



Date: 3 February 2020
9 Jumada Al-Akhar 1441
Ref 10/10/ 67 /2020

التاريخ: 3 فبراير 2020 م
الموافق: 9 جمادى الآخر 1441 هـ
الإشارة: 10/10/ 67 /2020

To: Boursa Kuwait

Peace, Mercy and Blessings of Allah be upon you

السادة / بورصة الكويت المحترمين
السلام عليكم ورحمة الله وبركاته

Subject: Disclosure of The KFH's Analysts
Conference for Q 4 / 2019

الموضوع: إفصاح بيتك عن مؤتمر المحللين
الربع الرابع 2019

In reference to the above, and in line with Kuwait Finance House 'KFH' interest in adhering to Boursa Kuwait Role Book Article (8-4-2/4), KFH would like to report the following:

بالإشارة إلى الموضوع أعلاه، وحرصاً من بيت التمويل الكويتي "بيتك" على الإلتزام بمتطلبات المادة (4/2-4-8) من كتاب قواعد البورصة، نود الإفادة بما يلي:

KFH has conducted the Analysts Conference for Q 4 / 2019 through live broadcasting on internet (Live Webcast) at 2 p.m. on Monday 3 February 2020, There was no other material information had been discussed during the conference.

عقد بيتك مؤتمر المحللين للربع الرابع 2019 عن طريق بث مباشر على شبكة الإنترنت وذلك في تمام الساعة 2 من بعد ظهريوم الإثنين الموافق 3 فبراير 2020. علماً بأنه لم يتم تداول أي معلومات جوهرية أخرى خلال المؤتمر.

Attached is the Investors Presentation Q 4 / 2019 for your reference. A copy of the same has been submitted to Capital Markets Authority.

مرفق العرض التقديمي للمستثمرين للربع الرابع 2019. هذا وتم تزويد السادة / هيئة أسواق المال بنسخة منه.

KFH will disclose later for the Conference Minutes of Meeting within 3 working days from the date of conducted.

سوف يقوم بيتك بالإفصاح لاحقاً عن محضر المؤتمر خلال 3 أيام عمل من تاريخ إنعقاده.

Best Regards,

Mazin S Al Nahedh

وتفضلوا بقبول فائق الاحترام،

مازن سعد الناهض



بيت التمويل الكويتي
Kuwait Finance House

بيت التمويل الكويتي
Kuwait Finance House



Year End -2019

Earnings Presentation

February 3rd , 2020

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- **FORWARD-LOOKING STATEMENTS**

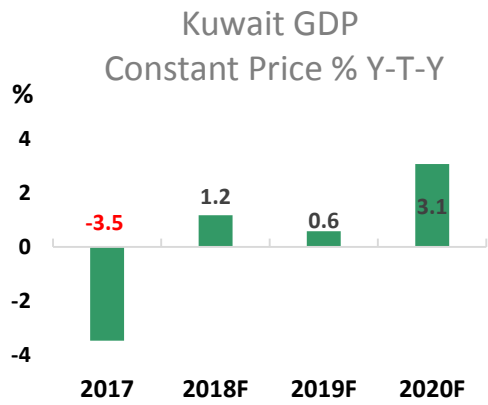
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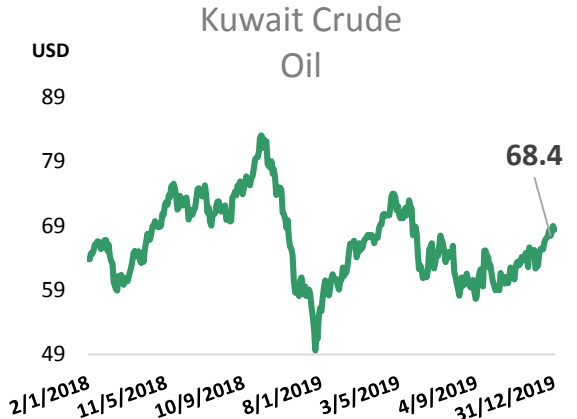
1	Kuwait's Operating Environment
2	Overview of KFH
3	Business Achievements
4	KFH Strategy
5	Key Outcomes of KFH's AGM & EGM
6	Year End-19 Financial Results
7	Appendix



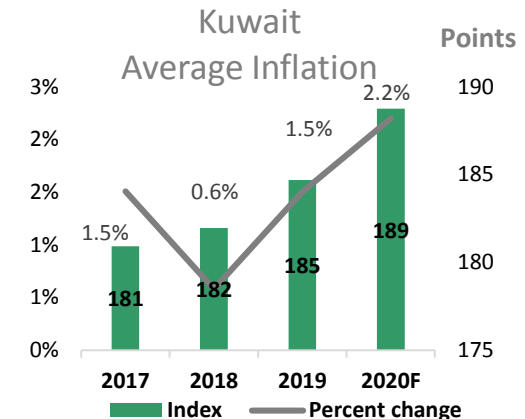
Kuwait's Economic Highlights



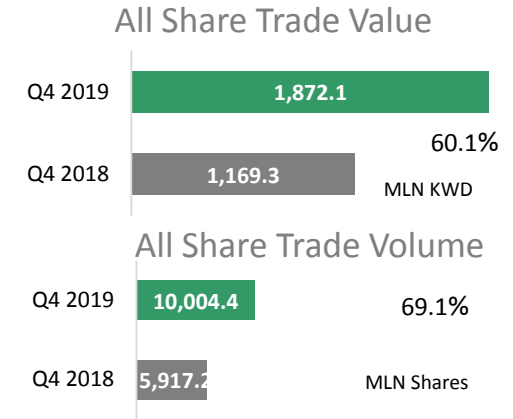
Source: IMF, KFH



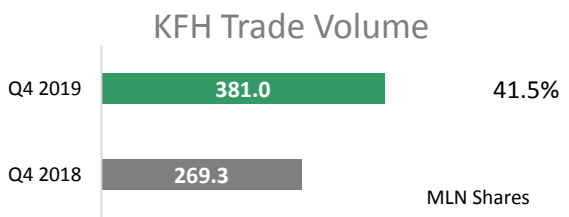
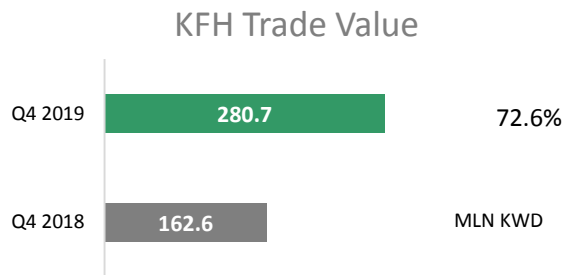
Source: EIA, KFH



Source: IMF, KFH



Source: Boursa Kuwait, KFH



Source: Boursa Kuwait, KFH

- Kuwaiti Crude Oil Price closed at USD 68.4 p/b in Q4-19, higher by 11.1% Q-T-Q and 31% Y-T-Y.
- Kuwait's Long-Term Foreign-Currency Issuer Default Rating (IDR) remained solid with Stable Outlooks, Fitch "AA", Moody's "Aa2", and S&P "AA".
- Central Bank of Kuwait left its benchmark interest unchanged at 2.75% on 11 December 2019 after cutting it by 25 bps in October 2019.
- MSCI a leading provider of research based Indexes and analytics announced on 18 December 2019, that it will reclassify the MSCI Kuwait indexes to Emerging Markets status as a part of May 2020 semi – Annual Index review, in one step as Kuwaiti equity market now meets all the necessary requirements.

Overview of KFH's Awards & Ratings

Kuwait

Best

Bank in Kuwait

*According to Islamic Finance News

Regional

Safest

**Islamic Financial Institution
in the GCC**

*According to Global Finance

Global

Best

**Islamic Financial Institution
in the World**

*According to Global Finance

FitchRatings

Long-Term Issuer Default Rating **A+**

Short-Term Issuer Default Rating **F1**

Viability Rating **bb+**

STABLE Outlook

As of : 30 September 2019

MOODY'S

LT FC Bank Deposits Rating **A1**

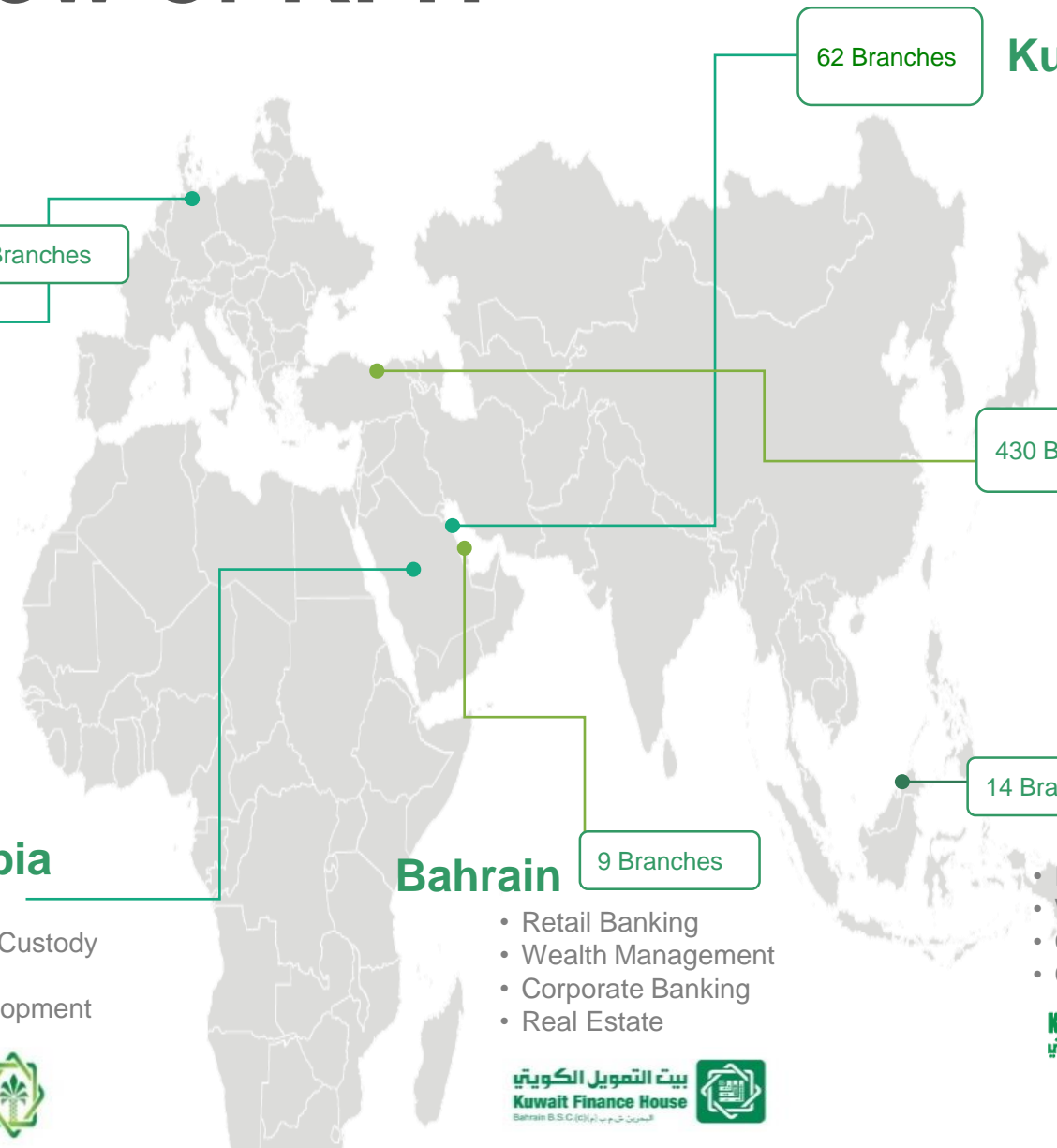
ST FC Bank Deposits Rating **P1**

Baseline Credit Assessment **baa3**

POSITIVE Outlook

As of: 23 January 2020

Overview of KFH



Germany

5 Branches

1st Islamic bank

- Retail Banking
- Corporate Banking
- Investment Services
- Real Estate Financing



Saudi Arabia

- Asset Management
- Wealth Management and Custody
- Investment Services
- Product & Business Development



Bahrain

9 Branches

- Retail Banking
- Wealth Management
- Corporate Banking
- Real Estate



62 Branches

Kuwait

- Retail Banking
- Wealth Management and Private Banking
- Corporate Banking
- Investment Services
- Real Estate Financing

430 Branches

Turkey

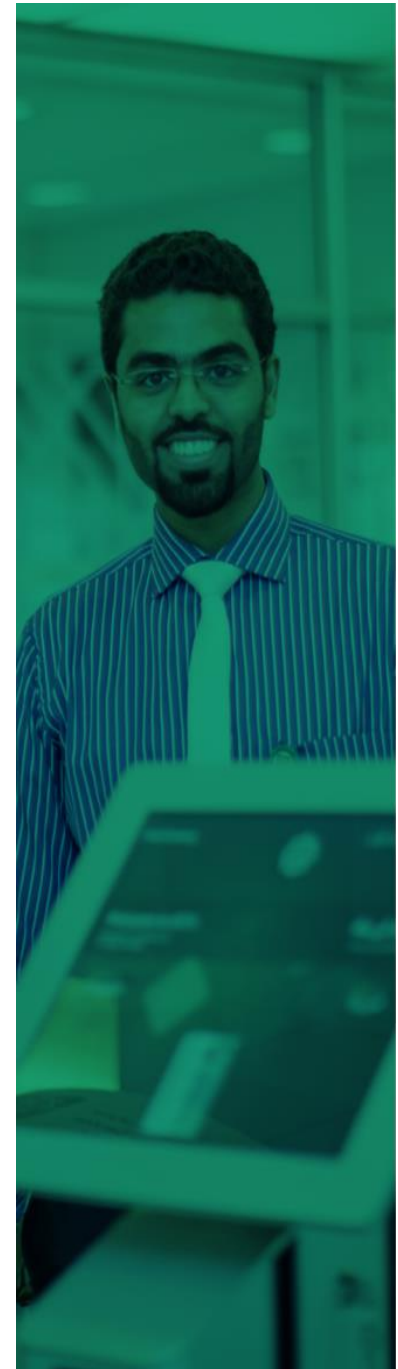
- Retail Banking
- Wealth Management and Personal Banking
- Corporate Banking



14 Branches

Malaysia

- Retail Banking
- Wealth Management
- Corporate Banking
- Commercial Banking



KFH Strengths

Robust Financial Performance	Leading Islamic Financial Institution	Strong Government Sponsorship	Professional Management Team	Strategic Distribution Channels	Effective Risk Management Framework
<p>A consistent track record of profitability & dividend payment</p> <p>Solid funding and liquidity profile</p> <p>Consistently low NPF rates</p> <p>Improved cost to income ratio</p> <p>Solid profit margins and improved efficiency</p>	<p>Second largest Islamic Financial Institution globally in terms of asset base</p> <p>Operating history of more than 40 years</p> <p>Strong retail franchise</p> <p>Pioneer of Islamic products in Kuwait</p>	<p>48% ownership by various Kuwaiti Government authorities</p> <p>KFH operates mainly in Kuwait where the economy benefits from high level of economic strength</p> <p>Systemic important bank in Kuwait Large retail deposit and global flagship Islamic bank</p>	<p>Well-rounded human capital through meritocratic management structure</p> <p>Significant improvement in the Management team for the diversified international operation</p> <p>Strong and stable Board of Directors, collectively bringing more than two hundred and fifty years of professional experience</p>	<p>Diversified international operations</p> <p>Presence in 6 countries giving access to Europe, Middle East and Asian markets</p> <p>Extensive accessibility option with a wide network of 515 branches and over 1,424 ATMs</p>	<p>KFH continuously develops its risk management framework in light of development in the business, banking and market regulations</p> <p>Disciplined & risk adjusted approach to capital allocation</p> <p>Large and diversified portfolio</p> <p>Reduced non-core assets</p>

Major Business Achievements

Major Deals

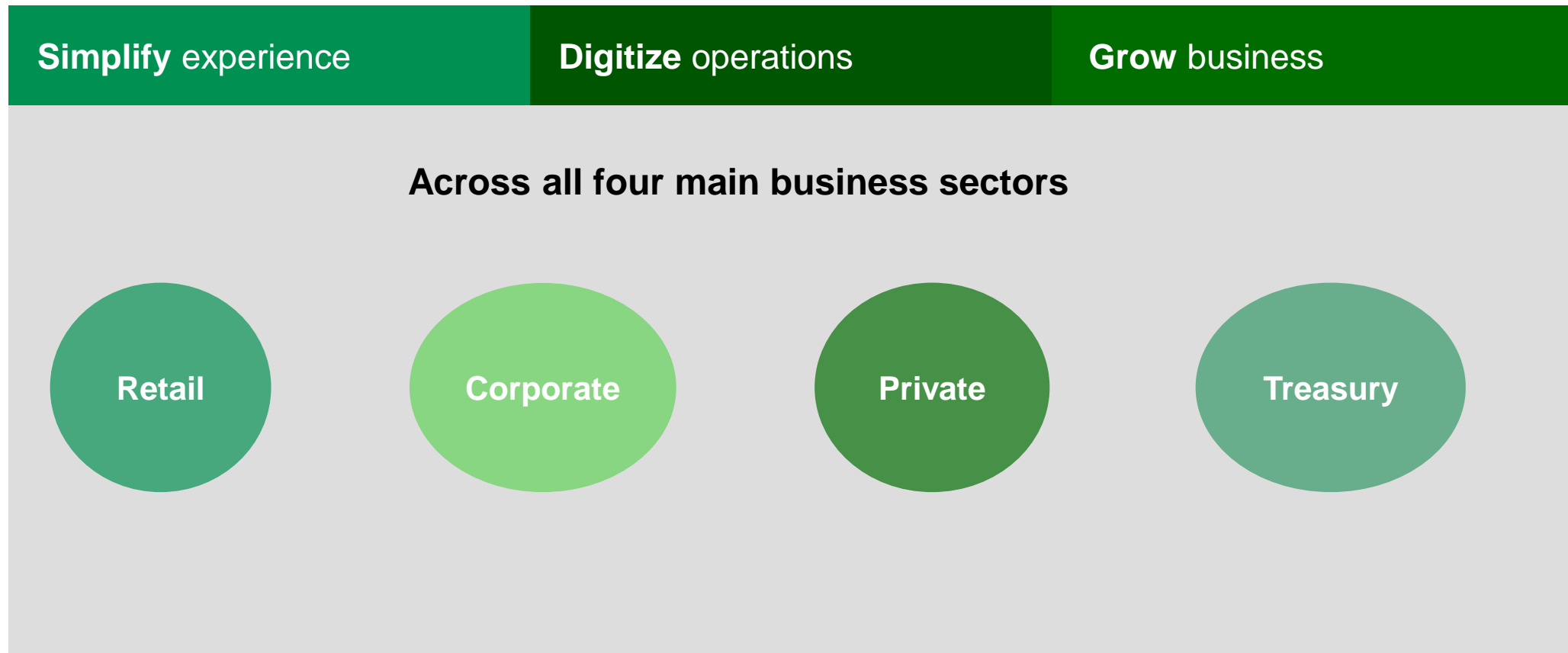
- **Kuwait Integrated Petroleum Industries Company (KIPIC)**, USD 500 million.
- **Duqm Refinery for USD 500 million.**
- **Kuwait's Clean Fuel Project:** Kuwait National Petroleum Company (KNPC), KWD 275 million
- **Ministry of Electricity and Water**, KWD 120 million.
- **ALAFCO Aviation Lease & Finance Company**, KWD 124 million.
- **Turkey's Bridge Construction Project:** Limak, Euro 200 Million.
- **Kuwait Airport:** USD 831 Million (jointly with another conventional bank).

Digital Products & Services

- Robotic process automation (RPA)
- Mobile Cheque Deposit Solution
- Skiplino service for booking appointments electronically in bank branches.
- KFH Go, fully-automated digital self-banking stations.
- "Cardless" Cash withdrawals using QR code, Civil ID or mobile number.
- Instant financial transfers service using Ripple Net network.
- Fast cross-border money transfer service "KFH Xpress".
- Requesting finance and updating information through KFH online app
- KFH-Turkey mobile branch, XTMs and wide range of digital services.
- Jazeel App by KFH Bahrain is revolutionizing the way we do banking.
- Robot service, Chatbot, wallet payment and many other digital services.

KFH Strategy

KFH's main focus is on core banking business activities. KFH's strategy is based on four main pillars



2019 Financial Highlights

Net Profit for Shareholders KD 251 m +10.4%	Total Financing Income KD 931.6 m +8.1%	Net Operating Income KD 510.1 m +12.5%
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Cost to Income Ratio

37.36%

Improved by 184bps

EPS (fils)

36.45

+3.39fils (2018: 33.06fils)

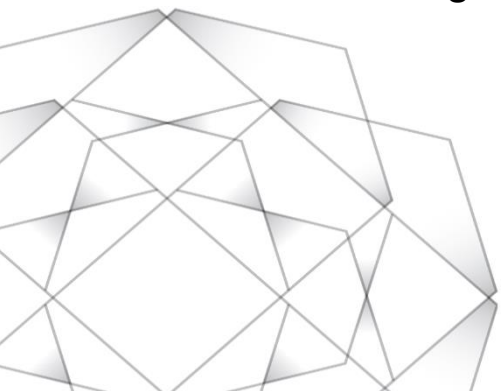
Key Highlights of Ordinary & Extra Ordinary General Assemblies (Dated: Jan. 20th , 2020)

- **Approved the Sharia Supervisory Board's report on KFH's acquisition** of Ahli United Bank BSC, and to convert its businesses and the businesses of its subsidiary banks into Islamic Sharia compliant.
- **Approved the assessment reports prepared by the international advisors;** Credit Suisse and HSBC, and the fair exchange rate of 2.325581 shares of Ahli United Bank BSC for one share of Kuwait Finance House.
- **Approved the listing of KFH in Bahrain Bourse** and to authorize the Board of Directors , or whoever assigned by the Board of Directors, to set the date of implementation of the decision and to take all relevant actions required.

** For more details, please refer to KFH's Disclosure: "Outcomes of KFH Ordinary and Extra-Ordinary General Assemblies - Convened on 20 January 2020", dated Jan 20th, 2020.*

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2019 Operating Performance

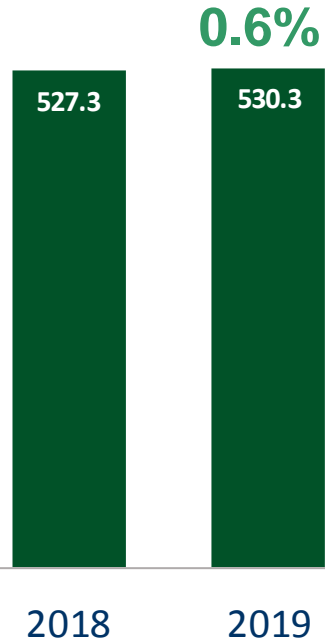
Net Profit for Shareholders
(KDmln)



Financing Income
(KDmln)



Net Financing Income
(KDmln)

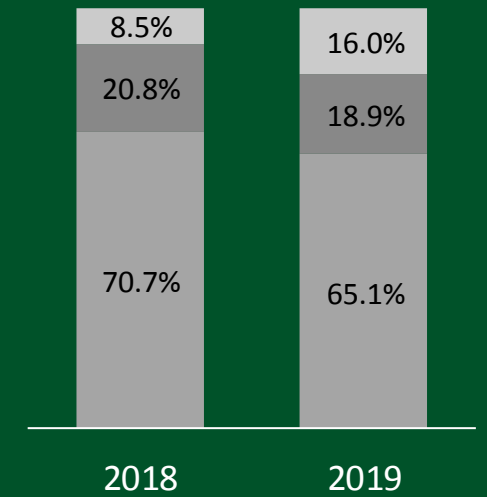


Net Operating Income
(KDmln)



Operating Income Profile

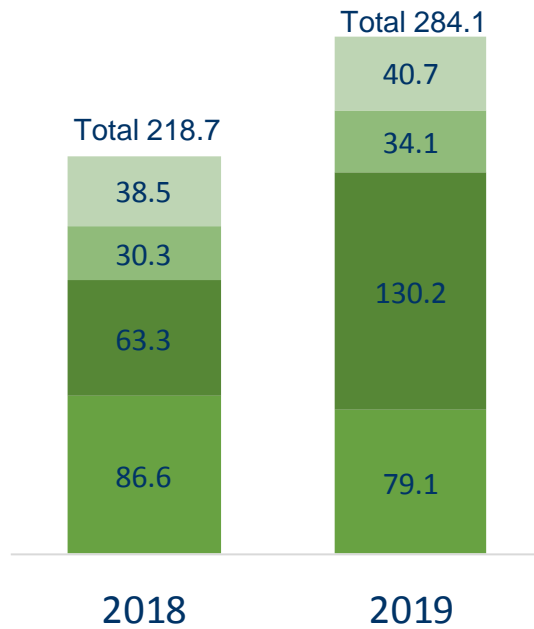
- Investment Income
- Non- Financing Income
- Net Financing Income



2019 Operating Performance

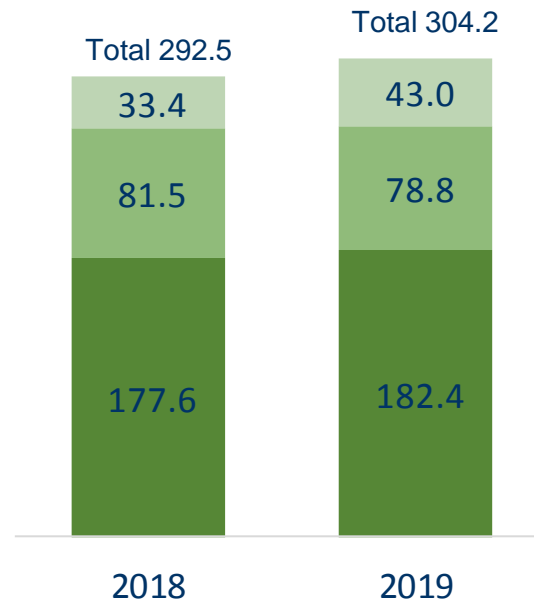
Non - Financing Income (KD mn)

- Other income
- Net gain from foreign currencies
- Investment Income
- Fee and Commission Income

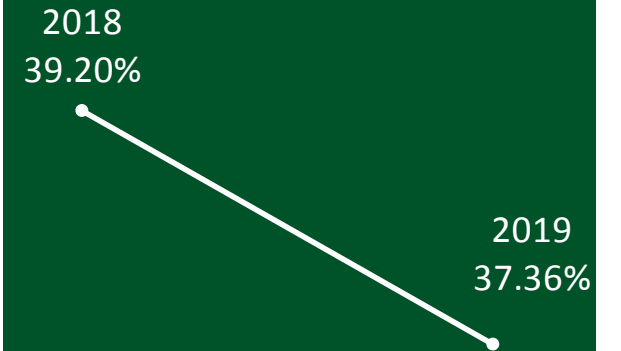


Total Operating Expenses (KD mn)

- Depreciation and amortization
- Other Operating expenses
- Staff costs



C/I Ratio

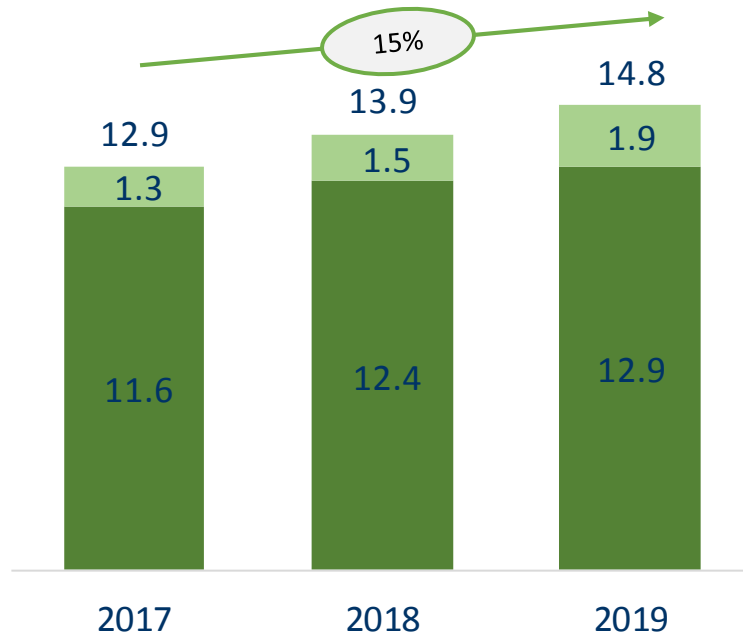


2019 Operating Performance

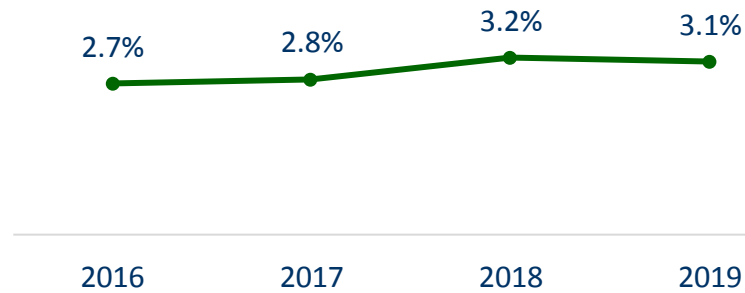
Average Profit Earning

Assets (KD Bln)

- Avg Financing
- Avg Sukuk

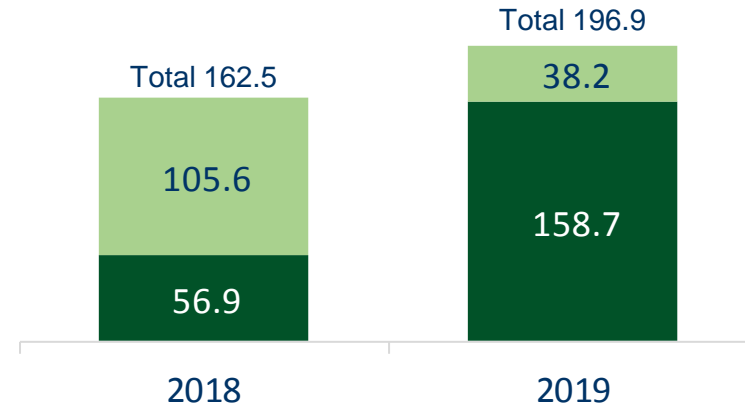


Net Financing Margin

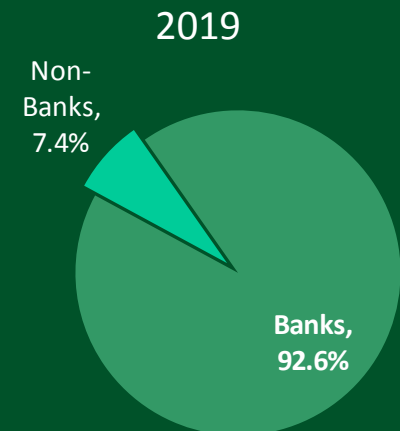
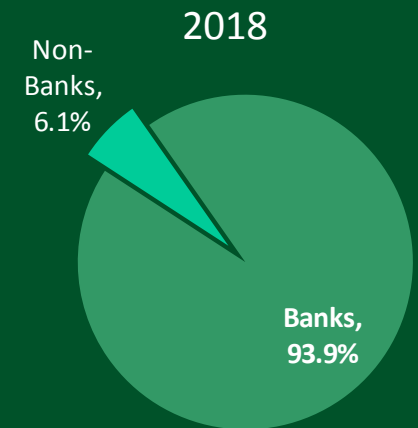


Provision and Impairment (KD mln)

- Financing
- Others



Net Operating Income Banks/ Non-Banks

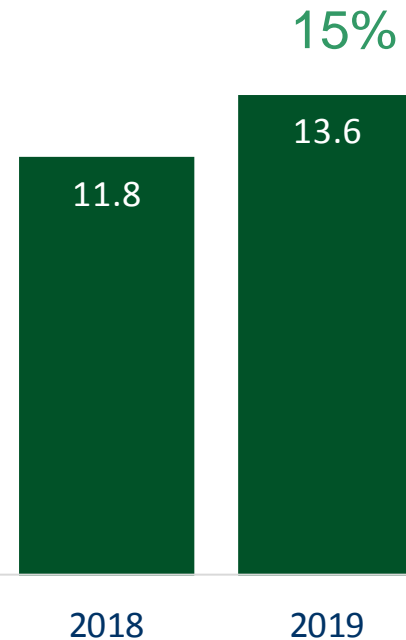


2019 Operating Performance

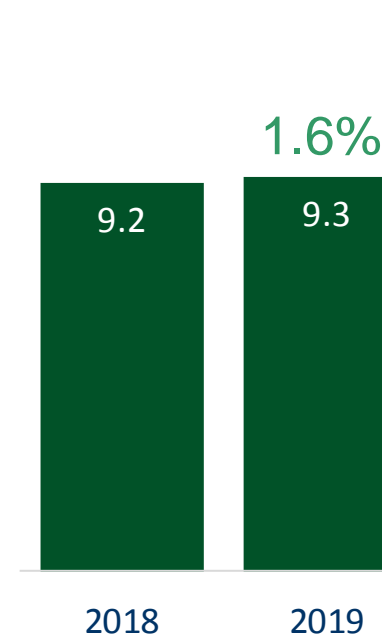
Total Assets
(KDBln)



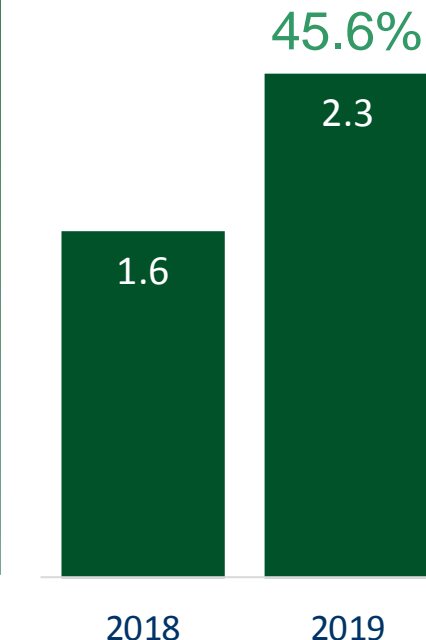
Depositors' Accounts
(KDBln)



Financing Receivables
(KD Bln)

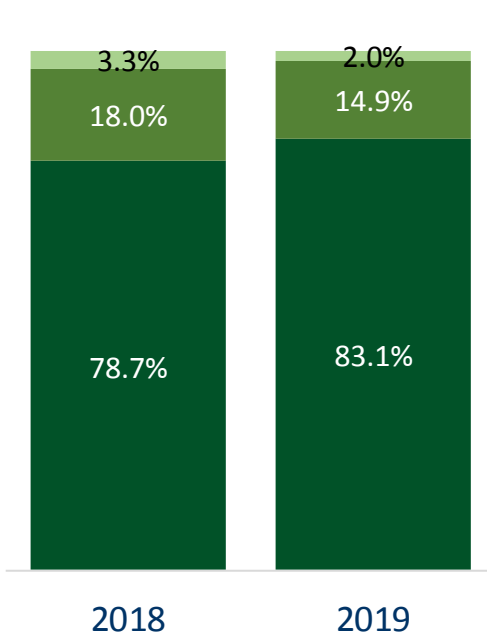


Investment in Sukuk
(KD Bln)

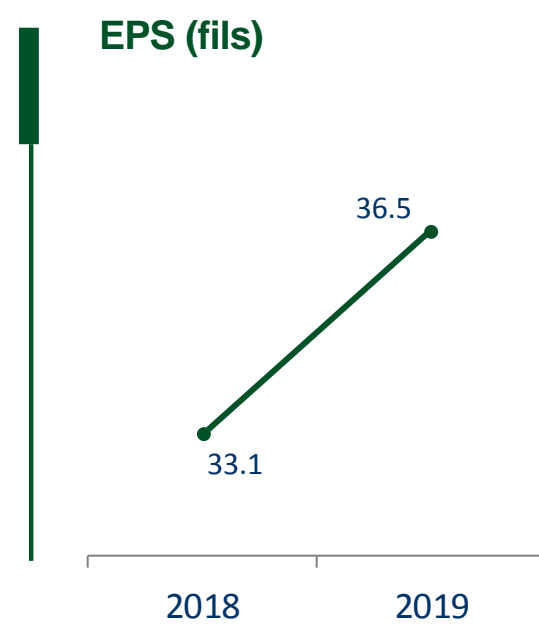
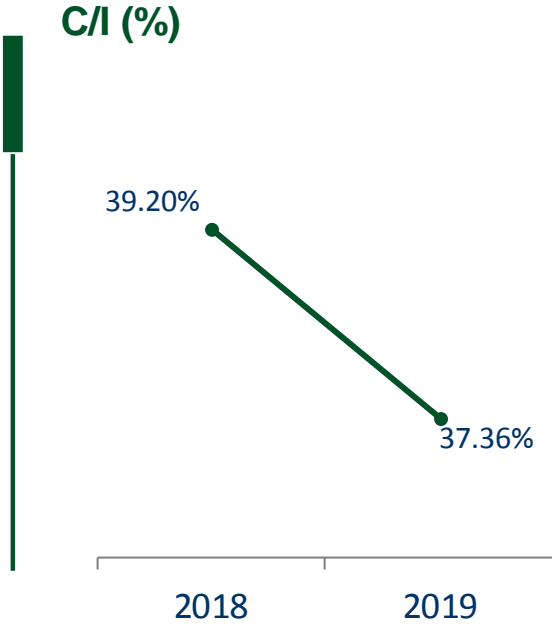
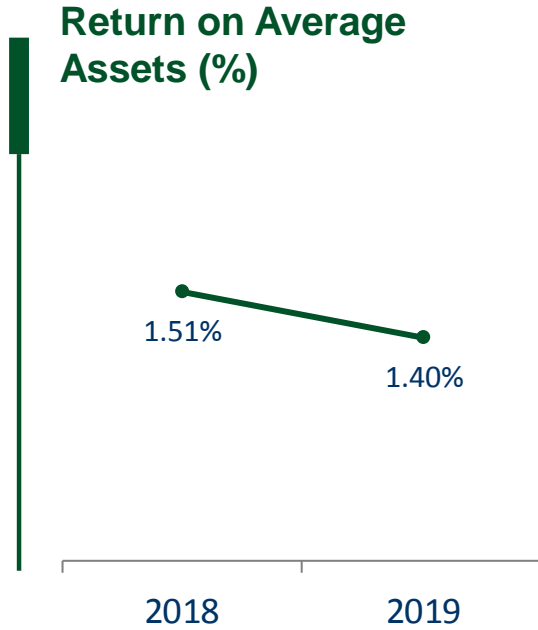
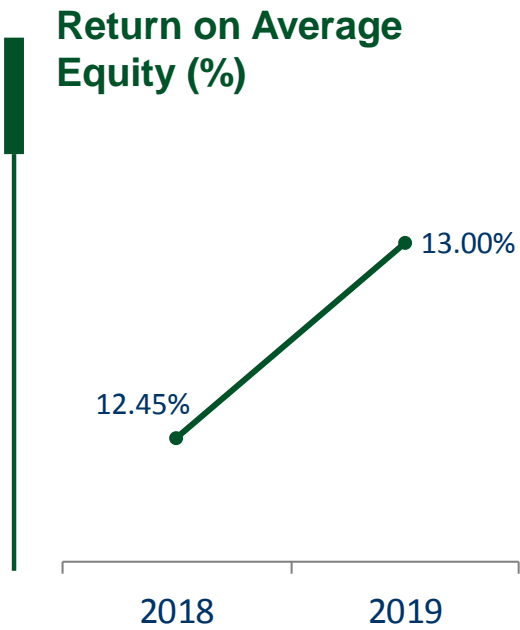


Funding Mix

- Sukuk Payable
- Due to Banks & Fis
- Depositors Accounts



2019 Operating Performance



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Appendix

2019 Consolidated Financials

Consolidated Statement of Income (KD million)	Dec-19	Dec-18
Financing income	932	862
Financing cost and estimated distribution to depositors	401	335
Net finance income	530	527
Investment income	130	63
Fees and commission income	79	87
Net gain from foreign currencies	34	30
Other income	41	39
Non-Financing Income	284	219
Tota Operating Income	814	746
Staff costs	182	178
General and administrative expenses	79	81
Depreciation and amortization	43	33
Total Expenses	304	292
Net Operating Income	510	454
Provisions and impairment	197	163
Loss for the period from discontinued operations	0	0
Profit for the Period Before Taxation	313	291
Taxation	51	28
Non-controlling interests	11	36
Profit Attributable to Shareholders of the Bank	251.0	227.4

Consolidated Statement of Financial Position (KD million)	Dec-19	Dec-18
Cash and balances with banks and financial institutions	1,910	1,381
Due from Banks	3,783	3,444
Financing receivables	9,337	9,190
Investment in sukuk	2,276	1,563
Trading properties	108	148
Investments	211	285
Investment in associates and joint ventures	504	499
Investment properties	455	490
Other assets	547	544
Intangible assets and goodwill	31	31
Property and equipment	229	195
Assets classified as held for sale	0	0
TOTAL ASSETS	19,391	17,770
Due to banks and financial institutions	2,427	2,689
Sukuk payables	320	499
Depositors' accounts	13,553	11,780
Other liabilities	848	728
Liabilities directly associated with assets classified as held for sale	0	0
TOTAL LIABILITIES	17,147	15,696
Share capital	698	634
Share premium	720	720
Treasury shares	(36)	(44)
Reserves	679	395
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHODERS OF THE BANK	2,060	1,894
Non-controlling interests	183	180
TOTAL EQUITY	2,243	2,074
TOTAL LIABILITIES AND EQUITY	19,391	17,770

Consolidated Statement of Financial Position 2015 - 2019

Consolidated Statement of Financial Position (KD million)	2015	2016	2017	2018	2019
Cash and balances with banks	1,600	1,495	1,262	1,381	1,910
Short-term murabaha	3,194	2,877	2,925	3,444	3,783
Financing receivables	8,095	8,176	9,216	9,190	9,337
Investments in sukuk	807	1,100	1,429	1,563	2,276
Trading properties	214	186	161	148	108
Investments	508	357	304	285	211
Investment in associates and joint ventures	535	469	464	499	504
Investment properties	580	591	554	490	455
Other assets	469	549	465	544	547
Intangible assets and goodwill	48	39	39	31	31
Property and equipment	264	216	214	195	229
Leasehold rights	180	0	0	0	0
TOTAL ASSETS	16,495	16,499	17,358	17,770	19,391
Due to banks and financial institutions	2,730	2,399	2,240	2,689	2,427
Sukuk payables	322,466	473	518	499	320
Depositors' accounts	10,756	10,717	11,597	11,780	13,553
Other liabilities	630	645	699	728	848
Liabilities directly associated with assets classified as held for sale	0	227	188	0	0
TOTAL LIABILITIES	14,439	14,461	15,242	15,696	17,147
Share capital	477	524	577	634	698
Share premium	720	720	720	720	720
Treasury shares	(50)	(49)	(45)	(44)	(36)
Reserves	487	450	436	395	428
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK	1,779	1,810	1,872	1,894	2,060
Non-controlling interests	276	228	244	180	183
TOTAL EQUITY	2,055	2,039	2,116	2,074	2,243
TOTAL LIABILITIES AND EQUITY	16,495	16,499	17,358	17,770	19,391

Consolidated Statement of Income 2015 - 2019

Consolidated Statement of Income (KD million)	2015	2016	2017	2018	2019
Financing income	695	718	741	862	932
Financing cost and distribution to depositors	263	283	296	335	401
Net finance income	432	435	445	527	530
Investment income	108	79	107	63	130
Fees and commission income	79	89	97	87	79
Net gain from foreign currencies	25	23	17	30	34
Other income	59	34	48	39	41
Non-Financing Income	271	225	268	219	284
Total operating income	703	660	713	746	814
Staff costs	172	174	188	178	182
General and administrative expenses	81	84	83	81	79
Depreciation and amortisation	78	37	35	33	43
Total Expenses	330	295	305	292	304
Net Operating Income	372	365	408	454	510
Provisions and impairment	184	157	163	163	197
Gain / (Loss) for the year from discontinued operations	22	(22)	0	0	0
Profit Before Tax and Zakat	211	186	245	291	313
Taxation and Proposed Directors' fees	21	24	30	27	51
Non-controlling interests	44	(3)	30	36	11
Profit Attributable to Shareholders of the Bank	146	165	184	227	251





YE'19 Key Performance Indicators

<i>Key Performance Indicators</i>	2018	2019
Return on Average Assets (ROAA)	1.5%	1.4%
Return on Average Equity (ROAE)	12.4%	13.0%
Cost to Income	39.2%	37.4%
Earnings Per Share (fils)	33.1	36.5
CET1 Ratio	15.5%	15.7%
Tier 1 Adequacy Ratio	15.9%	16.1%
Capital Adequacy Ratio	17.5%	17.7%

The background features a complex network of thin, light gray lines that intersect to form various geometric shapes, including triangles and quadrilaterals. The lines are thin and extend across the entire page, creating a subtle, modern aesthetic.

Key Acquisition Highlights

Key Transaction Highlights

All Share Merger	Pro Forma Ownership	Implied Price and Premium	Conditions
<p>Agree average exchange ratio of 2.325581 shares of AUB for each share of KFH (or 0.430 shares of KFH for each share of AUB)</p> 	<p>Prior to the merger:</p> <ul style="list-style-type: none"> KFH had c. 6,893m shares outstanding; and AUB had c. 8,774m AUB shares outstanding 	<p>Implied price per share of \$1.00 based on KFH's share price of \$2.32 as at 11-Sep-2019</p> <p>Implied total value of \$8.8bn in issued KFH shares for AUB shareholders as at 11-Sep-2019</p> 	<p>AUB shareholders to approve the transaction</p> 
<p>Conditional approvals granted by Central Bank of Kuwait and Central Bank of Bahrain</p>	<p>Following merger, KFH Group will have c. 10,655 shares outstanding and the combined bank will be owned¹:</p> <ul style="list-style-type: none"> c. 65% by KFH's shareholders c. 35% by AUB's shareholders 	<p>7.2% premium to AUB share price 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"> AUB shareholder acceptance of at least 85% of total issued capital Following receipt of requisite acceptances, approval & acceptance of AUB shareholders for 100% acquisition by way of an extra ordinary general assembly resolution Approval of AUB shareholders to convert AUB business in Bahrain to Sharia'a compliant Receipt of all regulatory and statutory approvals

Note: Market Data as at 11-Sep-2019

¹ 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.

This Transaction Combines Complementary Businesses And Delivers Scale to Become A Regional Powerhouse



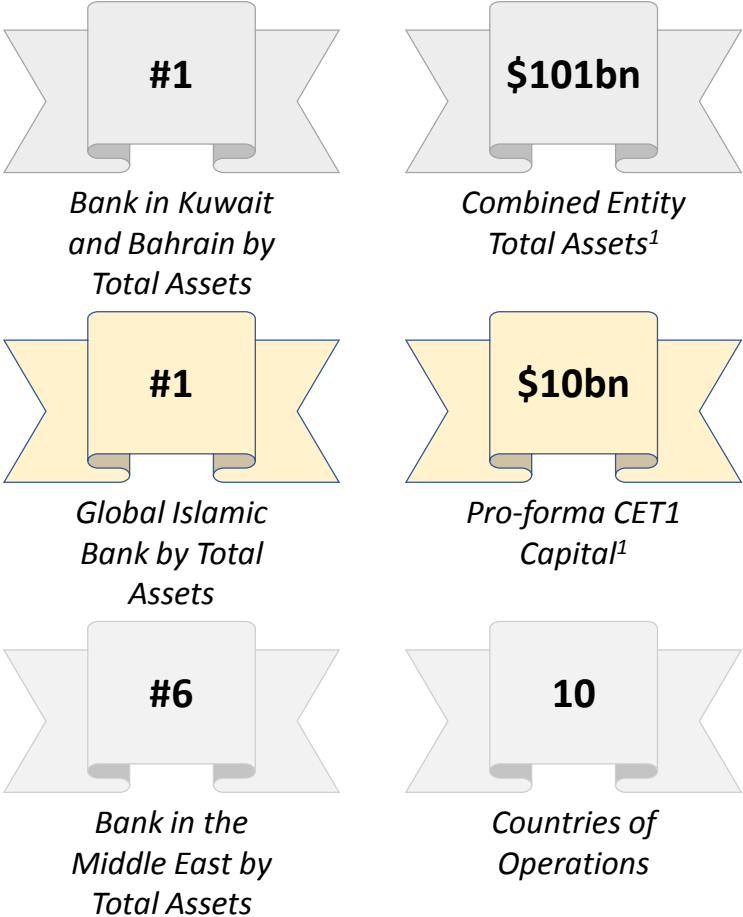
Leading Retail Bank in Kuwait

- ✓ Currently 2nd 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



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



¹ As of 30-Sep-2019.

Compelling Strategic Rationale

A transformational transaction that brings significant benefits to all stakeholders

1

Strengthens our position as the leader in our home markets



#1 bank in terms of total assets and deposits in Kuwait and Bahrain with over 27% of total market share in Kuwait by assets¹

2

We will become the world's leading Islamic bank



World's largest Islamic bank by total assets and the #2 Islamic bank in terms of customer deposits

3

This transaction makes KFH one of the dominant banks in the Middle East, with significant footprint diversification and expansion



Strengthened position in Kuwait and Bahrain



Entry into new markets

4

Enhanced scale and deep relationships across corporate and retail customers



Corporate Banking contribution increasing to 35% of pro forma segment assets

5

We will achieve significant operational efficiencies as a result of this transaction



Run rate synergies expected to be 10-15% of the combined cost base

6

Extremely well capitalised and funded, ideally positioning us to better pursue growth



\$3.9bn increase in CET1 capital



Strong and diverse funding base

7

This transaction is EPS and value accretive to KFH shareholders



EPS and DPS accretive by 31.8% including synergies and 21.8% and excluding impact of synergies

8

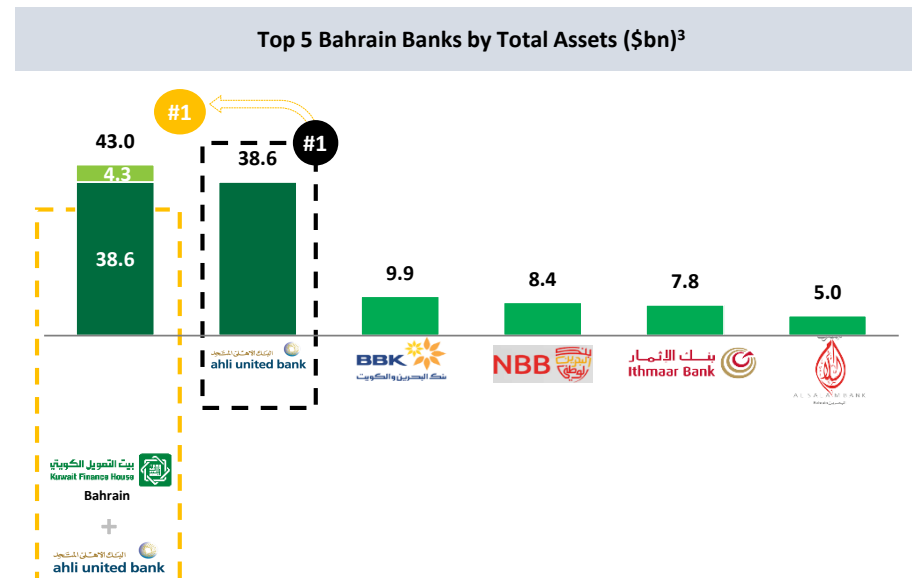
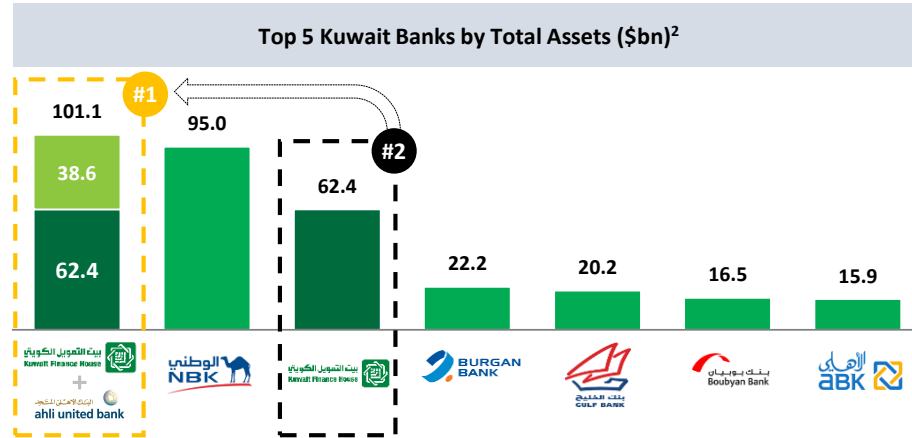
Evident financial rationale with strong pro-forma KPI



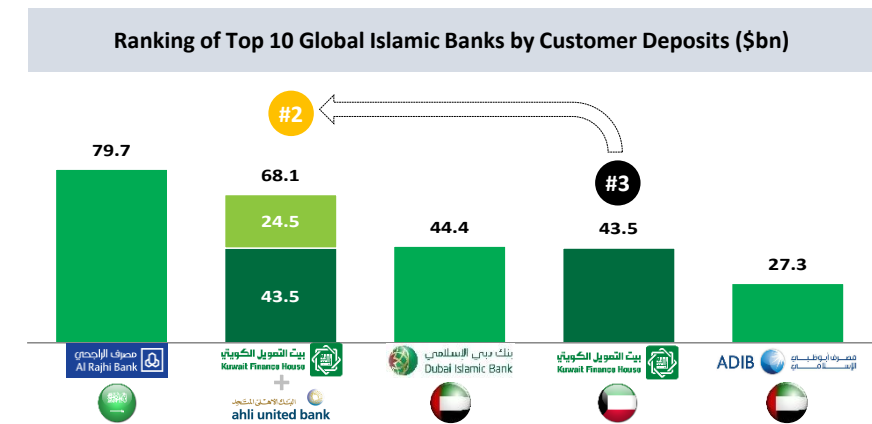
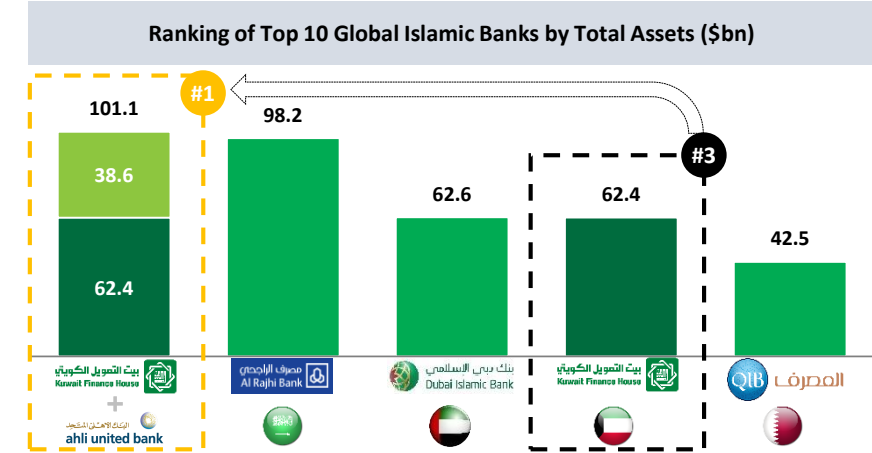
Enhancement in all KPI with ROAE of 15.2% and C/I ratio of 34.5%

¹ 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



2 WE WILL BECOME THE WORLD'S LEADING ISLAMIC BANK



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.

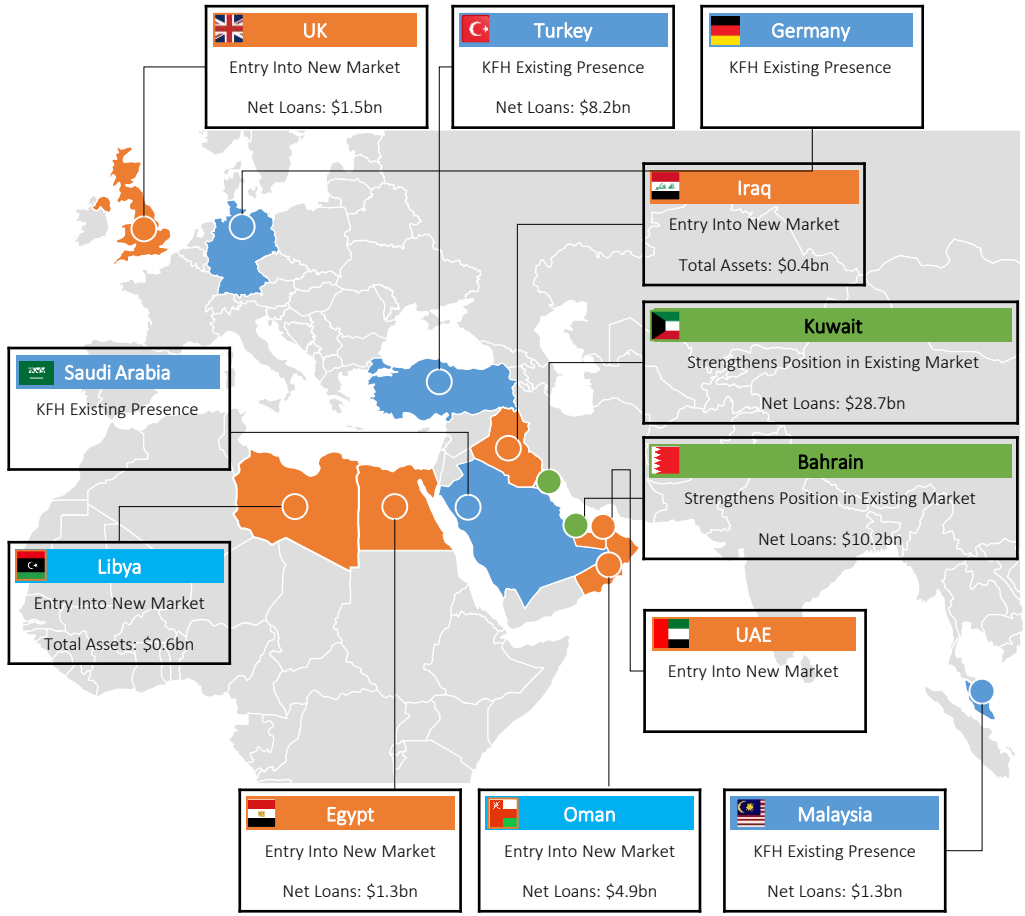
¹ Market share calculated as KFH+AUB combined total assets over the sum of total assets of all publically traded banks in Kuwait.

² Includes 5 largest publically listed banks in Boursa Kuwait. ³ Includes 5 largest publically listed banks in Bahrain Stock Exchange.

3

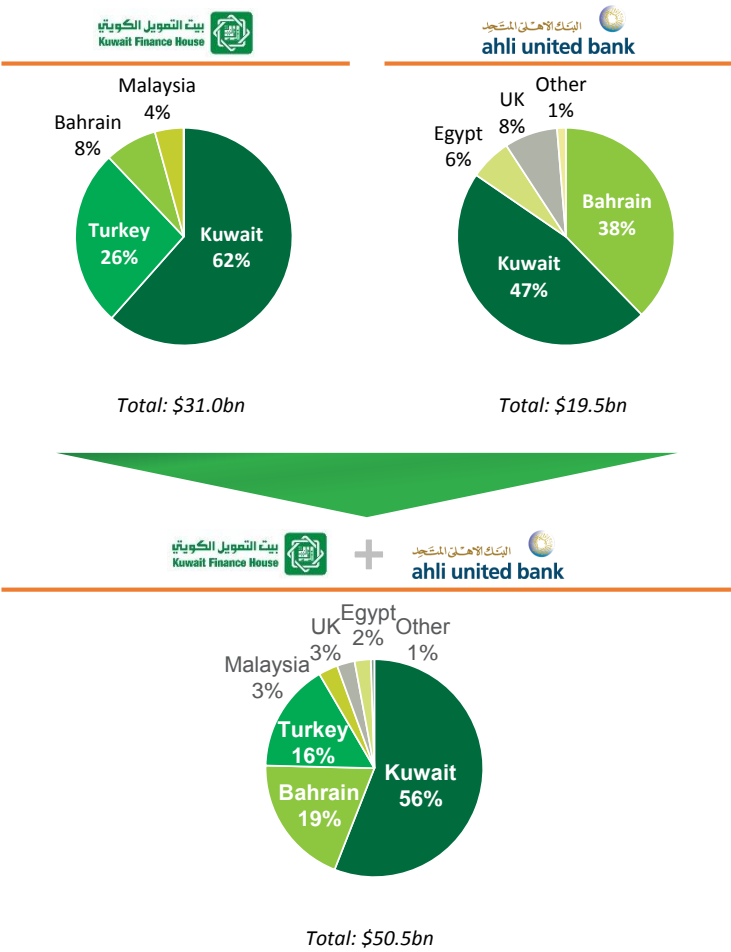
Makes us One of the LEADING Banks in the Middle East, OFFERING Footprint Diversification and Expansion

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



5 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

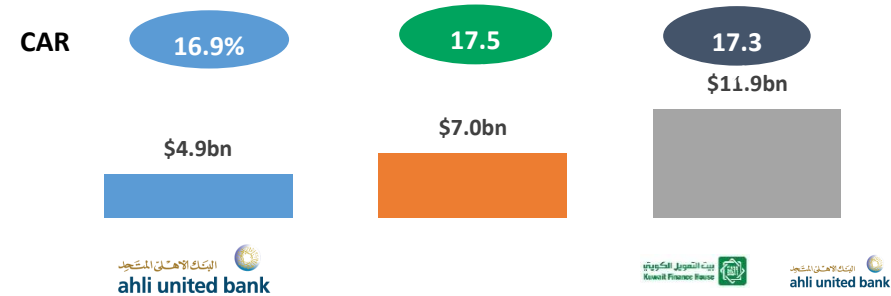
Revenue Synergies Potential by Closing Performance Gap

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

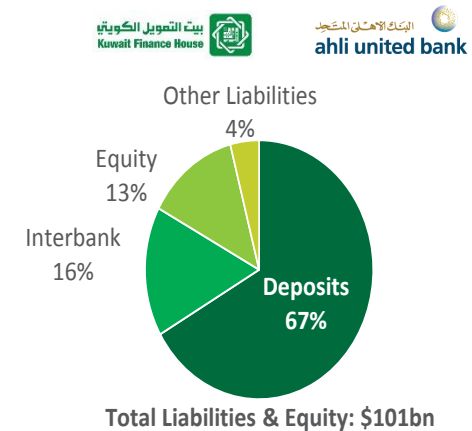
Run Rate Synergies represents 10-15% of Combined Cost Base

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

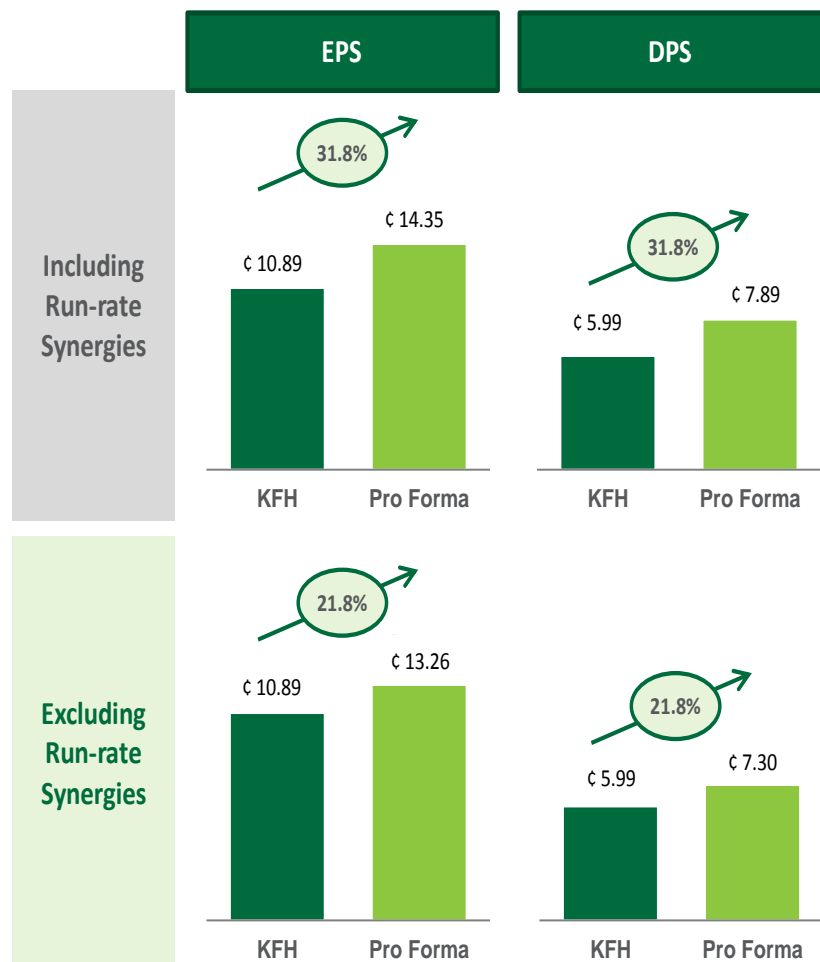
Significant Pro Forma Capital Position (As At 31-Dec-2018)



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



7 THIS TRANSACTION IS EPS AND VALUE ACCRETIVE TO KFH SHAREHOLDERS



8 EVIDENT FINANCIAL RATIONALE WITH STRONG PRO-FORMA KPI



Source: Company financials as at Q319

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

The background features a complex network of thin, light gray lines that intersect at various points, creating a series of overlapping triangles and quadrilaterals. The lines are oriented in several different directions, including horizontal, vertical, and diagonal, creating a sense of dynamic movement and structure.

Q & A



Investor.relations@kfh.com



Date: 5 February 2020
11 Jumada Al-Akhar 1441
Ref 10/10/ 74 /2020

التاريخ: 5 فبراير 2020 م
الموافق: 11 جمادى الآخر 1441 هـ
الإشارة: 10/10 / 74 /2020

To: Boursa Kuwait

Peace, Mercy and Blessings of Allah be upon you

السادة / بورصة الكويت المحترمين
السلام عليكم ورحمة الله وبركاته

Subject: Disclosure of The KFH's Analysts
Conference for Q 4 / 2019

الموضوع: إفصاح بيتك عن مؤتمر المحللين
الربع الرابع 2019

In reference to the above, and in line with Kuwait Finance House 'KFH' interest in adhering to Boursa Kuwait Role Book (Article 8-4-2/4), KFH would like to report the following:

بالإشارة إلى الموضوع أعلاه، وحرصاً من بيت التمويل الكويتي "بيتك" على الإلتزام بمتطلبات المادة (4/2-4-8) من كتاب قواعد البورصة، نود الإفادة بما يلي:

Further to the previous disclosure on 3 February 2020, the Conference Minutes of Meeting Q4/ 2019 is attached.

إستكمالاً لإفصاحنا السابق بتاريخ 3 فبراير 2020، مرفق محضر مؤتمر المحللين للربع الرابع 2019.

A copy of the same has been submitted to CMA.

هذا وتم تزويد السادة /هيئة أسواق المال بنسخة منه.

Best Regards,

Mazin S Al Nahedh

وتفضلوا بقبول فائق الإحترام،

مازن سعد الناهض



بيت التمويل الكويتي
Kuwait Finance House



Kuwait Finance House Earnings Webcast Transcript Year End 2019

Monday, 3rd February 2020, 2:00 pm Kuwait Time

Speakers from Kuwait Finance House executive management:

- Mr. Mazin Al-Nahedh, Group Chief Executive Officer (GCEO)
- Mr. Shadi Zahran, Group Chief Financial Officer (GCFO).
- Mr. Fahad Al-Mukhaizeem, Group Chief Strategy Officer (GCSO).

Chairperson

- Mr. Ahmed El Shazly, EFG-HERMES.

Some of attendees:

- Ajeej Capital
- OUSOUL Company
- Wafra International Investment
- PIFSS
- CI Capital
- Norges Bank Investment Management
- Al Rayan Investment
- Abu Dhabi Commercial Bank
- SICO Bank
- HSBC
- Citi Bank
- Fiera Capital
- Acuity Knowledge Partners
- Franklin Templeton
- Arqaam



The beginning of the live webcast text-

Good afternoon ladies and gentlemen and welcome to the Kuwait Finance House Year End 2019 results webcast. This is Ahmed El Shazly from EFG-Hermes and it is a pleasure to have with us on the call today:

- Mr. Mazin Al-Nahedh, Group Chief Executive Officer (GCEO)
- Mr. Shadi Zahran, (GCFO)
- Mr. Fahad Al-Mukhaizeem, (GCSO)

And we are also joined today by the following attendees:

- Ajeej Capital
- OUSOUL Company
- Wafra International Investment
- PIFSS
- CI Capital
- Norges Bank Investment Management
- Al Rayan Investment
- Abu Dhabi Commercial Bank
- SICO Bank
- HSBC
- Citi Bank
- Fiera Capital
- Acuity Knowledge Partners
- Franklin Templeton
- Arqaam

In addition to other companies...

A warm welcome to everyone and thank you for joining us today.

We will start the call with the management presentation for the next 10 to 15 minutes, then this will be followed by the Q&A session. To ask a question, just type in your question on your screen at any time during the presentation and we will address it during the Q&A session.

I would also like to mention that some of the statements that might be made today may be forward looking. Such statements are based on the company's current expectations, predictions and estimates. There are no guarantees of future performance, achievements or results.

And now I will hand over the mic to Mr. Fahad to start with the presentation.

Thank you.

Mr. Fahad Al-Mukhaizeem:

Thank you, Ahmed and good afternoon ladies and gentlemen. We are glad to welcome you to the Year End 2019 earnings call for Kuwait Finance House Group. I am Fahad Al-Mukhaizeem, Group Chief Strategy Officer. Today, we'll be covering highlights of the Kuwait operating environment with an overview on KFH. We'll also share with you KFH's strategy, as well as Year End 2019 results.

On Dec 18th, 2019, (MSCI) announced the official reclassification of Kuwait Indexes to Emerging Markets Status. The upgrade serves Kuwait's 2035 vision of becoming an attractive financial center through the valuable attraction of foreign capital, increased liquidity, and the enhanced levels of transparency.

As for interest rates, the Central Bank of Kuwait has made a 25 basis point cut in October 2019 with interest rates unchanged at 2.75%.

On the other hand, according to the IMF, GDP is expected to witness an increase in 2020 reaching 3.1%.

As an overview of KFH's awards and ratings, KFH has won the World's Best Islamic Financial Institution 2019 award, Best Islamic Financial Institution 2019 award in the Middle East, and the Safest Islamic Financial Institution in the GCC 2019 from Global Finance Magazine.

Further, Fitch and Moody's have affirmed long term ratings for KFH at A+ and A1 respectively. Moody's have recently changed their outlook from Stable to Positive.



Our strategic distribution remains one of KFH's strengths with a branch network exceeding 510 branches around the world. KFH has invested strongly in banking innovation and in the latest technology while achieving excellence in mobile banking services and the launch of digital products and services including fully-automated digital self-banking stations "KFH Go", the digital Cheque Deposit solution through mobiles, in addition to the Jazeel app which has an "easy on-boarding" process developed in KFH Bahrain, adding to our smart digital solutions.

Furthermore, KFH continues to participate locally and regionally in key mega projects in such vital sectors as energy, water, infrastructure, and construction.

With this, let me hand over the mic to our Group CEO Mr. Mazin Al-Nahedh.

Mr. Mazin Al-Nahedh:

Thank you, Fahad. Good day ladies and gentlemen. It's my pleasure to welcome you all to our Year End 2019 earnings call. Let me highlight the financial performance for Year End 2019:

KFH realized a net profit of KD 251.0 million for the year 2019 for KFH shareholders an increase of 10.4% over last year.

Total financing income reached KD 931.6 million, i.e. an increase of 8.1% compared to last year.

Net operating income increased to reach KD 510.1 million, i.e. a growth of 12.5% over the last year.

Earnings per share for 2019 reached 36.45 fils an increase of 10.3% over last year.

The Board of Directors has proposed 20% cash dividends to shareholders and 10% bonus shares subject to general assembly and concerned authorities' approval.

The solid financial statements that KFH achieved in 2019 came as a result of achieving the highest levels of innovation and excellence in customer services, also these strong results confirm KFH's ability to adapt to the challenges that the region and global

markets witnessed in 2019. In addition, the prudent approach that KFH follows towards risk management created a buffer against market fluctuations and geopolitical developments regionally and worldwide.

Moreover, the high liquidity levels that KFH enjoys are one of its main strengths along with the Group's geographical spread in Turkey, Germany, Bahrain, and Malaysia, as well as the diversified investment and banking services that are aligned with latest financial technology.

The year 2019 achieved success in many aspects as KFH made qualitative leaps in implementing its digital transformation strategy, by adopting the latest financial technology innovations. Kuwait Finance House (KFH) also has a leading position in the Islamic Sukuk and Financial Services market. Investment in Sukuk reached KD 2.276 billion an increase of KD 713 million i.e. a growth of 45.6% compared to last year having most of the balance representing sovereign sukuk.

On January 20, 2020 KFH has held its ordinary and extraordinary general assembly meetings, in which it approved key aspects regarding the acquisition of AUB Bahrain including the Sharia Supervisory Board's report on the conversion plan to Sharia compliance, the assessment reports prepared by the international advisors noting the fair exchange rate of 2.325581 shares of AUB Bahrain for one share of KFH, in addition to the listing of KFH in Bahrain Bourse.

For more details regarding the Acquisition, we have disclosed to the regulatory authorities and the market the latest developments in this regard. All these disclosures were published via the official website of Boursa Kuwait and any new development will be updated as and when it comes available.

Now I will hand over the mic to Group's Chief Financial Officer, Mr. Shadi Zahran and he will present the financial results for the year end 2019 in details and answer any of your questions afterwards.

Thank you.



Mr. Shadi Zahran:

Thank you, Mazin. Alsalam Alykum Good day ladies and gentlemen. It's my pleasure to welcome you all to the year 2019 earnings call. Let me highlight the financial performance of 2019:

The Group has achieved Net Profit After Tax (NPAT) attributable to Shareholders for the period ended 31st December 2019 of KD 251.0mn higher by KD 23.6mn or 10.4% as compared to 2018 of KD 227.4mn.

Financing Income increased by KD 69.5mn or 8.1% resulting mainly from the increase in average yielding assets.

Net financing income (NFI) has marginally increased by KD 3.0mn or 0.6% compared to last year. This is due to increase in financing income of KD 69.5 mn offset by the increase in COF by KD 66.5 mn.

The increase in COF is mainly due to the full effect of increase in benchmark rates (as reached the highest level in 2018 fourth quarter) besides the increase in distribution to depositors as a result of higher group profitability. However, the reduction in the benchmark rates which started in second half of 2019 did not materially impact the COF.

Net Operating income increased by KD 56.6mn or 12.5% compared to last year reaching KD 510.1mn; the increase is mainly from Investment Income by KD 66.9mn.

The increase in investment income is mainly generated from gain on sale of investments and income from Islamic derivatives transactions (Islamic Currency swaps or Wa'ad structure) which led to increase in investment income contribution to total operating income to reach 16% compared to 8.5% last year. However, the other non-yielding income contribution remained at the same level.

Total Operating Expenses at KD 304.2mn has increased by KD 11.8mn or 4% compared to last year.



Increase in cost was mainly due to inflationary conditions seen in some markets where the group operates. In addition to supporting growth of Banking Business.

Despite the increase in operating expenses, the group C/I ratio continued to improve showing reduction of 184bps during 2019 to reach 37.36%. Displaying an improved efficiency, and optimized total operating expenses.

Furthermore, at KFH-Kuwait, C/I ratio at 32.7% is still below both the local Islamic Banks average of 43.1% and local conventional Banks average of 37.1% (calculated from published financials for September 2019).

Average Profit Earning Assets increased by 6.6% compared to 2018 and 15% compared to 2017, maintaining the growth momentum of yielding assets for the past years. (avg. YoY financing receivables and MM is higher by KD 0.5bn and avg. Sukuk is higher by KD 0.4bn)

Group NFM at 3.10% shows a 8bps decrease over 2018 of average 3.18%.

Group average yield was maintained despite aggressive market competition and slow discount rate evolvment compared to Fed rate. However, as mentioned earlier the COF is higher as compared to 2018 on account of KFH increased profitability and higher market rates.

The group total provisions and impairment charge increased by KD 34.4mn or 21.2% to reach KD 196.9mn. Higher provisions on financing by KD 101.8mn is on account of precautionary provision of KD 60mn recorded at group level on our Turkish subsidiary financing portfolio on conservative basis in view of market outlook. In addition to the increased COR in Turkey.

Provisions and impairment for investments and others decreased from KD 105.6mn to KD 38.2mn due to last year one-off impairment for certain legacy properties in GCC.

Net Operating Income (before provisions) from banking activities remained at same level of 93% of Group Net Operating income.



Total Assets at KD 19.4bn increased by KD 1.6bn or 9.1% during 2019.

The group achieved an outstanding growth in deposits in 2019 of KD 1.8bn or 15% with contribution from all banking entities reflecting the depositors' strong confidence in KFH group in addition to group investments in digitalization mainly in Turkey and Bahrain.

Additionally, the favorable deposits mix continues to show very healthy contribution from CASA deposits which represents 44.3% of total group deposits as at the end of 2019 – maintaining same level during the past years. It's also worth to mention that KFH Kuwait dominates the saving accounts with the market share of 41.2% (as per CBK latest published reports, Nov-19).

Financing receivables at KD 9.3bn increased by 1.6% in 2019. Growth in financing receivables contributed from Kuwait, Turkey and Bahrain. Group strategy focusing on assets quality resulted in slower growth besides the impact of strong market competition on pricing in Kuwait.

Investments in Sukuk at KD 2.3bn increased by KD 713mn or 45.6% compared to 2018 and contributed from all banking entities with majority of Sovereign Sukuk investment. The growth in Sukuk portfolio is a response of growth in deposits in all markets in which we operate where limited good asset quality financing opportunities are available within the Group's overall Risk appetite.

Customer deposits as a percentage of total deposits at 83.1% continues to improve reflecting the healthy funding mix and shows robust liquidity.

NPL ratio reduced further to reach 1.88% (as per CBK calculation) in Dec-19 compared to 1.99% at Dec-18 on account of improvement in overall risk profile of the Bank supported by recoveries and write-offs.

Coverage ratio (provision) for Group improved to 231% in 2019 (2018: 191%).

Coverage ratio considering collateral for Group improved also to 284% in 2019 (2018: 247%).

In the last slide looking at the key performance ratios, the group compared to last year same period is as follow:

- ROAE from 12.45% to 13.00%.
- ROAA decreased from 1.51% to 1.40% (the decline is associated to the one-off precautionary provision impacting net profit including minority).
- C/I from 39.20% to 37.36%, and.
- EPS from 33.06 fils to 36.45 fils.

Now, in addition to the financial position and highlights provided in the appendix we have also included this time a section related to the AUB acquisition due to its importance for the investors. All of the information in those slides was made available to shareholders prior to the EGM on 20th of Jan 2020, and I will focus briefly on the key financial highlights

As already disclosed, KFH shareholders have approved the transaction and both regulators CBK and CBB have provided their conditional approvals.

As well disclosed, the consideration for the Acquisition (being the Exchange Ratio) is 1 KFH Share for 2.325581 shares of AUB, this will result in representation of AUB shareholders of 35% in the new combined group.

The transaction positions KFH as a dominant bank in the Middle East, diversifying its footprint to 6 new markets in addition the existing ones.

KFH and AUB have complementary businesses and as a result of acquisition the new combined KFH Group will offer a well-diversified full-service financial institution, with each business segment of corporate banking, retail and private banking, treasury and investment represents one-third of the group total assets post acquisition.

Also, from the total assets perspective, the acquisition of AUB will create the largest Islamic bank in the world, largest bank in Kuwait and Bahrain and 6th largest bank in Middle east with combined total assets base exceeding USD 101 billion.



From the perspective of total customer deposits, KFH will be the second largest Islamic bank in the world.

The anticipated annual run-rate synergies are estimated to be in the range of 10-15% per annum of the combined group cost base, after completion of integration and conversion.

The combined group is expected to benefit from a more efficient platform, optimising infrastructure from both groups, greater scale and negotiating positions with suppliers. Further KFH Group should be in a position to capture the significant opportunities arising from existing relationships across both groups.

Finally,

The pro-forma financials based on audited 2018 financial statements of both groups and considering the issuance of the new shares, the transaction is expected to be earnings accretive for KFH shareholders by 21.8% excluding the impact of estimated synergies. And 31.8% with estimated synergies.

There is also strong financial rationale for this transaction with enhancement in all key ratios as the expected ROA to be above 1.5%. ROE above 15%, C/I ratio below 35%, and CAR above 16.5%

With that I conclude my part and we may move to the Q&A SESSION

Thank you.

Mr. Ahmed Al Shazly:

Again, to ask a question, just please type it in the question box in your screen, so we can be able to reply to it.



Q & A

Question 1: What is the plan in regard to the non-shariah compliant assets of AUB that cannot be purified post the acquisition? **(One of the attendees).**

Answer by Mr. Shadi (GCFO): We have detailed plans, we started by analyzing the AUB financials and we made detailed plans for conversion of those assets and our Sharia also was involved in this plan and approved it.

Question 2: What is your expectation on profit margin trend for 2020? **(One of the attendees).**

Answer by Mr. Shadi (GCFO): For the next financing margin, we expect to remain at the same level in 2020.

Question 3: Is the Turkish subsidiary entirely responsible for increase in financing asset impairment in 2019? **(One of the attendees).**

Answer by Mr. Shadi (GCFO): As I mentioned we disclosed in our financials in the first half of 2019, we took precautionary provisions KWD 60 Million, and that only in the Turkey portfolio.

Question 4: What is your expectation of cost of risk for 2020 compared to 2019?

SICO Bank

Answer by Mr. Shadi (GCFO): For the group it is expected to stay at 1%, the normalized cost of risk, if you take out the KWD 60 Million one-off.

Question 5: Any worries on foreign exchange risk? in terms of Turkish lira? **OUSOUL Company.**

Answer by Mr. Mazin (GCEO): Well, no doubt the TL has been devaluating over its life and it is due naturally to the different interest rates between the two countries but that is already taken into account in our budgeting and planning and as such we



see the growth in Turkey and the growth in the financing assets to be positive for the group and the impact of the TL, the devaluation would have an impact on our original investment in TL, so in essence the decline in KWD terms.. the return that is achieved from Turkey in terms of ROE is increasing.

Question 6: Hi team, can you please share the CASA ratio and the CET1 ratio at the end of 2019? **Franklin Templeton.**

Answer by Mr. Mazin: I think we mentioned we it earlier 44.3% is the CASA mix, from our total deposits, the customer deposits. (GCEO). CET-1 ratio for 2019 is 16.11%. (GCFO)

Question 7: It seems that there has been a top up for the provisioning in Turkey with cost of risk being slightly higher in 4Q than 3Q level which had 20 million Dinar of additional provisioning. what is your outlook on Cost of Risk for Turkish subsidiary for 2020 and stage 3 coverage ratio for Turkey? **Bloomberg Intelligence.**

Answer by Mr. Mazin (GCEO): In terms for the cost of risk in Turkey in 2020, we anticipate that most of the disruption took place in the Turkish economy has taken place and we would see good recoveries moving forward in 2020. There are certain economic sectors that we are looking at again since we stopped lending them since 2018, for example tourism, we are seeing that it is improving. In addition to other economic sectors that potentially could add more financing receivables for KFH in Turkey.

Question 8: What is your expectation of financing asset growth in 2020? **SICO Bank**

Answer by Mr. Mazin (GCEO): I think it's going to be for the group in the range of I would say 5-6%.

Question 9: Does the group expect similar liquidity levels going forward in the year 2020? **PIFSS**

Answer by Mr. Mazin (GCEO): Yes, liquidity has been abundant since KFH started, it is not an issue that we are faced with, It's the availability of quality assets that we can book.

Question 10: When is KFH planning to list in Bahrain? is the Bahrain listing a prerequisite to completing the acquisition? **FIM**

Answer by Mr. Shadi (GCFO): Yes, and we are currently in the process of listing in Bahrain.

Question 11: What is the level of integration charges that you are expecting for 10-15% cost synergy? **Bloomberg Intelligence**

Answer by Mr. Shadi (GCFO): We expect to be within the normal level which in range of 150% of annual synergy.

Question 12: In relation to the digital banking on boarding, what is the back-up system in place? & Does the group utilize the customers data in any way? **PIFSS**

Answer by Mr. Mazin (GCEO): If you are referring to Jazeel which the platform of our digital bank in Bahrain is, if that is the question... the on-boarding I would say the infrastructure in Bahrain is quite robust and as such they were able to get the approval from the CBB to launch remote on-boarding using your mobile app. So, in essence customer data is used only in Bahrain by the digital bank in order to make better use of the customer data and their behavior in order to customize their offerings moving forward. The back-up system is a cloud base solution that we use in Bahrain for the digital on-boarding as such the likelihood for it to be resilient and robust is extremely high.

Question 13: AUB informed that they have not received any formal offer from KFH. What does it exactly mean? **(One of the attendees).**

Answer by Mr. Mazin(GCEO): All it means is that basically we are in the process of preparing a formal offer to be sent to AUB but that formal offer has to be reviewed by the CBB and the CMA in Bahrain which they are currently doing, as soon as we get



their feedback on it we would do the adjustments and we would be in a position to send that offer.

Question 14: What is fee income growth expectation? **(One of the attendees).**

Answer by Mr. Mazin (GCEO): The likelihood of fee income growth is actually very low, most likely it would remain flat or probably decline a little bit and it is mainly due to cancelation of certain fee income lines by the regulator.

Question 15: Can KFH consolidate non-Islamic assets from AUB, or does it need to convert them into Islamic and then it will consolidate them? If the second part is the answer, how long is the process of converting the assets to Islamic expected to take? **(One of the attendees).**

Answer by Mr. Mazin: The first part as you maybe know is based on the IFRS, yes it should be consolidated regardless conventional or Islamic. However, the process of conversion will be start from the first day post the acquisition, the planning as I mentioned earlier will be started and we have approved a grace period for consulting our Shari'a and we expect that the conversion will take three years. (GCEO)

Question 16: Divestments from non-core assets completed in 2019 and how is it compared to the target + profits booked on the sale of these transactions? **(One of the attendees).**

Answer by Mr. Mazin: We disposed of KWD 137 Million which was extremely close to our target this year of KWD140-150 and the total gain from it was KWD 40.2 Million. (GCEO)

Question 17: Do we expect CoF to reduce going in 2020. Impact of recent 25bps rate cut? **(One of the attendees).**

Answer by Mr. Mazin (GCEO): As you well know the liability mix within the bank changes and most of the deposit base that we have in the group are Mudharaba based. "Mudharaba based" meaning that they share profits but each deposit type has a different rate of return that would basically reflect the stickiness of that deposit, so the longer the deposit is the higher the contribution or the profit share they would get and the lower that we see those... or if those deposits move to savings account



then the percentages significantly drop so as such the shift between those deposit types changes our Cost of Funds regardless.

Question 18: The 20 April date mentioned in earlier media conference - is that still the view considering the Bahrain listing as pre-requisite? **Fiera Capital**

Answer by Mr. Mazin and Mr. Shadi: Yes,

Mr. Ahmed Al Shazly: Ok, so this concludes our call. I would like to thank everyone for joining our call and if you have any more questions please send them to investor.relations@kfh.com, so again thanks everyone and thank you to the management.

End of the Web Cast....