Gulf Bank of Kuwait

Earnings Conference Call Edited Script – Q3 2020

9 November 2020

<u>Corporate Participants:</u>

Mr. Tony Daher – CEO

Mr. Kevin Smith – CFO

Ms. Dalal AlDousari – Head of Investor Relations

<u>Host:</u>

Ms. Elena Sanchez– EFG-Hermes

Elena: Good afternoon and good morning everyone. This is Elena Sanchez, on behalf of EFG-Hermes I would like to welcome you all to the Gulf Bank 2020 third quarter results conference call. It is a great pleasure to have with us on the call Mr. Tony Daher, CEO of Gulf Bank, Mr. Kevin Smith, 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 Q3 of 2020 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 third quarter 2020 financial results conference call. We will start the call today with the key highlights and updates on the operating environment of Gulf Bank during the first nine months of 2020 presented by the Chief Executive Officer, Mr. Tony Daher followed by a detailed presentation of our financial results by the Chief Financial Officer, Mr. Kevin Smith. 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 8** 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, I would like to make a few brief points.

The first nine months of 2020 have been challenging and exceptional with the Covid-19 pandemic, which resulted in low interest rates, slow economic growth, and lots of uncertainty. However, Gulf Bank still recorded a net profit of 18 million for the first nine months of 2020. These results were achieved by the Bank's prudent and persistent funding cost and operating expense initiatives. In addition, our Kuwait-focused strategy has enabled Gulf Bank's Consumer Banking segment to continue outperforming the industry. Finally, we continue adapting to the consequences of the Covid-19 pandemic and remain committed to servicing and supporting our clients during these difficult times.

During the third quarter of 2020, we reopened all of our branch network, while maintaining operations under strict health protocols throughout our offices and branches. Additionally, we continued to serve our customers through our digital channels.

We also are progressing on our digital transformation, with slight delays due to the Covid-19 pandemic, however, we are expecting to start to see results in 2021.

Turning to **Page 2** you can see Gulf Bank continues to maintain its "A" ratings from all four leading credit rating agencies and here is where we stand today:

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

With that backdrop, I'll turn it over to our CFO, Kevin Smith, who will cover the financials over the first nine months of 2020.

Kevin: Thanks Tony.

Page 3 shows the income statement line items for the most recent three quarters and the first nine months compared with the prior year.

Starting with Net Profit on Line 13: all the way to the right, you can see our net profit for the first nine months was 18.4 million, a decline of 18.8 million compared with 37.1 million net profit in 2019.

Most of that decline came from interest income, line 1, shown in the red box in the second to the last column, down 30 million, due to the lower interest rate environment, and line 4, fee and f/x income, down 6 million, due to lower loan volume and lower economic activity from our customer base.

The good news is that we've been able to offset nearly 2/3 of that decline with lower cost of funds, shown on line 2, down 13 million, and lower operating expenses, shown on line 7, down 11 million. Credit costs, line 9, were up only 2%, from 44 million to 45 million.

On line 10, over the first nine months, we contributed 5 million of additional general provisions.

The quarterly trend is also favorable for many of the same line items. Interest expense, line 2, has fallen nearly 40%, from 29 million in the first quarter to 18 million in the third quarter. Fee and f/x income, line 4, is up 19% in the most recent quarter. Operating expenses, line 7, are down 25%, from 19 million in the first quarter to 14 million in the third quarter. And credit costs, Line 9, fell 21% from 21 million in the second quarter to 17 million in the third quarter.

Page 4 shows the balance sheet at the end of September 2020 compared with the end of September 2019. On line 5, as a result of the relaxed liquidity ratios by the Central Bank of Kuwait, you can see that we've been able to shrink the portion of liquid assets held, from 28% at the end of September 2019 to 20% at the end of September 2020. This helps mitigate the impact on interest income from a lower interest rate environment. On line 6, net loans grew by 254 million or 6% at the end of September 2020 compared with the end of September 2019 to reach 4.4 billion.

On line 22, our non-performing loan ratio stands at 1.5%. The ratio had doubled from 1.1% at the end of last year to 2.2% at the end of June, but it come down by nearly a third over the last three months. The consumer business is the major driver as non-performing loans in that segment had also doubled in the first six months of this year, but it declined by more than half over the last three months and is now actually below where we were at the end of 2019.

Similarly, the coverage ratio on our non-performing loans, line 23, has increased from 325% at the end of June 2020 to 462% at the end of September. Adding 5 million of general provisions in the first nine months is also helping that ratio.

Turning to **page 5**, our regulatory Tier 1 and total capital ratios remain strong and have improved by roughly 100 basis points since paying the dividend in March. If our year to date profits of 18 million were included, these ratios would improve by another 40 basis points.

As of 30 September 2020, our Tier 1 ratio of 13.9 % was roughly 440 basis points above the regulatory minimum of 9.5% and our Capital Adequacy Ratio of 17.3% was roughly 580 basis points above the regulatory minimum of 11.5%.

It is worth mentioning that our new minimum Tier 1 ratio has been reduced from 12% to 9.5% and our new minimum Capital Adequacy Ratio has been lowered from 14% to 11.5%. These minimums are effective until 31 December 2020 and will be reviewed by the Central Bank of Kuwait prior to that date.

On the bottom right, our leverage ratio ended at 9.6%, higher than the end of September 2019 and well above the 3% minimum.

Page 6 shows our key liquidity ratios. On the left side, you can see that our average daily Liquidity Coverage Ratio has declined from 304% as of 30 September 2019 to 265% as of 30 September 2020, but is still well above the minimum of 80%.

On the right side of the page, our NSFR ratio as of 30 September 2020 was 111%, in line with the prior year and adequate cushion above the 80% minimum.

It is worth noting that both LCR and NSFR regulatory minimums were reduced from 100% to 80% by the Central Bank of Kuwait until 31st of December 2020.

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

Dalal: Thank you Kevin. 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 one by one.

Dalal (Q1): Will the decline in NIM's stabilize or it will continue to be under pressure?

Kevin (A1): Our corporate book of 2.9 billion was immediately repriced when the Central Bank of Kuwait reduced the discount rate by 125 basis points in March 2020. So, we've already seen that full impact in the second and third quarter. On the other hand, new consumer loans are priced at the lower interest rate environment and that, along with lower interest rates on liquid assets will put further pressure on yields. Having said that, we hope to offset that yield erosion with lower funding costs and higher retail loan refinancing volume.

Dalal (Q2): Significant improvement was made on your operating expenses, what are the key drivers, and do you expect the trend to continue?

Kevin (A2) We received a staff subsidy from the government of 2.3 million in the third quarter and that pushed our operating expenses down further vs the second quarter. If you exclude that subsidy, operating expenses increased from 14.7 million in the second quarter to 16.4 million in the third quarter. We expected that level of increase because of the low level of economic activity in the second quarter. However, even at the third quarter level of 16.4 million excluding that subsidy, we're down 2.3 million or roughly 12% from the first quarter operating expenses of 18.7 million.

Dalal (Q3): **Why have you been selling Treasury shares this year**?

Kevin (A3): Over the first nine months of 2020, we sold approximately 80 million shares out of the 150 million treasury shares balance as of the end of last year. This allowed us to increase our Tier 1 capital by 18 million, adding 38 basis points to our Tier 1 and Total Capital ratios. This has also allowed us to increase our capital buffers to handle stress during these challenging times in a cost-effective manner and also gives us sufficient capital to support the growth needs of our customers.

Dalal: Thank you Kevin. 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.