

# Recommended All-share Combination of Kuwait Finance House and Ahli United Bank

**Creating The World's Leading Islamic Bank**

January 2020

بيت التمويل الكويتي  
Kuwait Finance House



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# 1. Key Transaction Highlights



# KEY TRANSACTION HIGHLIGHTS

All Share Merger	Pro Forma Ownership	Implied Price and Premium	Conditions
<p><b>Agree average exchange ratio</b> of <b>2.325581</b> shares of AUB for each share of KFH (or <b>0.430</b> shares of KFH for each share of AUB)</p>	<p>Prior to the merger:</p> <ul style="list-style-type: none"> <li>• KFH had c. 6,893m shares outstanding; and</li> <li>• AUB had c. 8,774m AUB shares outstanding</li> </ul>	<p><b>Implied price per share of \$1.00</b> based on KFH's share price of \$2.32 as at 11-Sep-2019</p> <p>Implied total value of <b>\$8.8bn</b> in issued KFH shares for AUB shareholders as at 11-Sep-2019</p>	<p>KFH and AUB <b>shareholders to approve the transaction</b></p>
<p>Conditional <b>approvals granted by Central Bank of Kuwait and Central Bank of Bahrain</b></p>	<p>Following merger, KFH Group will have c. 10,655 shares outstanding and the combined bank will be owned<sup>1</sup>:</p> <ul style="list-style-type: none"> <li>• <b>c. 65%</b> by KFH's shareholders</li> <li>• <b>c. 35%</b> by AUB's shareholders</li> </ul>	<p><b>7.2% premium to AUB share price</b> of as at 11-Sep-2019, which was the last trading day prior to the parties' confirmation of the exchange ratio</p>	<ul style="list-style-type: none"> <li>• AUB shareholder <b>acceptance of at least 85% of total issued capital</b></li> <li>• Following receipt of requisite acceptances, <b>approval &amp; acceptance</b> of AUB shareholders for <b>100% acquisition</b> by way of an extra ordinary general assembly resolution</li> <li>• <b>Approval</b> of AUB shareholders <b>to convert AUB business</b> in Bahrain <b>to Sharia'a compliant</b></li> <li>• <b>Receipt of all regulatory and statutory approvals</b></li> </ul>

Note: Market Data as at 11-Sep-2019

<sup>1</sup> Pro Forma Ownership based on KFH's existing share count plus the shares issued to AUB shareholders at the agreed exchange ratio as at 11-Sep-2019.

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# THIS TRANSACTION COMBINES COMPLEMENTARY BUSINESSES AND DELIVERS SCALE TO BECOME A REGIONAL POWERHOUSE

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## Leading Retail Bank in Kuwait

- ✓ Currently 2<sup>nd</sup> largest bank and largest Islamic bank in Kuwait
- ✓ Offers retail banking, corporate banking, financing, investment, private banking, real estate services
- ✓ Internationally integrated operations in Kuwait, Bahrain, Turkey, Malaysia, Germany and KSA

البنك الأهلي المتحد



ahli united bank

## Leading Corporate Bank in Bahrain

- ✓ Bahrain's largest bank
- ✓ Focus on corporate banking with private banking & wealth management, retail banking services
- ✓ Strong foothold in Bahrain, Kuwait, Egypt, UK, Oman, Iraq, Libya and UAE

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البنك الأهلي المتحد



ahli united bank

#1

Bank in Kuwait  
and Bahrain by  
Total Assets

\$101bn

Combined Entity  
Total Assets<sup>1</sup>

#1

Global Islamic  
Bank by Total  
Assets

\$10bn

Pro-forma CET1  
Capital<sup>1</sup>

#6

Bank in the  
Middle East by  
Total Assets

10

Countries of  
Operations

<sup>1</sup> As of 30-Sep-2019.

# SHAREHOLDER VALUE CREATION

## Creating a Stronger, More Diversified Banking Franchise

- Broader customer base and stronger market position in Kuwait and Bahrain
- Diverse geographic footprint and product offering accessible to customers
- Complementary businesses positioned to capture opportunities arising from existing relationships
- Larger balance sheet and capital base that is better able to pursue growth and pursue bigger scale lending opportunities

## Significant Synergy Potential

- Expected annual run-rate cost synergies in the range of 10-15% of combined cost base expected from:
  - Optimisation of systems, distribution, infrastructure and real estate
  - Improved supplier negotiating positions
  - Rationalisation of operations and branches over time
- Synergies are expected to be realised over 3 years post completion
- Revenue synergy from cross-selling, deeper customer penetration, and an improved cost of funding

## Compelling Shareholder Value Creation Potential

- ✓ **EPS accretive to KFH shareholders with and without synergies**
- ✓ **Value creation potential driven by significant synergy potential**
- ✓ **Larger, more diversified bank better able to pursue significant growth opportunities**

# BEST POSITIONED TO SUPPORT THE NEW KUWAIT VISION 2035



**The Most Globally Connected Bank in Kuwait**

Expanded regional and international banking footprint to support trade and investment

**Robust Capital Base**

Enlarged balance sheet capacity to support transformational infrastructure projects

**Best able to Support the Growth of the Economy**

Better able to enable the growth of public and private sector players investing in economic diversification initiatives

## Vision 2035 Relevant Themes

- ✓ Enhance foreign direct investment across all sectors
- ✓ Develop and modernize national infrastructure
- ✓ Diversification of production base away from oil and into financial, commercial and transport services



## 2. Strategic Rationale





# COMPELLING STRATEGIC RATIONALE

A transformational transaction that brings significant benefits to all stakeholders

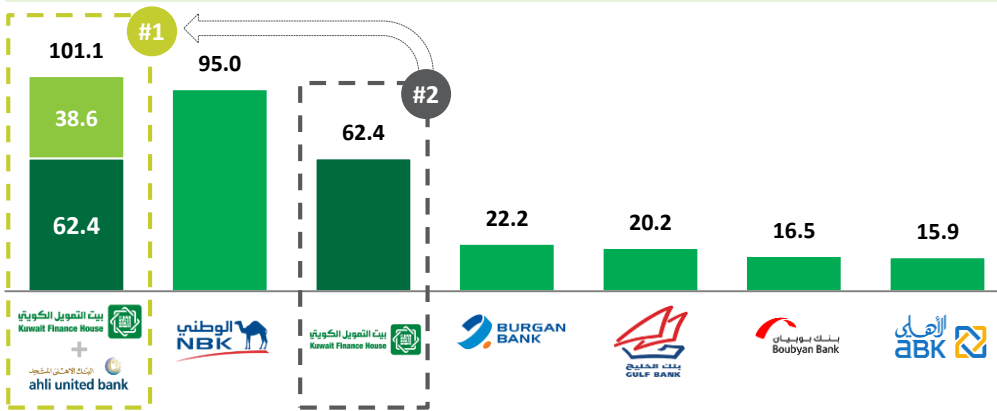
<p><b>1</b> Strengthens our position as the leader in our home markets</p>	<p>✓ #1 bank in terms of total assets and deposits in Kuwait and Bahrain with over 27% of total market share in Kuwait by assets<sup>1</sup></p>
<p><b>2</b> We will become the world's leading Islamic bank</p>	<p>✓ World's largest Islamic bank by total assets and the #2 Islamic bank in terms of customer deposits</p>
<p><b>3</b> This transaction makes KFH one of the dominant banks in the Middle East, with significant footprint diversification and expansion</p>	<p>✓ Strengthened position in Kuwait and Bahrain ✓ Entry into 5 new markets</p>
<p><b>4</b> Enhanced scale and deep relationships across corporate and retail customers</p>	<p>✓ Corporate Banking contribution increasing to 36% of pro forma segment assets</p>
<p><b>5</b> We will achieve significant operational efficiencies as a result of this transaction</p>	<p>✓ Cost synergies expected to be 10-15% of the combined cost base</p>
<p><b>6</b> Extremely well capitalised and funded, ideally positioning us to better pursue growth</p>	<p>✓ \$3.9bn increase in CET1 capital ✓ Strong and diverse funding base</p>
<p><b>7</b> This transaction is EPS and value accretive to KFH shareholders</p>	<p>✓ EPS and DPS accretive including and excluding impact of synergies</p>

<sup>1</sup> Market share calculated as KFH+AUB combined total assets over the sum of total assets of all publically traded banks in Kuwait.

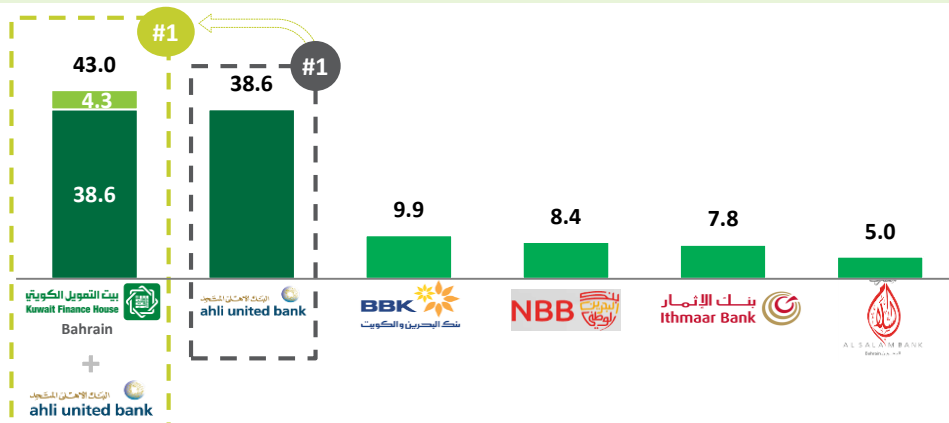
# 1 STRENGTHENS OUR POSITION AS THE LEADER IN OUR HOME MARKETS

- Following the completion of the merger, KFH will become the undisputed leading banking institution in Kuwait and Bahrain
- #1 bank in terms of Total Assets and Deposits (with over 27% of total market share<sup>1</sup> in Kuwait)

Top 5 Kuwait Banks by Total Assets (\$bn)<sup>2</sup>



Top 5 Bahrain Banks by Total Assets (\$bn)<sup>3</sup>



MENA National Champions (Ranking by Total Assets)

Country	National Champions	Total Assets
	ahli united bank + Kuwait Finance House + NBK	\$101bn #1
	ahli united bank + Kuwait Finance House	\$43bn #1
	FAB (First Abu Dhabi Bank)	\$215bn
	NCB (National Commercial Bank)	\$133bn
	QNB	\$250bn
	BankMuscat	\$32bn

Source: Q3-2019 company financials. Note: KWD/BHD converted to USD as per FX rate as at 30-Sep-2019. Pro Forma total assets exclude goodwill on acquisition.

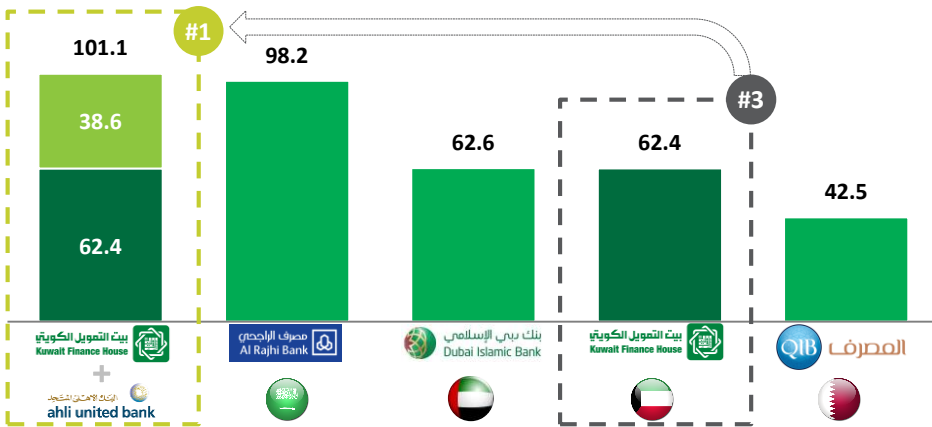
<sup>1</sup> Market share calculated as KFH+AUB combined total assets over the sum of total assets of all publically traded banks in Kuwait.

<sup>2</sup> Includes 5 largest publically listed banks in Boursa Kuwait. <sup>3</sup> Includes 5 largest publically listed banks in Bahrain Stock Exchange.

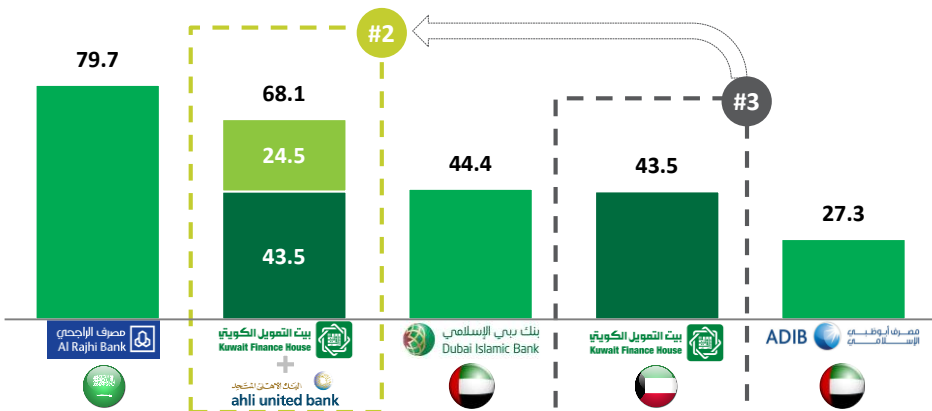
# 2 WE WILL BECOME THE WORLD'S LEADING ISLAMIC BANK

- KFH will become the world's largest Islamic bank by total assets and the second largest Islamic bank in terms of customer deposits
- As the leading Islamic bank in the world, KFH will drive the growth of Islamic Banking across the world

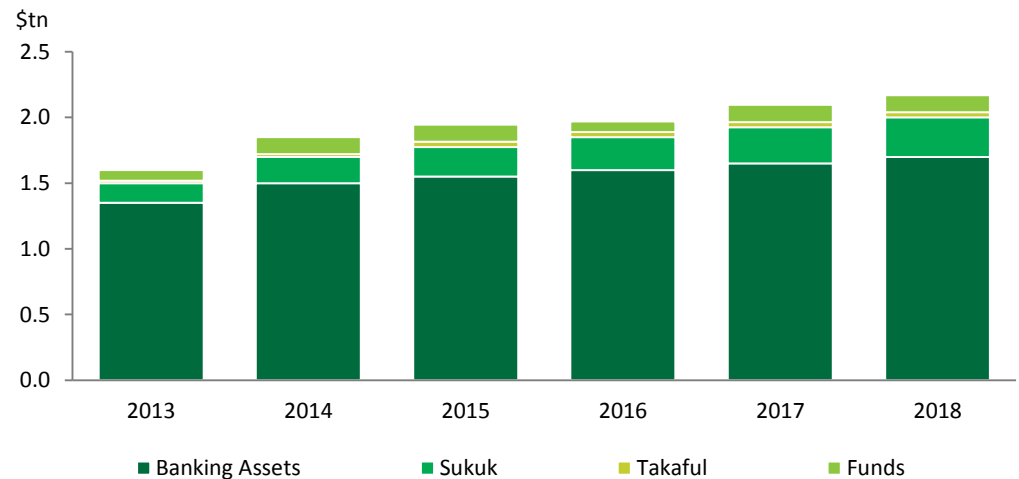
Ranking of Top 10 Global Islamic Banks<sup>1</sup> by Total Assets (\$bn)



Ranking of Top 10 Global Islamic Banks<sup>1</sup> by Customer Deposits (\$bn)



Islamic Finance is a \$2.1 Trillion Industry



- Islamic finance industry's assets reached \$2.1 trillion at year-end 2018
- It expanded by c.2% in 2018 vs. 10% in 2017, with strong support from the sukuk market
  - It is expected to grow by 5% in 2019-20
- Islamic finance remains concentrated primarily in oil exporting countries in Middle East and Malaysia accounting for over 80% of industry assets
- While overall lending growth slowed down in 2013-2017, GCC Islamic banks<sup>2</sup> saw more rapid growth (6.9%) than conventional banks (3.7%)

Source: Q3-2019 company financials (except Masraf Al Rayan which is as of Q2-2019 as Q3-2019 are unavailable), S&P Global Ratings Islamic Finance Outlook 2019 and 2020

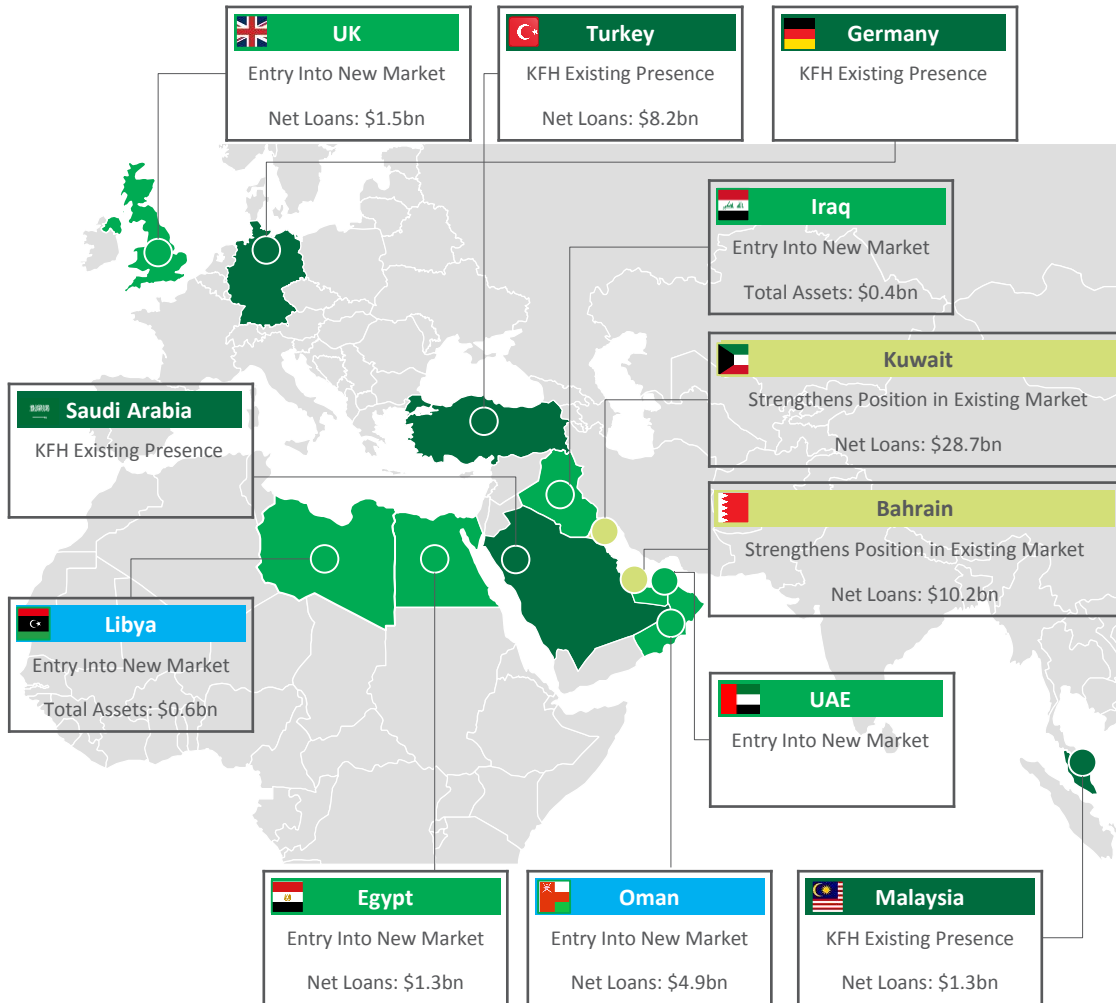
Note: KWD, SAR, AED, QAR, BHD, MYR converted to USD per FX rate of 3.297, 0.267, 0.272, 0.275, 2.652, 0.244 respectively as of 5-Jan-2020.

<sup>1</sup> Only considers publically listed, 100% Islamic banks (i.e. excludes any conventional banks with Islamic portfolios/operations) and also excludes Iran-based banks given limited and outdated disclosure.

<sup>2</sup> In S&P's sample composed of 17 Islamic banks and 27 conventional banks with total assets in excess of \$2.0 trillion

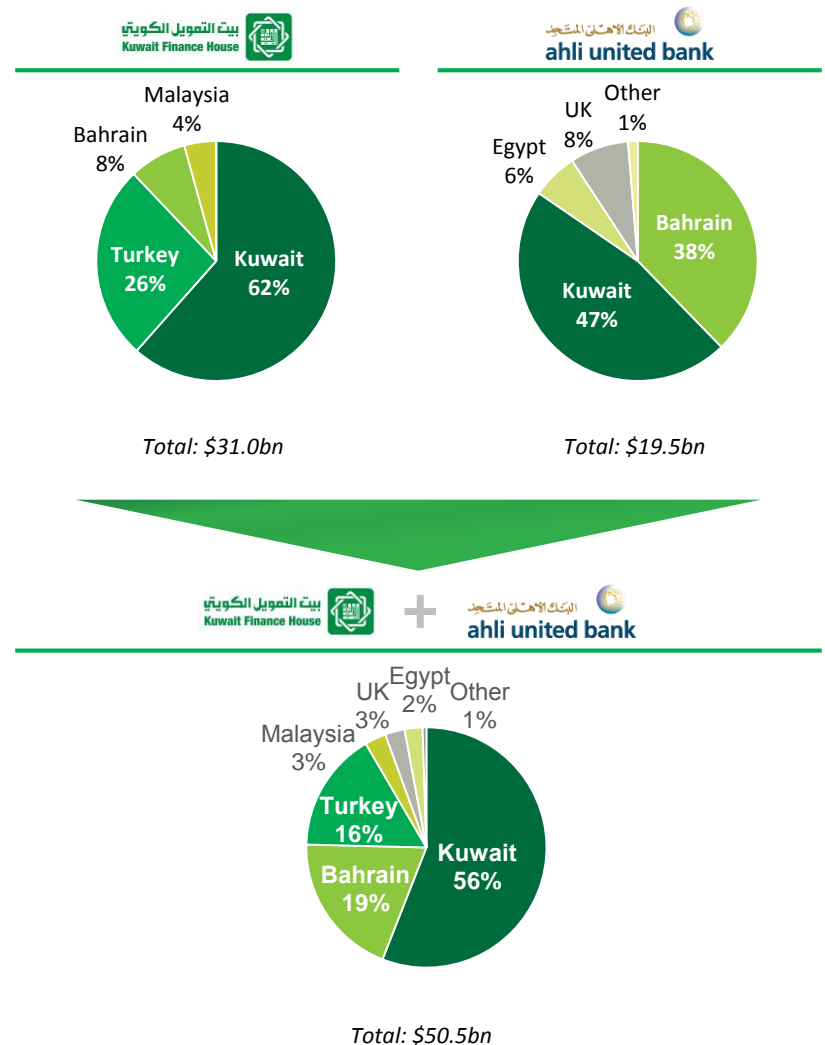
# 3 MAKES US ONE OF THE LEADING BANKS IN THE MIDDLE EAST, OFFERING FOOTPRINT DIVERSIFICATION AND EXPANSION

International Presence (As At 31-Dec-2018)



Represent investment in Associates

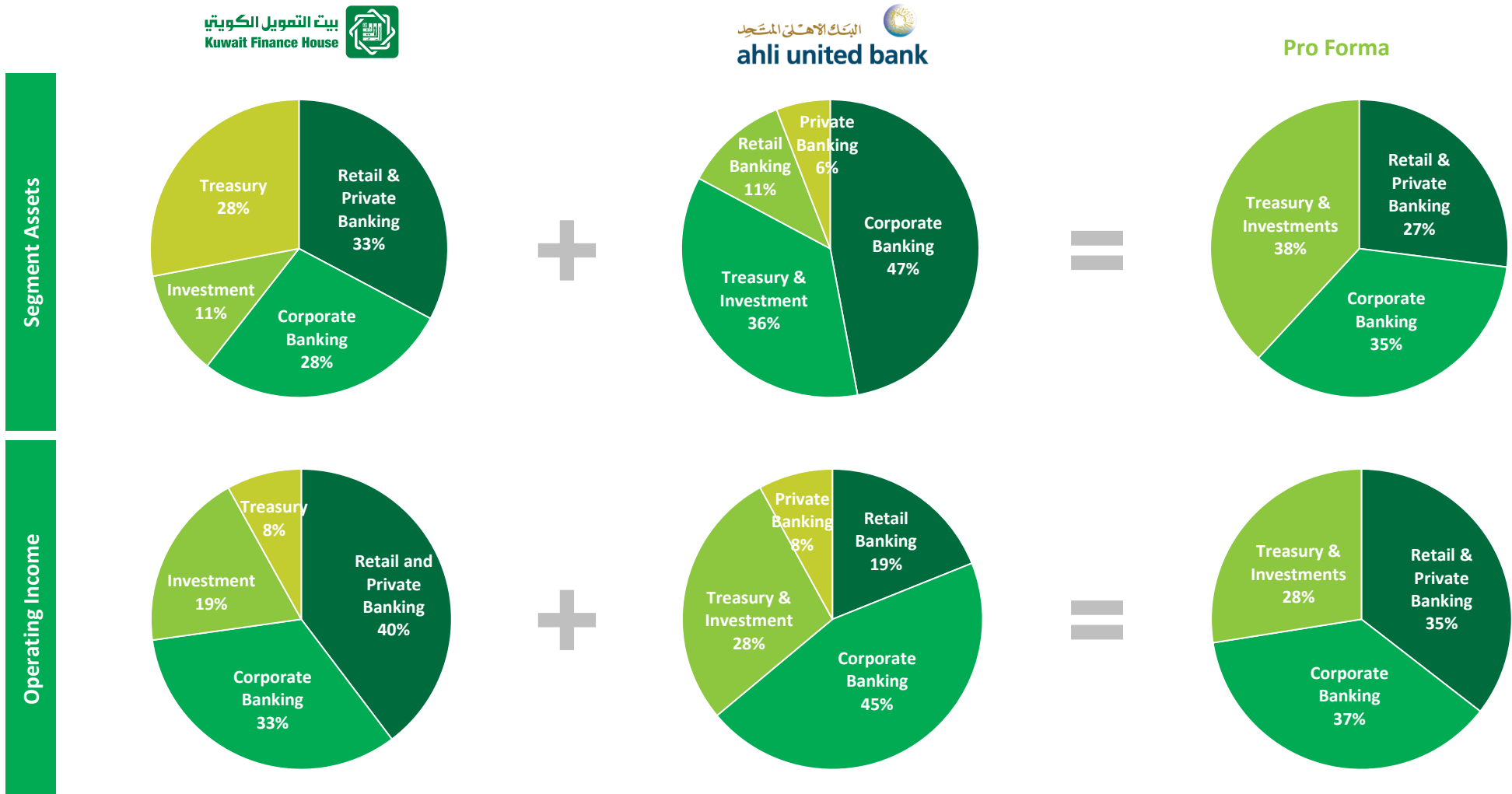
Net Financing Receivables by Geography (As At 31-Dec-2018)



Source: Company filings

# 4 ENHANCED SCALE AND DEEP RELATIONSHIPS ACROSS CORPORATE AND RETAIL CUSTOMERS

AUB's mainly corporate business mix complements KFH's orientation towards retail



Source: Company financials as at 31-Dec-2018



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# WE WILL ACHIEVE SIGNIFICANT OPERATIONAL EFFICIENCIES AS A RESULT OF THIS TRANSACTION

## Substantial Cost Saving Opportunities

- Branch footprint and ATM optimisation based on geographic overlap
- IT systems integration
- Branch, HQ and central functions consolidation
- Cost benefits to be realised over 3 years
- Focused on overlapping geographies in Kuwait and Bahrain

## Revenue Synergies Potential by Closing Performance Gap

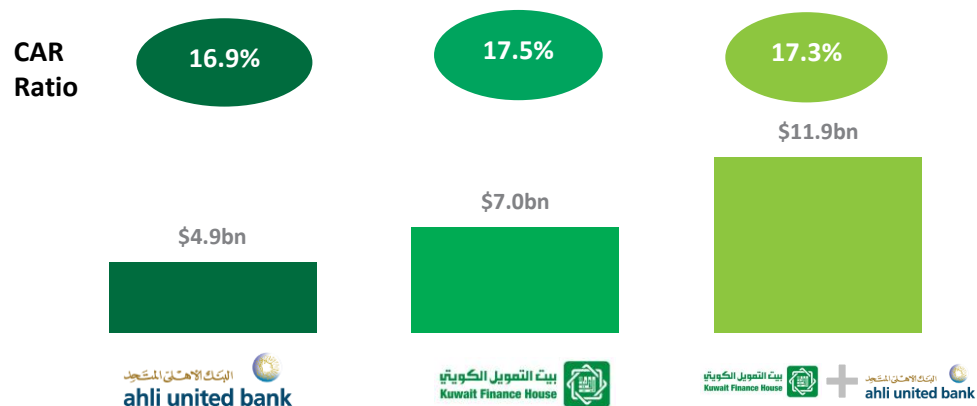
- Customer churn offset by:
  - Product penetration gap closure
  - Branch productivity gap closure
  - Lower cost of funding
  - Digital Bank in Kuwait

Cost Benefits Represents 10-15% of Combined Cost Base

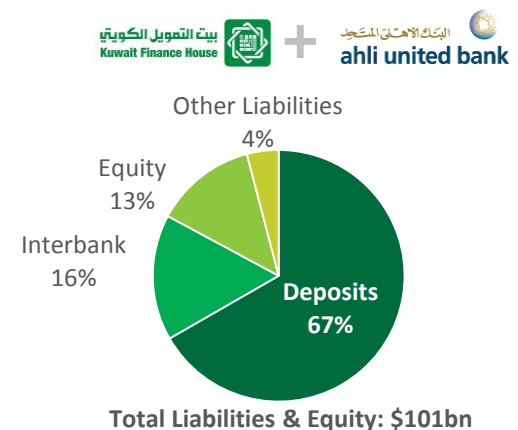
Opportunity For Revenue Synergies

# 6 EXTREMELY WELL CAPITALISED AND FUNDED, IDEALLY POSITIONING US TO BETTER PURSUE GROWTH

## Significant Pro Forma Capital Position (As At 31-Dec-2018)



## Strong And Diverse Funding Base (As At 30-Sep-2019)



## Strategic Opportunities

- Drive growth in core regions and products
- Better serve Kuwaiti corporates with international ambitions
- Support international companies operating in Kuwait

- Leverage technology to enhance customer experience
- Invest in distribution capabilities
- Drive wealth management cross-sell
- Additional cross-sell delivered through better consumer client segmentation

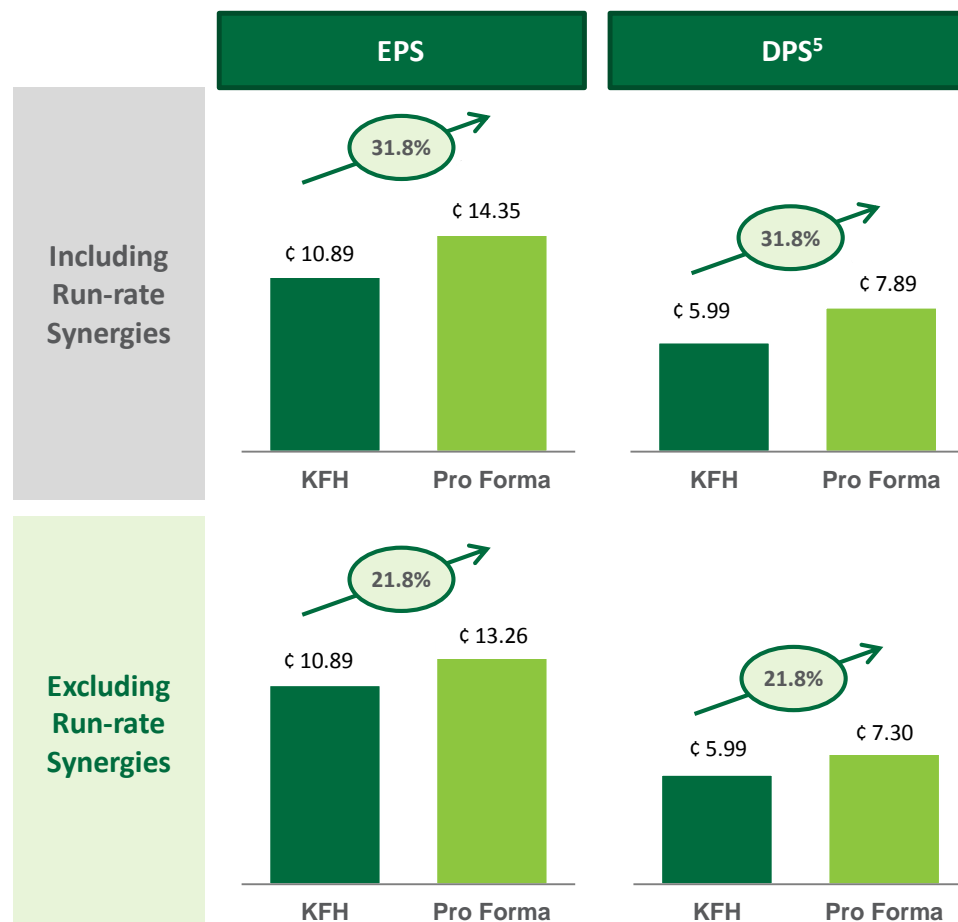
Source: Company financials  
Note: KFH's liability mix is based on banking subsidiaries only (excluding non-banking subsidiaries). KWD:USD FX rate of 3.287 as at 30-Sep-2019.

# 7 EARNINGS ACCRETIVE TO KFH SHAREHOLDERS

## ILLUSTRATIVE EPS & DPS ACCRETION BASED ON 2018 PRO FORMA FINANCIALS

Pre and Post Merger			
	Metric	USD	KWD
Pre-Merger	2018 Net Income (m)	751	227
	Number of Shares Outstanding (m) <sup>1</sup>	6,893	6,893
	Shareholding %	100.0%	100.0%
	<b>2018 EPS (cents / fils)</b>	<b>10.89</b>	<b>32.99</b>
Post-Merger	2018 Pro Forma Net Income (m) <sup>2</sup>	1,413	428
	Combined cost Base (m)	1,293	392
	Illustrative Pre-Tax Cost Synergies % of Combined Cost Base <sup>3</sup>	12.5%	12.5%
	2018 Pro Forma Net Income Incl. Implied Cost Synergies (m) <sup>4</sup>	1,529	463
	Pro Forma Combined Number of Shares Outstanding	10,655	10,655
	Pro Forma Shareholding %	64.7%	64.7%
	<b>2018 Pro Forma EPS (cents / fils)</b>	<b>14.35</b>	<b>43.47</b>
	<b>2018 Pro Forma EPS (cents / fils) – Excl. Synergies</b>	<b>13.26</b>	<b>40.18</b>

### Illustrative EPS and DPS Accretion Based on 2018 Pro Forma Calculations



Transaction accretive to earnings per share for KFH's shareholders including and excluding the impact of synergies

<sup>1</sup> As at 30-Sep-2019. <sup>2</sup> Net of distribution to Tier 1 securities and Sukuk. <sup>3</sup> Mid-point of 10-15% estimated cost synergies <sup>4</sup> Including indicative incremental annual tax cost in Kuwait (Zakat / NLST / KFAS) from the acquisition. <sup>5</sup> Pro forma cash dividends calculated assuming a pay-out ratio of 55.0% based on KFH's 2018 cash pay-out ratio.

# 3.

## Integration



# KFH STRATEGIC PLAN POST ACQUISITION

- **Change AUB's name to KFH Bahrain**, following the successful implementation of the Acquisition
- **Maintain current structure**, save for any Bahrainization requirements or any personnel changes that may be required for the purposes of achieving the anticipated synergies, converting AUB's business Sharia'a compliant or as part of AUB's existing strategy
- **Conversion of AUB Bahrain and its subsidiaries into Sharia'a compliant businesses** that offer a full range of Sharia'a compliant banking products
- **Conduct the statutory merger** of the Group's two subsidiaries in Bahrain (**AUB and KFH Bahrain**) following the successful completion of the conversion of AUB's business into a Sharia'a compliant bank
- Submit a **mandatory tender offer** with respect to the **shares in AUB Kuwait**
- **Conversion of AUB Kuwait into a digital bank**
- **Maintain KFH Group's existing dividend policy**



# HIGH-LEVEL INTEGRATION PLAN AND TIMELINE

**3 - 6 Months**

**12 - 18 Months**

**12 – 24 Months**

## Pre-Closing Phase

## Post-Closing Phase 1: Customer readiness

## Post-Closing Phase 2: Operational readiness

- Publish Offer Document and Shareholder Circular
- Appoint broader leadership and management team
- Develop integration roadmap and governance, including integration planning committee
- Launch regulatory approvals process
- Conduct shareholders meetings
- Complete transaction
- Prepare the detailed integration plans for all workstreams

- Develop combined business strategy
- Convert all non-Islamic operations to Islamic<sup>1</sup>
- Integrate the organization
  - Back office, support and control functions integration (e.g. HR, finance, credit systems)
  - Business functions integration and customer migration
  - Distribution network optimization
  - Technology conversion and migration
- Implement branding strategy
- Launch Minimum Viable Product of Digital Bank

- Roll out revenue generation initiatives for the combined customer portfolio
- Scale up acquisition campaign for new customers of Digital Bank
- Rationalize technology systems

Note: Conversion timeline will vary country to country; all conversion expected to be complete within 18 – 36 months

# 4.

## Vision and Mission



# MATCHING VISIONS, STRATEGIES AND MISSIONS



## Vision and Strategy

- To lead the **international development of Islamic financial services** and become the **most trusted** and **most consistently profitable Sharia'a-compliant bank** in the world

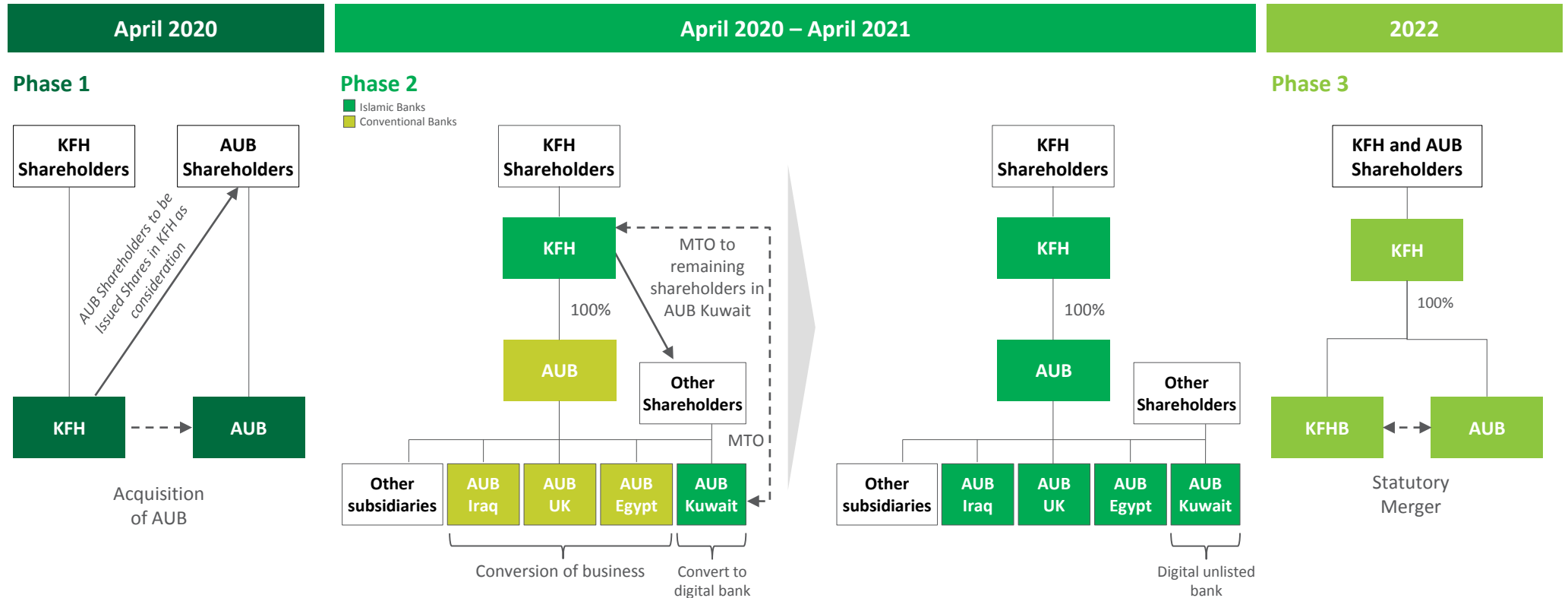
## Mission

- To deliver **superior innovation** and **customer service excellence** whilst **protecting** and **enhancing** the **interests** of all **stakeholders**

# 5. Transaction Structure



# ENVISAGED TRANSACTION STRUCTURE



## Key Steps for Phase 1

- 1 Acquisition of AUB by KFH via share swap

## Key Steps for Phase 2

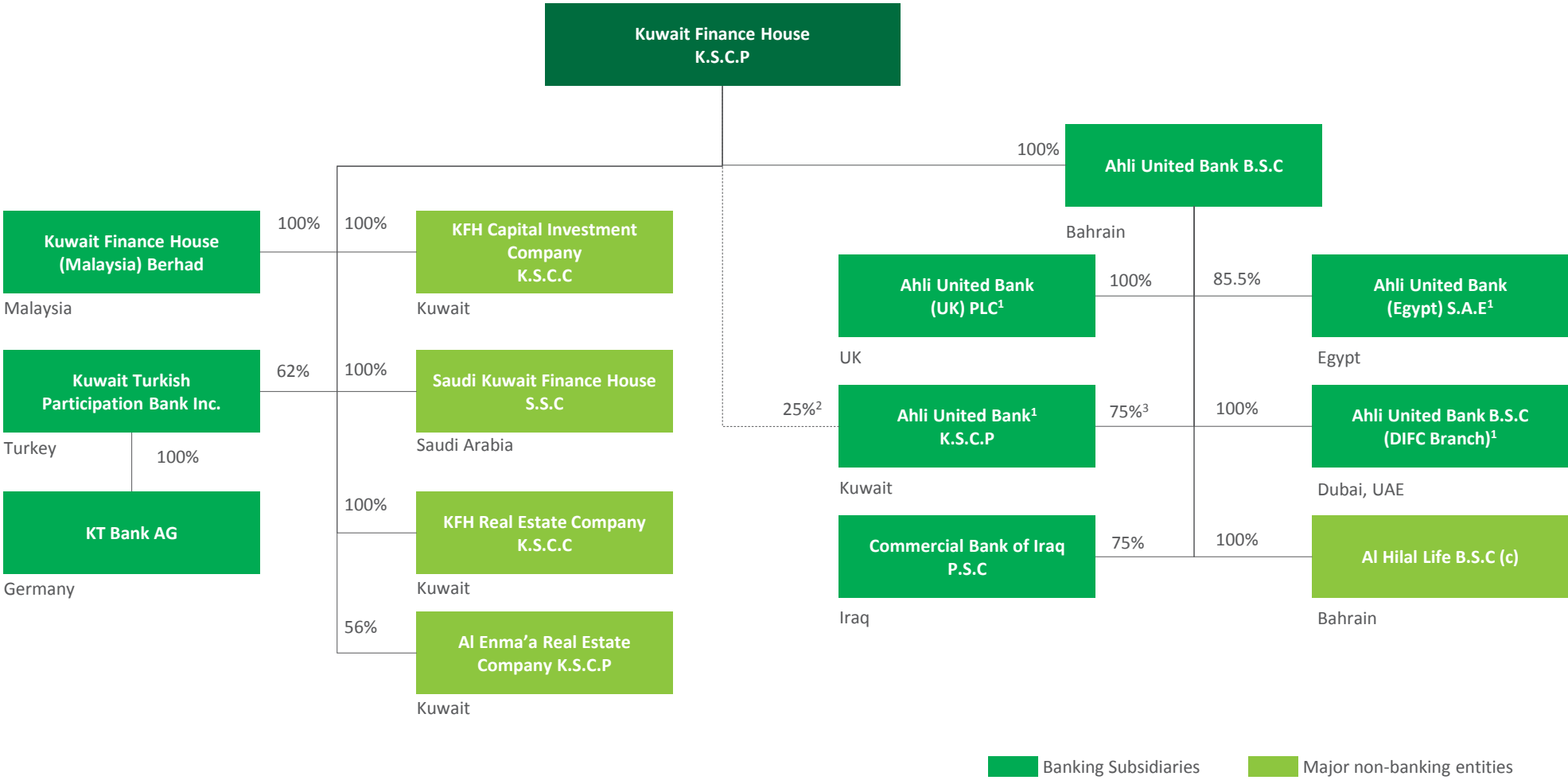
- 1 Conversion of AUB Bahrain and its subsidiaries into Sharia'a compliant businesses

## Key Steps for Phase 3

- 1 Statutory merger between KFHB and AUB
- 2 KFHB dissolved and its assets and liabilities assumed by AUB



# KFH GROUP STRUCTURE POST-ACQUISITION



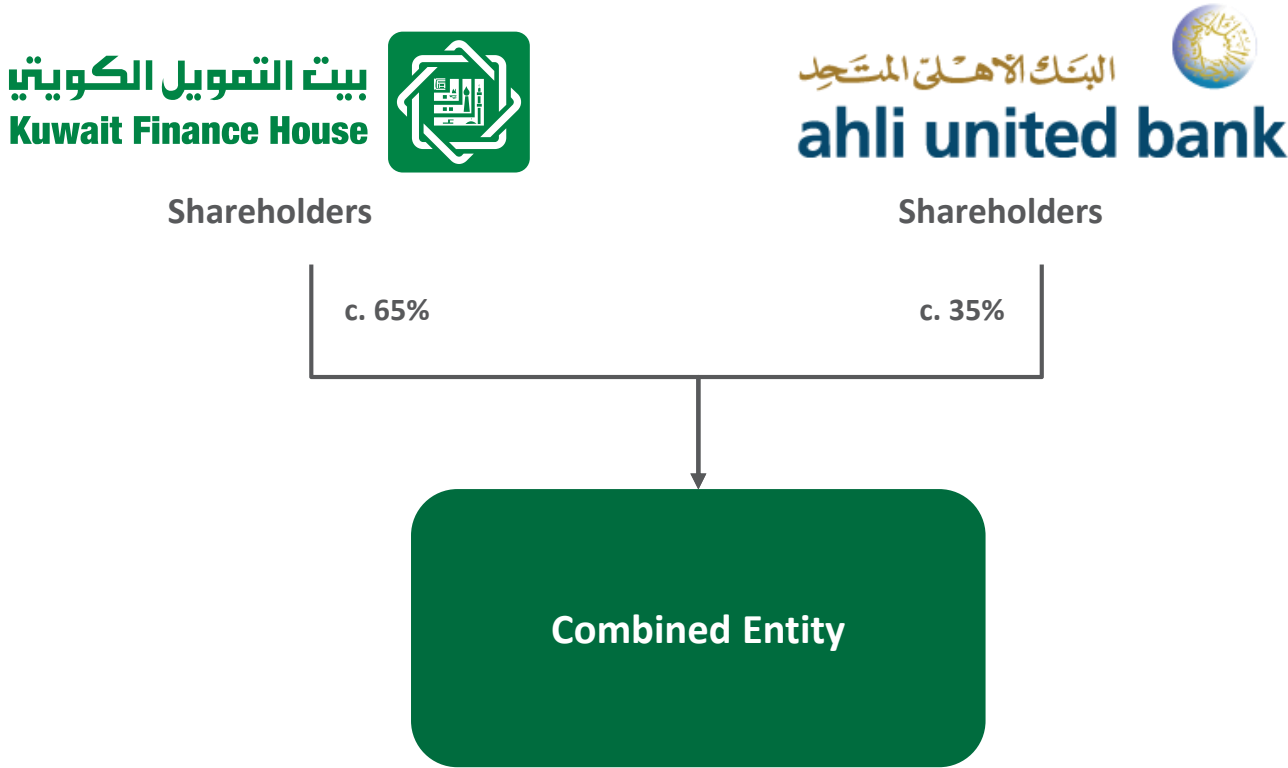
<sup>1</sup> Names of these entities will be changed to KFH subject to required approvals.

<sup>2</sup> Subject to successful completion of Mandatory Tender Offer by KFH.

<sup>3</sup> AUB B.S.C owns 74.9% of AUB K.S.C.P. or 75% if rounded up, as in the diagram above.

# POST-MERGER SHAREHOLDING

## Post-Merger Shareholding Structure



Note: Pro forma shareholding is based on current shares outstanding and is subject to change due to movement in Treasury shares.

# 6.

## Financial Highlights



# EVIDENT FINANCIAL RATIONALE

A transformational transaction that brings significant benefits to all stakeholders





Source: Company financials as at Q319

<sup>1</sup> As at 31-Dec-2018. <sup>2</sup> Q318 – Q319. <sup>3</sup> The pro forma capital position is calculated as the sum of KFH and AUB's standalone capital as at 31 Dec 2018.

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# FINANCIAL AND OPERATIONAL METRICS

Metrics (USD and Q319 unless otherwise stated)	 بيت التمويل الكويتي Kuwait Finance House	 البنك الأهلي المتحد ahli united bank	Pro Forma
Net Income (Q318 - Q319)	818	728	1,546
Total Assets	62,449	38,639	101,088
Net Financing	30,755	20,386	51,141
Total Deposits	43,545	24,548	68,093
Net Income / Total Assets	1.3 %	1.9 %	1.5 %
Net Financing / Deposits	70.6 %	83.0 %	75.1 %
CET1 Ratio – Dec 2018	15.5 %	13.3 %	14.5 %
CAR Ratio - Dec 2018	17.5 %	16.9 %	17.3%
Cost / Income Ratio (Q318 – Q319)	37.9 %	27.4 %	34.5 %
Return on Average Equity (Q318 - Q319)	13.1 %	18.5 %	15.2 %
Branches	504	147	651
Staff	15,000	3,901	18,901
Liquidity Banking Assets <sup>1</sup> / Tangible Banking Assets <sup>2</sup>	28.5 %	19.2 %	24.9 %

Note: Financial and Operational Metrics as per Q3/Q2-2019 company financials; KWD:USD FX rate of 3.287 as at 30-Sep-2019. AUB reported financials grouped as per KFH's presentation: Deposits with banks and T-Bills are included in Short Term Murabaha; non-trading investments are included in Sukuk & Bonds; and subordinated liabilities are included in "inter-bank borrowings".

<sup>1</sup> Liquidity Banking Assets are Cash and Cash Equivalents and Short Term Murabaha. <sup>2</sup> Total Assets less Goodwill and Intangibles. <sup>3</sup> The pro forma capital position is calculated as the sum of KFH and AUB's standalone capital





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