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سجل تجاري رقم ٢٤٠٦٧



Date: 05/08/2024

Ref: 562/2024

M/s Bursa Kuwait

Dear Sirs,

**Sub: Burgan Bank Analyst Conference Transcript
for 2nd Quarter of 2024**

In compliance with the provisions of clause (4) of article (8-4-2) of Bursa Kuwait Rulebook, Resolution No. (1) of 2018 and amendments thereto, attached is the transcript of the Analyst conference for the 2nd quarter of 2024 that was held on Thursday 01/08/2024 at 03:30 pm via conference call.

Best regards,

Khalid Fahad Al-Zouman

Acting Group Chief Executive Officer





بنك بروگان
BURGAN BANK

H1'24

Earnings Conference call Pre Transcript

Thursday, 01st August 2024

H1' 24 Burgan Bank Earnings Call

Thursday, 01st August 2024

Transcript of Burgan Bank Earnings conference call on Thursday 01st August 2024 at 15:30 Kuwait time (UTC+03:00)

Burgan Bank Participants:

Mr. Khalid Al Zouman

Chief Financial Officer

Mr. Sanket Mokashi

Deputy General Manager – Finance Group

Mr. Animesh Aseem

Senior Manager – Strategy and Capital Management

Operator (Ahmed El Shazly):

Good afternoon everyone, this is Ahmed El Shazly from EFG Hermes and I would like to welcome you all to the Burgan Bank Group H1'24 Earnings call. Thank you very much for taking your time to attend this conference call. Today's call is being recorded. With that, I would like to hand over to Mr. Animesh Aseem from Burgan Bank to kick off the call.

Animesh Aseem:

Thank you, Ahmed. Good afternoon everyone and welcome to the Burgan Bank Group H1'24 earnings call. Thank you very much for taking the time to attend this call. Joining this call from Burgan are Mr. Khalid Al Zouman, Chief Financial Officer, Mr. Sanket Mokashi, Deputy General Manager – Finance Group, Mr. Gaurav Handa Assistant General Manager- Finance Group and myself, Animesh Aseem, Senior manager- Strategy and Capital Management. We shall cover the slides over the next 20 minutes or so and would welcome your questions at the end once the presentation has been covered. With that, let me kick off today's presentation with the key developments this quarter as highlighted on the slide # 8:

- 1) The first one is the redemption of Burgan's USD 500 million AT1 bonds which were initially issued in July 2019. These bonds were duly called back in accordance with the redemption dates & other terms and conditions stipulated in the offering document. This was part of the Bank's overall funding strategy which included a new issuance of KD 150 million AT1 bonds in May 2024 and subsequent redemption of these USD AT1 bonds.
- 2) The second one relates to Burgan's plan to acquire 100% stake in UGB from United Gulf Holdings a subsidiary of KIPCO, subject to final regulatory approvals (in Kuwait and Bahrain). Burgan received an initial CBK approval in June'24 to start engaging with regulatory authorities in Bahrain. This transaction when executed would help build new revenue streams, create cross-sell opportunities & generate integrational synergies for Burgan.

- 3) Thirdly, Burgan continues its relentless efforts to further enhance its Digital Infrastructure. In this context, the bank has appointed Tata Consultancy Services to upgrade its core banking system. Also, the bank emerged as one of the earliest Kuwaiti banks to join the GCC real-time payments platform AFAQ.
- 4) The fourth point is a testament to the bank's unwavering commitment to service excellence as it was voted the Best Domestic Bank in Kuwait under the "Best Service" category in the 2024 Euromoney Trade Finance Survey

With that, I will hand over to our CFO, Mr Khalid to cover the next few slides

Khalid Al Zouman:

Thank you, Animesh.

Good Afternoon everyone. Let me start with the H1'24 Performance Highlights on the slide #10:

- 1) Burgan reported quite a robust financial performance during H1'24 with significant improvements from last year:
 - The Group's revenues reached KD 111 million translating into an impressive growth of 19% y-o-y
 - Accordingly, Group's bottom line also increased significantly i.e, by 17% y-o-y; our reported Net income for the first half of 2024 reached KD 21 million
- 2) Burgan's strategic focus on growth is apparent with our loan book increasing by 10% y-o-y to reach KD 4.4 billion in the first half of 2024. This growth was predominantly led by our Kuwait franchise which grew by 8% y-o-y to reach KD 3.6 billion
- 3) Our capital levels remain very strong with CET1 of 13.0% and CAR of 19.3%. These ratios are well above the regulatory requirements with sufficient capital buffers which provide impetus for bank's future growth

Now, let's move to slide # 12 which covers the financial review for the period in granular details:

- 1) As already highlighted, the bank's revenues for the first half of 2024 increased by 19% y-o-y to reach KD 111 million. This increase in revenues was primarily driven by higher Net-Interest Income of KD 71 million, up 17% y-o-y and robust Non-Interest income of KD 39 million, up 24% y-o-y.
- 2) Higher net interest income was supported by an 20bps y-o-y improvement in the Net interest margins of the bank which increased to 2.1% in H1'24 from 1.9% during H1'23.
- 3) Driven by higher revenues, Burgan posted solid operating profits of KD 48 million, marking a significant growth of 24% y-o-y. Accordingly, Group cost to income ratio also improved by 170bps from 58.3% in H1'23 to 56.6% in H1'24.
- 4) The cost of credit for the Group net of recoveries remained very low at mere 30bps. Such low ratio reiterates inherent strength of our credit portfolio.
- 5) Burgan's Net Income remained resilient at KD 21 million for the first half of 2024 with an impressive 17% y-o-y growth.

Moving on to slide # 13 which reflect Group's Asset Quality Metrics:

- 1) The Group's NPL ratio increased y-o-y. We already discussed this temporary increase in NPLs during our last quarter's update call and the same is now reflecting in the H1'24 numbers as well. However, if you look sequentially i.e., on a Q-o-Q basis, you would notice that our NPL ratio has improved from 2.6% in Q1'24 to 2.5% in Q2'24.
- 2) We are working on improving our NPL ratios further and we are very hopeful that this temporary increase would be normalized over the next few quarters.
- 3) Our NPL coverage ratio stood at 174% and our ECL buffers over ECL requirements were ~KD 116 million which reassures Burgan's strong coverage profile.
- 4) Provision charge net of recoveries for the period was KD 6 million that translates to just 30bps of our portfolio size

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

Sanket Mokashi:

Thank you, Mr. Khalid.

Moving on to slide # 14, the key messages on this slide are as follows:

- 1) Burgan's assets base increased by 8% y-o-y and stood at KD 7.6 billion at the end of H1'24.
- 2) Bank's loan book grew by 10% y-o-y to KD 4.4 billion – predominantly driven by strong growth demonstrated by our Kuwait's franchise which saw its loan portfolio grow by 8% y-o-y to reach KD 3.6 billion.
- 3) The bank continues to be well diversified in terms of its exposure to different sectors & there are no material concentrations. Also, it is noteworthy to highlight that there has not been any major movement in the sector concentration y-o-y.
- 4) The Bank continues to hold healthy levels of liquid assets in its books as reflected by its liquid asset to total asset ratio of 24.2%.
- 5) The staging of loan also remained more or less stable; the slight uptick in stage 3 portfolio indicates the increase in our NPLs which we discussed earlier

Moving on to slide # 15, the key highlights on this slide are as follows:

- 1) The Group's deposit base grew by 7% y-o-y and stood at KD 4.6 billion at the end of H1'24.
- 2) Our CASA balances remain stable and healthy at 32%.
- 3) Our Key Liquidity ratios, NSFR & LCR remained very strong and are well above the regulatory requirements.

Moving on to slide # 16 which talks about our capital position:

- Burgan's capital levels are strong and healthy with significant buffers over regulatory minimums. This is expected to support our growth momentum. Our CET1 ratio is at 13.0% and CAR at 19.3% as at end H1'24.

Moving on to slide # 17:

This slide provides a birds-eye view of the KPIs relating to our key franchises:

- 1) As evident, Kuwait continues to be the largest contributor to the Group's asset base
- 2) Overall leading indicators across the group remained stable with most of the metrics trending in the right direction with no major surprises.
- 3) Asset quality remains healthy with adequate coverage.
- 4) Cross selling remains one of the key focus for the group.

I will now hand it back to our CFO, Mr. Khalid, to conclude this presentation

Khalid Al Zouman:

Thank you, Mr. Sanket. Moving to slide # 19, in summary:

- 1) Burgan delivered a strong "all round performance" with all core metrics of the bank trending in the right direction
- 2) Focus remains on Growth backed by strong capital levels
- 3) Burgan remains committed to continue accelerating its dedicated technology evolution & digital transformation strategy

With that I will conclude our presentation and will hand it back to Ahmed to coordinate the Q&A session.

Ahmed El Shazly:

Thank you, gentlemen, for the presentation. We will now open the floor for your questions, so if you'd like to ask a question you can either type it in the question box on your screen, or you can click on the Raise Hand button and I will unmute your microphone.

We have our first question from Chiro Ghosh. Please unmute your microphone and go ahead.

Chiro Ghosh:

This is Chiro Ghosh from SICO Bahrain. I have a couple of questions. The first one is related to the asset quality. The gross cost of risk was quite low this quarter, so just want to get a sense of what is the reason, or is it related to the settlement which you are in discussions with for a few of your accounts of your clients, which are referred to in the last conference call? Is this related to that? And also, if you can give some colour on the asset quality of the other regions. That's my first question. Second one, I saw that the deposits rose in the first quarter and then again came back in the second quarter, and the CASA appeared to have improved, so can you give some colour on the deposit side?

Gaurav Handa:

Sure. We'll start with the asset quality. Although there is an increase in our NPL ratio, which happened in Q1, these customers were fully collateralized, so we didn't have to take any provisions on these customers. But, we are quite cautious and we are adopting a conservative provisioning policy, so whatever recoveries that are happening since the last one year, we have not been taking those to P&L, we are actually building precautionary provisions against those. So, despite that our net COC is 30bps, which has been quite low since the last one year or so. That's on the asset quality.

The second question on the deposits, yes, we have been managing our deposit base, but as you know, we had a perpetual issuance also. We had a KD 150 million perpetual issuance, and we also had a legacy USD 500 million perpetual as of June. So, we were getting to perpetuals, so we did not need so many deposits. And as and when the expensive deposits matured, we did not renew them. But in Q3, we have recently, July, repaid the legacy USD 500 million perpetual as well. So, there is this temporary movement which keeps happening in deposits. Plus, you will see on the other side, there is an increase in due to OFIs. So sometimes, you borrow from OFIs, and sometimes just the customer deposits which fund your growth.

Chiro Ghosh:

And what will be the impact on the margin because of this, going ahead?

Gaurav Handa:

The margins have actually improved. You would have noticed that. One is the loan growth that we have had, a strong growth in loan volumes, plus the high interest rate environment, both in Kuwait as well as Turkey, so these have supported our margins. And our expectation is that we

would remain at this 2% -2.1% level for the year, even if there is a rate cut, which we expect only in September or maybe the end of the year.

Chiro Ghosh:

So, it won't have any significant impact, the rate cuts?

Gaurav Handa:

Not this year. This year, no, we don't expect that this year. But, yes, 2025, if there are multiple rate cuts that happen, if the Fed does and CBK follows, then there could be some impact on the margins.

Chiro Ghosh:

On the negative side?

Gaurav Handa:

Yes, Negative impact.

Chiro Ghosh:

Okay, that's all from my side. Thank you very much.

Ahmed El-Shazly

Thank you, Chiro. We will now take some questions from the Q&A box. The first one is could you explain the drivers of margin expansion? I think you addressed it, but just to make sure, if you'd like to expand, could you explain the drivers of margin expansion during Q2 on a Q-on-Q basis? Is it coming from Turkey, CPI-linkers or repricing for rate hikes? And what is your outlook for margins in the second half?

Khalid Al Zouman:

I would re-iterate what my colleague, Mr. Gaurav, said. It's mainly in Kuwait we have, again, improved our margins because we get improvement when our interest rate increases. In Turkey, there is an improvement in margins compared to last year. Nothing to do with the CPI-linkers, it's just the improvement happened in our lending book. How it's going to evolve, I think Gaurav just told you that he expects it to remain stable during for the remainder of the year.

Ahmed El-Shazly:

All right, thank you. The next question, the personal loans in the presentation appears to be very different from the retail loans published in the financial report, can you please clarify the difference? And also, what is your outlook for retail loan growth in Kuwait?

Gaurav Handa:

The personal loan category is actually a category defined by the Central Bank of Kuwait. So, it does not just include the retail loans, but private banking loans are also included there. Plus,

the loans given to holding companies, which have diversified businesses in various industries, also get classified there because they are being classified as investment companies. So, this category has always been in that range.

Ahmed El-Shazly:

Okay, so we'll move on to the next question. What will be the impact on capital ratios from the acquisition of UGB? And what is the rationale of acquiring UGB as the strategy remains to exit non-core assets?

Animesh Aseem:

Sure. Just answering the first question on the capital, as we have also made a disclosure in this context, the details are still under negotiation, so we will not be able to provide exact impacts.

But we can talk about the rationale as to why we are making this acquisition. So, as I already mentioned in my opening statement, this acquisition is in line with our strategy of asset reallocation and building new revenue streams. UGB has a wholesale conventional banking license in Bahrain with an Islamic window, and it also owns 60% of KAMCO, a leading investment house in Kuwait. So, this transaction, when materialized, will help Burgan to increase our footprint across the GCC region. It will create new revenue streams and integrational synergies. It will, like I said, provide us access to KAMCO, which is which will enhance our existing customer offerings and propositions. So, with all these merits in this transaction, we are contemplating this acquisition.

Ahmed El-Shazly:

Thank you. The next question is on the drivers of the increase in NPLs.

Khalid Al Zouman:

I think we shed a light on in the Q1 conference call. We said that there are two customers and they are collateralized, and I think the bank took action on these customers, so they can adhere to our covenants or repayment schedule. You will see a change. I believe you will see a change coming soon in Q3, Q4 maximum, in terms of reduction of our NPLs. So, the issue is not cash flow. It's just the behavior of some customers.

Ahmed El-Shazly:

Thank you. Our next question is what is the outlook for loan growth?

Gaurav Handa:

If you look at our financials, we have grown at around 5% for the last six months. We expect to remain at the high-single-digit level for the full year. But year on year, as of now, we have achieved 10% growth, and 8% of that is coming from Kuwait. So, high-single-digit would be our guidance for now.

Ahmed El-Shazly

All right. Can you please address the NPL increase in Algeria? What is driving this high level? And it would be helpful if you can break down what segments are driving these NPLs.

Khalid Al Zouman:

Actually, maybe if you see it from a percentage point of view, maybe you think it's high. But these are small customers. They are not significant in terms of amount. And when we have even discussions with the management, the CEO over there, some of them written off and some of them, they think will be regularized, and some, there might be a legal action against them. But they are small and varied across industries.

Ahmed El-Shazly

Okay. The next question, what is your asset quality loan growth and NIM outlook in Turkey?

Gaurav Handa:

Asset quality, as of now, our NPL ratio in Turkey is around 1%. NIMs are quite high, at 4.5%. The policy rates are, as of now, at 50%, one of the highest that Turkey has seen in the past. So, they are expecting that the inflation is supposed to come down in the second half of the year, because of the high interest rate environment. And probably we don't expect any cut in interest rate, and we should be able to maintain our margins at 4.5% this year. And even the NPL ratio is going to be low, at 1% or maximum 2% levels.

Ahmed El-Shazly:

We have a follow-up question on the retail loan growth question earlier. There was some disturbance in the line, can you please repeat what is your outlook for the retail loan growth in Kuwait.

Gaurav Handa:

As of now, we are not seeing a significant retail loan growth in the sector. But as we have changed our strategy since the last two years, we have built our sales team to focus on retail, so our business is growing, but with a smaller base, our base in retail is quite small, we are growing at around 10% to 12% on an annual basis in the retail portfolio. The sector is growing at only 3% to 4% levels, but this has been our strategy and focus area for us since the last two years, and we continue to do that in the coming year as well.

Ahmed El-Shazly:

The next question, how's the progress in reforms, including mortgage law and the pick-up in project spending?

Khalid Al Zouman:

I think that's something that is under study till now. Regarding the projects, Yes, we are very optimistic that things are moving on, and you will see it coming in the next few months.

Actually, some of them have started already, but we are very optimistic that the process will not be delayed or is going to be prolonged, as before.

Ahmed El-Shazly:

The next question, should we expect that the previous guided 150 to 200 basis points buffer over the minimum CET1 ratio to be maintained even after the UGB acquisition?

Gaurav Handa:

Actually, we are still in the phase of calculating the impact of the UGB acquisition. But, yes, we have always at least 1% to 1.5% buffer, over the minimum would be maintained. That is our initial expectation that we have from the draft calculations. But, yes, we would maintain at least 12%, CET1 by the end of the year.

Ahmed El-Shazly:

We have another question on UGB. Does the potential acquisition of UGB assume cash payment or other sources of payments, such as share exchange?

Khalid Al Zouman:

I think it's too early to discuss detail. Today, what we have is just an approval from the Central Bank to contact the foreign regulator in Bahrain. Now, in our initial studies, but what my colleague, Mr Animesh, mentioned is what we expect later, when this deal closes, that what the potential synergy is there. But at this moment, it's really only the initial stages.

Ahmed El-Shazly:

All right. We have a question that I think that you've addressed, but maybe you would like to add. Are you seeing project rollouts and healthy corporate borrowing demand within Kuwait?

Khalid Al Zouman:

Yes. Overall, we see the liquidity is there. And if I remember, two years ago, where the deposits in KD were high, we don't see this type of costly deposit lately. So, the liquidity is there, and there are a lot of opportunities. I think there is an overall atmosphere that the country has to move and move forward, and that's why we think, yes. Because the bigger, or the major, projects are handled by the government. And the government, they have the capacity to pay its dues.

Ahmed El-Shazly:

Okay, thank you. We can pause for just a moment in case we receive any more... I think I just received one question. Where would you expect the cost-to-income ratio to end for 2024 and 2025?

Gaurav Handa:

We are moving in the right direction. The cost-to-income ratio has been improving. As of now, we stand at around 56% levels. But there is one important reason for this, high cost-to-income is also high inflation in Turkey. In Turkey, expenses are increasing by 60% to 70% annually because of the high inflation rate there. But we are on the right track. But as at the end of the year, we are expecting somewhere around 55% levels.

Ahmed El-Shazly:

Okay. We'll pause for a moment, just to make sure that there are no more questions. I think we've addressed all the questions that we received, so I'd like to hand over the call back to management for any closing remarks.

Khalid Al Zouman:

We'd like to thank you, Mr Ahmed, for helping us in coordinating the call. I would like to also thank all the investors, the colleagues who attended our call, and I would like to thank my colleagues for helping me to set up this call. And we are there for you, if there is anything to ask in the future, we'll be glad to answer all the questions. And see you next quarter.

Ahmed El-Shazly:

Thank you so much. Thank you, have a good day.