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M/s Bursa Kuwait

السادة / شركة بورصة الكويت المحترمين،،،

Dear Sirs

تحية طيبة وبعد،،،

**Sub: Burgan Bank K.P.S.C. Analyst Conference  
for the 2<sup>nd</sup> Quarter 2021**

الموضوع: مؤتمر المحللين لبنك بروقان ش.م.ك.ع. للربع الثاني من  
عام 2021

Reference is made to the above subject and in compliance with the provisions of clause (4) of article (8-4-2) of Bursa Rule Book; attached is the transcript of the Analyst conference that was held via phone at 02:00 pm, Tuesday, corresponding to 03/08/2021.

بالإشارة إلى الموضوع أعلاه، والتزاماً بأحكام البند (4) من المادة (2-4-8) من كتاب قواعد البورصة، مرفق لكم طيه محضر مؤتمر المحللين والذي تم عقده عبر الهاتف في تمام الساعة 02:00 ظهراً من يوم الثلاثاء، الموافق 2021/08/03.

Best regards,

وتفضلوا بقبول فائق الاحترام،،،

  
خالد فهد الزومان

**Khaled Fahad Al-Zouman**  
رئيس المدراء الماليين للمجموعة  
Group Chief Financial Officer





بنك بروقان  
BURGAN BANK

Q2'21

Earnings Conference call Transcript

Tuesday, 3<sup>rd</sup> August 2021

## **Q2' 21 Burgan Bank Earnings Call**

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**Tuesday, 3<sup>rd</sup> August 2021**

**Transcript of Burgan Bank Earnings conference call that took place on Tuesday, 3<sup>rd</sup> August 2021 at 14:00 Kuwait time (UTC+03:00)**

**Burgan Bank Participants:**

**Mr. Raed Al Haqhaq**

**Mr. Naveen Kumar Rajanala**

**Deputy Group Chief Executive Officer & CEO- Kuwait  
Group Head of Group Strategy, Capital Management  
and Investor Relations**

**Operator:**

Good afternoon everyone and welcome to the Burgan Bank Group 2nd Quarter 2021 Earnings Call. Thank you very much for taking your time to attend this conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Elena Sanchez. Please go ahead.

**Elena Sanchez:**

Good afternoon everyone, this is Elena Sanchez and on behalf of EFG Hermes I would like to welcome you all to Burgan Bank's Q2 2021 earnings call. It is a pleasure to have with us in the call the following speakers from Burgan Bank. Mr. Raed Al-Haqhaq, Deputy Group Chief Executive Officer and Chief Executive Officer Kuwait and Mr. Naveen Kumar Rajanala, Group Head of Strategy, Capital Management and Investor Relations. The call will begin with a presentation on the key highlights of Q2 2021 and then we will open the floor for question and answers. I would like to hand over the call now to Mr. Raed, please go ahead. Thank you.

**Raed Al-Haqhaq:**

Good afternoon everyone and welcome to the Burgan Bank Group Q2'21 Earnings Call. Thank you very much for taking your time to attend this conference call.

Let me start with Slide 3 which reflects the Key performance highlights of Q2 '21

- Burgan Bank Groups Revenues showed strong recovery from the previous quarter at KD 64mn; As discussed on the last call, we expected normalization of the two key NPLs in Q2'21 which brought back the net interest income to normal levels
- NIMs improved in Q2'21 to 2.4% due to normalization of the large NPLs and also continued reduction in funding costs
- Operating Profit improved over the previous quarter by 27% to KD 40mn reflecting that operating costs are being maintained at optimal levels
- Burgan's Asset quality improved at the Group level and at Kuwait level; Group NPL ratio reduced to 4.5% with Kuwait NPL ratio improving to 3.5%

Moving on to Slide 4, highlighting performance on Revenue and Operating Expenses:

- Burgan Bank Group's Revenues showed significant recovery from the previous quarter at KD 64mn
- In Q2'21, the non-interest income increased by 33% largely driven by higher Fees & Commissions and security gains
- NIM also continued to improve; it increased by 70 bps to 2.4%, Kuwait NIMs improved by 80 bps to 1.9%
- Opex remained stable at KD 24mn while we continue to invest in our digital infrastructure
- As a result, cost-to-income ratio for Q2'21 further reduced to 37.8%

Moving to slide number 5, which shows the bank's performance in terms of Operating profit and Net Income:

- The Group reported improved operating profit levels for this quarter at KD 40mn, an increase of 27% from the previous quarter.
- Net Income for Q2'21 was extremely strong at KD19mn, growing from the last quarter figure of KD5mn

Moving on to slide 6. This slide captures the tremendous improvement in the Asset quality in Q2'21:

- Let me start with the NPL charts
- The bottom two charts show the reduction in the NPL levels in Kuwait largely due to the regularization of the two accounts as discussed
- The coverage of the NPLs both at Group and Kuwait remains strong at 193% and 247% respectively.
- Kuwait's NPL ratio decreased to 3.5% (a drop of almost 200 bps) leading to a drop in the Group's NPL ratio to 4.5%.
- Our provisions at Group remained elevated at KD 19mn, translating to cost of credit of 1.7%

I will now hand over to Mr. Naveen who will cover next few slides.

**Naveen Kumar Rajanala:**

Sure. Thank you, Mr. Raed. Good afternoon everyone. Let's move to slide 7 which shows the customer loans and sectoral breakdown:

- The balance sheet remained stable with flat growth, largely due to some repayments
- The loan composition continues to be similar to the previous quarters with no major change

Moving on to Slide 8 on deposits and liquidity ratio. The key messages here are:

- Access to liquidity via customer deposits and international markets remains very strong for Burgan. Customer Deposits grew by 5% in Kuwait and our international markets
- Also, CASA balances remained stable around 30% of total deposits
- The Net Stable Funding ratio of 102.4% and Liquidity Coverage Ratio of 133.4% indicates the healthy levels of liquidity within the Group and remains well above the regulatory minimums.

Moving on to slide 9 that captures Burgan's Capital Levels:

- The CET 1 Ratio and CAR Ratio for the quarter stood at 10.4% and 16.5% respectively, both well above the revised regulatory requirements under the CBK forbearance measures.

Slide 10 provides the performance details of Kuwait and International Operations:

Starting with Kuwait, the key messages here are:

- Kuwait franchise's performance has bounced back strongly across metrics
- Revenue growth driven by growth in interest and non-interest income NIMs have improved along with the asset quality metrics.
- Given the efficiency of the Kuwait franchise, its Cost to Income Ratio continues to be low at 31.3%

International Operations:

- Despite the pandemic -driven challenges, the international operations performed well.
- The NIMs continue to be attractive in these markets

- We saw improvement in the NPL levels of Turkey and we expect these NPL levels to improve over the course of the year.

I will now hand it back to Mr. Raed to cover the last slide and to conclude the presentation.

**Raed Al-Haqhaq:**

Thank you, Naveen.

**In Conclusion:**

- Strong recovery in Kuwait's performance and solid all-round performance in a challenging market recovering from the lockdowns during the pandemic
- Tangible Improvement in asset quality Q-o-Q, especially in Kuwait
- Burgan continues to deliver on the digital front and we will continue to invest in digital infrastructure over the next few years

Elena, we can start with the questions if you don't mind.

**Elena Sanchez:**

Sure. Thank you very much for the presentation, we can move now to question and answers. As an attendee you have two options to ask your question. Either you can raise your hand and I will unmute your microphone, or you can write your question in the designated Q&A area. We'll just pause for a minute in order to receive some questions. Thank you.

Okay, we just received a few questions from Janany Vamadeva, one of them is if you could explain the drivers behind the increase in FX and other income, and whether you find that level sustainable into the coming quarters.

**Naveen Kumar Rajanala:**

I can take that. So as far as the non-interest income goes, we had a strong quarter as Mr. Raed pointed out. We had some security gains and strong returns on some of our investments. And typically, in the first and second quarter is when we see a lot of our investment returns coming via dividends and sometimes through capital appreciation, given the strength of the global markets, especially in the second quarter.

Is that repeatable or is that a guidance for the rest of the year? Unlikely. So, I think we had a strong non-interest income level this quarter, unlikely to be repeated at the same level for the next couple of quarters. But we do expect the fee and commission income and the FX income performance to continue at similar levels.

**Elena Sanchez:**

Thank you, Naveen. A few more questions. H1 2021 cost of risk of 185 basis points is higher than 143 basis points in H1 20. Should we take the 2021 levels as the run rate for the second half of this year as well? or are you seeing some normalization in cost of risk?

**Raed Al-Haqhaq:**

I will take this one, Naveen, if you don't mind?

As we have mentioned in the first quarter call that we are working on the restructuring of two large NPLs, which we have succeeded in doing. This has taken Cost of Risk and NPL ratio to almost normal level. As far as the third and fourth quarter, we are not expecting any new surprises, and including the restructuring and the recovery efforts, we expect 2021 Cost of Risk should be normalized by the third and the fourth quarter.

**Elena Sanchez:**

Thank you, Mr. Raed, and another question from Janany. What is the reason behind the increase in Central Bank of Kuwait judgmental provision in Q2 across the sector? Does that imply any potential deterioration in asset quality going forward?

**Naveen Kumar Rajanala:**

Typically, the judgmental or precautionary provision is an amount that the Central Bank decides with each bank. I don't think it is an indication on any specific sector or guidance to the banking sector as a whole. So, I don't think we've heard anything where they have specifically concern about any particular sector.

**Raed Al-Haqhaq:**



Absolutely. And we cannot honestly compare last year with this year. We can see that the economy is going back to normal, and last year on the second and the third quarter it was in the middle of the pandemic. So, the precautionary provisions that we have taken, which is KD 10mn and KD 7mn last year helps us to build a further buffer for the coming years, and honestly this year we have not used it.

**Elena Sanchez:**

Thank you. we'll take a question now from Rakesh Tripathi. Please go ahead.

**Rakesh Tripathi:**

Yes, hi. Thank you very much for the presentation. I had a couple of questions. So first one was if you could just clarify on the status of the capital relaxations from the Central Bank. Earlier these were up to the end of June this year. So, has there been an extension in this?

**Naveen Kumar Rajanala:**

Yes, so Central Bank has communicated that this has been extended till the end of the year with potential return to higher levels of capital requirements. Does that mean it's an immediate revert to the previous regime? We don't know the answer. Or is that going to be over a period of time through step ups? That's not clear at this date but the regulator has said that it's extended till the end of the year. So, from Q1 next year, the required capital levels will go up.

**Raed Al-Haqhaq:**

Just let me highlight one thing. In spite of the relaxation of the ratios, Burgan has not utilized the reduced requirements. Our CET1 ratio in the second quarter came extremely close to 10.5% but still far away from the new relaxed level. So even in our own performance and targets we're not planning on using this relaxation whether it is on the third or the fourth quarter.

**Rakesh Tripathi:**

Right. No, my question basically was, based on the context that you know if there were to be a sudden return to the old levels, old requirements, say of a 10.5% CET1 in Q1 next year, if that were to happen then I'm assuming the internal capital generation at the bank will support CET1

being comfortably above those levels around that time. That will be your expectation as well, right?

**Raed Al-Haqhaq:**

Absolutely, sir. Yes.

**Rakesh Tripathi:**

Great. And just one more question. So, this was about the debt that's due to mature in September and December of this year. What are the plans regarding those two? There's a dollar issuance and there's a local currency issuance as well, right?

**Naveen Kumar Rajanala:**

Yes sure. On the dollar debt, we could potentially refinance that, but again we don't have the approvals in place or it's not public knowledge and hence we cannot discuss it yet. But as we talked about on the slide on liquidity and deposits, liquidity is not an issue for the Group. So, if we will refinance it, it will be opportunistic, i.e., if it's at the right price etc. The same goes with the KD debt which is due in December. Obviously, both of these are less beneficial at the moment because NSFR-wise they are in the lowest bucket and we would want these to be in the higher bucket. So, refinancing would make sense only if the cost is right.

**Rakesh Tripathi:**

Right. And I think you mentioned this earlier already that you don't see any other pockets of concern in the loan book, right? So Q1 was more like a one-off kind of thing and you don't see any other concerns in any areas of the loan book particularly?

**Naveen Kumar Rajanala:**

Yes, I can answer that. So as of now there are no specific sectors or customer group that we are wary of. As we see things at the moment there might be a couple of noises here and there but not to the sort of level that you've seen in Q1. But largely we expect it like any other year. We are not foreseeing a major issue coming up in the next couple of quarters or so.

**Rakesh Tripathi:**

Okay. Thank you very much for answering the questions.

**Elena Sanchez:**

Thank you, Naveen. We have a few questions on NIMs. What is the outlook for the net interest margin in the second half of this year? Yes, a couple of questions around the same theme of NIM outlook.

**Naveen Kumar Rajanala:**

So, obviously if we see the NIM performance in Q1, it dipped because of the one-off impact of the three accounts and then it shot up again this quarter because of the reversal of that. But I think on a normalized basis we expect NIMs to be in the 2.1% sort of range. So, from a guidance on NIMs point of view that's at the level. Our international franchise obviously is returning a much healthier NIM and there could be a potential little upside to that.

At the same time, in Kuwait we have seen continued reduction in funding cost. For example, between Q1 and Q2 our funding cost fell by another 10 to 12 basis points. So, if that continues and if the refinancing of the two instruments that we just talked about happens along the lines of the expected cost, then there could be a further decline in funding cost.

**Elena Sanchez:**

Thank you, Naveen. Also a few questions on operating expenses. What were the reasons behind the increase in OPEX Q on Q by 20% while at the same time volume growth was weak as well as fee income.

**Naveen Kumar Rajanala:**

Yes. So, in terms of operating costs, typically our run rate has been, if we look at the last five to six quarters, it's been around the KD 22mn to KD 24mn mark. And we expect to be at that level. Although mathematically it's gone up by 20%, as we talked about in the past we are investing in digital so that is one area that we will be spending some more. I think it's at the expected level at run rate of about KD 23mn - KD 24mn.

**Elena Sanchez:**

Thank you. Another question on the mortgage law. If there is any update on that front?

**Naveen Kumar Rajanala:**

Obviously, we've discussed mortgage law quite a bit in the previous calls. So, we haven't seen any new update as such on the mortgage law. I think it's still being worked upon. So probably clarity will be there by the end of the year.

**Raed Al-Haqhaq:**

Absolutely, Naveen. It has been proposed, as you know. All of the banks giving their feedback, whether they are conventional or Islamic banks. And we are waiting for the final decision on that.

**Elena Sanchez:**

A few questions as well on the provisioning outlook. If you could give some guidance on the cost of risk for 2021 and 2022?

**Naveen Kumar Rajanala:**

As Mr. Raed said, I think obviously we've seen a spike in the first couple of quarters but we don't expect it to be that elevated for the rest of the two quarters. As we see now, we expect cost of this in 2022 to be lower. Obviously, these days with the pandemic things evolve so quickly, the messaging changes so quickly. It's a bit difficult to say with any degree of confidence that it's going to be definitely below 1% or so, but again it's something that as we see now we expect it to be lower than this year.

But assuming that things pan out the way everybody is expecting to with much of life returning to normal, depending on those factors and if those go as per plan, we expect cost of risk to be lower. It's difficult to give a number at this stage.

**Elena Sanchez:**

Thank you, Naveen. Also, a question on loan growth. What are your expectations for credit growth in the second half of this year?

**Naveen Kumar Rajanala:**

Yes, I think year on year we typically expect growth to be about 4% to 5% in the Kuwait franchise and that still holds. And I think we still expect that sort of growth, obviously given the right opportunities within the market. We don't expect growth on our international front, so that book might be static to slightly declining. But we expect Kuwait to grow at 4% to 5%.

**Elena Sanchez:**

Okay, thank you Naveen. A couple of questions from me if I may. One of them is if there is any update on the sale of the Iraqi subsidiary? Or whether it's still pending regulatory approvals. And also, if you could give an update on Turkey, on the recent credit quality trends. Thank you.

**Raed Al-Haqhaq:**

I'll cover that, Elena. As far as the BoB sale, we are in negotiation with the other buyers. Now we have short listed them and Mr. Naveen is handling this exercise. We are hoping that by the third quarter we will finalize the negotiation and then approach the regulator again. This will have an impact as you know to the NPL ratio of the overall group.

As far as Turkey, we are monitoring them. The performance has been improving quarter on quarter and the market has stabilized. As far as the exposure, as you know we continue to be hedged and this is safeguarding our CET1 and our core equity as a whole.

**Elena Sanchez:**

Okay, thank you. so far as we have no more questions in the queue. We'll just pause for a minute in case we receive further questions. Thank you.

**Raed Al-Haqhaq:**

Absolutely.

**Elena Sanchez:**

We have no further questions in the queue, so I would like to thank Burgan Bank's management, Mr. Raed and Mr. Naveen, for their time today

and I will hand it over to you in case you have any closing remarks. Mr. Raed?

**Raed Al-Haqhaq:**

I really appreciate your support and help in all of the investor calls, and this one. Please if you have any questions, reach us, we are always available and looking forward to meeting you or having this call again on the third quarter. Go ahead, Naveen.

**Naveen Kumar Rajanala:**

Yes, you've covered it all. Again, thank you all for joining the call.