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رأس المال المصدر والمدفوع ٣١٣,١٢٥,٠٠٠ د.ك
سجل تجاري رقم ٢٤٠٦٧



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إشارتنا: 2022/499

M/s Bursa Kuwait

السادة / شركة بورصة الكويت المحترمين،،،

Dear Sirs

تحية طيبة وبعد،،،

**Sub: Burgan Bank K.P.S.C. Analyst Conference
Transcript for the 2nd Quarter 2022**

**الموضوع: مجزير مؤتمر المحللين لبنك بركان ش.م.ك.ع. للربع
الثاني من عام 2022**

Reference is made to the above subject and in compliance with the provisions of clause (4) of article (8-4-2) of Bursa Rule Book; attached is the transcript of the Analyst conference that was held via phone at 01:00 pm, Wednesday, corresponding to 03/08/2022.

بالإشارة إلى الموضوع أعلاه، والتزاماً بأحكام البند (4) من المادة (2-4-8) من كتاب قواعد البورصة، مرفق لكم طيه محضر مؤتمر المحللين والذي تم عقده عبر الهاتف في تمام الساعة 01:00 ظهرا من يوم الأربعاء، الموافق 2022/08/03.

Best regards,

وتفضلوا بقبول فائق الاحترام،،،

خالد فهد الزومان

Khalid Fahad Al-Zouman

رئيس المدراء الماليين للمجموعة

Group Chief Financial Officer





بنك بروٲان
BURGAN BANK

H1'22
Earnings Conference call Transcript
Wednesday, 3rd August 2022

H1' 22 Burgan Bank Earnings Call

Wednesday, 3rd August 2022

Transcript of Burgan Bank Earnings conference call that will take place on Wednesday, 3rd August 2022 at 13:00 Kuwait time (UTC+03:00)

Burgan Bank Participants:

Mr. Raed Al Haqhaq

Deputy Group CEO & CEO-Kuwait

Mr. Khalid Al Zouman

Group Chief Financial Officer

Mr. Naveen Kumar Rajanala

**Group Head of Group Strategy, Capital Management
and Investor Relations**

Operator (Elena Sanchez):

Good afternoon everyone and welcome to the Burgan Bank Group H1 2022 Earnings Call. Thank you very much for taking your time to attend this conference call. Today's conference is being recorded. For today's call, we have Mr. Raed Al Haqhaq, Deputy Group CEO and CEO-Kuwait and Mr. Khalid Al Zouman, Chief Financial Officer and Mr. Naveen Rajanala, Group Head of Strategy, Capital Management and Investor Relations. At this time, I would like to handover the call to Mr. Raed.

Raed Al Haqhaq:

Thank you, Elena and good afternoon, everyone and welcome to the Burgan Bank Group H1'22 earnings call. Thank you very much for taking the time to attend this call.

Let me start with Slide 3, this slide provides an aerial view of Burgan Group with the relevant key information:

- The Group operates in 5 countries across the MENAT region. Kuwait is our core market
- The Group's market cap is KD 792mn, with total Assets reaching KD 7.3bn
- The Group's strong presence in the region is reflected by a wide distribution network of 125 branches & 290 ATM's, led by 3200+ employees
- KIPCO remains our biggest shareholder at 64.3% ownership
- Burgan Bank group's credit ratings continue to trend positively with recent upgrade on "outlook" to "stable" across rating agencies

Moving on to Slide 4 which captures the key highlights:

- The Group has grown in line with expectations over the last 12 months; Kuwait led the growth with 7% Asset growth
- The Group reported resilient earnings with Revenues of KD 110mn for H1'22
- Net income grew to KD 27mn for H1'22, an increase of 13% y-o-y

- Asset quality metrics improved, with the cost of credit at 0.5% in H1'22, (down 126 bps y-o-y)
- The Groups' NPL ratio improved by 195bps y-o-y to 2.6% for H1'22
- Burgan's capital levels remain well above regulatory requirements with the CET 1 ratio at 11.1% and CAR at 17.2% for H1'22

Moving on to Slide 5, highlighting performance on topline and expenses:

- Burgan Bank Group's Revenues of KD 110mn for H1'22 was mainly driven by Net interest income growth which increased by 8% y-o-y due to improving margins
- The Group's operating expenses were marginally higher reaching KD 49mn in H1'22, driven by staff costs and other costs
- The Group's Cost-to-Income ratio was 44.4% for H1'22

I will now hand over to Mr. Khalid who will cover the next few slides.

Khalid Al Zouman: Thank you, Mr. Raed.

Moving to slide number 6:

- The Group's operating profit for H1'22 is stable at KD 61mn
- The Group delivered a robust Net Income for H1'22 increasing by 13% y-o-y

Slide 7 reflects the progress in asset quality and we continue to make more efforts.

- The first chart shows significant decline in provisions by 72% y-o-y to KD 11mn for H1'22
- The bottom left chart shows the drop in NPLs by 44% y-o-y to KD 119mn and the strong Coverage ratio that Burgan has both at the Group level and Kuwait. The Coverage ratio for the Group is at 235% and 273% for Kuwait in H1'22
- The NPLs at subsidiaries have continued to reduce, as our stringent risk practices are starting to produce positive results
- The Cost of Credit decreased both at Group level and Kuwait to 0.5% in H1'22
- The Group and Kuwait's NPL ratios decreased significantly in H1'22 to 2.6% and 2.0% respectively (both down by 190bps and 150bps respectively y-o-y)

Moving on to next slide which captures the loans and sectoral breakdown:

- The Group's total assets increased by 5% y-o-y to reach KD 7.3bn in H1'22, primarily due to Burgan Bank Kuwait's growth of 7% y-o-y
- Kuwait's loan book grew by 3% y-o-y to reach KD 3.2bn in H1'22

- The Asset and loan book compositions continue to be similar to the previous quarters with no major change

I will now hand over to Mr. Naveen who will cover the next few slides.

Naveen Rajanala: Thank you, Mr. Khalid.

Moving on to Slide 9 on Deposits and Liquidity metrics. The key messages here are:

- Access to liquidity via customer deposits and international markets remains strong
- The Group's customer deposits reduced marginally to KD 4.2bn in H1'22 with steady CASA balances of around 34% of total deposits
- Cost of Funds for the Group continue to be low at 2.3% led by improving CoF in the Kuwait franchise
- Burgan continues to maintain strong liquidity metrics and remains well above the regulatory minimums. The Group's Liquidity Coverage Ratio is reported at 133.1% and the Net stable Funding Ratio at 108.1%

Let's go to slide 10 that captures Burgan's Capital Levels:

- The Group's capital levels remain optimal
- The Group's CET 1 Ratio increased to 11.1% for H1'22, with
- CAR Ratio at 17.2%. All Capital metrics well above regulatory requirements

Moving on to slide 11 which provides details of performance by entity.

Kuwait Operations:

- The Kuwait entity's contribution is 77% of Group's Assets
- All major KPIs for Kuwait are headed in the right direction

International Operations:

- The NIMs continue to be high in these markets
- Turkey:
 - Contribution to Group's assets continues to reduce, down to 12% of Group assets
 - Key metrics trending positively
 - Asset quality improvement continues with NPL ratio & CoC reductions
- Algeria
 - Largely stable performance
 - Continues to deliver high NIMs with low COC
- Tunisia

- Small & profitable franchise
- Continues to deliver stable profitability

I will now hand over to Mr. Raed who will conclude the presentation.

Raed Al Haqhaq: Thank you Naveen.

Moving to slide 12, in conclusion:

- The Group reported a solid financial performance despite the challenging operating environment
- Going forward, we expect (barring any surprises):
 - Interest income growth to continue with improving margins
 - Credit costs to further normalize, as per our current expectations
 - Asset quality improvement expected with planned execution for the rest of the year

With that, I conclude the presentation and will now hand it back to Ms. Elena.

Elena Sanchez:

Thank you very much for the presentation. We can move now to the Q&A. If you have a question, you can write it in the Q&A designated area or you can also click on the Raise Hand option and I will unmute your microphone. We'll pause for a few minutes in order to receive some questions. There are a few questions that we received already. I will start reading them. One of them is, can you provide some guidance on the net interest margin for the second half of the year?

Naveen Rajanala:

As we can see from a trend point of view, and as we discussed in the Q4 of last year and in first quarter this year, we are expecting that to stabilize but improve marginally. We've seen a 10-bps improvement, and we expect similar, around the five to ten basis points level. But it's again difficult to predict. But we don't expect it to contract from here, but stabilize or go up.

Khalid Al Zouman:

recent CBK discount rate hikes will additionally help to improve this. Talking to the treasurer in house, he expects even there might be some hikes in the second half of the year.

Elena Sanchez:

Another question, also related to net interest income. The question is, net interest income declined year on year, despite the higher interest rates. What is the reason for this decline?

Naveen Rajanala:

So, in Q2 of last year, there was a one-off where we had received or reversed the interest on one large account, which we had discussed back then. So that one-off is skewing the trend. But otherwise, from a trend perspective, margins are going up, and our interest income also, we expect that to go up.

Elena Sanchez:

Another question. Can you share the progress on the Bank of Baghdad sale? The earlier timeline that was expected around the first half of 2022. What is the update on that front?

Naveen Rajanala:

I think we are obviously slightly delayed because of some negotiation as well as regulatory delays. But we are aiming to close the transaction this year. And if all things go on time, it could be this quarter. But I think more realistically, we are confident of closing the transaction this year.

Elena Sanchez:

How do you think of capital buffers, as they look low, specifically considering that as of 1 January 2023, the forbearance measures will be phased out? Any plans to boost capital buffers, and guidance for next year?

Raed Al Haqhaq:

Actually, as highlighted in the presentation, as of now, we're operating at 11.1%, which is above the min. required and even above the 10.5%, which will be reinstated, as you have mentioned, next year. And this is the level that we had always been operating at. This is the most efficient level that we feel that we can operate. And if we need to, we can always look at RWA optimization and other measures to always be within the 11%.

Naveen Rajanala:

I would just add to Mr. Raed's comment, once the BoB sale happens, that will add another 40 basis points. Plus, the 11% does not have the retained earnings for the year, so year end we will see a decent mark-up to the capital levels.

And as we've said in the past, during the year, unfortunately, capital organically falls because there's growth without earnings being added to capital. But the true measure or the true reflection of the capital would be at the end of the year, once the retained earnings are added.

Elena Sanchez:

Okay, there are a few questions on asset quality and cost of risk. Do you expect any pressure on credit quality metrics for the later part of 2022? And also, whether you can provide some cost of risk guidance for the second half of the year or full year 2022.

Naveen Rajanala:

On cost of credit, as we maintained in the last couple of calls, we expect a normalization. From a guidance point of view, it's difficult to give a number because one of the things that is out of our control is the precautionary provisions, if it comes in the last quarter of the year.

Secondly, as we see now, we don't expect any surprises from our portfolio, so we expect the credit cost to be less than 1%. I know, at the end of June, it is at 0.5% but we could hold it at those levels. I would just say that it's obviously improved a lot from almost 1.8% levels last year. We expect that to be less than 1%. As we see now, we don't expect a deterioration in our NPL ratio. We do almost a monthly check on portfolios across the group, we haven't seen any signs that this is going to deteriorate.

Elena Sanchez:

There are a few questions as well on Turkey and the hyperinflation accounting. Based on inflation expectations in Turkey, how do you expect the net monetary loss to evolve in the second half of the year? And when does the standard allow you to stop hyperinflation accounting?

Khalid Al Zouman:

The whole idea is the major impact happens the first time, when you implement this standard. But going forward, it depends on the inflation rate. Talking to the economists whether in Burgan Bank Turkey or Kuwait, they have the same view, there will be some impact coming, but not that major. We don't expect a very high impact.

Coming back to your next question, definitely when the inflation goes down. So, the same applies to us, we apply it because over three years the accumulative inflation rate went above 100%. We expect, if the inflation rate goes down in the coming period by the same trend also we can stop it. But let me just point out, we are talking to our external auditors, we also have our treasurer in Burgan Bank Turkey along with our treasurer here in Kuwait and our risk managers, we're trying to find the solution and how to minimize the impact going forward. However, I don't think this is going to be as high as what we booked in the first half.

Elena Sanchez:

Thanks, another question related to Turkey. What will be the run rate in terms of profits going forward for your subsidiary in Turkey?

Naveen Rajanala:

So obviously this year, Turkey has had a strong start to the year. If we look at the performance compared to 2020 or even 2021, they have exceeded our internal budgets, and based on the signs that we are seeing, this will be one of their stronger years with us.

If you look at their standalone performance in H1, I think the return on equity that they have generated is in excess of 30% on local reporting. Based on the run rate, we expect that sort of profitability performance to continue at a local reporting basis.

Elena Sanchez:

Final question on Turkey, how do you expect to manage the impact of hyperinflation in Turkey? Do you expect to offset or partly offset the impact with CPI linkers or any other hedges?

Khalid Al Zouman:

As I said earlier, we have some options. We need to study it from a monitoring and from a risk perspective, as I said earlier in my answer that our Group chief Risk officer In Kuwait along with the risk manager Turkey, are talking to each other. There is a proposal, and we have also a couple of solutions. We are looking at what's the best way or maybe a combination of two or of three solutions, It could be not only one solution. So, at this moment, there is no clear answer.

Elena Sanchez:

Okay, thanks for that. On stage two loans attributable to related parties, if you can disclose the share of the stage two loans that are attributable to related parties.

Naveen Rajanala:

As of date, there is no stage two linked to related party exposures.

Elena Sanchez:

Okay, thanks for that. Can you also talk about the dividend policy? Any changes expected this year in terms of dividend pay-outs?

Naveen Rajanala:

So, I think there has been a regulatory change, where the Central Bank is evaluating allowing payment of dividends on a semi-annual basis. So basically, the investors could get it at the end of H1 and also end of the year. I don't think that's been finalized, it could be finalized fairly soon.

Coming to Burgan's dividend policy, again, as we've maintained in the past, we don't have a set dividend policy. The decision is discussed between the board and the regulator and it's a combination of level of profitability and capital levels that the regulator is satisfied, and then the decision is granted. So unfortunately, there is no straight answer because it is something that we do on a yearly basis, depending on these variables.

Elena Sanchez:

What is the stage two loan exposure as of June 2022?

Naveen Rajanala:

At group level, it's 15%. But again, as we've maintained in the past, the stage two here also needs to be looked at from the fact that this is CBK IFRS 9 rules. So, it's not apples to apples if you want to compare it with other parts of the world, as it's more stringent.

As we've said in the past, a lot of the loans stay in stage two till they complete a curing period, and then you have to go to the regulator for approval, etc. So, all these factors have to be kept in mind. As a number, it's 15.2%.

Khalid Al Zouman:

Yes, thanks Naveen for explaining this. Just to make it clear and obvious, it doesn't mean that those loans are going to migrate to stage three, that's just what I would like to share because sometimes stage two can stay still for a certain period, according to CBK rules, and can be moved to a stage one easily. So, it's all about the parameters which we put in the model to calculate what's the definition of stage two.

Elena Sanchez:

That's very clear. Thank you. I can see another question just came through. Could you share your comments on Burgan's perpetual instruments, specifically around the recent underperformance and if you have any comments on that?

Naveen Rajanala:

Yes, I think it's a function of the current rate environment. From a credit point of view, Burgan has strengthened as Mr. Raed pointed out, both at an economy level as well as at an entity level, the ratings have improved, etc., the performance has strongly rebounded from 2020 and 2021. Unfortunately, it's more a function of the market, sometimes, the liquidity with these instruments are very opaque and difficult to control. It's not ideal, but unfortunately, that's something that we are monitoring but there is very little that we could do to boost the price.

Elena Sanchez:

I cannot see any other questions here in the queue, so I think we can conclude the call. Thank you very much for your time, for the presentation, and for all the insights provided in the call today. And I just hand it over to you in case you want to add any closing remarks.

Raed Al Haqhaq:

Thank you, Elena and thank you everybody for attending the call. As always, if you have any further questions reach to us directly.

Elena Sanchez:

Thank you.