



Date: 13 August 2020  
23 Zu al-Hijjah 1441  
Ref: 10 / 10 / 263 / 2020

التاريخ: 13 أغسطس 2020  
الموافق: 23 ذو الحجة 1441 هـ  
الإشارة: 2020 / 263 / 10 / 10

To: Chief Executive Officer

Boursa Kuwait

Peace, Mercy and Blessings of Allah be upon you,

السيد/ الرئيس التنفيذي

بورصة الكويت

السلام عليكم ورحمة الله وبركاته

Subject: Disclosure of Material Information

Analysts Conference  
Q 1 / 2020 and Q 2 / 2020

الموضوع: الإفصاح عن المعلومات الجوهرية

مؤتمر المحللين

الربع الأول 2020 والثاني 2020

In reference to the above, and in line with Kuwait Finance House 'KFH' interest in adhering to Boursa Kuwait Role Book Article (7-8-1/3) regarding the Listed Companies Obligations (Analysts Conference), KFH would like to report the following:

- KFH has conducted the Analysts Conference for Q 1 / 2020 and Q 2 / 2020 through live broadcasting on internet (Live Webcast) at 2 p.m. on Monday 13 August 2020. There was no other material information had been discussed during the conference.
- KFH will disclose the Conference Minutes of Meeting within 3 working days after the conference.
- Attached is the Investors Presentation Q 1 / 2020 and Q 2 / 2020 for your reference. A copy of the same has been submitted to Capital Markets Authority.

بالإشارة إلى الموضوع أعلاه، وحرصاً من بيت التمويل الكويتي "بيتك" على الالتزام بمتطلبات المادة (7-8-1/3) من كتاب قواعد البورصة بشأن إلزامات الشركات المدرجة (الإفصاح عن مؤتمر المحللين)، نود الإفادة بما يلي:

- عقد بيتك مؤتمر المحللين للربع الأول 2020 والربع الثاني 2020 عن طريق بث مباشر على شبكة الإنترنت وذلك في تمام الساعة 2 من بعد ظهر يوم الخميس الموافق 13 أغسطس 2020. علماً بأنه لم يتم تداول أي معلومات جوهرية أخرى خلال المؤتمر.
- سوف يقوم بيتك بالإفصاح لاحقاً عن محضر المؤتمر خلال 3 أيام عمل من تاريخ المؤتمر.
- مرفق العرض التقديمي للمستثمرين للربع الأول 2020 والربع الثاني 2020، هذا وتم تزويد السادة / هيئة أسواق المال نسخة منه.

Best Regards,

Ahmed Soud Al Kharji

Acting Group Chief Executive Officer

وتفضلوا بقبول فائق الاحترام،

أحمد سعود الخرجي

الرئيس التنفيذي للمجموعة بالتكليف



بيت التمويل الكويتي  
Kuwait Finance House



# Q1 & Q2 2020

## Earnings Presentation

August 13<sup>th</sup>, 2020

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# Contents

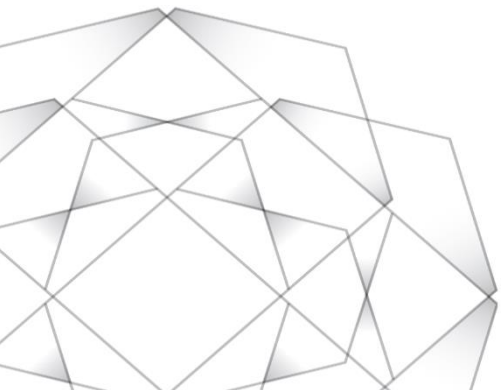
- 1 **Kuwait's Operating Environment & Overview**

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- 2 **GCEO Opening Remarks**

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- 3 **1Q2020 & 1H2020 Financial Results**

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- 4 **Appendix**

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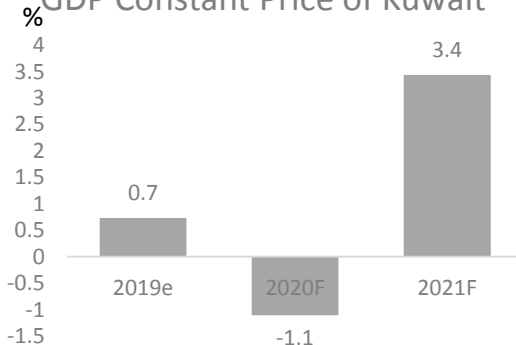




# Economic Highlights



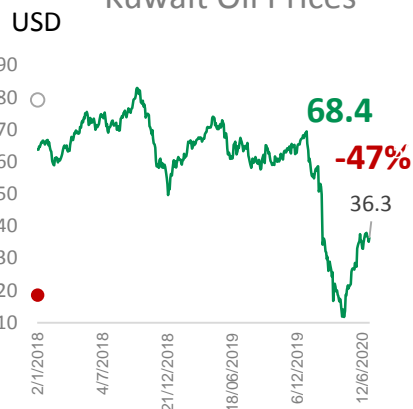
GDP Constant Price of Kuwait



Source: IMF, KFH

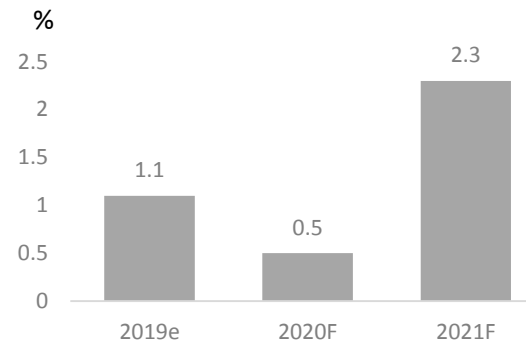
e: Estimates. f: Forecasts

Kuwait Oil Prices



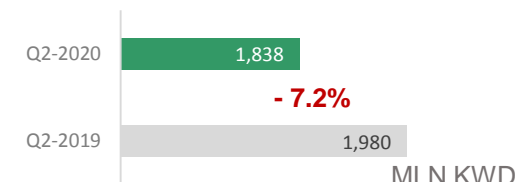
Source: Boursa Kuwait, Ministry of Oil, KFH

Inflation % in Kuwait

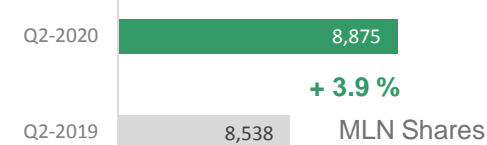


Source: IMF, KFH

Boursa Trade Value

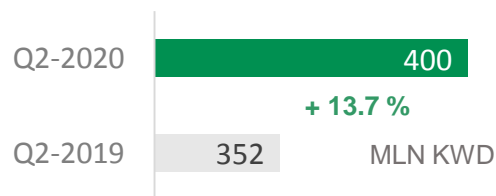


Boursa Trade Volume

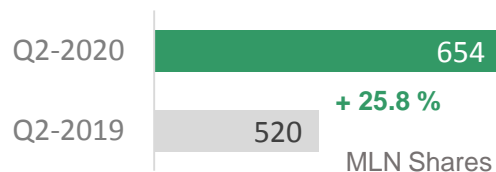


Source: Boursa Kuwait, KFH

KFH Trade Value



KFH Trade Volume



Source: Boursa Kuwait, KFH

- The COVID-19 pandemic represents a serious health threat to people around the world and a significant disruption to daily life. It is having a major impact on the global and Kuwaiti economies. Some sectors, such as the energy, travel and hospitality, and service industries, are being particularly hard hit.
- Kuwaiti Crude Oil Price closed at USD 36.3 p/b as at end of Q2-20 higher by 41.4% Q-T-Q while lower by 45.0% Y-T-Y.
- Kuwait's Long-Term Foreign-Currency Issuer Default Rating (IDR) remained solid with Stable Outlooks, Fitch "AA", Moody's "Aa2", while S&P has lowered Kuwait's Rating to "AA-" with a Negative Outlook
- Central Bank of Kuwait on March 2020 has lowered the discount rate by 1% from 2.5% to 1.5%, a simulative step by CBK to over come covid-19 pandemic economic impacts.
- Morgan Stanley Capital International (MSCI) will implement the reclassification of the MSCI Kuwait Indexes to Emerging Market in November 2020.

# 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 Rating Under Review**

**As of 23 January 2020**

# Overview of KFH

## Germany

5 Branches

1<sup>st</sup> 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

434 Branches

## Turkey

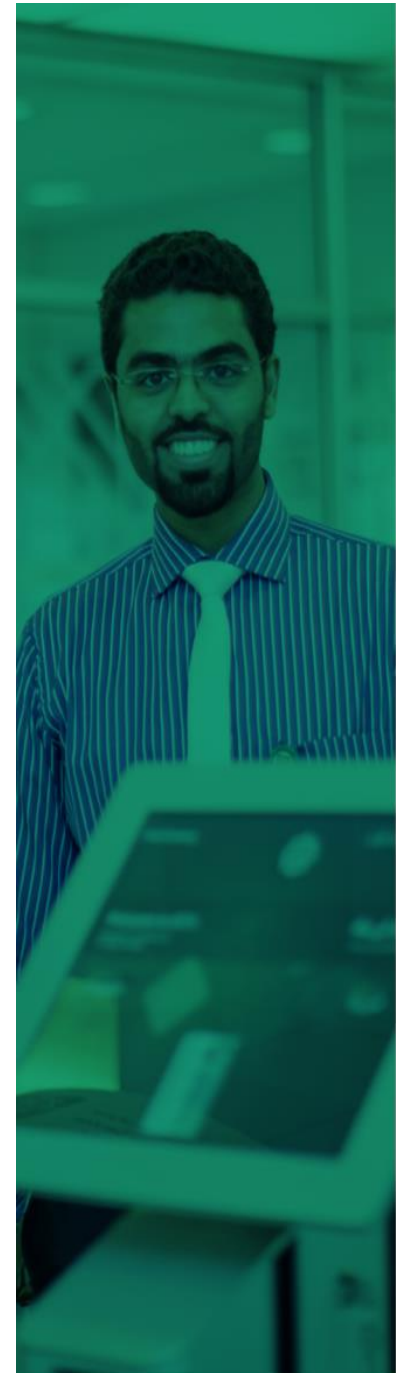
- Retail Banking
- Wealth Management and Personal Banking
- Corporate Banking



11 Branches

## Malaysia

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



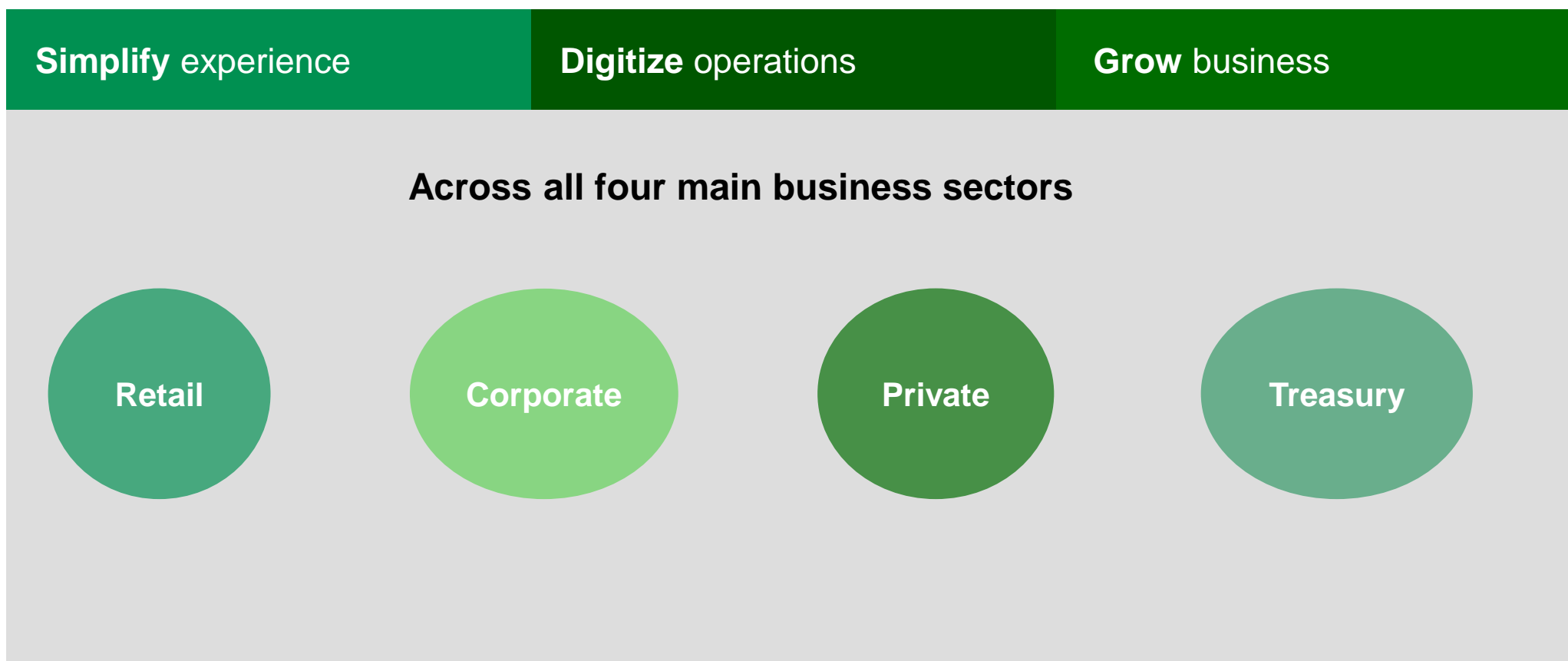
# KFH Strengths

Robust Financial Performance	Leading Islamic Financial Institution	Strong Government Sponsorship	Professional Management Team	Strategic Distribution Channels	Effective Risk Management Framework
A consistent track record of profitability & dividend payment	Second largest Islamic Financial Institution globally in terms of asset base	48% ownership by various Kuwaiti Government authorities	Well-rounded human capital through meritocratic management structure	Diversified international operations	KFH continuously develops its risk management framework in light of development in the business, banking and market regulations
Solid funding and liquidity profile	Operating history of more than 40 years	KFH operates mainly in Kuwait where the economy benefits from high level of economic strength	Significant improvement in the Management team for the diversified international operation	Presence in 6 countries giving access to Europe, Middle East and Asian markets	Disciplined & risk adjusted approach to capital allocation
Consistently low NPF rates	Strong retail franchise	Systemic important bank in Kuwait Large retail deposit and global flagship Islamic bank	Strong and stable Board of Directors, collectively bringing more than two hundred and fifty years of professional experience	Extensive accessibility option with a wide network of 521 branches and over 1,480 ATMs	Large and diversified portfolio
Improved cost to income ratio	Pioneer of Islamic products in Kuwait				Reduced non-core assets
Solid profit margins and improved efficiency					



# GCEO Opening Remarks

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



# H120 Financial Highlights

Net Profit  
for Shareholders

**KD 56.9 m**  
*(47.1)%*

Net Financing  
Income

**KD 295.7 m**  
*+18.0%*

Net Operating  
Income

**KD 267.6 m**  
*+11.2%*

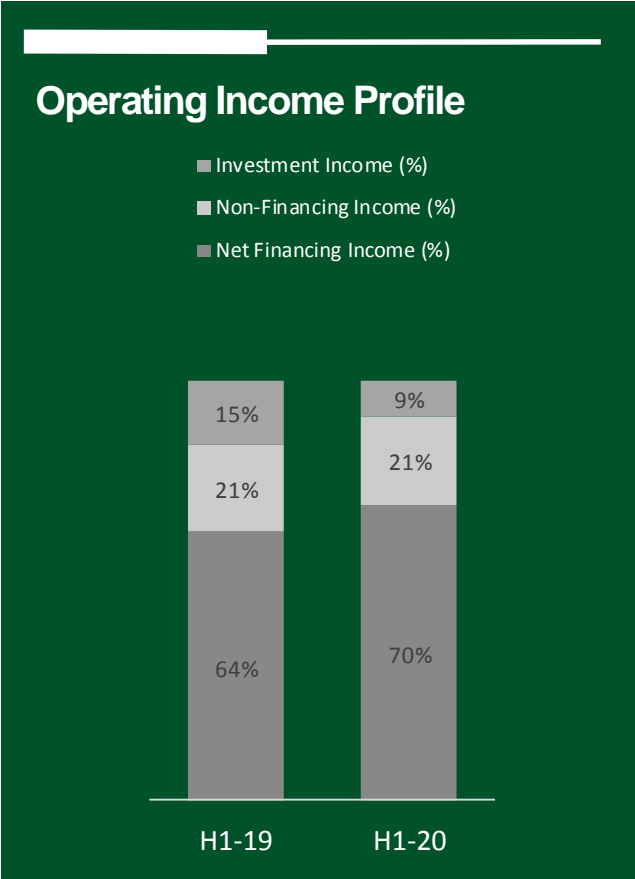
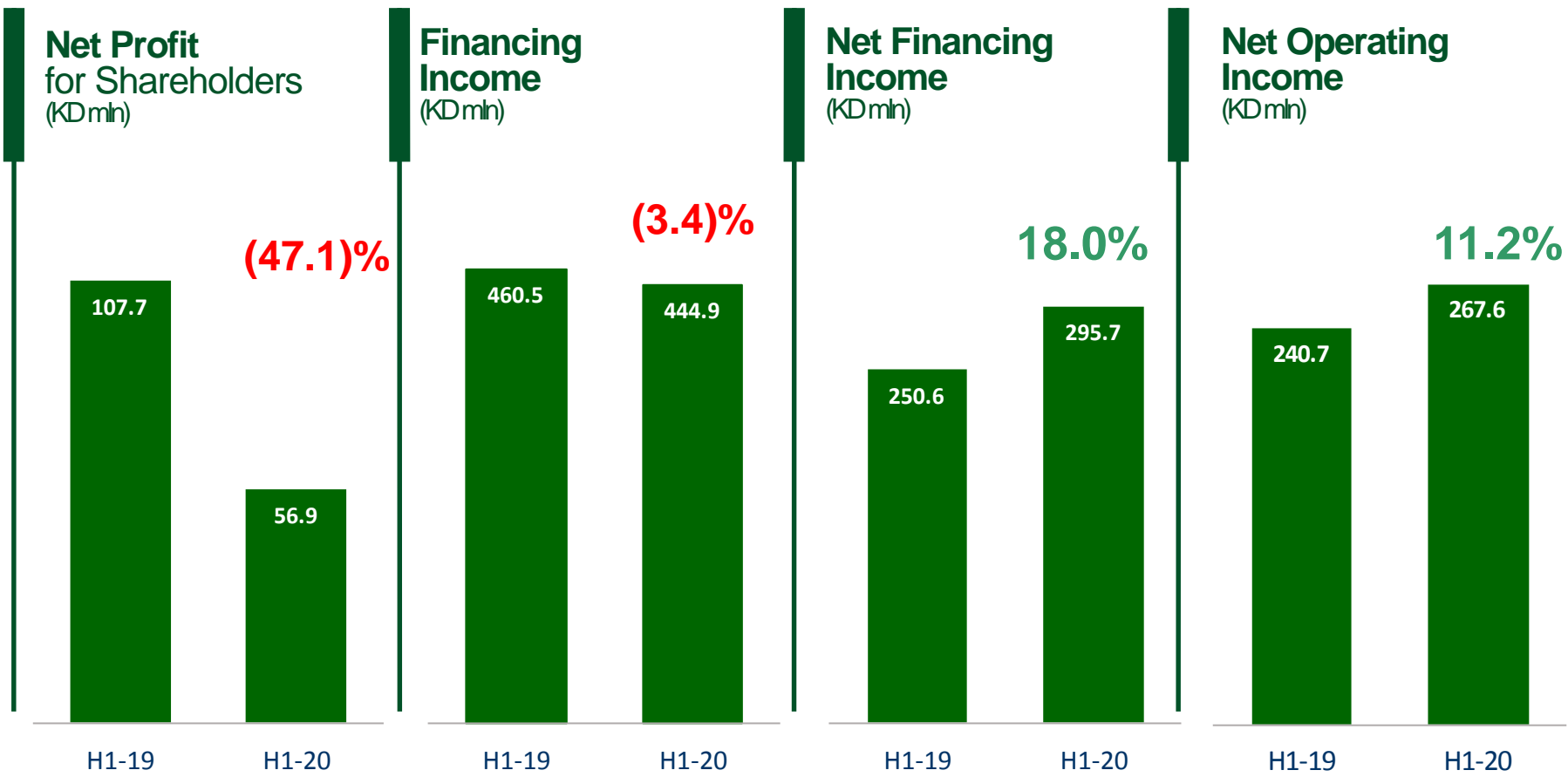
Cost to Income Ratio

**36.24%**  
*Improved by 241bps*

EPS (fils)

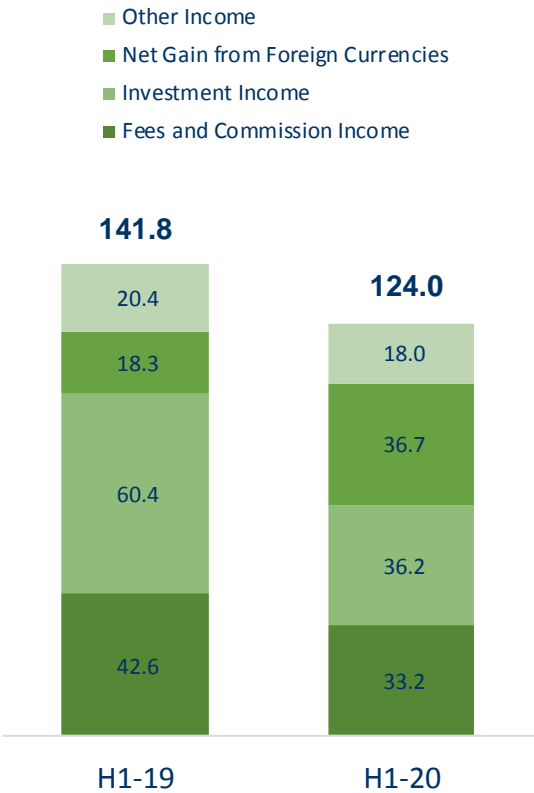
**15.06**  
*(H119: 28.68fils)*

# H120 Operating Performance

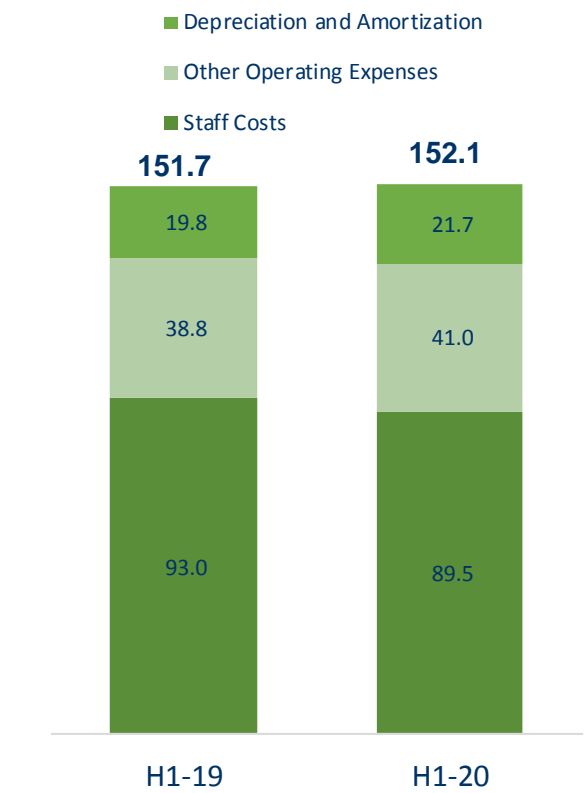


# H120 Operating Performance

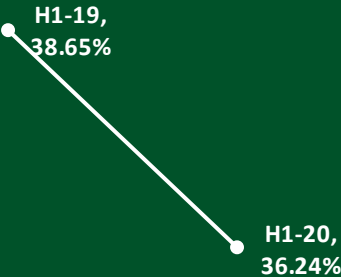
## Non - Financing Income (KD mn)



## Total Operating Expenses (KD mn)



## C/I Ratio

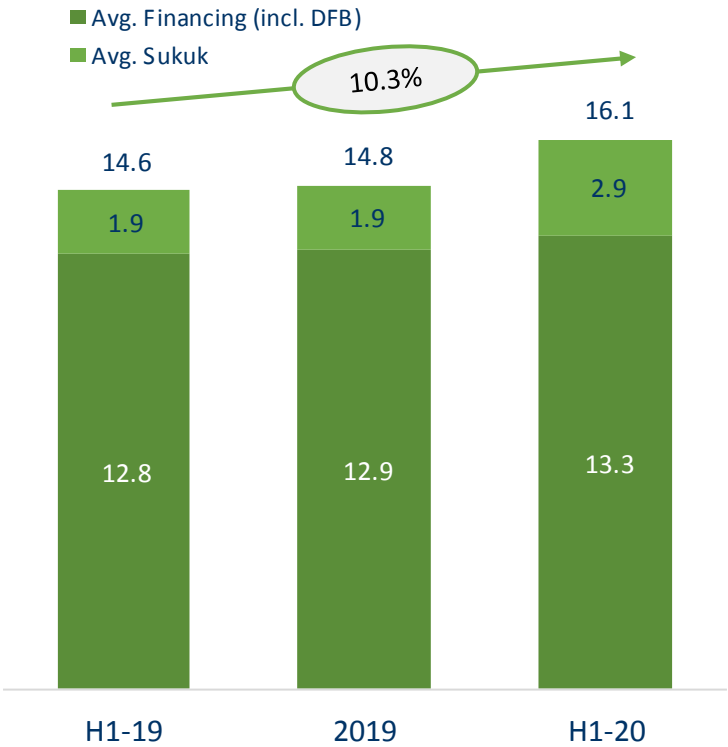




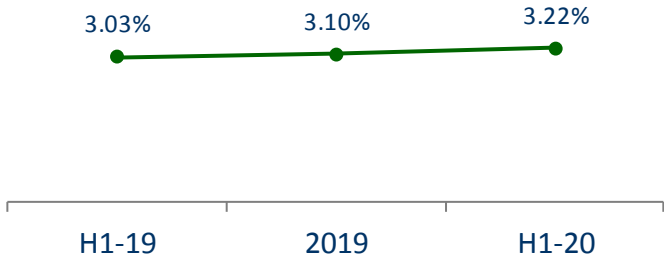
# H120 Operating Performance

## Average Profit Earning

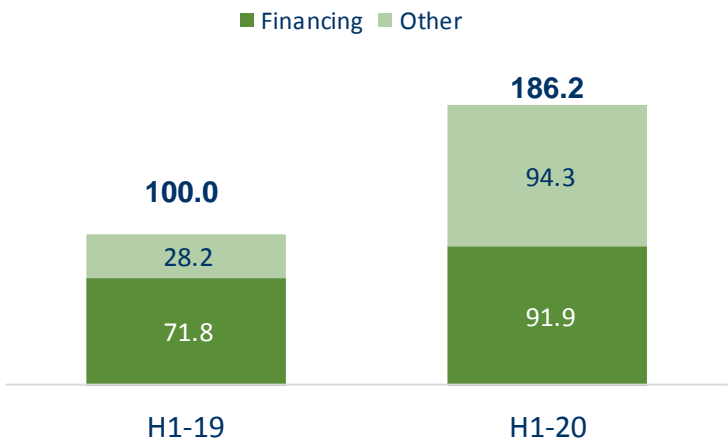
### Assets (KD Bln)



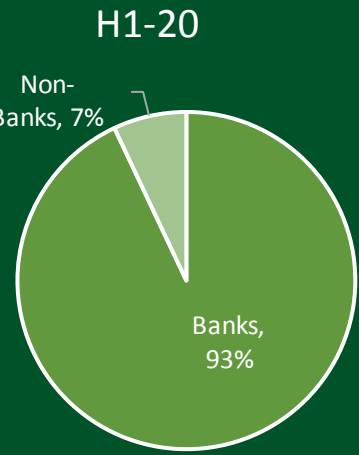
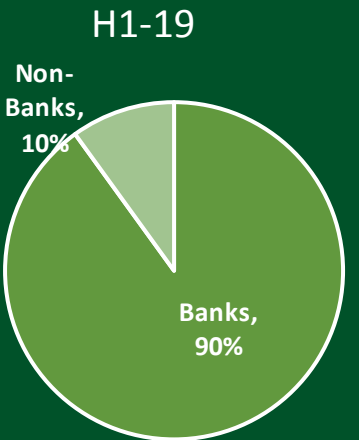
## Net Financing Margin



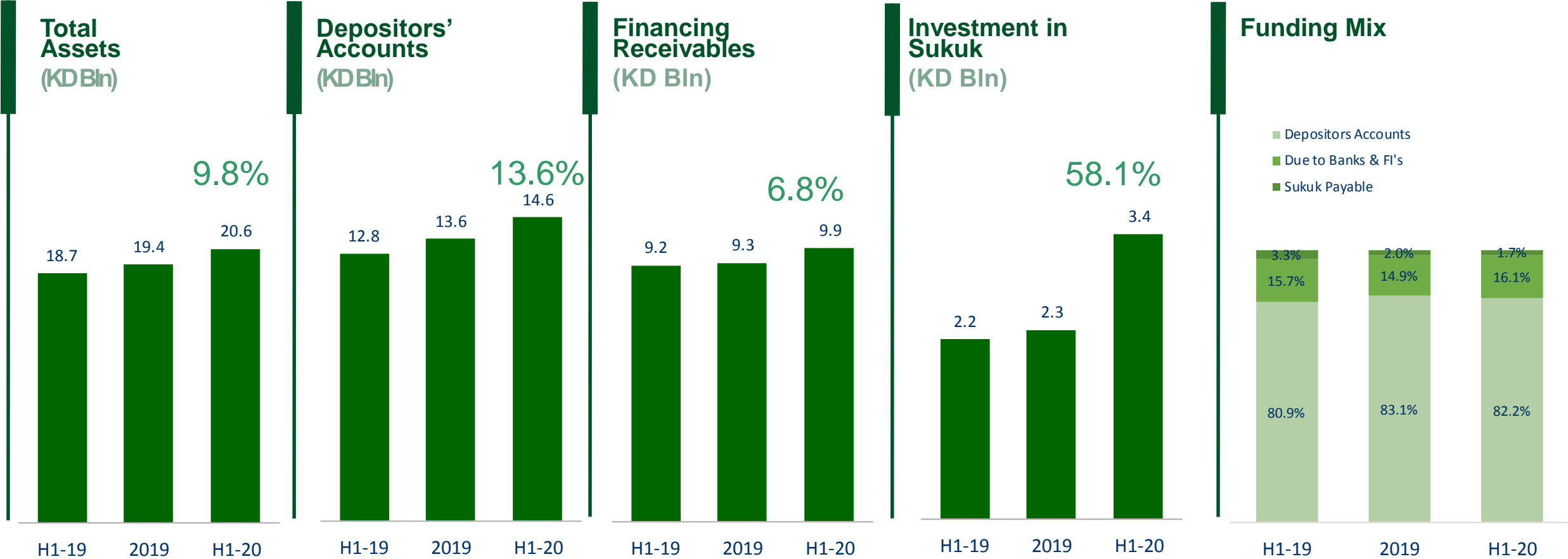
## Provision and Impairment (KD mln)



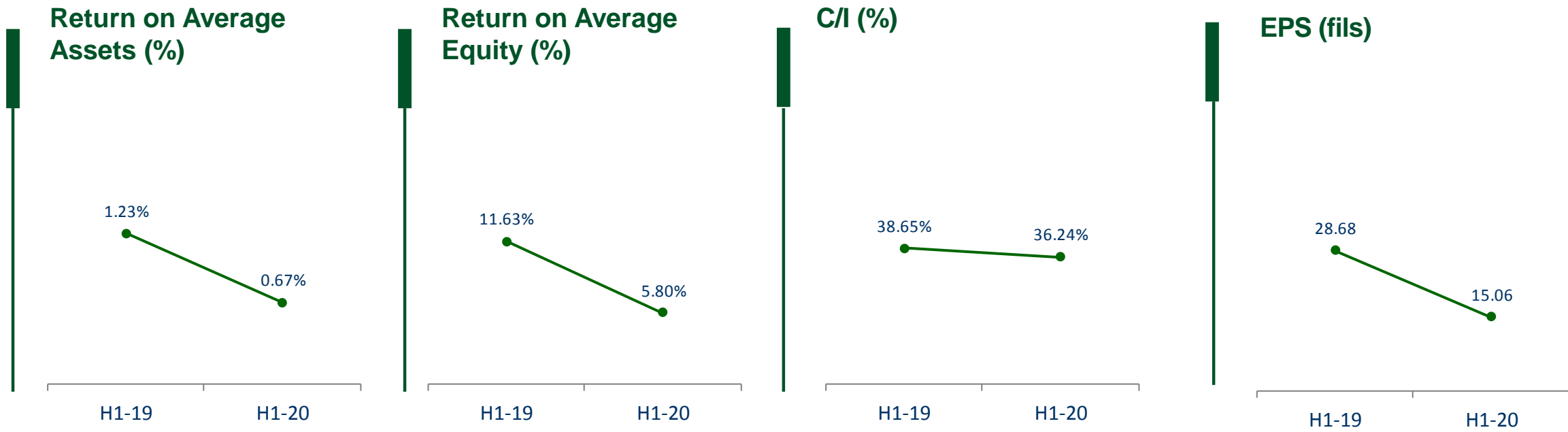
## Net Operating Income Banks/ Non-Banks



# H120 Operating Performance



# H120 Operating Performance

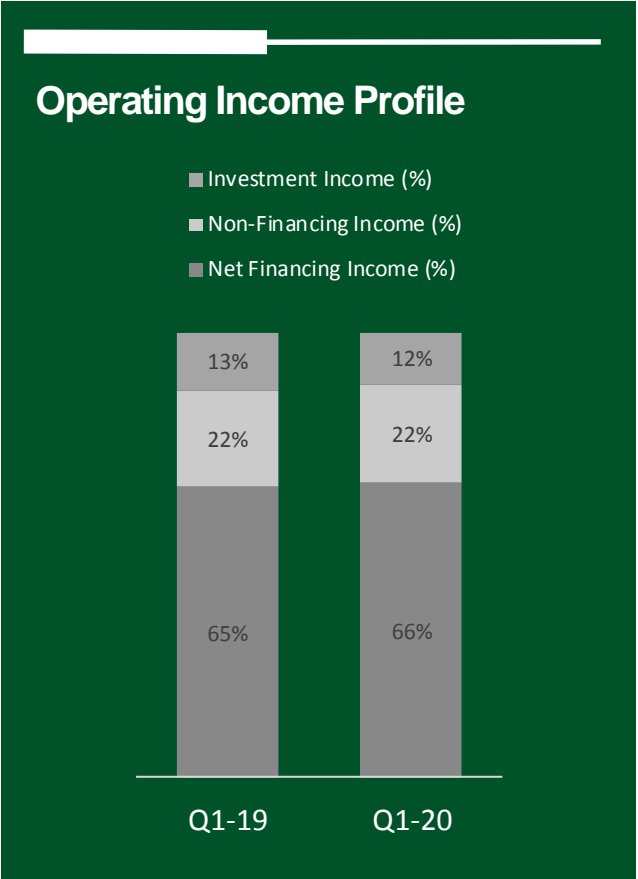
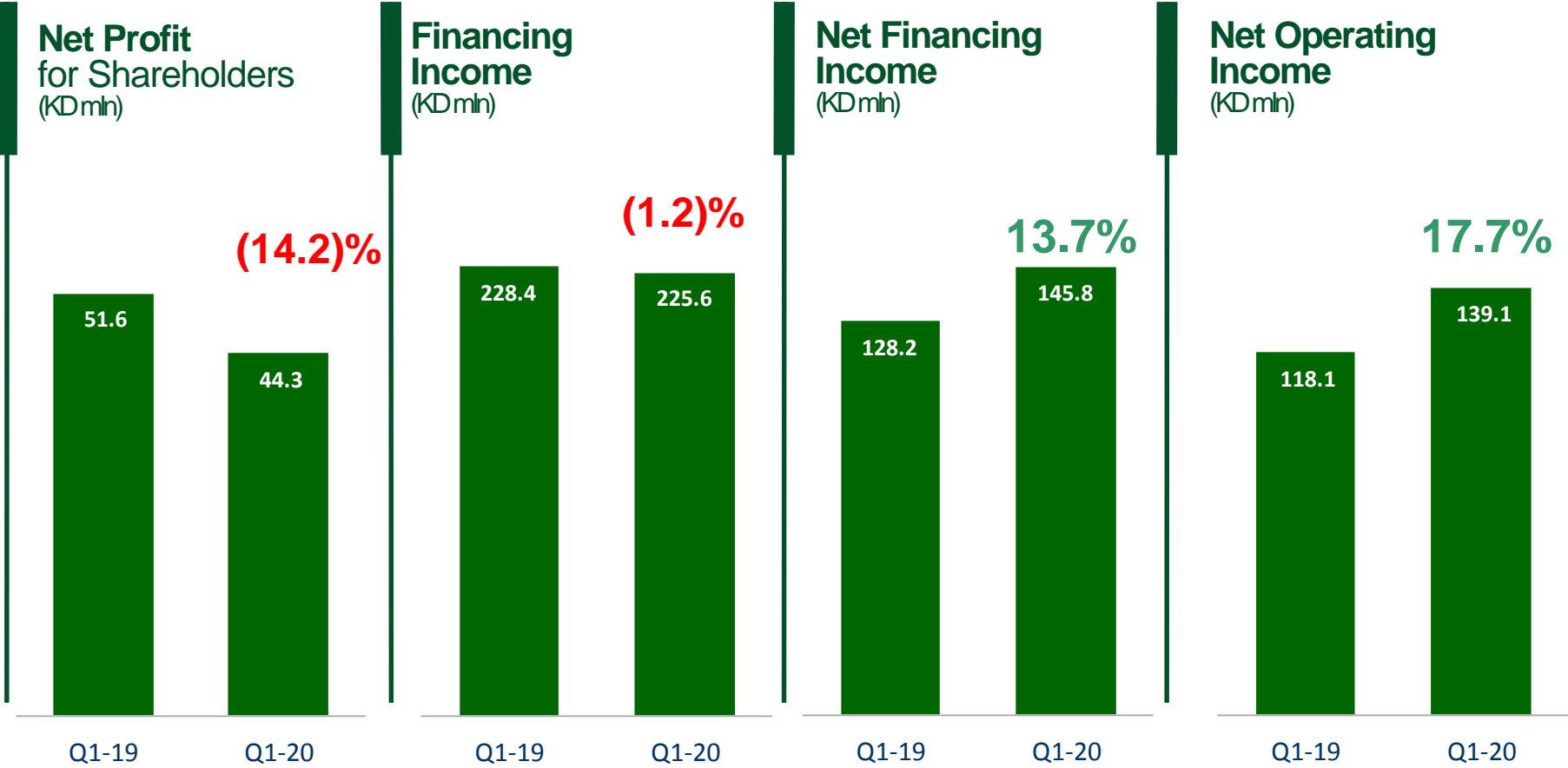




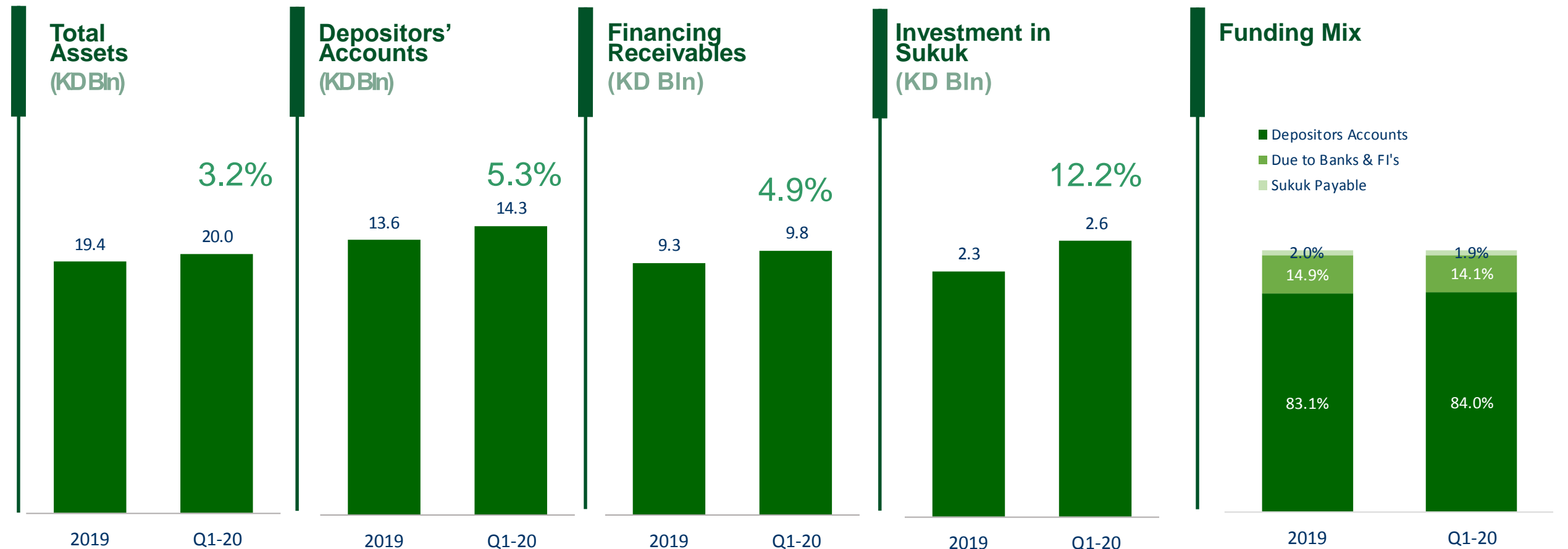
**Q1 2020**



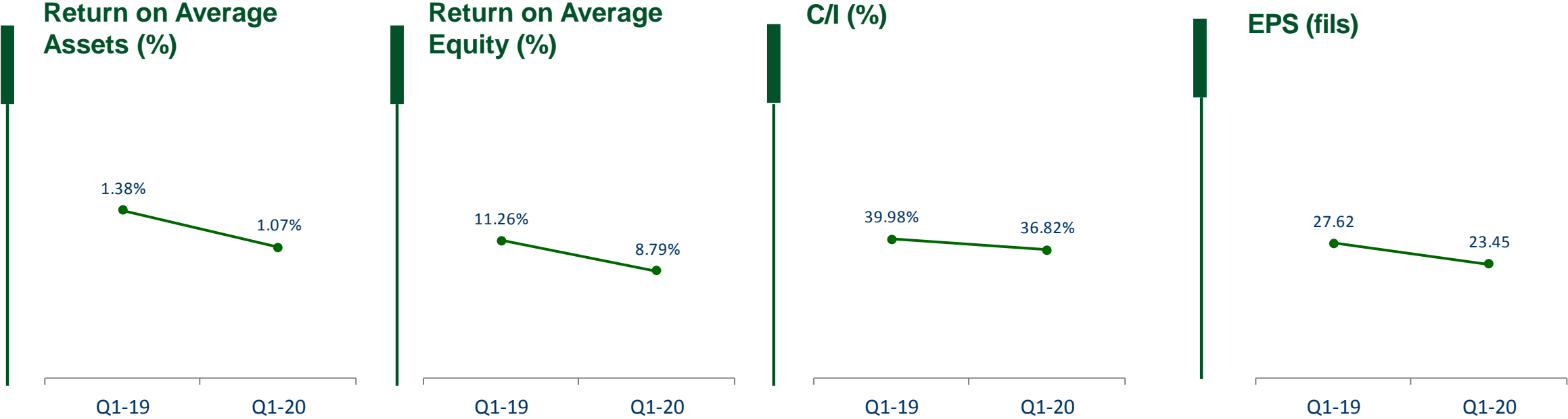
# Q120 Operating Performance



# Q120 Operating Performance



# Q120 Operating Performance



# Q&A



# Appendix

# Consolidated Financials (Income Statement)

Consolidated Statement of Income (KD million)	Mar-20	Mar-19
Financing income	226	228
Financing cost and estimated distribution to depositors	80	100
<b>Net finance income</b>	<b>146</b>	<b>128</b>
Investment income	26	26
Fees and commission income	19	24
Net gain from foreign currencies	18	9
Other income	11	10
<b>Non-Financing Income</b>	<b>74</b>	<b>69</b>
<b>Tota Operating Income</b>	<b>220</b>	<b>197</b>
Staff costs	48	48
General and administrative expenses	22	20
Depreciation and amortization	10	10
<b>Total Expenses</b>	<b>81</b>	<b>79</b>
<b>Net Operating Income</b>	<b>139</b>	<b>118</b>
Provisions and impairment	75	40
<b>Profit for the Period Before Taxation</b>	<b>64</b>	<b>78</b>
Taxation	12	17
Non-controlling interests	8	10
<b>Profit Attributable to Shareholders of the Bank</b>	<b>44.3</b>	<b>51.6</b>

Consolidated Statement of Income (KD million)	Jun-20	Jun-19
Financing income	445	461
Financing cost and estimated distribution to depositors	149	210
<b>Net finance income</b>	<b>296</b>	<b>251</b>
Investment income	36	60
Fees and commission income	33	43
Net gain from foreign currencies	37	18
Other income	18	20
<b>Non-Financing Income</b>	<b>124</b>	<b>142</b>
<b>Tota Operating Income</b>	<b>420</b>	<b>392</b>
Staff costs	89	93
General and administrative expenses	41	39
Depreciation and amortization	22	20
<b>Total Expenses</b>	<b>152</b>	<b>152</b>
<b>Net Operating Income</b>	<b>268</b>	<b>241</b>
Provisions and impairment	186	100
<b>Profit for the Period Before Taxation</b>	<b>81</b>	<b>141</b>
Taxation	15	29
Non-controlling interests	9	4
<b>Profit Attributable to Shareholders of the Bank</b>	<b>56.9</b>	<b>107.7</b>

# Consolidated Financials (Balance Statement)

Consolidated Statement of Financial Position (KD million)	Dec-19	Mar-20	Jun-20
Cash and balances with banks and financial institutions	1,910	1,712	1,763
Due from Banks	3,783	3,745	3,576
Financing receivables	9,337	9,795	9,864
Investment in sukuk	2,292	2,555	3,422
Trading properties	108	107	106
Investments	195	207	171
Investment in associates and joint ventures	504	491	551
Investment properties	455	457	397
Other assets	547	675	472
Intangible assets and goodwill	31	32	31
Property and equipment	229	234	229
<b>TOTAL ASSETS</b>	<b>19,391</b>	<b>20,011</b>	<b>20,582</b>
Due to banks and financial institutions	2,427	2,388	2,856
Sukuk payables	320	326	310
Depositors' accounts	13,553	14,277	14,587
Other liabilities	848	846	791
<b>TOTAL LIABILITIES</b>	<b>17,147</b>	<b>17,838</b>	<b>18,543</b>
Share capital	698	698	767
Share premium	720	720	720
Treasury shares	(36)	(35)	(28)
Reserves	679	610	403
<b>TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHODERS OF THE BANK</b>	<b>2,060</b>	<b>1,993</b>	<b>1,863</b>
Non-controlling interests	183	180	176
<b>TOTAL EQUITY</b>	<b>2,243</b>	<b>2,173</b>	<b>2,039</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>19,391</b>	<b>20,011</b>	<b>20,582</b>

# 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
Due from Banks	3,194	2,877	2,925	3,445	3,783
Financing receivables	8,095	8,176	9,216	9,189	9,337
Investments in sukuk	807	1,100	1,429	1,563	2,292
Trading properties	214	186	161	285	108
Investments	508	357	304	148	195
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
Assets classified as held for sale	0	445	324	0	0
<b>TOTAL ASSETS</b>	<b>16,495</b>	<b>16,499</b>	<b>17,358</b>	<b>17,770</b>	<b>19,391</b>
Due to banks and financial institutions	2,730	2,399	2,240	2,689	2,427
Sukuk payables	322	473	518	499	320
Depositors' accounts	10,756	10,717	11,597	11,780	13,553
Other liabilities	630	645	699	728	848
<b>TOTAL LIABILITIES</b>	<b>14,439</b>	<b>14,461</b>	<b>15,242</b>	<b>15,696</b>	<b>17,147</b>
Share capital	477	524	577	634	698
Share premium	720	720	720	720	720
Treasury shares	(50)	(49)	(45)	(44)	(36)
Reserves	632	615	620	584	679
<b>TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK</b>	<b>1,779</b>	<b>1,810</b>	<b>1,872</b>	<b>1,894</b>	<b>2,060</b>
Non-controlling interests	276	228	244	180	183
<b>TOTAL EQUITY</b>	<b>2,055</b>	<b>2,039</b>	<b>2,116</b>	<b>2,074</b>	<b>2,243</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>16,495</b>	<b>16,499</b>	<b>17,358</b>	<b>17,770</b>	<b>19,391</b>

# 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
<b>Net finance income</b>	<b>432</b>	<b>435</b>	<b>445</b>	<b>527</b>	<b>530</b>
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
<b>Non-Financing Income</b>	<b>271</b>	<b>225</b>	<b>268</b>	<b>219</b>	<b>284</b>
<b>Total operating income</b>	<b>703</b>	<b>660</b>	<b>713</b>	<b>746</b>	<b>814</b>
Staff costs	172	174	188	178	182
General and administrative expenses	81	84	83	81	79
Depreciation and amortisation	78	37	35	33	43
<b>Total Expenses</b>	<b>330</b>	<b>295</b>	<b>305</b>	<b>292</b>	<b>304</b>
<b>Net Operating Income</b>	<b>372</b>	<b>365</b>	<b>408</b>	<b>454</b>	<b>510</b>
Provisions and impairment	184	157	163	163	197
Gain / (Loss) for the year from discontinued operations	22	(22)	0	0	0
<b>Profit Before Tax and Zakat</b>	<b>211</b>	<b>186</b>	<b>245</b>	<b>291</b>	<b>313</b>
Taxation and Proposed Directors' fees	21	24	30	27	51
Non-controlling interests	44	(3)	30	36	11
<b>Profit Attributable to Shareholders of the Bank</b>	<b>146</b>	<b>165</b>	<b>184</b>	<b>227</b>	<b>251</b>

# KFH Disclosures



Date	Subject
14-May-20	Supplementary Disclosure Extending the Nomination Period for Members of KFH' BOD the Fifteenth Session (2020 - 2022)
07-May-20	Boursa Kuwait announces that it will be suspending trading (KFH) shares for one hour as per CMA Request.
07-May-20	Material Information Disclosure KFH Acquisition of AUB-Bahrain
04-May-20	Material Information Disclosure Rescinding the GCEO's Employment Contract
22-Apr-20	Distribution of Cash and Bonus Shares Dividends FYE 31 December 2019
02-Apr-20	Credit Rating Disclosure
23-Mar-20	Supplementary Disclosure Announcement (2) for AUB-Bahrain' Shareholders

**Source: Boursa Kuwait**



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## **Kuwait Finance House Earnings Webcast Transcript 1H2020**

**Thursday, 13<sup>th</sup> of August 2020, 2:00 pm Kuwait Time**

### **Speakers from Kuwait Finance House executive management:**

- Mr. Ahmed AlKharji, Acting 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:**

- ADCB
- Kuwait Investment Company
- Schroders
- Fiera Capital
- Tscribe
- Derayah Financial
- INTROSPECT CAPITAL
- Saudi Fransi Capital
- PGi
- CI Capital
- NBK Capital
- Beltone Financial
- Bloomberg intelligence
- SICO Bank

### **The beginning of the live webcast text-**

**Good afternoon ladies and gentlemen and welcome to the Kuwait Finance House 1H2020 results webcast. This is Ahmed El Shazly from EFG-Hermes and it is a pleasure to have with us on the call today:**

- Mr. Ahmed AlKharji, Acting Group Chief Executive Officer (GCEO)





- Mr. Shadi Zahran, (GCFO)
- Mr. Fahad Al-Mukhaizeem, (GCSO)

**And we are also joined today by the following attendees:**

- ADCB
- Kuwait Investment Company
- SICO Bank
- Schroders
- HSBC
- NBK Capital
- CI Capital

**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 H1-2020 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.**

Central Bank of Kuwait lowered the discount rate to 1.5% as a stimulus for the economy against the COVID-19 effect. On the other hand, the IMF expects around 1% decrease in GDP in 2020.

KFH has supported the local economy during the coronavirus pandemic which included contributions to the dedicated government fund to combat the spread of COVID-19. KFH also postponed customer installments for six months providing further support for the corporates and SMEs. This comes in line with the KFH's commitment to its social and national responsibility.

KFH benefitted from its digital strategy & FinTech innovations which allowed for a smooth customer experience during lockdowns, and the successful activation of the business continuity plan in emergency cases.

KFH's online services proved their efficiency to meet customer needs. Customers benefited from Swift GPI, online gold purchasing and selling, Kuwait Clearing Co. dividend subscriptions, cardless withdrawals using QR code through mobile, in addition to many other high-quality digital banking services online.

As an overview of KFH's awards and ratings, KFH won many prestigious awards. 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 and put the rating under review.

Furthermore, KFH, through its more than 521 branches, 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. Ahmed AlKharji.**

**Mr. Ahmed AlKharji:**

**Thank you, Fahad. Good day ladies and gentlemen. It's my pleasure to welcome you all to our H1-2020 earnings call. Let me highlight the financial performance for H1 2020.**



- KFH has, by the grace of Allah, reported net profit of KD 56.9 Million for the first half of 2020 for KFH shareholders; which represents a decrease of 47.1% compared to the same period last year. Yet and despite COVID-19 pandemic, KFH Group achieved an 18% increase in the Net financing income for the same period where the same reached KD 295.7 Million.
- Net operating income for the first half of the year reached KD 267.6 Million which represent a growth of 11.2% compared to the same period last year.
- Total assets rose by KD 1.2 Billion to reach KD 20.6 Billion, representing a growth of 6.1% compared to end of last year 2019.
- Financing portfolio grew by 5.7% which is actually KD 528 million as an amount which will bring our financing portfolio to KD 9.9 Billion for the first half of this year.
- Investment in Sukuk for the first half of 2020 reached KD 3.4 Billion; an increase of KD 1.1 Billion representing a growth of 49.3% compared to end of last year 2019.
- Depositors accounts reached KD 14.6 Billion i.e., increasing by KD 1.0 Billion or 7.6% compared to the end of last year.
- Needless to say, KFH enjoys a robust capital based reflected in capital adequacy ratio of 16.53% which is above the minimum required limit.

**I now, will hand over the mic to Group's Chief Financial Officer, Mr. Shadi Zahran and he will present the financial results for the year 1H2020 in details and answer any of your questions afterwards. Thank you.**

**Mr. Shadi Zahran:**

**Thank you, Ahmad. Alsalam Alykum Good day ladies and gentlemen. It's my pleasure to welcome you all to the 1H2020 earnings call. Let me highlight the financial performance of 1H2020:**



Given that Kuwaiti banks including KFH didn't publish financials for the first quarter of this year due to COVID 19 pandemic and local regulations, we will cover in this call In Sha' Allah the financial performance for KFH group for first quarter 2020, and first half 2020. However, we will cover first the full period H1-2020 then move to the first quarter results separately at the end.

The Group has achieved Net Profit After Tax (NPAT) attributable to Shareholders for the period ended 30th June 2020 of KD 56.9mn lower by KD (50.7) mn or (47.1%) compared to same period last year of KD 107.7mn.

The lower profits is mainly due to higher provisions including precautionary provisions on potential COVID-19 consequences considering the uncertainty from current unprecedented regional and global situation.

**Net financing income** (NFI) has increased by **KD 45.1mn** or 18.0% compared to last year mainly on account of lower COF with significant improvement in Kuwait and Turkey.

The decrease in COF is due to decrease in benchmark rates, lower distributable profits impacting distribution to depositors, and the improvement in CASA deposits at group level.

**Net Operating income** at **KD 267.6mn** increased by **KD 26.9mn** or **11.2%** compared to H1-19; the increase is mainly from **Net Financing Income** by **KD 45.1mn** and **Net gain from Foreign currency transactions** by **KD 18.3mn** offset by the decrease in **Investment income** by **KD (24.2) mn** and fees and commissions by **KD (9.5)mn** as a **result of lower business and investment activities due to COVID 19 lockdown**.

The decrease in investment income by KD (24.2) mn is mainly attributable to prior year's gains, which led to drop in the contribution from investment income to total operating income to reach 9% compared to 15% last year. However, the other non-yielding income contribution remained at 21% of total operating income.

**Total Operating Expenses** at **KD 152.1mn** has increased slightly by KD 0.5mn or 0.3% compared to prior year same period.



Cost to income ratio improved **further by 241bps** to reach **36.24% compared to H1-19**, due to increase in operating income while maintaining the group expenses at the same level.

Furthermore, at KFH-Kuwait, **C/I ratio** at **32.6%** which is significantly below the local Islamic Banks average of **43.6%** and lower than local conventional Banks average of **36.6%** (this calculated from published financials for 2019)

**Average Yielding Assets** is up by **9.1% compared to 2019** and **10.3% compared to H1-19**, resulted from the growth in Financing receivables and Sukuk. (avg. YoY financing receivables is up by KD 0.5bn and avg. Sukuk is up by KD 1.0bn)

**Group Net Financing Margin NFM** at **3.22%** shows a **19bps** increase over H1-19 of average **3.03%**.

**Average Yield** decreased by (80) **bps** due to drop in DR by CBK and Fed rates. However average **COF** declined by 99 **bps** due to increase in **CASA in the major entities and drop in distributable profits**.

**Net Operating Income contribution from banking activities improved by 3% to form 93%** of Group Net Operating income

Now, with regards to provisions, the group total provisions and impairment charge for the period increased by **KD 86.2mn** or **86.2%** to reach **KD 186.2mn**.

**Higher financing receivables and investments provisions** are mainly on account of conservative provisions on potential consequences of COVID-19

**Total Assets** at **KD 20.6bn** increased by **KD 1.2bn** or **6.1%** over 6 months period. (9.8% compared to Jun 19)

**Financing receivables** at **KD 9.9bn** increased by **5.7% from Dec 2019, (6.8% compared to Jun 19)**. **Significant portion of the** Growth in financing receivables was during the first quarter “pre-COVID-19” and contributed mainly from Kuwait and Turkey while other international banking entities demonstrated slower growth.



**I would like to highlight here that Group financing receivable is affected by the KD 96m modification loss on consumer and installments financing receivables deferral of 6 months.**

During the period, in response to COVID-19 pandemic Kuwaiti banks agreed to provide 6 months payments deferral for consumer and installments financing without charging the customers additional profits.

Based on the regulatory directive issued by CBK as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses of KD 96 mn arising due to the 6-months payments holiday has been recognized directly in equity. However, for capital adequacy ratio, CBK allowed to phase out this charge equally over 4 years starting from 2021

**Investments in Sukuk at KD 3.4bn** increased by KD 1.1bn or **49.3%** since **Dec-19 (58.1% compared to Jun 19)** with major growth contribution from KTPB, mainly in Sovereign Sukuk.

The growth in Sukuk portfolio was mainly in response to rapid growth in deposits with limited good quality financing opportunities available within the Group's overall Risk appetite in view of COVID-19.

The group achieved significant growth in deposits in H1-20 of **KD 1.0bn** or **7.6%** (13.6% compared to Jun 19) with contribution from all banking operations reflecting depositors confidence in KFH group.

Additionally, the favorable deposits mix continues to show very healthy contribution from CASA deposits which now represents **50.5%** of total group deposits as at the end of H1-20 compared to **44.3%** at the end of 2019.

It is also worth mentioning that KFH Kuwait dominates local market in saving accounts with share of **40.0%** (*as per CBK latest published reports, May-20*).

**Customer deposits as a percentage of total deposits at 82.2%** reflecting healthy funding mix and shows robust liquidity.

Looking at the key performance ratios for H1-20 compared to last year same period are as follow:

- ROAA decrease from 1.23% to 0.67%
- ROAE decrease from 11.63% to 5.80%
- C/I improved from 38.65% to 36.24%, and
- EPS decrease from 28.68 fils to 15.06 fils

**NPL ratio** increased to reach **2.23%** (*as per CBK calculation*) in Jun-20 compared to **1.90%** at Jun-19 (2019: 1.88%).

**Coverage ratio (provision)** for Group is **209%** in H1-20 (2019: 231%).

#### **Now moving to first quarter performance**

For the period ended 31<sup>st</sup> March 2020, **The Group achieved Net Profit After Tax** attributable to Shareholders of **KD 44.3mn lower by KD (7.3) mn or (14.2%)** compared to Q1-19 of **KD 51.6mn**.

The lower profits were mainly due to higher provisions.

**Net financing income** (NFI) increased by **KD 17.6mn** or 13.7% compared to last year mainly on account of lower COF.

**Net Operating income** at **KD 139.1mn** increased by **KD 20.9mn** or 17.7% compared to Q1-19; the increase is mainly from **Net Financing Income** by **KD 17.6mn** and **Net gain from foreign currency transactions** by **KD 8.9mn** offset by the decrease in fees and commissions by **KD (4.7) mn**.

There was a slight increase in investment income by KD 0.5mn as compared to Q1-19, however investment income and other non-yielding income contribution to total operating income **both remained at same level of last year**.



**Total Assets by end of first quarter reached KD 20.0bn representing an increase of KD 0.6bn or 3.2% compared to Dec 2019**

**Financing receivables at KD 9.8bn** increased by **4.9%** over 3 months period (Q1-20 vs. 2019). Growth in financing receivables contributed from Kuwait, Turkey and Bahrain despite market competition and challenges during first quarter while other international banking entities demonstrated slower growth focusing on asset quality.

**Investments in Sukuk reached KD 2.6bn** as of 31<sup>st</sup> March 2020 representing an increase of KD 0.3bn or **12.2%** since **Dec-19, again** with a major growth contribution from KTPB and mainly in Sovereign Sukuk.

The group deposits increased by **KD 0.7bn** or **5.3%** during the first quarter of this year reaching **KD 14.3bn**, with contribution from all banking entities in KFH Group.

Customer deposits as a percentage of total deposits at **84.0%** as at the **end of Q1-20** reflects healthy funding mix and robust liquidity.

Now, In the last slide looking at the key performance ratios for the first quarter 2020, compared to last year same period are as follow:

- ROAA decrease from 1.38% to 1.07%
- ROAE decrease from 11.26% to 8.79%
- C/I improved from 39.98% to 36.82%, and
- EPS decrease from 27.62 fils to 23.45 fils.

**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:** The investment in Sukuk increased 58% y-o-y, should we expect this to continue or to increase at the same pace in H2? **from Vikram NBK Capital**

**Answer by Mr. Shadi:** As we explained the increase in in Sukuk was in response to the rapid increase in deposits mainly in our subsidiary in Turkey, we expect that it will remain at the same level or maybe a slight increase but not to increase with the same big jump we had in the first half.

It was 58% from June not from December, from December it was 49%.

**Question 2:** Provisions on other assets, are they all attributed to the investment portfolio?

**Answer by Mr. Shadi:** Yes, most of it is attributed to the investment portfolio as I mentioned was the more conservative and precautionary provisions due to the potential COVID-19 expectations or consequences.

**Question 3:** Sensitivity of Turkish Lira depreciation to the Capital Ratios?

**Answer by Mr. Shadi:** Due to affecting or reflecting the depreciation previous years... the equity remained in the Balance Sheet is relatively much less and the impact or the sensitivity is much less to the TL depreciation but whatever depreciation there is, it is already reflected and our capital still maintained robust levels above 16.5%.

**Question 4:** Any comments from consumer loans demand preparing to long term instalment loans in July and August so far?

**Answer by Mr. Shadi:** Yes, we are witnessing, you know, after the full lockdown was lifted, we are witnessing good demand. Part of it would also be refinancing for the customers benefit from the lower discount rate.

**Question 5:** May I please ask for the date of the merger discussions with AUB.

**Answer by Mr. Shadi:** We have no new information; all the information has been disclosed. We will definitely make appropriate disclosures as and when we have any updates.



**Mr. Ahmed:** If I may add also; for more details regarding this subject as Mr shadi mentioned we have disclosures that you can refer to in our official website and or in the stock exchange website.

**Question6:** What's the expectation for asset yield and cost of funding in H2 2020?

**Answer by Mr. Shadi:** As I explained the improvement in the net financing margin which is the yield and cost of fund came from the improvement of cost of funding which was more than the drop in yield that reflects or was a response for the drop in the rates in the market, discount rate and Fed. The improvement from Cost of Funds came as a result of continuation increase in CASA, deposits in the group entities, in addition to the drop in distributable profits during the period, accordingly any improvement in group profitability will increase the cost of funds. Otherwise Net Financing Margin is expected to be maintained at current levels.

**Question 7:** Can you please summarise, what support are you providing to customers for example, like the 6 months no interests to consumers. So is there any other initiatives that you're doing?

**Answer by Mr. Shadi:** Actually, the initiative, are directives from the CBK which we are adhering to, also there are directives coming not out of CBK, coming from the cabinet, the government which are the moratorium for the consumer instalments, credit card and SME's. The support we are giving to the clients are in-line with the directives whether from the government or from CBK.

**Question 8:** Why did the profits attributed to the minority interests increase y-o-y H2?

**Answer by Mr. Shadi:** As maybe, some of you recall last year as we disclosed. we charged significantly for the first half it was KWD 40 million and was disclosed in the financials as General Provision on our business in Turkey and that was over and above all of the provision and ECL calculated there, that one is not this year. This year is the normal ECL and precautionary for the COVID-19. So that was more significant which impacted both the group profitability and the minority as well from Turkey.

**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](mailto:investor.relations@kfh.com), so again thanks everyone and thank you to the management.



**End of the Web Cast.....**