**Al Ahli Bank of Kuwait**
**Edited Transcript – H1 2024 Investor's Call**

**Date:** 29th July 2024

**Time:** 3:30 p.m. KWT

**Speakers:**

- Mr. Abdulla Alsumait, Acting Group Chief Executive Officer (Acting GCEO)
- Mr. Shiamak Soonawalla, Group Chief Financial Officer (GCFO)
- Mr. Abdulaziz Jawad, Chief Strategy Officer (CSO)
- Mr. Yaqoub Almulla, Senior Manager - Investor Relations

**Host:**
EFG Hermes

**Moderator:**
Ahmed El-Shazly

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**Ahmed El-Shazly:** Good afternoon, everyone and thank you for joining us today. This is Ahmed El-Shazly from EFG Hermes and I am pleased to welcome you to Al Ahli Bank of Kuwait's (ABK) H1 2024 earnings webcast.

I have with me here today, from ABK's management, Mr. Abdulla Alsumait, Acting Group Chief Executive Officer, Mr. Shiamak Soonawalla, Group Chief Financial Officer, Mr. Abdulaziz Jawad, Chief Strategy Officer, and Mr. Yaqoub Almulla, Senior Manager - Investor Relations.

I will now hand the call over to Mr. Yaqoub.

**Yaqoub Almulla:** Good afternoon, everyone. Thank you for joining us today for our H1 2024 earnings webcast.

We will start our call with a disclaimer. I would like to bring to your attention that certain comments in this presentation may constitute forward-looking statements. These comments reflect the Bank's expectation and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described

herein. The Bank does not assume any obligation to update its view of such risks and uncertainties or to publicly announce the result of any revisions to the forward-looking statement made herein. Please refer to the full disclaimer on slide 2 of our presentation for today's call.

We will continue the call with an overview from ABK's Acting GCEO, Mr. Abdulla Alsumait, followed by ABK's GCFO, Mr. Shiamak Soonawalla, providing an extended review on financials and performance. Then he will be followed by ABK's CSO, Mr. Abdulaziz Jawad, who will provide us with an overall update on ABK, strategy, and major projects. We will answer any questions received through the webcast platform. I trust everybody has had a chance to review our earnings release documents. They're available, including the earnings presentation that we'll be referring to during the call, on the Investor Relations section of ABK's website. Also, feel free to send any follow-up questions or required clarifications to our Investor Relations email IR@abkuwait.com.

Please allow me to hand it over to Mr. Abdulla.

**Abdulla Alsumait:** Thank you, Yaqoub. Good afternoon, everyone, and thank you for joining us today. I am pleased to announce our impressive first half 2024 results. ABK maintained solid growth, creditable performance and recognizable achievements.

Moving to the key financial highlights and performance for this period, we have achieved a 22% increase in Net Profit attributable to shareholders from KD 23.9 million in 2023 to KD 29.1 million in the first six months of 2024, and a 20% increase in EPS from 10 fils to 12 fils, with a comfortable Capital Adequacy Ratio of 15.3%.

All financial indicators reflect our success in implementing strategic plans and keeping pace with economic changes. During the first half of this year, ABK maintained positive momentum, reflected in our improved profitability and asset quality ratios, including a NPL Ratio of 1.31%.

In an initiative to reinforcing the trust the Bank has among global companies, we participated in several financing deals and received numerous global awards, adding to our record of achievements. These awards were in recognition of the Bank's exceptional

performance and the provision of the best services, products, and banking solutions we offer.

ABK continues to work on its digital transformation plan and adopt the highest security standards across all businesses, by signing agreements from the use of artificial intelligence technologies, and live data dashboards across most functions, to improving performance and services, and innovating our banking solutions that add more customer value in the easiest and safest ways.

In reflection to the stability in the political scene and the government's ability to tackle significant economic challenges, ABK is fully prepared to finance large infrastructure projects that we expect will be launched in Kuwait. The Bank expresses hope and is confident in the ability to enhance the partnership between the public and private sectors in implementing Kuwait 2035 Vision's plans to advance economic activity and contribute to transforming Kuwait into a regional and global commercial and financial hub.

As we look to the future, ABK is prepared to capitalize on emerging growth opportunities, leveraging our financial strength and customer-centric philosophy. We continue to adopt the highest standards of corporate governance and transparency in achieving an optimistic performance by the end of 2024.

I am particularly proud of the progress we have made on several fronts with the introduction of new products, such as Family Banking, retail mortgage loans in the UAE and an increase in our card portfolio position. We are currently working on revamping our mobile banking application to provide state-of-the-art and best-in-class service to our customers.

I will now turn it over to my colleague, Mr. Shiamak, who will take us through the detailed financial aspects of our presentation.

**Shiamak Soonawalla:** Thank you, Mr. Abdulla, and thank you all for joining our earnings call for the first half of 2024. In the first half of 2024, we have made remarkable progress in several key metrics that we will be discussing during this call.

Starting with our income statement, our Net Profit attributable to shareholders for H1 2024 has increased by 22%, reaching KD 29.1 million, compared to the same period in 2023. Our Earnings per

Share also reflected robust growth, rising by 20% from 10 fils last year to 12 fils this year. On the operational front, our Operating Income increased by 15% to KD 100.9 million, while our Operating Profit grew by 21% to KD 53.6 million. Our Capital Adequacy Ratio (CAR) stands at 15.3%, well above the regulatory requirement.

Moving on to our asset quality, I am pleased to report that our Non-Performing Loan Ratio stands at 1.31%. Additionally, our Loan Loss Coverage Ratio is an impressive 447%, underscoring our prudent provisioning policies and strong credit metrics. Furthermore, we draw attention to the fact that as at the half year end, we have KD 221 million of provisions that exceed IFRS requirements, providing substantial buffers against downside risks.

Our operational efficiency remains a priority, which is evident in our Net Interest Margin standing at 2.3%, an 8% improvement over H1 2023, and an Operating Profit to average assets ratio of 1.67%, a 19% improvement over H1 2023. These figures reflect the Group's strong performance and continued focus on profitability. Additionally, our Return On Average Equity has reached 9.5%, marking a significant 15% increase compared to the same period last year.

For H1 2024, the Group's Total Interest Income reached KD 72.4 million, a notable increase of KD 7.1 million or 11% over the same period in 2023. This growth is largely due to higher asset levels and a more favorable interest rate environment. However, our interest expense also rose by 21% to KD 157 million, as deposits were repriced in line with the interest rate hikes last year.

Our Group's Total Assets grew by 6% to reach KD 6.6 billion, and our loan portfolio expanded by 5% from KD 4.3 billion to KD 4.5 billion. Additionally, our Total Deposits are KD 4 billion, representing 65.9% of our Total Liabilities. We maintain a strong liquidity position with a Net Stable Funding Ratio of 113% and a Liquidity Coverage Ratio of 279%, both comfortably above regulatory requirements.

Turning to the factors driving changes in income, margins, and costs, our total Operating Profit saw a notable 21% increase compared to the same period last year, arising from better margins and improved non-interest income streams. Looking at the composition of our Operating Income of KD 100.9 million for H1

2024: 46% was from commercial banking, 40% from retail banking, and 14% from treasury operations. In terms of asset allocation, commercial banking accounted for 59%, retail banking for 13%, and treasury operations for 28%.

Fees and commissions made a significant contribution, growing by 31% compared to the same period last year and amounting to KD 21 million in H1 2024. Our fees and commissions are diversified across various regions and business sectors, with the bulk stemming from core banking operations. As a final point, our cost-to-income ratio for the current half improved to 46.9%, down from 49.5% in the same period last year, as we continue to enhance efficiency and optimize costs.

In summary, the first half of 2024 has been a period of significant enhancements in profitability, operational efficiency, asset quality, and a solid capital position. We remain positive about our performance for the remainder of the year.

I will now hand over to Mr. Abdulaziz for an update on strategy and major projects.

**Abdulaziz Jawad:** Thank you, Mr. Shiamak. Good afternoon, everyone and let me start with discussing ABK's overall performance initiated with a macroeconomic update.

The July 2024 World Economic Outlook forecasted global growth to be at 3.2% in line with its previous outlook in April. The global economy also faces upside risks of inflation, raising the possibility of higher interest rates for an extended period, in the context of escalating trade tensions and increased policy uncertainty according to the IMF.

Shifting to the outlook in the GCC, economic growth is expected to rebound to 2.8%, according to the 2024 Gulf Economic Update. The positive outlook for the region's economy is due to expected increases in oil production as OPEC+ eases production quotas in the second half of 2024 and the result of strong performance in the non-oil sector and capital expenditures.

Specifically in Kuwait, economic growth is expected to recover to 2.8% in 2024, supported by a higher oil production of 3.6% with increased output this year and highlighting the inauguration of

Kuwait's first offshore drilling platform 'Nokhetha,' which now rests at its location in the northeast waters. The planned six-well offshore rig is key to increase reserves in oil and gas outputs by 6 billion barrels, bolstering Kuwait's financial strength and economic stability. The non-oil sector is projected to grow by 2.1% due to a stable political scene planning new reforms and the initiation of significant development projects. The aforementioned leads to Kuwait's construction sector expanding by 6.6% this year according to MEED, and government plans to invest over KD 350 million (circa $1.1 billion) in the construction of several projects across the country.

Indicating our financial stability and strength as a trusted banking and financial partner in the Kuwaiti and regional markets, we have maintained high credit ratings of 'A' and 'A2' from Fitch and Moody's respectively. In addition, ABK is proud to have won two prestigious awards, 'Best Retail Bank – Egypt' and 'Excellence in Customer Protection/ Fraud Control – Kuwait' from MEED.

Moving on, our ABK2X strategy continues to drive noticeable outcomes as we continue to make significant progress in our strategy implementation, reflected by a successful H1 2024 which is progressing at a faster pace compared to ABK2X strategic targets, which were highlighted by my colleague, Mr. Shiamak, earlier. This period saw the realization of several group synergies through the completion of broader group entities' efforts, leveraging local successes. We have also achieved major milestones in the retail stream by completing all four phases of the branch sales productivity uplift initiative, enhancing our data-driven decision-making capabilities by launching our fully operational retail dashboard, and collaborating with major stakeholders in the Bank to develop a new lending program.

The Bank also witnessed the launch of new offerings, including the 'Al Tajer Plus' account which launched to benefit SMEs into growing their businesses and increase profitability. This comes alongside the introduction of the first-of-its-kind 'Family Package' in Kuwait's banking sector to offer integrated banking services to all family members.

Our digitization efforts are on track with a wave 1 mobile app launch by Q3 2024, in line with upgrading the Bank's online banking platform to a best-in-class transaction banking digital framework,

which includes standard non-lending service offerings for different market segments through a digital medium.

Shifting to our global presence, Egypt's external position considerably improved during the first half as the impact of the deals and agreements reached in March began to reflect on the macro data. Egypt's inflation has assumed a downward trajectory to reach 28.2% in May after having peaked at around 35.7% in February 2024.

ABK-Egypt kicked off the Core Banking System Upgrade project as a significant step forward for the Bank in providing customers with an elevated banking experience. In addition, ABK-Egypt launched the 'ABK NEXT' segment for youth to enjoy a wide range of products and services.

In the UAE, the focus on international business growth continued during H1 2024 through securing direct key mandates and opening new markets with key transactions. Notable transactions include, but are not limited to, the first Moroccan direct mandate in line with the new country initiative.

ABK-DIFC caters to booking units business which includes UAE, Egypt and Kuwait's CBD. Total funding base has been significantly diversified with long term bank borrowings, bilateral bank borrowings, and UAE & DIFC originated customer deposits.

Shifting to ABK Capital, our investment arm, we have launched two investment products, namely the Ijara Fund (Equipment Leasing Fund) and the International Private Credit Fund, which were introduced in collaboration with ABK and promoted through the 'successful referral' campaign.

Stemming from ABK's sustainability and ESG efforts, we are currently gathering internal data to evaluate our progress for this year. This comprehensive data collection will allow us to measure the effectiveness of our initiatives and identify areas for improvement.

Also, ABK plans to offer a 0% loan to finance solar energy systems as per the Ministry of Electricity & Water's (MEW) recommendation. The offer is at its final stage in the hope of being the first bank to provide these sustainable services.

As we navigate the remainder of 2024, our commitment to ABK's strategy execution will remain prudent and persistent to shaping a prosperous path forward.

Thank you for your attention, moving to Ahmed for the Q&A session.

**Q&A Session**

**Ahmed El-Shazly:** Thank you for the presentation, gentlemen. We will now open the floor for questions. If you'd like to ask a question, you can send it through the Q&A box on your screen. We will pause for a moment to give everyone a chance to send in their questions.

We have received a couple of questions. Let's start with the first one.

Regarding the mortgage law giving commercial banks the ability to offer mortgages, when does the loan go out in Kuwait, and what would the law's effect be on ABK's loan book?

**Abdulla Alsumait:** We started the mortgage loan in the UAE. We're talking about financing a customer based in Kuwait, so, the cash flow is in Kuwait, and they apply for the loan here and we establish the loan in the UAE.

We stand at a good number now but I cannot reveal it. We started this year so, by the end of the year, we should have a good amount of mortgage loan granted there.

**Abdulaziz Jawad:** Mr. Abdulla, if you allow me to comment further. This is a new product that we have launched in collaboration with ABK-UAE. Regarding the mortgage law in Kuwait, we hear that the Cabinet of Ministers are working towards regulating the mortgage law in Kuwait.

As banks, we are very keen to have and support this product once it's regulated and approved by the Cabinet of Ministers and the Central Bank of Kuwait. It will definitely have a good impact on our financials and performance. It's worth noting that I think Kuwait is one of the few countries globally that don't offer a mortgage law to the residential properties.

**Ahmed El-Shazly:** Thank you. Moving on to the next question: Margin has compressed about 15 basis points QOQ. What are the drivers of this and how do you expect the margins to trend in the second half of this year?

**Shiamak Soonawalla:** The margins in the second half will continue to remain at the level we've experienced at the end of the second quarter.

Managing the cost of funds is a challenge for us as we have to manage the ratios. Sometimes, during this process, we tend to have higher costs than we anticipate but it's a measure that we correct.

I see our margins settling in at the level we have achieved for the rest of the year.

**Ahmed El-Shazly:** Okay, next question. What sectors drove the growth in Q2? Did it come from Kuwait or outside Kuwait?

**Shiamak Soonawalla:** It essentially and largely came from Kuwait's contracting and real estate sector. We had Kuwait and our global financial institutional business.

**Ahmed El-Shazly:** Do you participate in KSA deals as well?

**Shiamak Soonawalla:** Yes, we do. We have a DCM desk that operates from our DIFC branch. However, it has to be attractive and it has to meet expectations in terms of risk and return.

**Abdulaziz Jawad:** If you allow me to comment, Ahmed, on this particular point. We have a Non-Presence Countries (NPC) division that gives credit facilities to the countries we do not have operations in, like KSA, Qatar, Oman, and other countries as well. So, we definitely have some transactions in KSA, but as highlighted by Mr. Shiamak, they need to be attractive enough and fit our risk appetite in order to finance it.

**Ahmed El-Shazly:** Given that the year-to-date loan growth is already 5%, what is your expectation for growth in 2024?

**Shiamak Soonawalla:** I expect growth to sustain until the end of the year and be between 5% to 7%.

**Ahmed El-Shazly:** We have another question. Can you give us an update on political developments in terms of project awards and reforms? When can we expect to see this boost growth in Kuwait?

**Abdulla Alsumait:** I think we are positive and are hearing a lot of good signals from the government. The government is talking about KD 16 to 18 billion of projects on the infrastructure of Kuwait. So, for ABK and other banks, I hope this will take place before the end of the year.

**Ahmed El-Shazly:** We can pause for just another moment for any final questions.
It seems that we have no further questions at this point.
I'd like to thank everyone for joining and thank management for their time.