showed that bank short term deposit were more than bank assets. Furthermore, the gap ratio for NBK and NCB was less than one which indicated both banks were sensitive-liability bank. The bank ranking as their performance showed aspect which each bank was best at in managing liabilities and assets process.

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