بنك الخليج
GULF BANK

Kuwait, 5 May 2021

**Boursa Kuwait**
**State of Kuwait**

**Subject: Gulf Bank's Disclosure on the Analysts/Investors Conference Minutes/Script For Q1,2021**

Dear Sirs,

In accordance with the provisions of Clause (4), Article (8-4-2) of Boursa Kuwait's Rulebook issued under Resolution No. (1) of 2018, and in compliance by Gulf Bank with the requirements of the Bourse, attached is the Minutes/Script of the Analyst/Investors Conference Call for Q1, 2021 which was held vial Live Webcast at 1:00 p.m on Tuesday 4/5/2021.

We would like to assure you our continuous cooperation,

Best Regards,

**Jihad Khodr**
**Assistant General Manager**
**Head of Compliance & Disclosure Unit**

بنك الخليج GULF BANK

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Commercial Registration No. 8347, Paid-up Capital KD 304,812,789/800
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# Gulf Bank

## Earnings Presentation
## 1st Quarter 2021

4th May 2021

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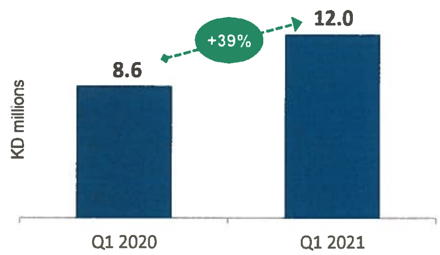
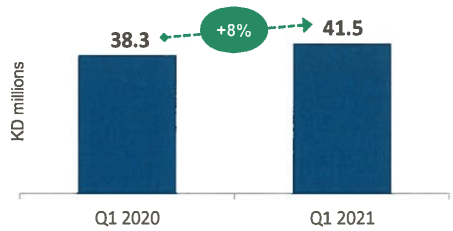
# 1st Quarter 2021 Key Highlights

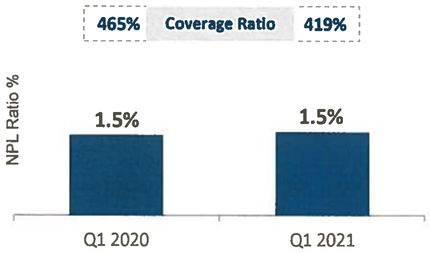
## 1 Net Profit



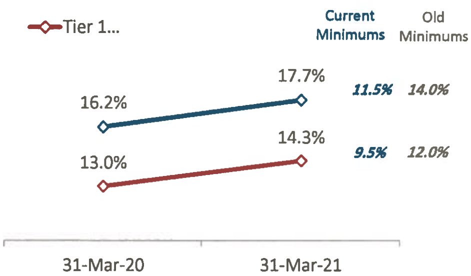

## 2 Operating Income




## 3 Asset Quality




## 4 Capital Ratios




## 5 Credit Ratings

| | Credit Rating | Outlook |
|---|---|---|
| Moody's | A3 | Stable |
| Fitch Ratings | A+ | Negative |
| S&P Global Ratings | A- | Negative |
| Ci Capital Intelligence | A+ | Stable |

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## Income Statement

| | KD Millions | Q1 2020A | Q2 2020A | Q3 2020A | Q4 2020A | Q1 2021A | Q1 21A vs Q1 20A Amt | % |
|---|---|---|---|---|---|---|---|---|
| 1 | Interest Income | 58.0 | 55.2 | 49.3 | 46.8 | 45.3 | (12.8) | -22% |
| 2 | Interest Expense | (29.1) | (22.8) | (17.8) | (14.8) | (12.6) | 16.5 | 57% |
| 3 | **Net Interest Income** | **28.9** | **32.4** | **31.5** | **32.0** | **32.6** | **3.7** | **13%** |
| 4 | Fees/ FX Income | 8.8 | 6.3 | 7.4 | 9.1 | 8.8 | (0.0) | 0% |
| 5 | Other Income | 0.6 | 0.2 | 0.2 | 0.9 | 0.1 | (0.5) | -80% |
| 6 | **Operating Income** | **38.3** | **38.9** | **39.2** | **41.9** | **41.5** | **3.2** | **8%** |
| 7 | Operating Expenses | (18.7) | (14.7) | (14.1) | (16.4) | (20.5) | (1.7) | -9% |
| 8 | **Operating Margin** | **19.6** | **24.2** | **25.1** | **25.6** | **21.1** | **1.5** | **8%** |
| 9 | Credit Costs (1) | (7.3) | (21.0) | (16.6) | (14.0) | (8.3) | (1.0) | -13% |
| 10 | General Provisions | (3.3) | 0.5 | (1.5) | 0.1 | (0.1) | 3.2 | 98% |
| 11 | Other Provisions/Impairments | 0.1 | (0.4) | 0.0 | (0.6) | (0.1) | (0.2) | U |
| 12 | Taxes/ Other | (0.4) | (0.1) | (0.3) | (0.6) | (0.6) | (0.2) | -43% |
| 13 | **Net Profit** | **8.6** | **3.2** | **6.6** | **10.4** | **12.0** | **3.4** | **39%** |
| 14 | Return on Assets (ROA) % | 0.5% | 0.2% | 0.4% | 0.7% | 0.8% | | |
| 15 | Return on Equity (ROE) % | 5.3% | 2.1% | 4.3% | 6.6% | 7.6% | | |
| 16 | Net Interest Margin (NIM) % (2) | 1.8% | 2.1% | 2.1% | 2.1% | 2.1% | | |
| 17 | Cost to Income Ratio (CIR) % | 48.9% | 37.9% | 36.0% | 39.0% | 49.3% | | |
| 18 | Cost of Risk (COR) % (3) | 0.7% | 1.9% | 1.5% | 1.2% | 0.8% | | |

(1) Includes specific provisions, recoveries, and write-offs (2) Net Interest Income / Average assets
(3) Credit Costs / Average gross customer loans.

F: Favorable
U: Unfavorable.

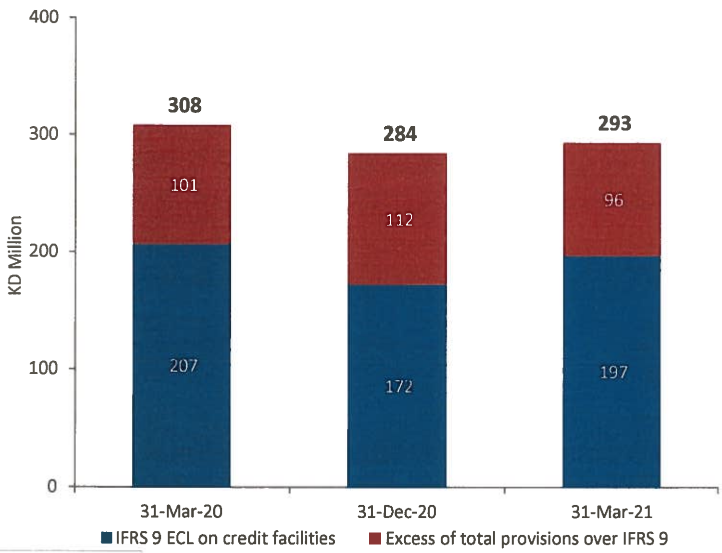
## Balance Sheet

| | KD Millions | 31-Mar-20 | % of Total | 31-Dec-20 | % of Total | 31-Mar-21 | % of Total | Var March 21 vs March 20 | | Var March 21 vs Dec 20 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Amount | % | Amount | % |
| | **ASSETS** | | | | | | | | | | |
| 1 | Cash and cash equivalents | 1,012 | 16% | 1,106 | 18% | 1,102 | 18% | 89 | 9% | (4) | 0% |
| 2 | Kuwait Government Bonds | 188 | 3% | 109 | 2% | 109 | 2% | (79) | -42% | 0 | 0% |
| 3 | CBK Bills | 279 | 4% | 281 | 5% | 281 | 4% | 2 | 1% | 0 | 0% |
| 4 | Deposits with banks and OFIs | 164 | 3% | 3 | 0% | 76 | 1% | (88) | -54% | 73 | 2396% |
| 5 | **Liquid Assets** | **1,643** | **26%** | **1,498** | **25%** | **1,567** | **25%** | **(77)** | **-5%** | **69** | **5%** |
| 6 | Loans and advances to customers | 4,561 | 71% | 4,384 | 72% | 4,502 | 72% | (59) | -1% | 118 | 3% |
| 7 | Loans and advances to banks | 201 | 3% | 193 | 3% | 186 | 3% | (16) | -8% | (8) | -4% |
| 8 | Provisions | (294) | -5% | (269) | -4% | (276) | -4% | 18 | -6% | (7) | 3% |
| 9 | **Net Loans** | **4,469** | **69%** | **4,309** | **70%** | **4,412** | **70%** | **(57)** | **-1%** | **103** | **2%** |
| 10 | **Investment securities** | **166** | **3%** | **175** | **3%** | **167** | **3%** | **1** | **0%** | **(8)** | **-5%** |
| 11 | Other assets | 119 | 2% | 97 | 2% | 93 | 1% | (25) | -21% | (4) | -4% |
| 12 | Premises and equipment | 36 | 1% | 34 | 1% | 33 | 1% | (3) | -8% | (1) | -2% |
| 13 | **Other assets** | **155** | **2%** | **131** | **2%** | **127** | **2%** | **(28)** | **-18%** | **(4)** | **-3%** |
| 14 | TOTAL ASSETS | 6,433 | 100% | 6,113 | 100% | 6,272 | 100% | (161) | -3% | 159 | 3% |
| | **LIABILITIES** | | | | | | | | | | |
| 15 | Due to banks | 478 | 7% | 551 | 9% | 590 | 10% | 112 | 24% | 40 | 7% |
| 16 | Deposits from FIs | 924 | 14% | 705 | 12% | 665 | 11% | (260) | -28% | (41) | -6% |
| 17 | Customer deposits | 4,144 | 64% | 4,034 | 66% | 4,178 | 68% | 34 | 1% | 144 | 4% |
| 18 | Subordinated Tier II Bonds | 100 | 2% | 100 | 2% | 100 | 2% | 0 | 0% | 0 | 0% |
| 19 | Other liabilities | 148 | 2% | 86 | 1% | 102 | 2% | (46) | -31% | 17 | 19% |
| 20 | **TOTAL LIABILITIES** | **5,794** | **90%** | **5,475** | **90%** | **5,635** | **92%** | **(159)** | **-3%** | **160** | **3%** |
| 21 | **Total Equity** | **639** | **10%** | **637** | **10%** | **637** | **10%** | **(2)** | **0%** | **(1)** | **0%** |
| 22 | TOTAL LIABILITIES AND EQUITY | 6,433 | 100% | 6,113 | 100% | 6,272 | 103% | (161) | -3% | 159 | 3% |
| 23 | Average assets | 6,339 | | 6,150 | | 6,192 | | (147) | -2% | 42 | 1% |
| 24 | Average equity | 652 | | 632 | | 637 | | (15) | -2% | 5 | 1% |
| 25 | NPL ratio | 1.5% | | 1.1% | | 1.5% | | | | | |
| 26 | Coverage ratio [(1)] | 465% | | 568% | | 419% | | | | | |

(1) Coverage ratio excludes collaterals.

## Total Credit Provisions exceed IFRS 9 accounting requirements by KD 96 million

**Total Provisions on Credit Facilities**




| Excess / Total Provision | 33% | 39% | 33% |
|---|---|---|---|

**Comparison between total provisions and IFRS 9 Expected Credit Loss (ECL) on credit facilities**

| (KD Millions) | 31 March 2020 | 31 Dec 2020 | 31 March 2021 |
|---|---|---|---|
| Provision on cash facilities | 294 | 269 | 276 |
| Provision on non-cash facilities | 14 | 15 | 17 |
| Total provisions on credit facilities (A) | **308** | **284** | **293** |
| IFRS 9 ECL on credit facilities (B) | **207** | **172** | **197** |
| Excess of total provisions over IFRS 9 ECL on credit facilities (A-B) | **101** | **112** | **96** |



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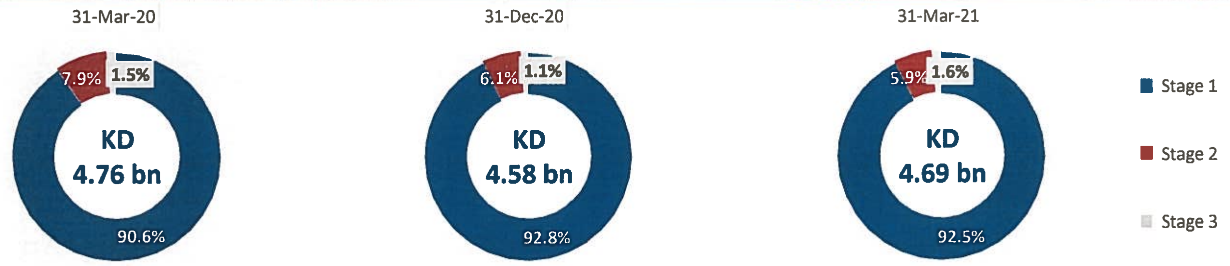
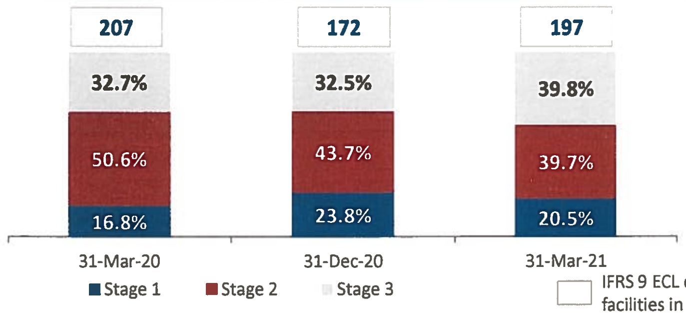
# With stable Gross Loans stage composition and coverage

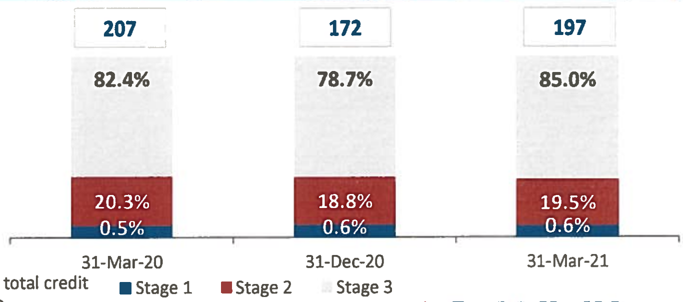
**Gross Loans by Stages %(1)**




**IFRS 9 ECL by Stages %**




**IFRS 9 ECL Coverage by Total Credit Facilities Stages %(2)**




(1) As per IFRS 9 regulations for retail loans, the stages 3 loans will be slightly higher than the NPL calculation as per Central Bank;
(2) Total Credit facilities includes Loans and advances to banks and customers and Contingent liabilities and commitments.



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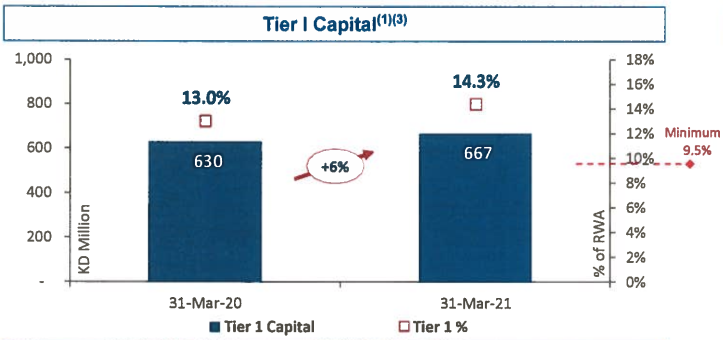
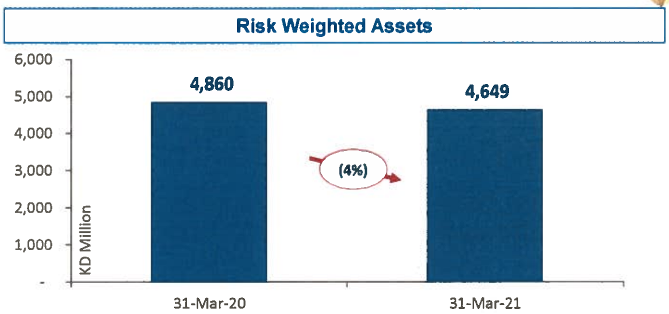
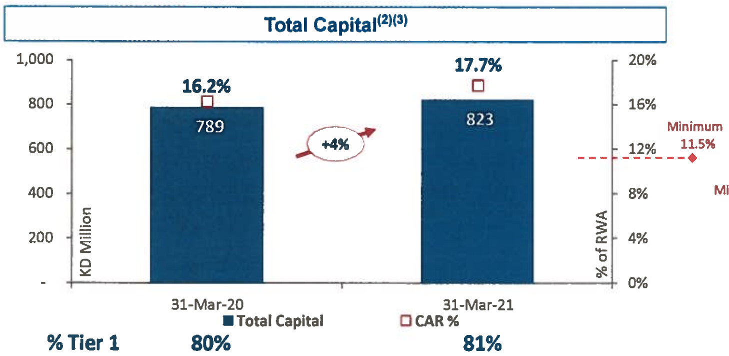
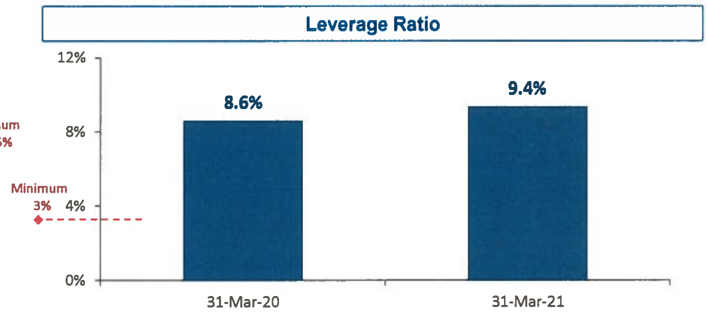
## Capital and Leverage Ratios




(1) Tier 1 Ratio regulatory minimum has been changed from 12% to 9.5%; (2) CAR regulatory minimum has been changed from 14% to 11.5%;
(3) Tier 1 and Capital Adequacy Ratio (CAR) regulatory minimums include 1% DSIB.
Note: The changes in the regulatory minimums were instructed by CBK in April 2020.



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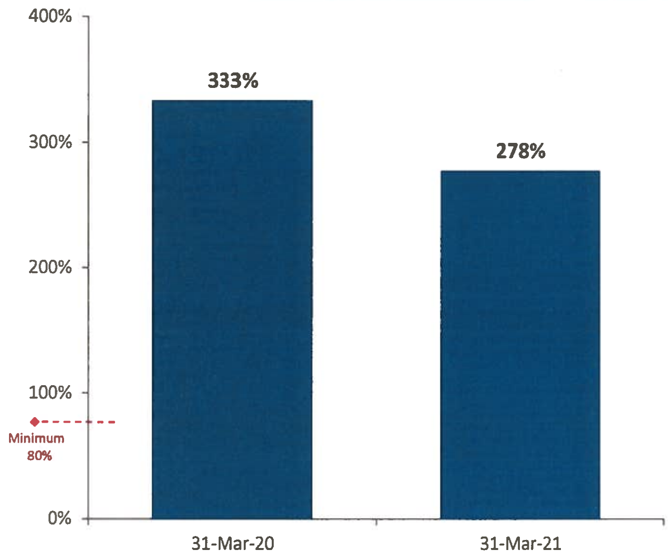
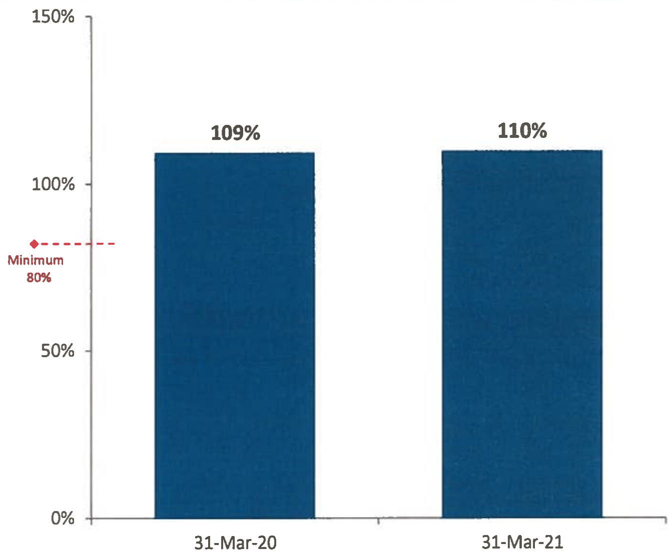
## Liquidity Ratios

**Liquidity Coverage Ratio(1)**




**Net Stable Funding Ratio(1)**




(1) Liquidity Coverage Ratio and Net Stable Funding Ratio regulatory minimums have been changed from 100% to 80%.
Note: The changes in the regulatory minimums were instructed by CBK in April 2020.

## Maintaining 'A' ratings from all four major credit rating agencies

| Rating Agency | Criteria | Rating |
|---|---|---|
| Moody's | Long-Term Deposits | A3 |
| | Outlook | Stable |
| Fitch Ratings | Long-Term Issuer Default Rating | A+ |
| | Outlook | Negative |
| S&P Global Ratings | Issuer Credit Rating | A- |
| | Outlook | Negative |
| Capital Intelligence | Long-Term Foreign Currency | A+ |
| | Outlook | Stable |



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# Q&A

**Gulf Bank**

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**Gulf Bank of Kuwait**

**Earnings Conference Call Edited Script – First Quarter 2021**

**4th May 2021**

**<u>Corporate Participants:</u>**

Mr. Tony Daher – CEO

Mr. David Challinor – CFO

Ms. Dalal AlDousari – Head of Investor Relations

**<u>Host:</u>**

Ms. Elena Sanchez – EFG Hermes

**Elena:** Good morning and good afternoon everyone. This is Elena Sanchez, on behalf of EFG Hermes; I would like to welcome you all to the Gulf Bank first quarter 2021 earnings conference call. It is a great pleasure to have with us on the call Mr. Tony Daher, CEO of Gulf Bank, Mr. David Challinor, CFO of Gulf Bank and Ms. Dalal AlDousari, Head of Investor Relations at Gulf Bank. The call will begin with a presentation from management on the key highlights of first quarter 2021 and then we will open the call for the Q&A session. I will now turn the call over to Dalal.

**Dalal:** Thank you, Elena. Good Afternoon and Welcome to Gulf Bank's first quarter 2021 earnings conference call. We will start the call today with the key highlights and updates on the operating environment of Gulf Bank during the first quarter 2021 presented by the Chief Executive Officer, Mr. Tony Daher followed by a detailed presentation of our financial results by the Chief Financial Officer, Mr. David Challinor. All amounts in the presentation are shown in millions of Kuwaiti Dinars and have been rounded to simplify the charts. During our presentation, we will try not to repeat the currency when discussing specific amounts unless that amount is in a currency other than Kuwaiti Dinars. After the presentation, we will open the floor for Q and A received through the webcast facility. Feel free to type in your questions at any time during the call. The presentation will be available at our corporate website and will be disclosed to Boursa Kuwait.

Please note that we can only comment on inquiries and information that are disclosed publicly. I would like to draw your attention to the disclosure on **page 11** of the presentation, with respect to forward looking statements and confidential information. Please feel free to reach out to our investor relations team if you have any questions.

Now, I would like to handover the call to Mr. Tony Daher, Gulf Bank's CEO. Tony?

**Tony:** Thanks, Dalal. Before we cover the detailed financials, allow me first to introduce our new CFO David Challinor who has joined Gulf Bank in April. David has over 20 years' experience in the financial service industry and has held various leadership and executive positions in the UK, Australia, Canada, and Qatar. He has spent the past 13 years as CFO of Doha Bank in

Qatar. Welcome aboard David.

Now back to our presentation, I would like to make a few brief points in terms of the operating environment in Kuwait for the first three months of 2021.

We started the year with a new surge in COVID cases and unfortunately daily fatalities. This has led healthcare officials and government to increase the precautionary measures to control the situation from further deterioration. Partial curfew and further restrictions on businesses were imposed, in addition to closure of Kuwait airport to foreign travelers since February. Despite the continuous challenges that we are still facing as a result of the pandemic, Gulf Bank started the year 2021 positively, with an increase of 39% in our first quarter net profit compared to the same period last year. We managed to grow our business in both the corporate and consumer segments. The quality of our portfolio continued to be resilient as our credit cost remains low.

I am happy to share with you that Gulf Bank has launched its upcoming five-year strategy, which will focus on:

- Promoting growth in the corporate banking segment by increasing product offerings and focusing on small and medium-sized enterprises;
- Increasing the Bank's market share in the retail banking sector, and targeting youth and affluent client segments; and
- Developing the Bank's digital banking platforms to increase competitiveness in the banking industry.

We are digitally transforming most of the Bank's major activities in a way that increases efficiencies, enhances the Bank's performance, and strengthens its corporate controls. We anticipate that our technological enhancements will facilitate smoother operations for both our customers and the Bank, and we are continuously enhancing our security levels to elevate Gulf Bank's customer protection and increase competitiveness among leading banks.

**Turning to Page 2**, I would like to summarize our first quarter 2021 results with five key messages:

First, our net profit grew by 39% for the first quarter 2021, to reach 12 million in comparison to 8.6 million reported in first quarter of 2020.

Second, our reported operating income reached 41.5 million for first quarter 2021, growing by 8% compared to the first quarter of 2020. This growth was driven primarily by a significant decline in the cost of funds that exceeded the decline in interest income.

Third, our asset quality remained resilient, as our non-performing loan ratio in the first quarter of 2021 stood at 1.5%, no change from the prior year ratio. In addition, we have ample provisions with a coverage ratio of 419%.

Fourth, the relaxed capital regulatory minimums that were introduced in 2020 remain in place, allowing the bank to have additional buffers over the minimums. Our Tier 1 ratio has a buffer of 485 basis points (14.3% vs. 9.5%) and our capital adequacy ratio (CAR) has a buffer of 621 basis points (17.7% vs. 11.5%). With these comfortable buffers in place, we have obtained Central Bank of Kuwait's approval to exercise the call option for the redemption of the KD 100 million subordinated tier 2 bonds that matures by the end of May and the issuance of new tier 2 compliant bonds at a maximum of KD 50 million. We have just obtained the Capital Markets Authority's approval for the issuance of these bonds with an objective to support the Banks capital adequacy ratios as per CBK Basel III regulations.

And fifth, the Bank maintained its 'A' ratings from the four major credit rating agencies and here is where we stand today:

- Moody's Investors Service affirmed the Long-Term Deposits Rating of "A3" with a "Stable" outlook.
- Fitch Ratings affirmed the Bank Long-term Issuer Default Rating of "A+" with a "Negative" outlook.
- S&P Global Ratings affirmed the Bank Issuer Credit Rating at "A-" with a "Negative" outlook
- Capital Intelligence affirmed the Bank's Long-term Foreign Currency Rating of "A+" with a "Stable" outlook.

We continue to operate in challenging times; however, the Bank has built a solid foundation to continue tackling the headwinds while supporting the growth needs of our customers.

With that, I'll turn it over to our CFO, David Challinor, who will cover the financials of first quarter 2021 in more depth, David.

**David:** Thanks Tony, and I'm delighted to have joined Gulf Bank.

**Turning to page 3,** you can see a more detailed breakdown on a quarterly basis of the income statement line items.

On the far right of line 1, interest income was down 12.8 million or 22% mainly due to re-pricing of assets and booking new loans at lower rate after the Central Bank of Kuwait lowered its discount rate by 125 basis points back in March of 2020.

The good news is that the liquidity conditions remained favorable with fixed deposits continuing to re-price at lower rates and as a result of that you can see in the green boxes on line 2 that our interest expense has continued to decline on quarterly basis starting from first quarter 2020. The interest expense declined by 16.5 million or 57%, from 29.1 million in the first quarter of 2020 to 12.6 million in the first quarter of 2021.

On line 6, operating income grew by 8% to 41.5 million compared to 38.3 million in the first quarter of 2020 as a result of the decline in interest expense which outpaced the decline in interest income.

On line 7, operating expenses has increased by 1.7 million or 9% year on year. We continue to invest in our business as we focus on our digital transformation strategy going forward.

On line 9, you can see credit costs have marginally increased from 7.3 million in the first quarter of 2020 to 8.3 million in the first quarter of 2021. As you can see over the past year, we have managed to reduce our credit costs significantly each successive quarter as they declined from a peak of 21 million in Q2-2020, to 16.6 million in Q3-2020, to 14 million in Q4-2020 and finally to the current level of 8.3 million in Q1-2021.

**Turning to page 4,** we see the balance sheet and how the individual line items have moved from the 31st of March 2020 to the 31st of March 2021. This page also shows the mix of assets and how that has changed over the last 12 months.

First, I would like to focus on Assets which are shown on the top half of the slide, line items 1-14.

Over the course of the last 12 months, our total assets shrank by 161 million or 3% to 6.3 billion compared to 6.4 billion the year before. This was largely driven by a 77 million or 5% decline in Liquid Assets, (shown on line 5) and a 57 million or 1% decline in Net Loans, (shown on line 9). However, on a year-to-date basis, Net Loans grew 103 million or 2% and total assets grew by 159 million or 3%, reflecting a pick-up in overall economic activity.

In terms of the major components of total assets (which are bolded), you can see that the mix is essentially unchanged from a year ago.

On line items 15, 16, and 17, you can see that nearly all our funding comes from Due to Banks, Deposits from Financial Institutions, and Customer Deposits. As a result of growing our customer deposits and attracting more short-term bank funding, we were able to reduce the deposit mix coming from financial institutions which is on line 16.

Our non-performing loan ratio, shown on line 25, increased from 1.1% at the end of December 2020 to 1.5% at the end of March 2021 and our coverage ratio, line 26, exceeded 400% to reach 419% at the end of March 2021.

**Now, turning to Page 5**, you can see in the chart on the left that as of 31 March 2021, our total provisions reached 293 million with our IFRS 9 ECL requirements at 197 million, this allowed us to have 96 million of excess provisions, representing 33% over total provisions.

In the table on the right, the total provisions as of 31 March 2021 of 293 million is broken up into two sections, 'provisions on cash facilities' which reached 276 million and 17 million in provisions on non-cash facilities which are included in 'other liabilities' on our balance sheet.

**Turning to Page 6**, starting from the first quarter of 2021, banks in Kuwait were required to disclose stagewise breakup of gross loans and ECL. This page provides more detail on our gross loans Stages 1, 2 and 3. The pie charts on the top of the page, you can see that the loan stages are fairly stable with Stage 1 loans moving from 90.6% as of 31 March 2020 to 92.5% for 31 March 2021, while Stage 2 moved from 7.9% to 5.9% and Stage 3 remained the same at 1.6% for same periods.

The chart on the bottom left side of the page shows the IFRS 9 ECL Stages composition. Stage 1 reached 21% as of 31 March 2021, moving from 17% a year ago, Stage 2 is in a declining trend moving from 51% a year ago to 40% in the most recent quarter and Stage 3 reached 40% moving from 33% a year ago.

The chart on the bottom right of the page shows the IFRS 9 ECL coverage for gross loans and contingent liabilities and commitments as of 31 March 2021 was 0.6% for stage 1, stage 2 coverage 19.5% and stage 3 coverage 85%. However, our overall coverage is much higher since we have provisions of 96 million over the IFRS 9 ECL requirement of 197 million.

For further information please refer to note 14 of the financial statements.

**Turing to page 7,** our 31 March 2021 regulatory capital ratios as Tony mentioned earlier remain well above both our current minimums and our pre-COVID 19 minimums.

On the top left, our Tier 1 ratio reached 14.3%, 485 basis points above our current regulatory minimum of 9.5% and 235 basis points above our pre-COVID-19 regulatory minimum of 12%.

On the bottom left, our Capital Adequacy Ratio of 17.7% was 621 basis points above our current regulatory minimum of 11.5% and 371 basis points above our pre-COVID 19 regulatory minimums of 14%.

Our risk weighted assets, shown on the top right, fell by nearly 4% mainly due to the reduction in our gross customer loans (driven by the corporate book) and the sale of approximately 106.8 million of our treasury shares since March 2020 which has contributed favorably to both capital ratios.

On the bottom right, our leverage ratio as of 31 March 2021 reached 9.4%, which were higher than 8.6% for the same period of last year, and well above the 3% regulatory minimum.

**Turning to page 8,** we can see our key liquidity ratios. On the left side, you can see our average daily Liquidity Coverage Ratio which reached 278% as on March 31, 2021 and on the right side, Net Stable Funding Ratio which reached 110% for the same period. Worth noting that both ratios are still well above their respective new minimums of 80% and pre-covid minimums of 100%.

**Turning to page 9,** we see the Bank's credit ratings. We maintained our 'A' ratings from the four major credit rating agencies as Tony mentioned earlier. However, three of the outlooks has changed in comparison to last 12 month, primarily due to the sovereign rating and outlook downgrades rather than bank specific credit worthiness.

Now, I would like to turn it back over to Dalal for the Q and A session.

**Dalal:** Thank you David. We are now ready for Q and A. If you wish to ask a question, please submit your question into the designated questions text area. We will pause for few minutes to receive most of your questions.

**(Pause)**

Ok, we will go through the questions.

**Dalal (Q1):** **Could you highlight on NIM's trend and outlook for 2021? We have seen improvement on cost of funds, how sustainable is it for the rest of the year? Do you see pressure on asset yield?**

**David (A1):** The Net Interest Margin has remained broadly stable at around 2.1% for the past 4 quarters. We saw an improving trend in Net Interest Income over the same period due to a continued reduction in the cost of funds that outpaced the reductions in interest income. This cost of funds decline was primarily due to the repricing down of our liabilities, a continuation of lower regulatory liquidity requirements and a stabilization in the level of CASA. Going forward, we see some pressure on the asset yields.

**Dalal (Q2):** **Please provide more color around your loan growth in the quarter and expectations for 2021?**

**David (A2):** We saw in 2020 that the loan book reduced by 3% for the full year which was driven by the corporate segment. However, we returned to positive loan growth in Q1, growing by almost 3%. This growth was driven by both consumer and corporate segments. Going forward, we will look to increase market share in our targeted markets in line with our strategy.

**Dalal (Q3):** **What is the normalized run rate we should assume for the operating expenses for the next quarters in 2021 as there was an increase in operating expenses in Q1-21 compared to Q4 2020? and did the government grants towards staff expenses continued in Q1 2021?**

**David (A3):** Let me start with the staff subsidy. The staff expense grant from the Government ended in Q4 2020. At this stage we don't have any visibility as to whether it will recommence.

Now answering your question on operating expenses, as you know, 2020 was an exceptional year, as we have faced an economic slowdown and we have also received staff subsidy from the government both of which have contributed towards lowering our operating expenses. Moving on to Q1 2021, operating expenses in Q1 were impacted by the annual staff performance cycle and certain lumpy expenses. Having said that, we are seeing a slight pickup in economic activities and we will continue investing in certain cost categories to grow our business segments and digital transformation journey in line with our strategy.

**Dalal:** **We will pause for few minutes to receive most of your questions.**

**(Pause)**

**Dalal (Q4):** **Since this quarter was the first quarter you disclose the stages of your loans, the increase and movement between stages was it driven by corporate or consumer segment? And did you need to book additional ECL allowances for that?**

**David (A4):** From Q1 2021, the CBK requested all banks to disclose gross loan stages in order to provide a higher degree of transparency.

We can see that stage 1 has increased from 90.6% in Q1 2020 to 92.5% in Q1 2021 which is positive. Stage 2 also shows a positive trend, reducing from 7.9% in Q1 2020 to 5.9% in Q1 2021. Stage 3 has ticked up slightly from 1.5% to 1.6%, year on year, and this was primarily driven by the consumer segment post the ending of the moratorium. However, the overall stage 3 remains low, well covered and below the banking system average.

**Dalal (Q5):** **Has Covid-19 related NPL formation been fed into the books yet? And what are the payments behavior in corporate and retail books after the deferral ended?**

**David (A5):** The new NPL formation in Q1 was primarily driven by the consumer segment as a result of the ending of the deferral program at the end of September 2020. However, we saw this formation slow down during the quarter and for Kuwaiti customers there will be another 6-month deferral program that's been approved by the parliament and is currently underway.

On the corporate side, the majority of the increase we saw in the "past due but not impaired" category at year end, has now shifted back to the "neither past due or impaired" category which is positive news.

**Dalal (Q6):** **The Kuwait parliament members has voted to have a second payment holiday for Kuwaiti individual borrowers. Has this been implemented, and if so, who will bear the cost of this second payment holiday since the first one was borne by the banks? How would this additional deferral impact the quality of the loan portfolio?**

**Tony (A6):** The key difference between the 2 deferral programs is that in the first one the bank took the cost through the modification loss but this time the Government will bear the cost although the precise mechanism of how this compensation will work has not been disclosed at this stage. Also, the second scheme is available to Kuwaitis only.

So overall, we think this is a positive development for the consumer segment and it will also have the benefit of building up the banks CASA balances.

**Dalal (Q7): Could you give us an update on the home financing to potential mortgage law in Kuwait?**

**Tony (A7):** The existing subsidized structure to finance housing by Kuwait Credit Bank has worked historically, however it is becoming more challenging to meet growing demand for residential housing and the limited supply of land causing a long waiting list and appreciation in the home prices in Kuwait.

The new law, if passed, would allow local banks to provide the eligible locals with the loan that would have been originally provided by the Kuwait Credit Bank whilst the government will compensate the banks for the interest service. The execution will be done through the banks as well to ensure a faster process.

As for a mortgage law, this is still in preliminarily stages with no updates so far.

So overall, we believe that any development on consumer real estate lending would be a good step in the right direction towards encouraging home financing and home ownership in Kuwait.

**Dalal:** Thanks, Tony. We will take another pause to receive more questions.

**(Pause)**

**Dalal (Q8): Can you remind us for how long the reduced minimums for CAR, LCR, and NSFR are in place?**

**Tony (A8):** Yes, they are in place until the end of June as per Central Bank communication with the banking sector here in Kuwait, however we think that it will probably be extended until the end of year giving that the pandemic is not resolved yet.

**Dalal:** Thank you Tony and David. I believe we have covered the majority of the topics and questions that were raised today during the call. The remaining questions are either already covered during the presentation or are forward looking. And with that, we would like to conclude our call for today.

If you have any further questions, you may visit our investor relations page at our website. You can also reach us at our dedicated investor relations email. Thank you all very much for your participation.