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الإشارة: 2019/ 0052/10/10

To: Boursa Kuwait

Peace, Mercy and Blessings of Allah be upon you

السادة / بورصة الكويت المحترمين  
السلام عليكم ورحمة الله وبركاته

**Subject: Disclosure of The KFH's Analysts  
Conference For Q 4 / 2018**

الموضوع: إفصاح بيتك عن مؤتمر المحللين  
الربع الرابع 2018

In reference to the above, and in line with Kuwait Finance House 'KFH' interest in adhering to Boursa Kuwait Role Book (Article 8-4-2/4), KFH would like to report the following:

بالإشارة إلى الموضوع أعلاه، وحرصاً من بيت التمويل الكويتي "بيتك" على الإلتزام بمتطلبات المادة (4/2-4-8) من كتاب قواعد البورصة، نود الإفادة بما يلي:

**KFH has conducted the Analysts Conference For Q 4 / 2018 through live broadcasting on internet (Live Webcast) at 2 p.m. on Monday 11 February 2019.**

عقد بيتك مؤتمر للمحللين للربع الرابع 2018 عن طريق بث مباشر على شبكة الإنترنت وذلك في تمام الساعة 2 من بعد ظهريوم الإثنين الموافق 11 فبراير 2019.

Attached is the Conference Minutes of Meeting and the Investors Presentation Q4 / 2018 for your reference.

مرفق محضر المؤتمر والعرض التقديمي للمستثمرين للربع الرابع 2018، هذا وتم تزويد السادة / هيئة أسواق المال بنسخة منه.

A copy of the same has been submitted to Capital Markets Authority.

Best Regards,

وتفضلوا بقبول فائق الإحترام،

Mazin S Al Nahedh

مازن سعد الناهض



بيت التمويل الكويتي  
Kuwait Finance House



**2018 Year End Earnings - Kuwait Finance House Earnings Webcast Transcript**  
**Monday, 11th February, 2019 Time: 14:00 Kuwait Time**

Transcript of Kuwait Finance House earnings conference call which took place on 11<sup>th</sup> February, 2019 at 14:00 Kuwait Local Time.

**Speakers from Kuwait Finance House executive management:**

Mr. Mazin Al-Nahedh, Group Chief Executive Officer, KFH  
Mr. Shadi Zahran, Group Chief Financial Officer, KFH  
Mr. Fahad Al-Mukhaizeem, Group Chief Strategy Officer, KFH

**Moderator**

Mr. Fawaz Al Sirri, Bensirri PR

**Attendees:**

Abu Dhabi Investment Authority (ADIA)  
Derayah Financial  
Arzan Financial Group  
EFG-Hermes  
Franklin Templeton Investments  
Schroders  
Beltone Asset Management  
Al Rayan Investment  
Fitch Rating  
The National Investor  
SICO Bank  
HSBC  
Arqaam Capital  
ADCB  
Dark Horse Capital

**Fawaz Al Sirri:**

Good afternoon ladies and gentlemen and welcome to this Kuwait Finance House webcast. This call is held live on February 11, 2019 and the purpose of this call is to review and discuss the Bank's earnings for 2018. My name is Fawaz Al Sirri. I'm the moderator on the call, and I'm joined with today's speakers:

The speaker's on today's call are

Mr. Mazin Al Nahedh, Group CEO  
Mr. Shadi Zahran, Group CFO  
And Mr. Fahad Al Mukhaizeem. Group Chief Strategy Officer

And we are also joined today by the following attendees:

Fitch Rating  
The National Investor  
SICO Bank  
HSBC  
Arqaam Capital

ADCB  
Dark Horse Capital

And a warm welcome to everyone and thank you for joining us today.

Now before we start allow me to take you through the format of the call: For the next 10 to 15 minutes, the speaker's will make their statements regarding the bank's performance and earnings for the year 2018.

This will be then followed by a Q&A session.

To take part - just type in your question on your screen at any time during the presentation and we will address in the order in which it was received.

Before I handover, I would like mention that a live recording of this call will be available on the same link within about two hours. I would also like to mention that some of the statements that might be made today may be forward looking. Such statements are based on the bank's current expectations and predictions and estimates ...there are no guarantees of future performance, achievements or results.

Fahad, the mic is yours.

**Fahad Al-Mukhaizeem:**

Thank you Fawaz and good afternoon ladies and gentlemen. We are glad to welcome you to the Year End 2018 earnings call for Kuwait Finance House Group. I am Fahad Al Mukhaizeem – Group Chief Strategy Officer. Today, we'll be covering highlights of the Kuwait operating environment with an overview on KFH. We'll also share with you KFH's strategy, as well as the year-end financial results.

The Central Bank of Kuwait left its key discount rate steady at 3% in December of 2018 despite the FED's decision to hike the rates by 25 bps. On another front Fitch Ratings recently affirmed Kuwait's sovereign rating at AA. Standard & Poor's credit rating for Kuwait also stands at AA with Stable Outlook. Moody's did adjust Kuwait's score upwards both for economic strength and fiscal strength, setting it at Aa2 with stable outlook. Kuwait's commitment to its development plan projects can be seen by the continued capital spending and project launches with the support of the private sector, and more specifically the Kuwaiti banking sector.

As an overview of Kuwait Finance House Group, the bank maintains its top position ranked first in 2018 by Global Finance Magazine as the safest **Islamic** financial institution in the GCC. We are the first and largest Sharia compliant bank in Kuwait and second largest Islamic Bank in the world by assets and we are the First Islamic Bank in Germany. Currently we have more than 500 branches in Kuwait and around the world.

As confirmed by this year's financial results, Kuwait Finance House Group continues to capitalize on its strong retail franchise with a consistent track record of profitability and dividend payment, an improvement in its cost to income ratio and low NPF rates, thus affirming our customers' confidence in KFH's leading role in the international development of Islamic Banking and Financial Services industry.

Spending on building IT platforms, infrastructure, and front end technology has characterized KFH's business activities in 2018, which we can call the "FinTech Year." KFH succeeded in providing 20 high-tech banking services, most of which are unique in Kuwait. KFH launched the first fully-automated 24/7 e-branch with an advanced and wide range of technical services and self-service tools under the name of "KFH-Go". The e-branch provides more than 30 services representing about 80% of the services provided by the traditional branch. Also, KFH launched a Chatbot service in cooperation with Microsoft, to improve interaction with customers. We also upgraded a centralized SWIFT network system for global payments at the group level. For the first time in Kuwait. Also KFH launched Visa Checkout to facilitate fast and secure online purchases. Along with developing the other ATMs, it also launched the mini branch which we call the XTM with seven new services, some of which are the first offered locally, including card-less withdrawals using a QR code. The Bank also introduced a fast cross-border transfer service (KFH Xpress) and an instant remittance service using the RippleNet network based on Blockchain technology.

This is just to give you a flavour of the key FinTech advancement. Now I will hand over the mic to our Group CEO, Mr. Mazin Al-Nahedh.

**Mazin Al-Nahedh:**

Thank you Fahad. Good day ladies and gentlemen. It's my pleasure to welcome you all to our Year End 2018 earnings call. Let me highlight the financial performance for the year end of 2018:

KFH realized a net profit of KD 227.4 million for the year 2018 for KFH shareholders compared to KD 184.2 million last year i.e. an increase of 23.5%.

Total financing income reached KD 862.1 million, i.e. an increase of 16.4% compared to last year.

Net financing income reached KD 527.3 million, i.e. an increase of 18.5% over the last year.

Net operating income increased to reach KD 453.5 million, i.e. a growth of 11.1% over the last year.

Earnings per share for 2018 reached 36.36 fils compared to 29.46 fils last year i.e. an increase of 23.4%.

Total operating expenses decreased by KD 12.6 million i.e. a drop of 4.1% over the same period last year. Cost to income ratio dropped for the fourth year in a row to reach 39.2% for the current year, compared to 42.8% for the last year.

KFH has been progressively in line with its plans and overall performance of the group, which confirms that KFH is steadily moving towards achieving sustainable profitability by focusing on operating profits from key banking activities while maintaining the advantage of diversification in its resources. KFH has also opened up to new segments with innovative and competitive products in accordance with its intended strategy. Our 3-

year strategy ending in 2020 is based on improving customer experience, digitizing operations, and growing the business.

The year 2018 achieved success in all aspects including innovation of new products as outlined by my colleague Fahad, application of the highest standards of quality and governance, assimilation of banking technology, improvement of the Bank's internal capabilities such as technology development and technical infrastructure. This has contributed to keeping pace with "digital banking" and investment in human resources (through a flexible and professional structure) especially investing in the national capabilities of the youth. KFH has also made investments in expanding its network of branches, and the development of electronic service channels, and improvement of the credit risk management to ensure high quality of assets. This resulted in reducing the rate of non-performing financings to the lowest levels witnessed at KFH for the past 5 years.

Kuwait Finance House (KFH) has a leading position in the Islamic Sukuk and Financial Services market. The International Islamic Liquidity Management Corporation (IILM) has officially announced that KFH has been ranked "Top Primary Dealer" on top of 11 IILM Primary Dealers of regional and global banks and financial institutions. The ranking is based on the allocated amount for 15 issuances in 2018 with a total of USD 8.11 billion.

KFH's has positioned itself as a leader in the sukuk market by using its substantial capabilities and playing a significant role in activating the sukuk market. This ranking came for the fourth time in a row, which confirms KFH's leadership and its prominent role as a market maker

KFH has also been awarded the "Fastest Growing Debit Portfolio in Kuwait for 2018" award by Visa International. This award is proof of the success of KFH's strategy to motivate and encourage customers to switch from conventional cash payments to electronic payments via bank cards and payments through smart technologies.

This strong performance in 2018 is a reflection of the performance of the group's units, their contribution to profits and the increased cooperation and coordination. The exchange of experiences between KFH banks in Malaysia, Turkey, Bahrain and Germany has contributed to achieving common goals, restructuring activities and consolidation of the pillars for regional expansion and inevitably an improved brand.

As for year 2019, a noticeable bolstering will be witnessed of KFH's capacity in local and international markets and direction towards a capacity to increase financing large government projects and develop its role towards supporting SMEs. This is a target that is in line with the ongoing efforts to achieve sustainable profits and focus on excellence in customer service. Furthermore, KFH continues its efforts towards innovation in Islamic finance, which will ensure the Bank's reputation as the most trusted Islamic bank to grant shareholders and depositors the highest profits, best returns and the most innovative services.

Regarding the potential Acquisition and Merger with AUB Bahrain, we have disclosed to the regulatory authorities and the market the latest developments in this regard and there are no further updates at this time. All these disclosures were published via the official website of Boursa Kuwait and any new development will be updated as and when it comes available.

Now I will hand over the mic to Group's Chief Financial Officer, Mr. Shadi Zahran and he will present the financial results for the year ended 2018 in details and answer any of your questions afterwards. Thank you.

**Shadi Zahran:**

Thank you Mazin, Good afternoon ladies and gentlemen. I am Shadi Zahran, Group Chief Financial Officer, I would like to present to you KFH group financial results for the year ended 2018.

The Group Net Profit After Tax (NPAT) attributable to Shareholders for the period ended 31st Dec 2018 stood at KD 227.4mn and is higher than FY 2017 by 23.5%, that's mainly from an increase Net Finance Income by KD 82.4mn and decrease in operating expenses by KD (12.6)mn, offset by a decrease in investment income by KD (43.3)mn and other income by KD (9.1)mn.

We will explain each part separately in the coming slides

As previously highlighted in Q3 that despite the reduction in investment income, the group operating income and net profit has improved significantly confirming successful KFH transformation in the past four years toward stable and core business.

Net Financing Income at KD 527.3mn represents an increase of 18.5% as compared to last year which resulted from the increase in YoY average yielding assets portfolios by 7.9% and improvement in NFM by 40 bps.

Total Operating income at KD 746.0mn increased by KD 32.7mn or 4.6% resulted mainly from the increase in net finance income by KD 82.4mn contributing 70.7% to the total operating income compared to 62.4% contribution in 2017, (as you can see on the right side of the slide) accordingly the non-financing income (including investment income) contribution to total operating income has dropped by 8.3% to reach 29.3% (investment income contribution dropped from 14.9% to only 8.5%), and that is due to lower divestment of non-core assets as compared to last year.

In the next slide you will note the decrease in total Non-Financing Income from KD 268.4mn to KD 218.7mn, that was mainly due to lower investment income by KD 43.3mn (dropped from KD 106.6mn to KD 63.3mn). Accordingly, the contribution of investment income to total non-financing income dropped from 39.7% to 28.9% as we see on the right top corner of the slide

However, the increase in Net gain from foreign currencies by KD 13.0mn (increased from KD 17.3 mn to KD 30.3 mn) contributed mainly from Turkey and Kuwait has partially offset the decline in non-financing income.

Now moving to Operating expenses

The Total Operating Expenses at KD 292.5mn has decreased by KD (12.6)mn or (4.1)%.

Staff cost at KD 177.6mn decreased by KD (10.0)mn mainly from Kuwait "the Parent" (was main contributor) due to impact of labor law amendments in 2017.

Other operating expenses decreased by KD (1.3)mn or (1.6)%. Which although its marginal and considering the business growth shows further cost improvement for the fourth year in a row due to the continuous Group efforts towards cost optimization

Net Operating income at KD 453.5mn increased by KD 45.3mn or 11.1% compared to 2017. and cost to income ratio improved further to reach 39.2%

Furthermore, at KFH-Kuwait, C/I ratio is at 31.2% which is below both the local Islamic Banks average of 41.3% and local conventional Banks average of 33.9% (calculated from published financials for 9M-18)

In next slide which address the development of the earning assets

YoY Average Profit Earning Assets is up by 7.9% this year 2018 and 14.5 % as compared to 2016, vs. 2.4% increase in total balance sheet for 2018 that illustrates the increase in net operating income from yielding assets.

This is an evidence of efficient balance sheet that focuses on sustainability of earnings and also reflected in the improved NFI.

Group NFM for banking subsidiaries at 3.2% shows a 40bps increase over last year 2.8% and maintained at the same level of Q318.

Group average yield improved in line with the increase in local and international profit rates. COF has also increased, however due continuous improvement in funding mix "mainly CASA forms now "46.0%" of total group deposits as of Dec 2018", the overall NFM improved to reach 3.2%.

Total group provisions and impairment charge stood at the same level of last year, however, the impairment on financing receivables has dropped from KD 83.4mn to KD 56.9mn due to improvement in Cost of Risk. While the increase in the investments and others impairment charge from KD 80.0mn to KD 105.6mn was mainly on account of conservative impairment charged during first half of the year against legacy real estate investments in GCC due to negative outlook of KD 63.8mn.

With regards to IFRS 9 adoption in Kuwait and the basis used for calculating the provisions on Financing Facilities. On 25th of December 2018, Central Bank of Kuwait issued guidelines on IFRS 9 applicable to all banks in Kuwait at year end 2018 which requires impairment on financing facilities to be determined as the higher of expected credit losses under IFRS9 as per Central Bank of Kuwait guidelines, and provisions determined in accordance with CBK previous rules and instructions.

Accordingly, we computed the ECL charge as per CBK guidelines which was lower than the group recorded provisions. However, with respect to non-credit financial assets only, the ECL impact was recorded in the income statement.

And if we look at right side

Operating Profit from banking activities at 94% of total Operating income of the Group and is being maintained as part of overall Group Strategy.

Total Assets at KD 17.8bn increased by KD 412.3mn or 2.4% over a 12 month period (2018 vs. 2017) despite TL devaluation of (27.5)%.

Similarly on Financing Receivables and Deposits

Financing receivables at KD 9.4bn increased by KD 169.0mn or 1.8% over a 12 month period (2018 vs. FY17).

Growth without TRL devaluation is KD 0.5bn or 7.4%. Growth in financing receivables contributed mainly from Kuwait and Bahrain banking entities and business units.

Depositors' Accounts at KD 11.8bn increased by KD 183.6mn or 1.6% over a 12 month period (2018 vs. 2017) from KD 11.6bn in Dec-17. Growth without TL devaluation during 2018 is 0.5bn or 5.5%.

Customer deposits as a percentage of total deposits at 78.7% remains at a healthy funding mix. It is worth to mention that KFH Kuwait dominates the market in saving accounts at 42.1% (as per CBK latest published reports, Nov-18).

NPL ratio stood at 1.99% (as per CBK calculation) in YE-18 compared to 2.65% at YE-17. the significant improvement is on account of recoveries and write-offs during 2018 while maintaining very healthy coverage.

Coverage ratio (provision) for Group is 191% in FY-18 (2017: 178%) & Solo is 476% in FY-18.

Coverage ratio (provision + collateral) for Group is 247% in FY-18 (2017: 217%) & Solo is 520% in FY-18.

Exit from non-core Investments during 2018 amounted to KD 89.7mn with a gain of KD 21.9mn (compared to KD 102.6mn in 2017 with a gain of KD 57.6mn)

Looking at the trend from 2014

Return on Average Assets improved by 57bps from 0.94% in 2014 to 1.51% in 2018.

Return on Average Equity increased by 518bps from 7.27% in 2014 to 12.45% in 2018.

Capital Adequacy ratio at 17.47% is 29bps below comparative period last year; however is well over the minimum regulatory requirement. Expected divestment of non-core assets will continue to reinforce capitalization.

EPS is up 6.9fils to reach 36.36fils as compared to 2017.

With this let me hand over the mic to Mr. Fawaz.

### **Fawaz Al Sirri:**

Thank you Fahad, Mazin and Shadi for taking us through the year. We will now be taking on our audience's questions. Just give me a minute. Let me take a look. Let me see if I can group them together. If I have to say I'd say that a good third of the questions is about Turkey and performance in Turkey and then we'll also have a few questions on the

potential transaction and merger transaction between AUB and KFH page. So let's start off with by answering those two general areas, areas of question, so Turkey and the performance and then moving forward to AUB and KFH if you have anything to say on that. I know that we're in a very regulated situation with a blackout, but I leave that to you.

**Mazin Al Nahedh:**

We spoke about the potential merger and we said that we do not have any new information other than the published information. We are currently awaiting the regulatory approvals to start the due diligence process. And then from that point on, we would carry on the exercise and naturally, if it would make sense we would present it to the board, they will look at the outcome and based on it we would apply to the regulatory authorities for final approval and then it goes to the AGM, for their absolute final approval. So, we will update you as and when there are new developments in this regard.

**Fawaz Al Sirri:**

Thank you. And then the next set of questions is regarding to Turkey with questions from Maha Soueissy, questions from a Chiradeep Gosh, Rajat Bagchi and Vikram Viswanathan. So they are asking how much is cost to income ratio in Turkey? They are asking are you seeing a funding cost pressure in Turkey and you can add more light on the international operation as well across other countries and the business outlook. We've also been asked a question about the Turkish lira and its impact, on your bottom line. So just give us a nice overview over Turkey. And we'll take it from there.

**Shadi Zahran:**

Thank you. With regards to the cost to income ratio for Turkey, I can confirm that it's improved. The improvement in cost to income ratio came from all subsidiaries with no exception. And now Turkey is in line with the Group cost to income ratio and much better than the market there. With regard to the cost of risk also in Turkey is better than the market. And we are still the second lowest NPL ratio in Turkey in the market. Now with regards to the deterioration that occurred in the currency and its impact. And that's I think one of the questions is the contribution to the profitability for the Group, Turkey maintained the same level of contribution to the Group because as we mentioned in the third quarter, while the currency impacted the Turkish operation, the trading gain from foreign currency in Turkey due to the trading in foreign currency in Turkey itself has compensated for that. And for 2018, the contribution maintained at the same level of Turkey. So I think I covered the quality cost income ratio and the Turkish Lira impact.

**Fawaz Al Sirri:**

Thank you. And there was a question also about outlook.

**Mazin Al Nahedh:**

Outlook for Turkey, we believe that the measures taken by the Turkish government, particularly in the fourth quarter of this year, in raising the base rate by about six and a

quarter percentage points, in order to slow down credit growth and the expansion that's taking place there. We anticipate 2019 to be a lower growth trajectory than the previous year, but given that the base rate there is at the level where it is, we still expect a decent growth, I will say in the double digits in Turkey during 2019. So that's overall what we believe is the ... I would say outlook for Turkey in this regards. Political pressures naturally play a huge role. The geopolitics and what's happening there as well has a significant impacts. The movement of the Turkish Lira so far we've seen it to be positive since the beginning of the year, we'll discontinue or not. We are anticipating a devaluation. However, so far we haven't seen that materialize as of yet. As a matter of fact, we're seeing more, more stability in the Turkish operation than the fourth quarter and the turbulence that occurred then.

**Fawaz Al Sirri:**

Thank you. My next question is from from Alaa. The question reads "the CEO spoke about the bank's intention to exit some of it's nonstrategic investments of KD150 million. Can you tell us more about them including time and type of these investments?"

**Mazin Al Nahedh:**

Time is during 2019. This is what we intend to sell in terms of non-core assets in the bank. A significant portion of them is basically raw land that KFH owns and we would like to basically, you know, we always look at either developing or selling if the returns of this development makes sense in terms of utilization of capital. So now our assessment, those raw lands at today's given market environment are not worth developing. And as such we are looking to sell them and divest away from them thus releasing capital so we can use it for our banking operation focused on our core assets.

**Fawaz Al Sirri:**

Next up, a question from Elena Sanchez. Elena is asking what are the drivers of other comprehensive income loss?

**Shadi Zahran:**

The main one was actually the exchange differences in a translation of foreign currency, which actually the result as we know, the Turkish Lira deterioration in the third quarter of 2018.

**Fawaz Al Sirri:**

Thanks. We have a followup question from Alaa. Alaa is asking the lower growth rate of four percent in total financing income in 2018 compared to 2017 and this is a lower growth rate compared to the average. Can you comment about this please?

**Mazin Al Nahedh:**

So I didn't understand the the question. When you say compared to the average, which average?

**Fawaz Al Sirri:**

Alaa, can you just resend your question. Alaa might mean a benchmark of some sort. Alaa if you would resend your question, we'd be happy to take it on. So a quick look at the incoming questions. We have several questions from Waruna Kumarage. Waruna is asking can you please explain why the net interest margin fell in the second half of 2018. And what is your expectation for 2019?

**Shadi Zahran:**

First of all It's a net profit margin for us not interest margin and in the first half this was reflecting more the increase in profit rates in the market, local and international. In the second half, like other banks if you look at the other banks in Kuwait and in the region, its reflected more in the cost of funds side, but then from the third quarter and onward, it's actually at the same level 3.2 net financing margin.

**Fawaz Al Sirri:**

Thank you. Waruna's follow up question is, can we expect the cost to income ratio to fall further in 2019?

**Shadi Zahran:**

If you look at the trend for the KFH Group since 2014, the cost income ratio was above 51. Now it's below 40,39. We expect for further improvement, but definitely will not be in the same range that we successfully achieved for the past four years. That improvement is still expected, but not as much as what we accomplished in the previous year.

**Fawaz Al Sirri:**

Rahmatullah Khan is asking, can you please elaborate on investment income decline? Is it real estate?

**Shadi Zahran:**

The real estate was part of it, yes. The investment income decline is actually due to the... Last year we have more, the disposition and more gain from the divestment of investment a year before, I mean 2017, while 2018 was less, and again accordingly was less in 2018. And as we see the Bank now is more relying on more core banking and business. And the investment income is expected to stay within the same levels.

**Fawaz Al Sirri:**

Alaa sent a follow up. The follow up and the comment reads in the consolidated comprehensive income statement, can you comment and explain more the other comprehensive loss for the year amounted to KWD 143.3 million in 2018 and can you clarify more from where the loss of "exchange difference on translation of foreign operations" amounted to KWD 122.6 million in 2018 is attributed? What are the bank's action against such losses?

**Shadi Zahran:**

That was explained and answered. The 122 is mainly the FCTR foreign currency translation. And due to the Turkish Lira deterioration in the third quarter.

**Fawaz Al Sirri:**

Thank you. And I believe with that we will be wrapping up today's call. Thank you ladies and gentlemen for joining us. As I said in the opening statement, that a live recording of this webcast will be available on the same link in about two hours or so. For now, we wish you a good day. And the next webcast is going to be for the Q1 earnings discussion and we hope to see you with that.

**- WEBCAST TRANSCRIPT ENDS -  
The analyst call was held on February 11, 2019.**

بيت التمويل الكويتي  
Kuwait Finance House



# FY18

## Earnings Presentation

February 11, 2019



# Disclaimer

## **IMPORTANT NOTICE**

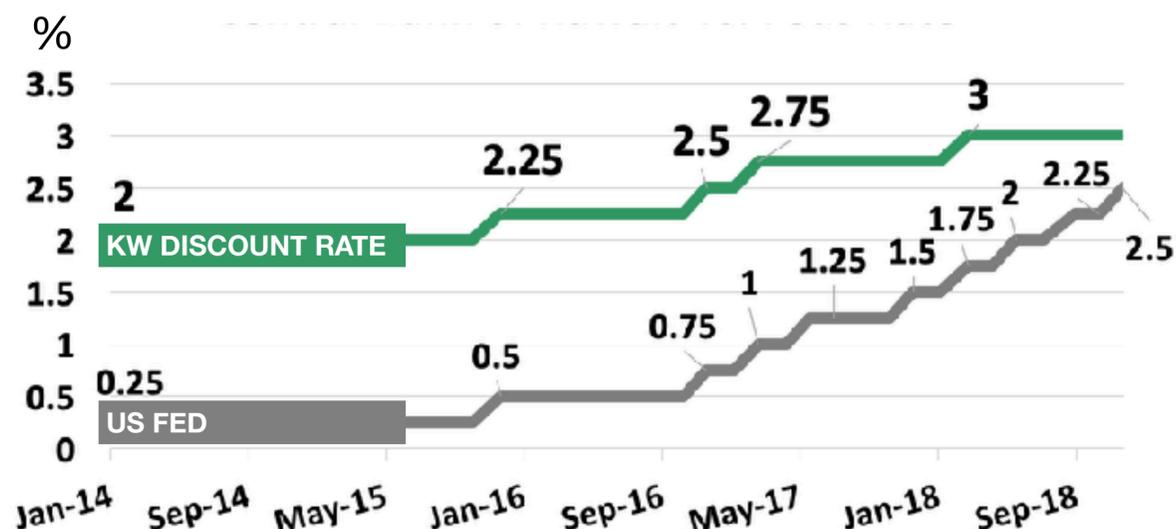
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# Economic Indicators

## Development of Discount Rate by Central Bank of Kuwait



Source: Central Bank of Kuwait, KFH

- The Central Bank of Kuwait left its key discount rate steady at 3% on 19<sup>th</sup> of December 2018, despite the Fed's decision to hike the funds rate by 25 bps. It was the third straight time policymakers do not follow the Fed. The Federal Reserve raised the target range for the federal funds rate by 25bps from 2.25% to 2.5% during its December 2018 meeting.
- Moody's credit rating for Kuwait was last set at Aa2 with stable outlook. Moody's adjusted Kuwait's score for economic strength upwards from the indicative "Moderate (+)" to "High (+)" to reflect Kuwait's exceptionally high wealth levels, as well as its substantial hydrocarbons endowment. Moody's also adjusted Kuwait's fiscal strength score as "Very High (+)". Fitch's credit rating for Kuwait was last reported at AA with stable outlook. Standard & Poor's credit rating for Kuwait stands at AA with stable outlook.

## Kuwait's GDP & Current Account Balance

Subject Descriptor	2017	2018	2019	2020
Gross domestic product, constant prices (Percent change)	-3.4	2.3	4	4.1
Current account balance (U.S. dollars, Billions)	7.1	16.4	16.8	14.1
Current account balance (Percent of GDP)	5.9	11.3	11	8.9

Shaded cells indicate IMF estimates

Source: IMF, KFH

- The International Monetary Fund (IMF) expects Kuwait's GDP growth to reach 2.3% in 2018, according to its latest updates on October 2018. The IMF expects the current account to reach USD16.4bln by the end of 2018, or 11.3% of total GDP, compared to USD7.1bln or 5.9% of GDP in 2017.
- The real estate sector sales volume increased significantly by 48% in 2018, whereby, the trading value stood at KWD3.8 bln. The growth represented the highest value recorded since 2014. The investment and commercial properties segments exceeded KWD1.7bln and KWD585mln respectively. Whereby, the sales value in the private residential segment reached KWD1.3bln

# KFH Overview

Kuwait

**1st**

and largest  
Shari'a-compliant  
bank in Kuwait

Regional

**Safest**

Islamic Financial  
Institution in the GCC\*

\*According to Global Finance Magazine

Global

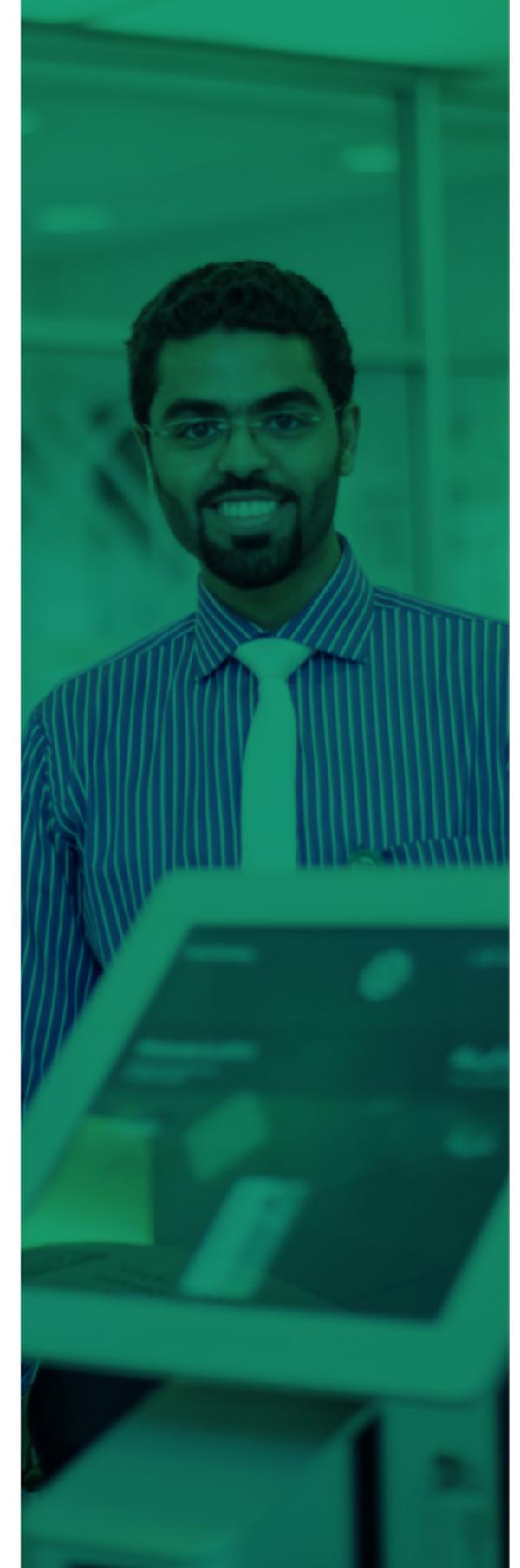
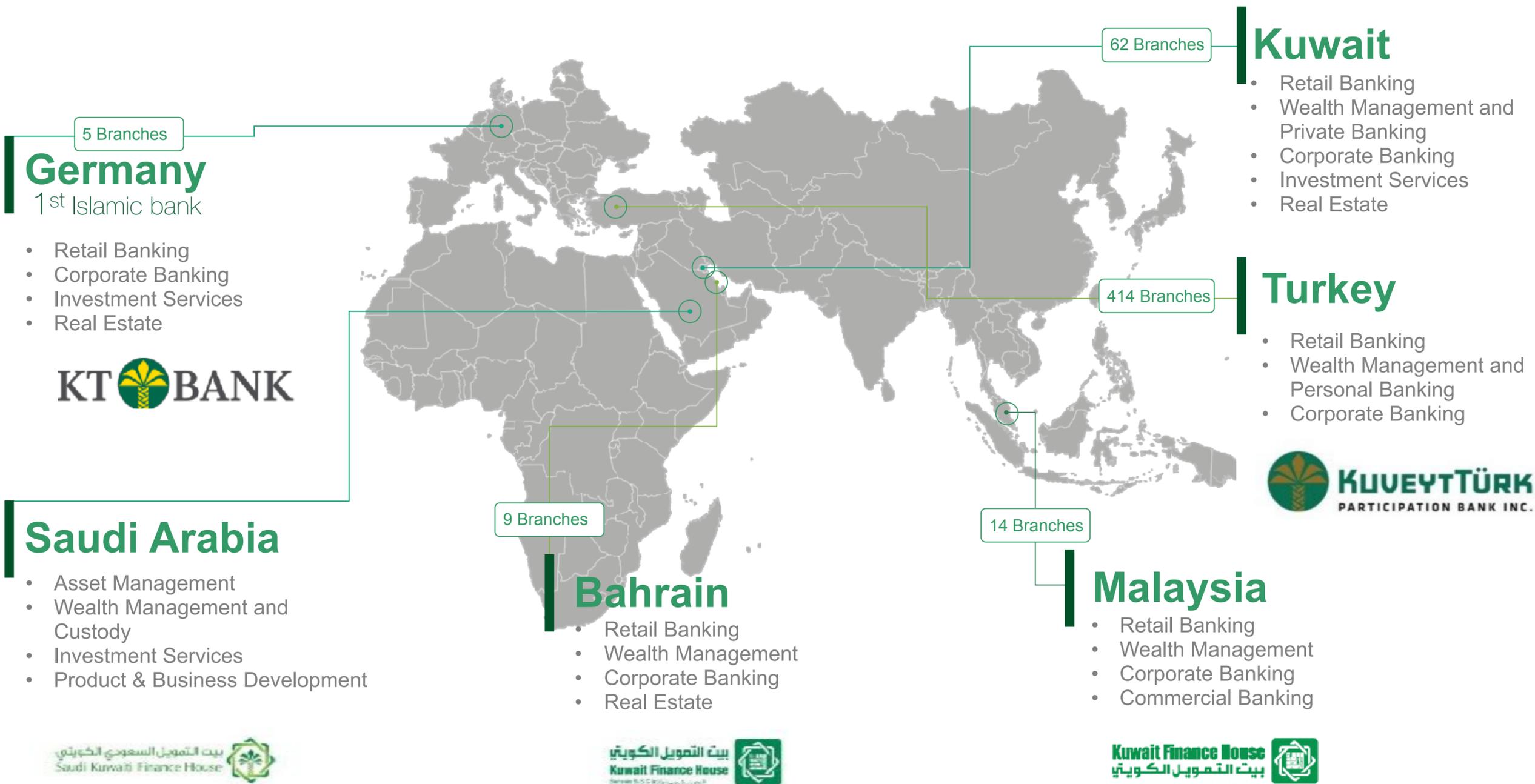
**1st**

Islamic bank in  
Germany



# KFH Overview

Geographically diversified banking group



# KFH Strengths

Robust Financial Performance	Leading Islamic Financial Institution	Strong Government Sponsorship	Professional Management Team	Strategic Distribution Channels	Effective Risk Management Framework
<p>A consistent track record of profitability &amp; dividend payment</p> <p>Solid funding and liquidity profile</p> <p>Consistently low NPF rates</p> <p>Improving cost to income ratio</p> <p>Solid profit margins and improving efficiency</p>	<p>Second largest Islamic Financial Institution globally in terms of asset base</p> <p>Operating history of over than 40 years</p> <p>Strong retail franchise</p> <p>Pioneer of Islamic products in Kuwait</p> <p>“Islamic Bank of the Year - Middle East”</p>	<p>48% ownership by various Kuwaiti Government authorities</p> <p>KFH operates mainly in Kuwait where the economy benefits from high level of economic strength</p> <p>Systemic important bank in Kuwait</p> <p>Large retail deposit and global flagship Islamic bank</p>	<p>Well-rounded human capital through meritocratic management structure</p> <p>Significant improvement in the Management team for the diversified international operation</p> <p>Strong and stable Board of Directors, collectively bringing more than two hundred and fifty years of professional experience</p>	<p>Diversified international operations</p> <p>Presence in 6 countries giving access to Europe, Middle East and Asian markets</p> <p>Extensive accessibility option with a wide network of over 500 branches and over 1,155 ATMs</p>	<p>KFH continuously develops its risk management framework in light of development in the business, banking and market regulations</p> <p>Disciplined &amp; risk adjusted approach to capital allocation</p> <p>Large and diversified portfolio, focused on core banking assets</p>

# Business Highlights

## Key Activities

### ✓ USD8.1 Billion Sukuk Issuances

.....  
KFH was placed as the “Top Primary Dealer” for ILLM Sukuk Program in 2018

### ✓ USD 500 Million Syndication

.....  
Duqm Refinery in Oman of total transaction size US\$ 4.6 Billion.

### ✓ KD 124 Million Facility

.....  
Financing Limak for Kuwait International Airport construction project.

### ✓ KD 120 Million Facility

.....  
Financing MENA Homes for developing Hessah Al-Mubarak Residential District

## Products and Services “Digital Focused”

- Launched a new banking product Visa Credit Card (Signature) with unique advantages at market level.
- Inaugurated the opening of two banking halls in to serve Ruwaad, Tamayuz and Nukhba customers.
- "KFH-Go" the first-of-its-kind digital self-banking branch in Kuwait
- RippleNet network based on Blockchain technology.

## Awards (22 in total) in 2018

- The safest Islamic Financial Institution In the GCC 2018 – Global Finance
- Best Bank for High Net Worth Clients by EuroMoney
- Best Bank for Research & Asset Allocation Advice by Euromoney
- Best Bank for SRI / Social Impact Investing by Euromoney
- Best Islamic bank in Kuwait by IFN.
- Visa Global for the Fastest Growing Debt Portfolio in Kuwait.

## Social Responsibility

- More than KD 11.2 million in corporate participation to support families & social institutions in Kuwait as part of our CSR.
- Partnership agreement with Kuwait Red Crescent Society (KRCS).
- Strategic partner in “Kuwait Capital of Arab Youth” Activities.
- Comprehensive Campaign for Diabetes Prevention.

# FY18 Financial Highlights

Net Profit  
for Shareholders

**KD 227.4 m**  
+23.5%

Total Financing Income

**KD 862 m**  
+16.4%

Net Financing Income

**KD 527 m**  
+18.5%

**Cost to Income Ratio**

---

**39.2%**  
*Improved by 3.6%*

**EPS (fils)**

---

**36.36**  
+23.4%

# KFH Strategy

KFH's main focus is on core banking business activities. KFH's 3-year strategy ending in 2020 is based on three main pillars

**Simplify** experience

**Digitize** operations

**Grow** business

**Across all four main business sectors**

**Retail**

**Corporate**

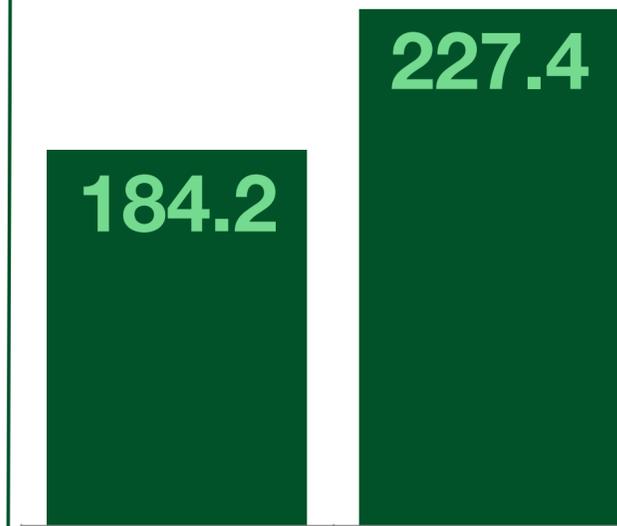
**Private**

**Treasury**

# FY18 Operating Performance (KD mln)

## Net Profit for Shareholders

**+23.5%**



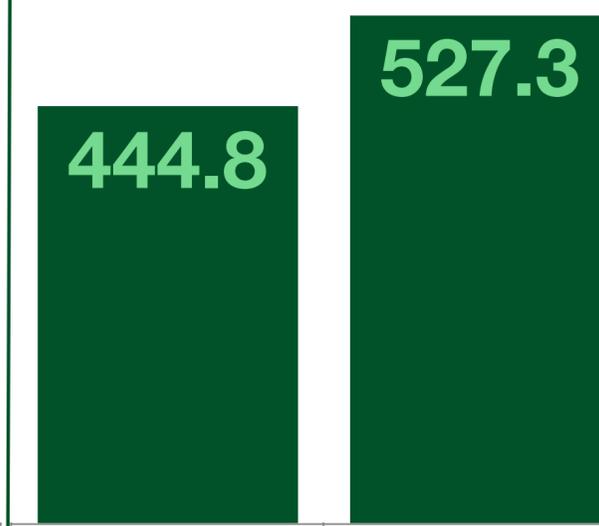
## Operating Income

**+4.6%**



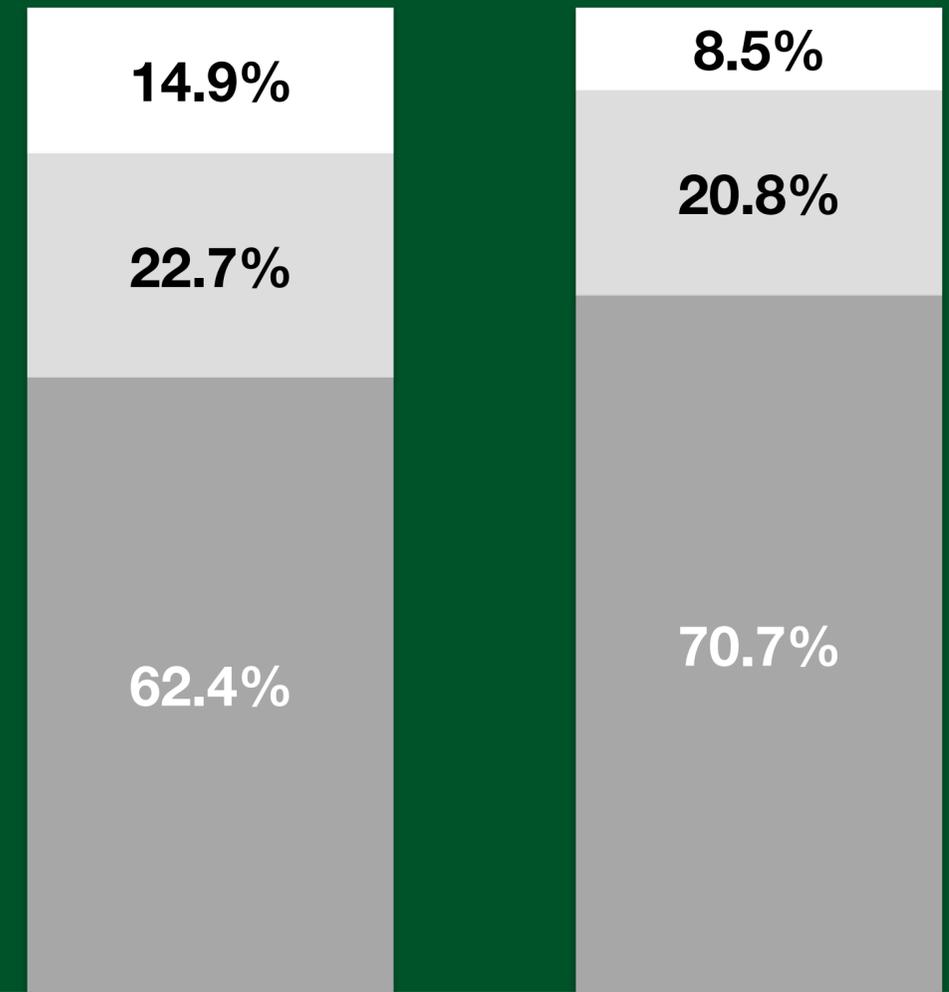
## Net Financing Income

**+18.5%**



## Operating Income Profile

- Investment Income
- Non-Financing Income
- Net Financing Income



2017

2018

2017

2018

2017

2018

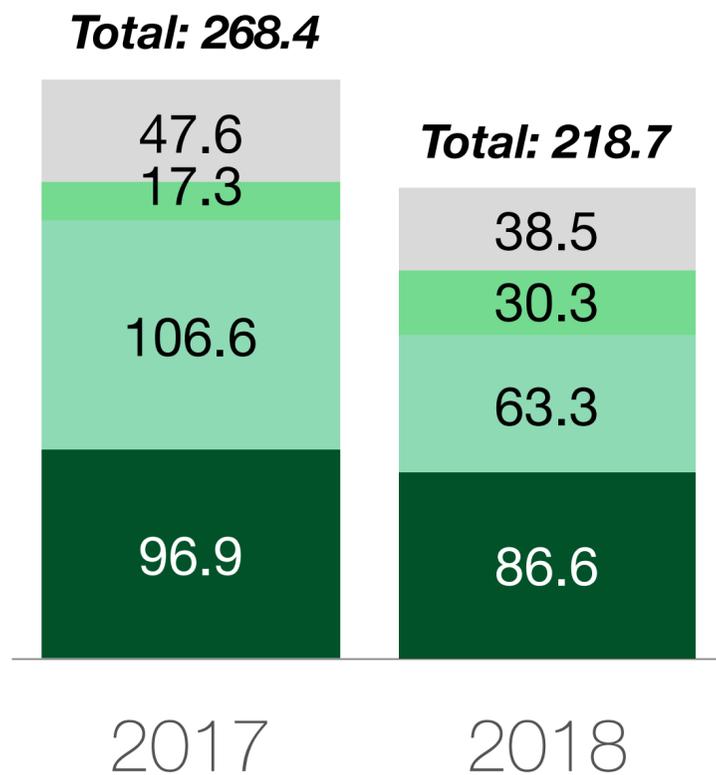
2017

2018

# FY18 Operating Performance

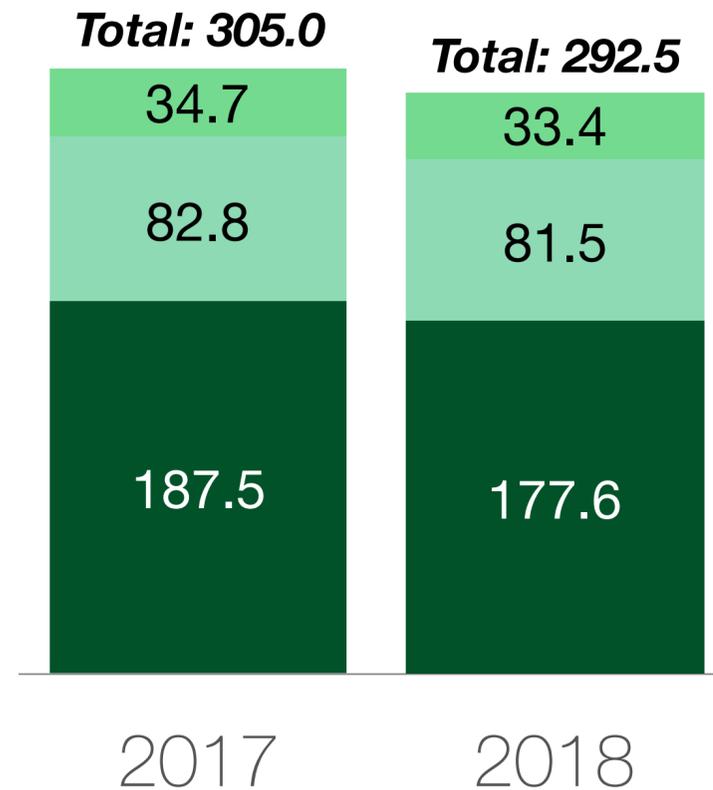
## Non Financing Income (KD mln)

- Other income
- Net gain from foreign currencies
- Investment income
- Fees and commission Income



## Total Operating Expenses (KD mln)

- Depreciation and amortization
- Other operating expenses
- Staff cost



## Investment Income as % of Non-Financing Income



## C/I Ratio

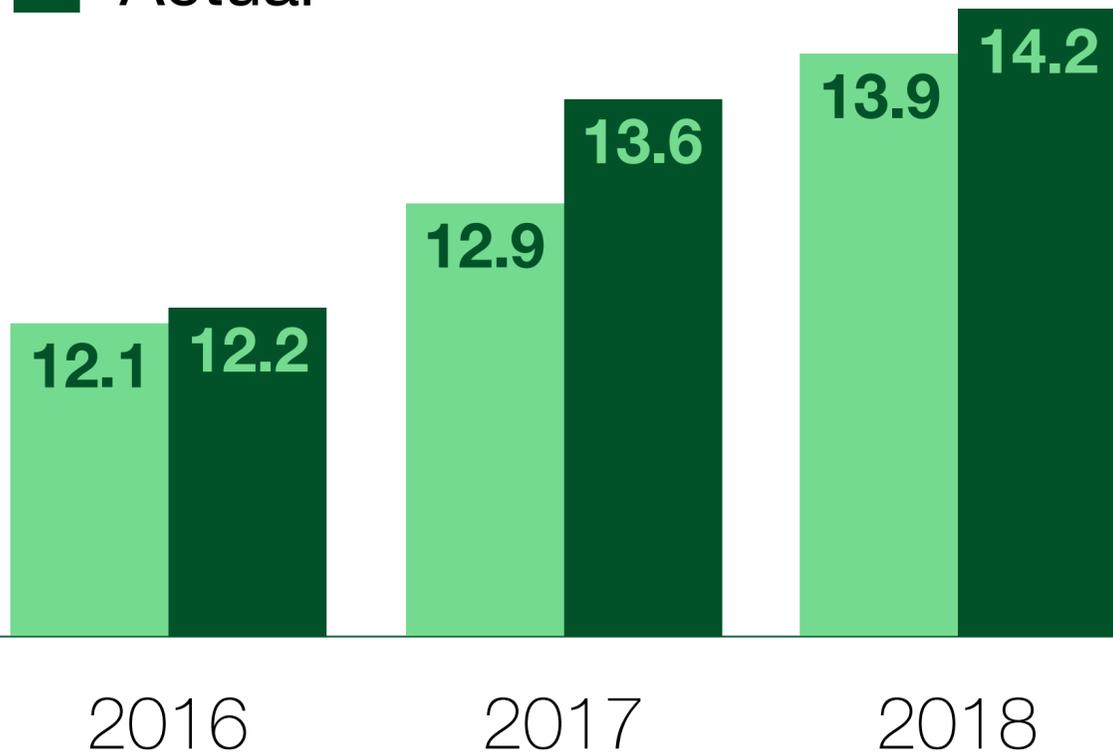


# FY18 Operating Performance

## Actual / Average Profit Earning Assets (KD bln)

**+14.5%**

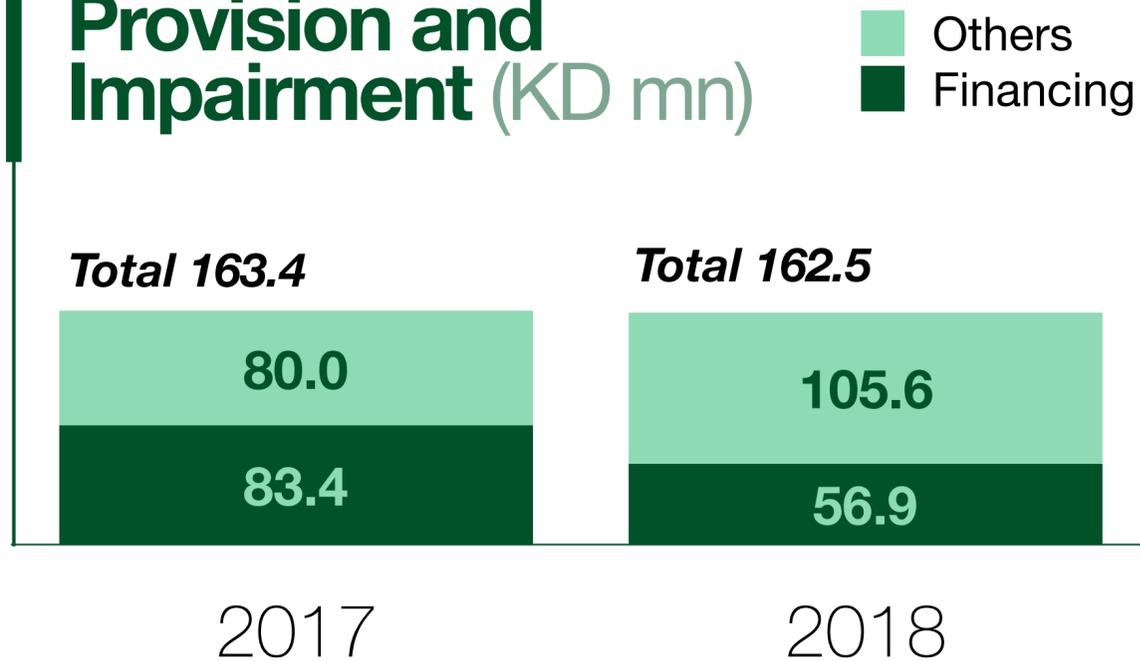
■ Average  
■ Actual



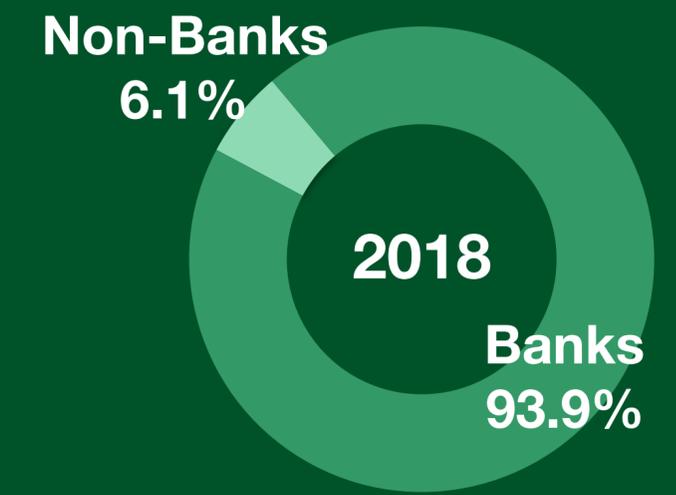
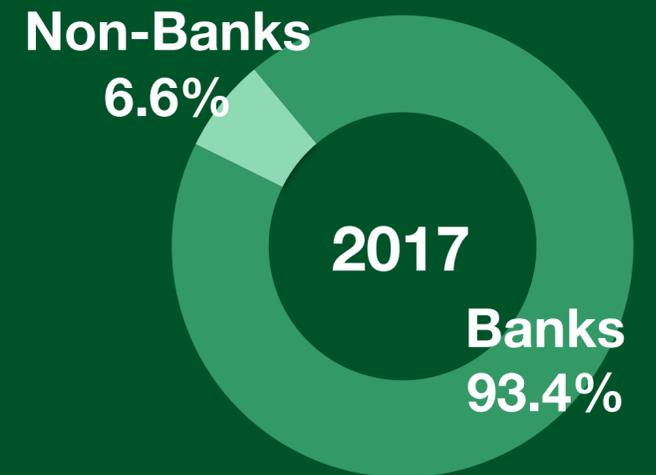
## Net Financing Margin



## Provision and Impairment (KD mn)



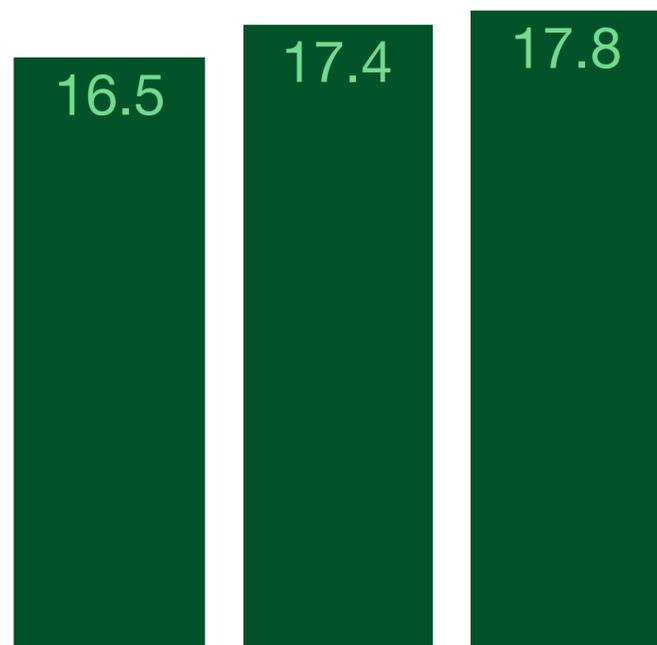
## Operating Profit – Banks / Non-Banks



# FY18 Operating Performance

## Total Assets (KD bln)

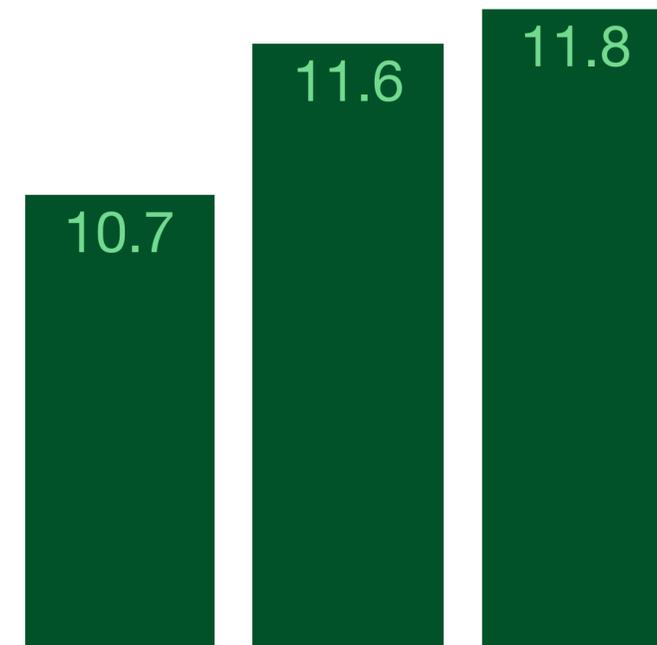
+7.7%



2016 2017 2018

## Depositors' Accounts (KD bln)

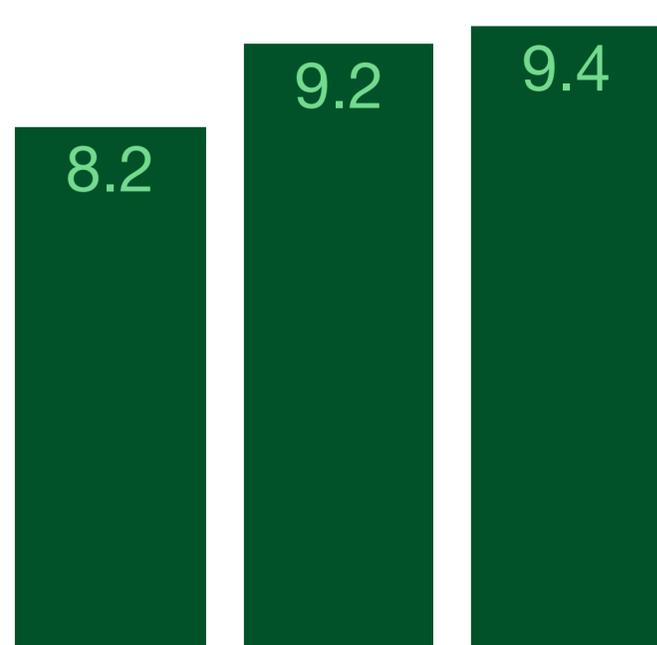
+9.9%



2016 2017 2018

## Financing Receivables (KD bln)

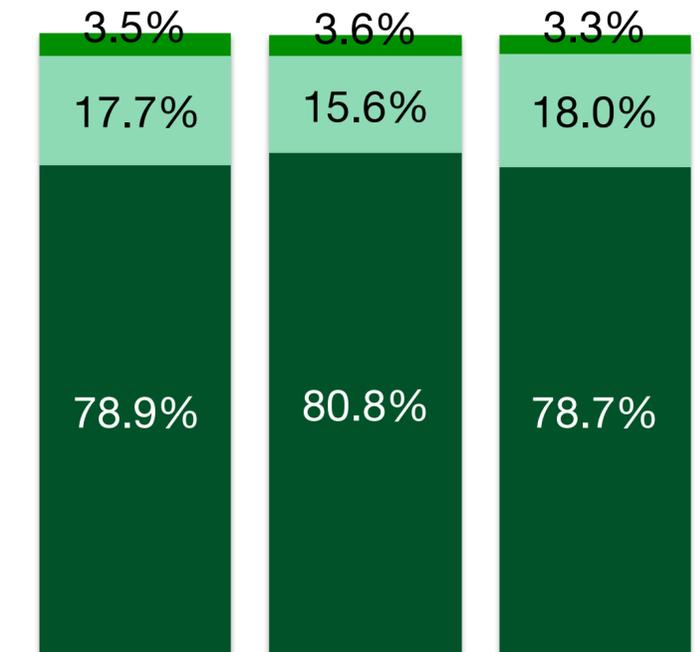
+14.8%



2016 2017 2018

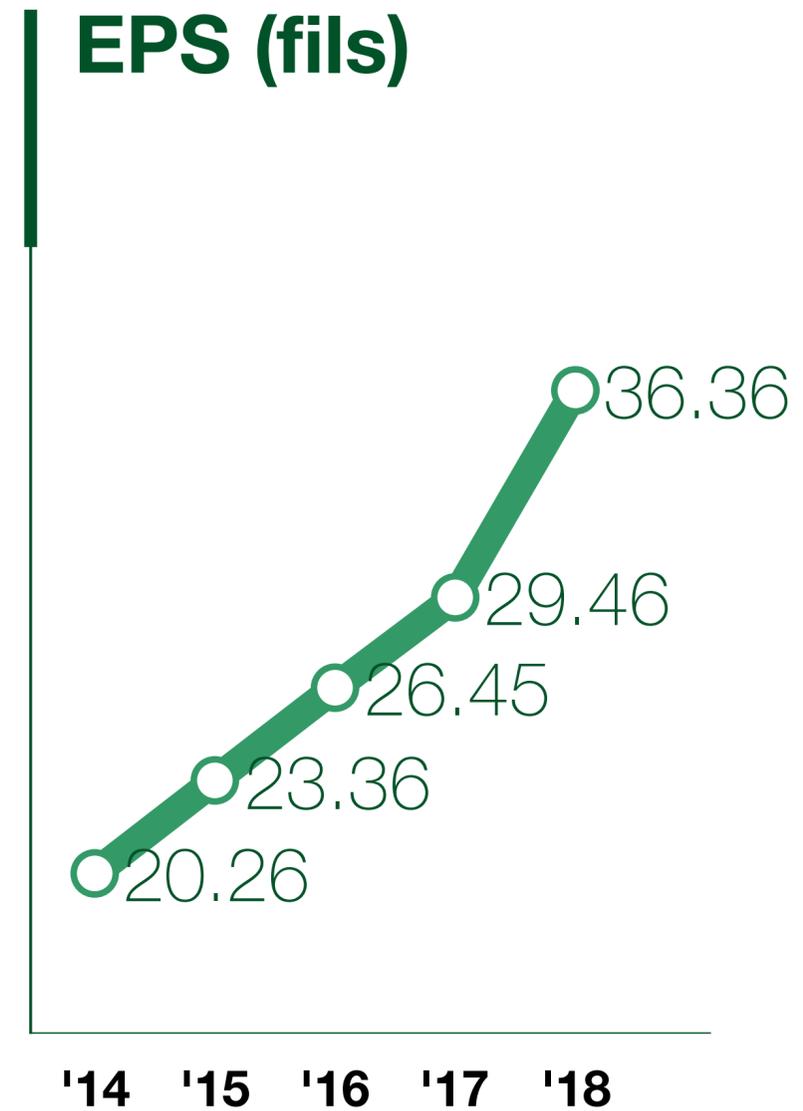
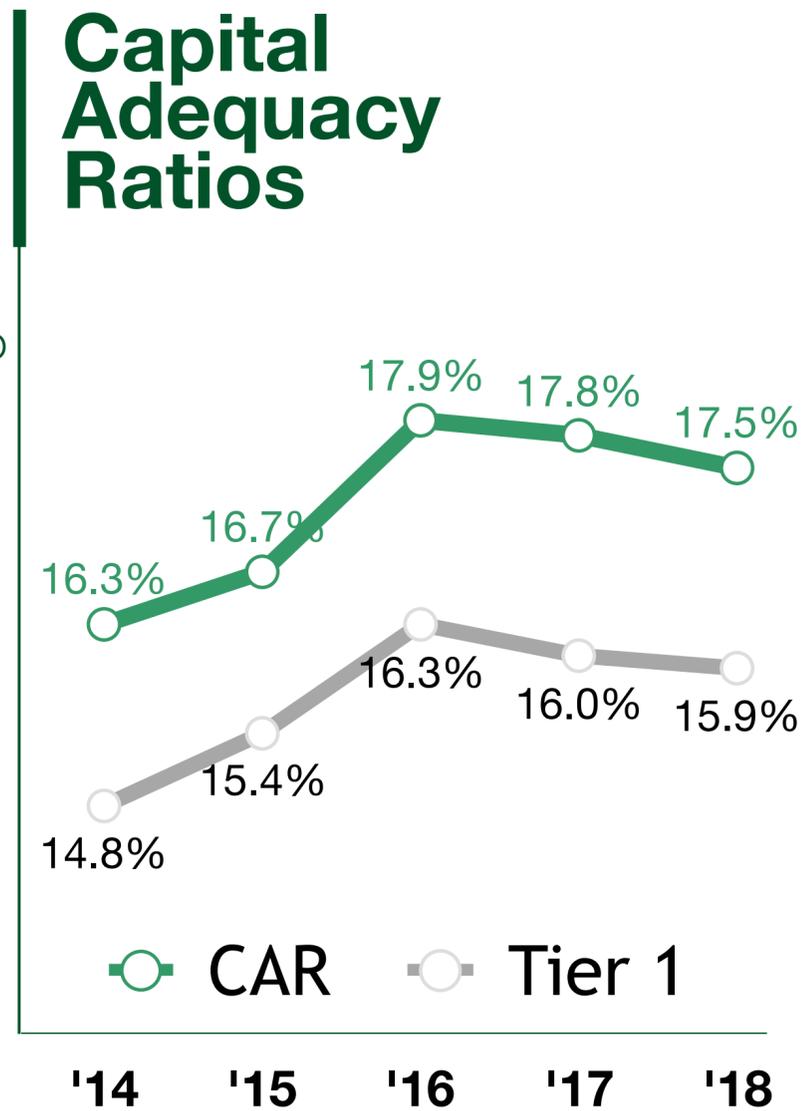
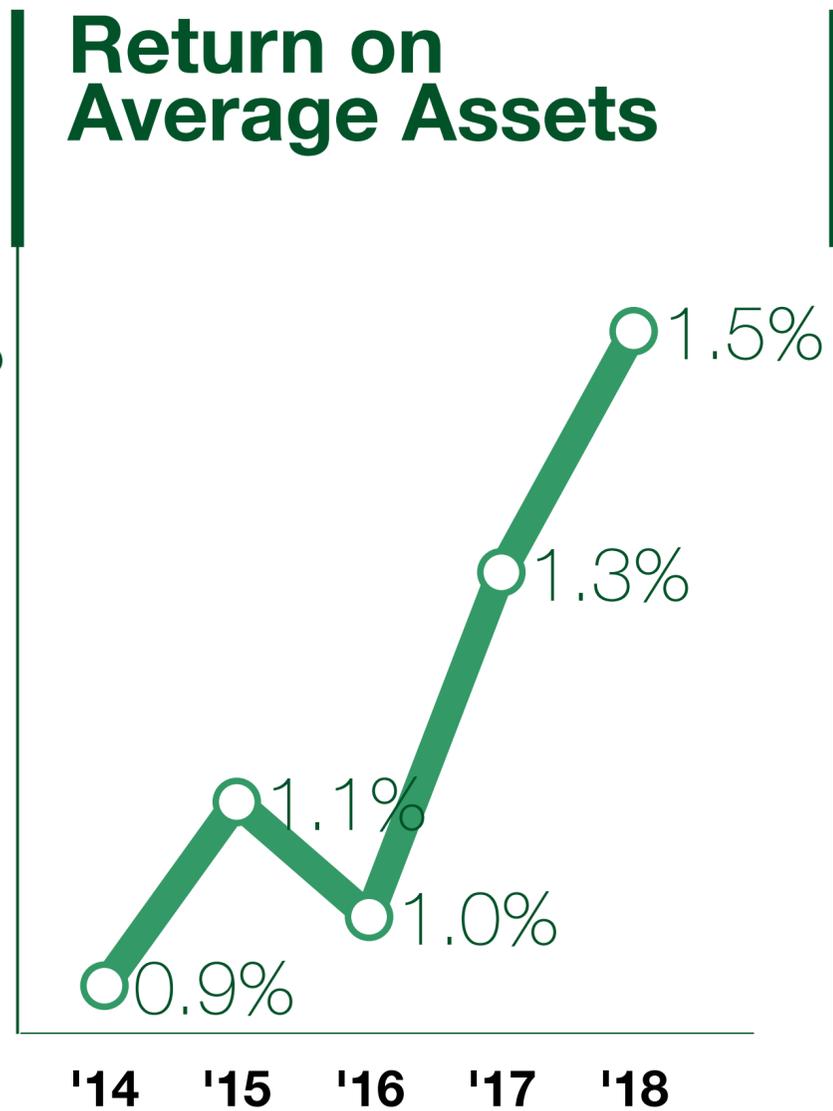
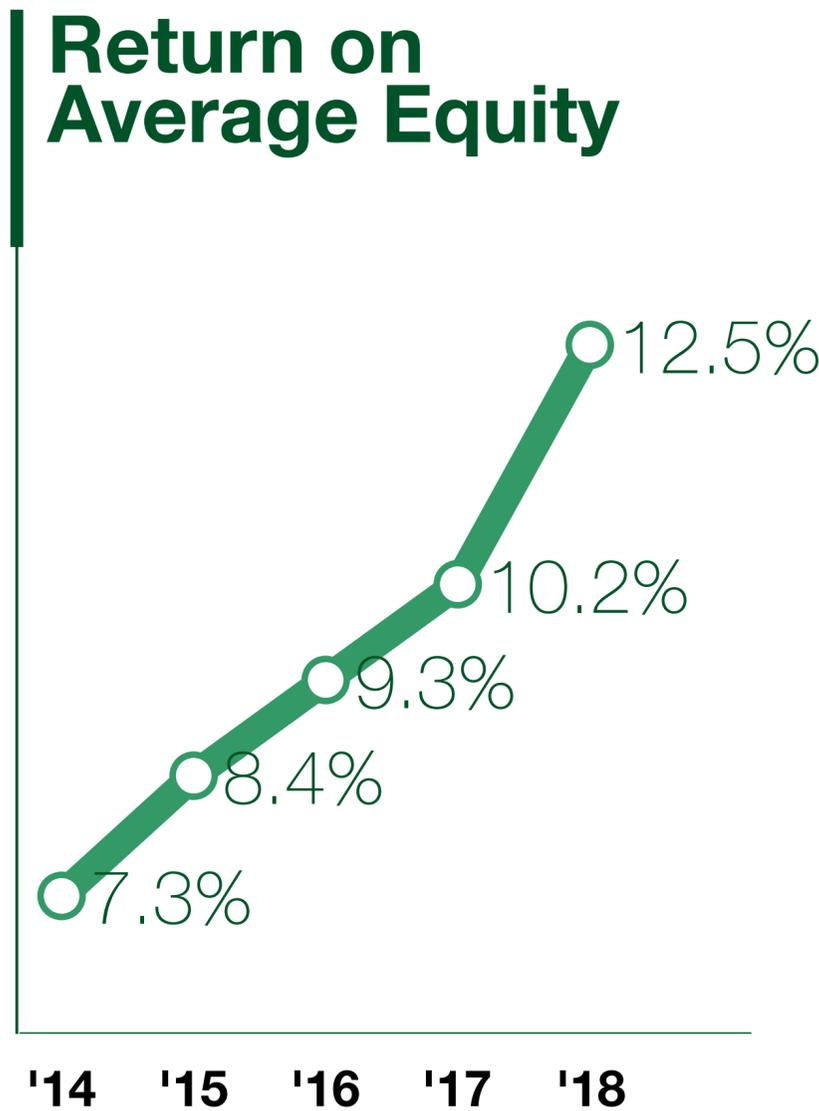
## Funding Mix

- Sukuk Payable
- Due to Banks & Financial Institutions
- Depositors' Accounts



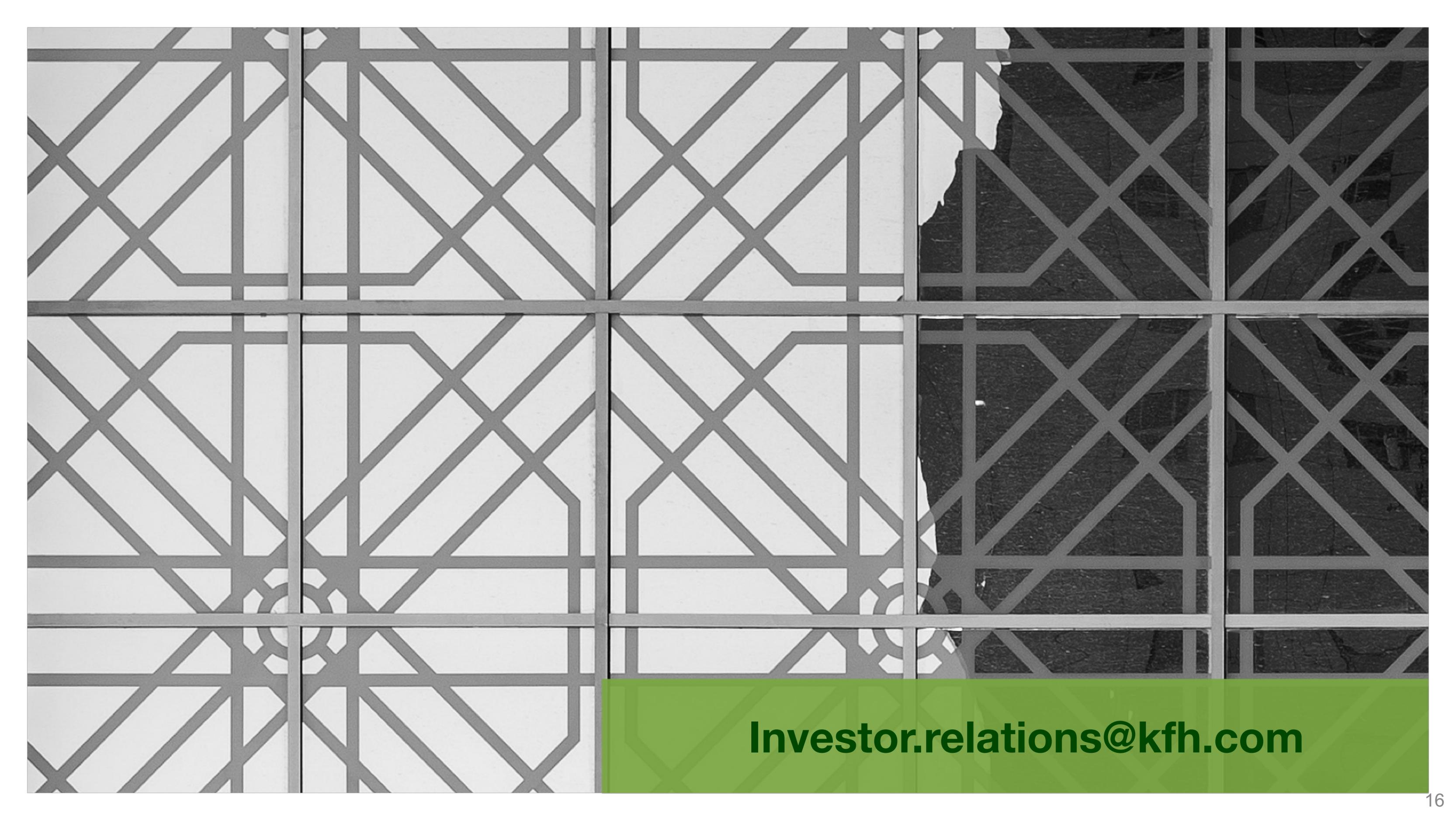
2016 2017 2018

# FY18 Operating Performance





# Q&A



[Investor.relations@kfh.com](mailto:Investor.relations@kfh.com)

# Appendix

# FY18 Key Performance Indicators

<i>Key Performance Indicators</i>	Dec-18	Dec-17
Return on Average Assets (ROAA)	1.51%	1.30%
Return on Average Equity (ROAE)	12.45%	10.20%
Cost to Income	39.20%	42.76%
Earnings Per Share (fils)	36.36	29.46
CET1 Ratio	15.46%	15.38%
Tier 1 Adequacy Ratio	15.91%	16.00%
Capital Adequacy Ratio	17.47%	17.76%

# Consolidated Statement of Income

Consolidated Statement of Income (KD million)	2015	2016	2017	2018
Financing income	695	718	741	862
Financing cost and distribution to depositors	263	283	296	335
<b>Net Finance Income</b>	<b>432</b>	<b>435</b>	<b>445</b>	<b>527</b>
Investment income	108	79	107	63
Fee and commission income	79	89	97	87
Net gain from foreign currencies	25	23	17	30
Other income	59	34	48	39
<b>Non-Financing Income</b>	<b>271</b>	<b>225</b>	<b>268</b>	<b>219</b>
<b>Total Operating Income</b>	<b>703</b>	<b>660</b>	<b>713</b>	<b>746</b>
Staff costs	172	174	188	178
General and administrative expenses	81	84	83	81
Depreciation and amortization	78	37	35	33
<b>Total Expenses</b>	<b>330</b>	<b>295</b>	<b>305</b>	<b>292</b>
<b>Net Operating Income</b>	<b>372</b>	<b>365</b>	<b>408</b>	<b>454</b>
Provisions and impairment	184	157	163	163
Gain / (Loss) for the period from discontinued operations	22	(22)	0	0
<b>Profit Before Tax and Zakat</b>	<b>211</b>	<b>186</b>	<b>245</b>	<b>291</b>
Taxation and proposed directors' fees	21	24	30	27
Non-controlling interests	44	(3)	30	36
<b>Profit Attributable to Shareholders of the Bank</b>	<b>146</b>	<b>165</b>	<b>184</b>	<b>227</b>

# Consolidated Statement of Financial Position

Consolidated Statement of Financial Position (KD million)	2015	2016	2017	2018
Cash and balances with banks and financial institutions	1,600	1,495	1,262	1,381
Short-term murabaha	3,194	2,877	2,925	3,248
Financing receivables	8,095	8,176	9,216	9,385
Trading properties	214	186	161	148
Investments	508	357	304	285
Investments In Sukuk	807	1,100	1,429	1,563
Investment in associates and joint ventures	535	469	464	499
Investment properties	580	591	554	490
Other assets	469	549	465	544
Intangible assets and goodwill	48	39	39	31
Property and equipment	264	216	214	195
Leasehold rights	180	0	0	0
Assets classified as held for sale	0	445	324	0
<b>Total Assets</b>	<b>16,495</b>	<b>16,499</b>	<b>17,358</b>	<b>17,770</b>
Due to banks and financial institutions	2,730	2,399	2,240	2,689
Sukuk payable	322	473	518	499
Depositors' accounts	10,756	10,717	11,597	11,780
Other liabilities	630	645	699	728
Liabilities directly associated with assets classified as held for sale	0	227	188	0
<b>Total Liabilities</b>	<b>14,439</b>	<b>14,461</b>	<b>15,242</b>	<b>15,696</b>
Share capital	477	524	577	634
Share premium	720	720	720	720
Treasury shares	(50)	(49)	(45)	(44)
Reserves	487	450	466	357
Current period income	146	165	184	227
<b>Total Equity Attributable to the Shareholders of the Bank</b>	<b>1,779</b>	<b>1,810</b>	<b>1,872</b>	<b>1,894</b>
Non-controlling interests	276	228	244	180
<b>Total Equity</b>	<b>2,055</b>	<b>2,039</b>	<b>2,116</b>	<b>2,074</b>
<b>Total Liabilities and Equity</b>	<b>16,495</b>	<b>16,499</b>	<b>17,358</b>	<b>17,770</b>



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