

# BURGAN BANK GROUP

## INVESTOR PRESENTATION

1<sup>ST</sup> HALF 2018



# TABLE OF CONTENTS

<b>Contents</b>	<b>Page</b>
<b>Macro Environment Reading</b>	<b>3</b>
<b>Group Financial Performance</b>	<b>5</b>
<b>Market Positioning</b>	<b>12</b>
<b>Summary</b>	<b>14</b>

# MACRO ENVIRONMENT READING

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# OUR READING FOR 2018: RISKS CONTINUE RISING MODERATELY, AS ANTICIPATED...

	Risks	Region	Probability(%)	Market impact	Likely reaction
UPSIDE	1) <b>US:</b> tax cuts significantly increase profit repatriation and investment; infrastructure spending plans implemented in full; continued Fed normalization.	US	25	BULL (GLOBAL)	1) <b>Economy:</b> higher growth, employment and inflation supported by a) increased investment; b) rising infrastructure spending. 2) <b>Banking:</b> higher lending and deregulation.
	2) <b>EU:</b> successful EU reform, increased fiscal spending (led by Germany).	EU	15	BULL (EU)	1) <b>Economy:</b> France and Germany support increased government spending in S. Europe in exchange for reforms and first few steps towards issuing Eurobonds. 2) <b>Banking:</b> higher lending.
	3) <b>GCC:</b> most countries successfully implement revenue-raising taxes (including VAT) and succeed in reducing subsidies.	MENAT/ GCC	10	BULL (GCC)	1) <b>Economy:</b> growth, lower budget deficit/higher budget surplus, reduced dependence on natural resources, higher government investment. 2) <b>Banking:</b> higher lending.
	4) <b>GCC:</b> successful resolution of the Qatar crisis. GCC regains strength as an institution.	MENAT/ GCC	20	BULL (GCC)	1) <b>Economy:</b> intraregional trade flows and joint investment programs resume. Adoption of common taxation regulation. 2) <b>Banking:</b> resume lending to Qatar institutions, reduce allocation to safety assets.
	5) <b>Algeria:</b> success of diversification efforts and regulatory changes on business environment, labor market, and foreign investment.	MENAT	10	BULL (ALGERIA)	1) <b>Economy:</b> growth, increase in private and foreign investment, reduced dependence on natural resources, appreciation of DZD. 2) <b>Banking:</b> higher lending
DOWNSIDE	1) <b>Global:</b> declining liquidity (from USD +363bn in 2018 to -300bn in 2019) triggers a market crash.	GLOBAL	30	BEAR (GLOBAL)	1) <b>Economy:</b> potential correction/bear market, decline in credit to the economy due to rising interest rates, lower EMs growth; periphery-to-core capital flows 2) <b>Banking:</b> defensive portfolio allocation (liquid assets and safer sectors / companies), reduced lending
	2) <b>Global:</b> Trump policies increase protectionism and trigger global trade wars.	GLOBAL	25	BEAR (GLOBAL)	1) <b>Economy:</b> disruption of confidence and trade; lower global growth. 2) <b>Banking:</b> defensive portfolio allocation; reduced lending.
	3) <b>Global:</b> China hard landing.	GLOBAL	15	BEAR (GLOBAL)	1) <b>Economy:</b> disruption of confidence and trade; periphery-to-core capital flows. 2) <b>Banking:</b> defensive portfolio allocation; reduced lending
	4) <b>Regional:</b> sanctions on Iran trigger escalation of regional tension involving US, Iran, Saudi Arabia, Syria and Russia.	GLOBAL	15	BEAR (GLOBAL)	1) <b>Economy:</b> disruption of confidence and trade; lower growth; higher oil prices. 2) <b>Banking:</b> defensive portfolio allocation; reduced lending.
	5) <b>EMs:</b> currency crises	EMs	15	BEAR (EMs)	1) <b>Economy:</b> inflation, currency depreciation, capital outflows. 2) <b>Banking:</b> hedge local currencies out of the money forward; focus on cash-flow.
	6) <b>GCC:</b> Qatar crisis tensions increase within the GCC.	MENAT/ GCC	15	BEAR (GCC)	1) <b>Economy:</b> declining investment; volatility of oil prices. 2) <b>Banking:</b> hedge local currencies out of the money forward; focus on cash-flow.
	7) <b>MENAT:</b> Opec deal broken, oil <40 USD/bbl.	MENAT/ GCC	15	BEAR (MENAT)	1) <b>Economy:</b> lower growth; declining investment; higher budget deficit and debt. 2) <b>Banking:</b> defensive portfolio allocation.
	8) <b>MENAT:</b> social unrest Tunisia, Algeria, and Iraq.	MENAT/ GCC	15	BEAR (MENAT)	1) <b>Economy:</b> lower growth, declining investment. 2) <b>Banking:</b> hedge local currencies out of the money forward; focus on cash-flow
	9) <b>Turkey:</b> rising inflation and reliance on short term external financing; TRY depreciation.	TURKEY	15	BEAR (TURKEY)	1) <b>Economy:</b> lower growth, risk to foreign capital inflows, depreciation of TRY. 2) <b>Banking:</b> likely to cut lending rates after the regulator's proposal.

# GROUP FINANCIAL PERFORMANCE



# A STRONG 2<sup>ND</sup> QUARTER, ABOVE TRAJECTORY...

As Reported - KD'mn				Q2'17	Q2'18	Growth	As Reported - US\$'mn				Q2'17	Q2'18	Growth
Income Statement	Net Interest Income	44	46	+6%	Net Interest Income	145	154	+6%					
	Non Interest Income	23	32	+42%	Non Interest Income	75	107	+42%					
	<b>Operating Income</b>	<b>67</b>	<b>79</b>	<b>+18%</b>	<b>Operating Income</b>	<b>220</b>	<b>261</b>	<b>+18%</b>					
	Operating Expense	(24)	(27)	+11%	Operating Expense	(80)	(90)	+12%					
	<b>Operating Profit</b>	<b>42</b>	<b>52</b>	<b>+22%</b>	<b>Operating Profit</b>	<b>140</b>	<b>171</b>	<b>+22%</b>					
	Provision for Loans	(4)	(9)	+104%	Provision for Loans	(14)	(29)	+105%					
	CBK Precautionary Provisions	(5)	(9)	+82%	CBK Precautionary Provisions	(17)	(30)	+82%					
	Other Provisions	(9)	0.4	n.m.	Other Provisions	(28)	1	n.m.					
	<b>Net Income<sup>(1)</sup> before AT1 cost</b>	<b>21</b>	<b>30</b>	<b>+43%</b>	<b>Net Income<sup>(1)</sup> before AT1 cost</b>	<b>69</b>	<b>100</b>	<b>+44%</b>					
	<b>Net Income<sup>(1)</sup> after AT1 cost</b>	<b>18</b>	<b>27</b>	<b>+50%</b>	<b>Net Income<sup>(1)</sup> after AT1 cost</b>	<b>60</b>	<b>91</b>	<b>+50%</b>					
	Balance Sheet	<b>Customers Loans</b>	<b>4,427</b>	<b>4,243</b>	<b>(4%)</b>	<b>Customers Loans</b>	<b>14,611</b>	<b>14,014</b>	<b>(4%)</b>				
Customers Deposits		3,930	3,901	(1%)	Customers Deposits	12,970	12,883	(1%)					
Total Equity		724	743	+3%	Total Equity	2,388	2,453	+3%					
KPI's	NIM's <sup>(2)</sup>	2.6%	2.9%	+30 bps	NIM's <sup>(2)</sup>	2.5%	2.9%	+40 bps					
	Cost to Income	36.5%	34.4%	(210 bps)	Cost to Income	36.4%	34.4%	(210 bps)					
	Cost of Credit	0.8%	1.7%	+80 bps	Cost of Credit	0.8%	1.7%	+80 bps					
	ROTE <sup>(3)</sup>	12.6%	18.3%	+580 bps	ROTE <sup>(3)</sup>	12.7%	18.3%	+570 bps					
	NPL Ratio	4.3%	2.8%	(150 bps)	NPL Ratio	4.3%	2.8%	(150 bps)					
	CAR	16.3%	16.6%	+30 bps	CAR	16.3%	16.6%	+30 bps					

(1) Net Income attributed to equity holders; (2) NIM's based on EOP Interest Earning Assets; (3) ROTE after AT1 cost.

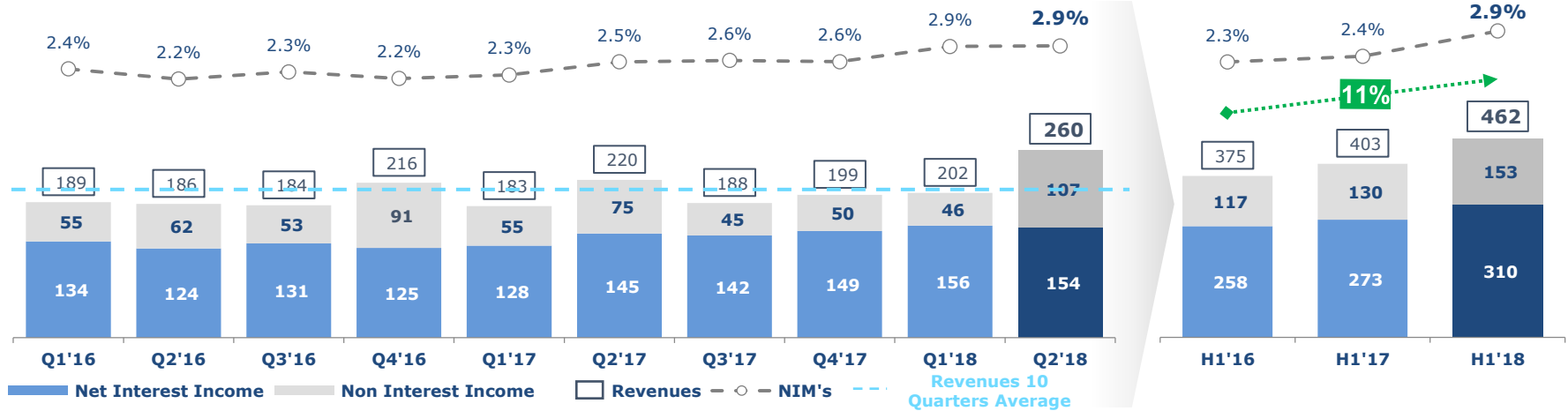
# DELIVERING A VERY SOLID FIRST HALF...

As Reported - KD'mn				H1'17	H1'18	Growth	As Reported - US\$'mn				H1'17	H1'18	Growth
Income Statement	Net Interest Income	83	93	+12%	Net Interest Income	273	310	+13%					
	Non Interest Income	40	46	+16%	Non Interest Income	130	153	+17%					
	<b>Operating Income</b>	<b>123</b>	<b>139</b>	<b>+13%</b>	<b>Operating Income</b>	<b>403</b>	<b>462</b>	<b>+15%</b>					
	Operating Expense	(51)	(55)	+8%	Operating Expense	(168)	(183)	+9%					
	<b>Operating Profit</b>	<b>72</b>	<b>84</b>	<b>+18%</b>	<b>Operating Profit</b>	<b>235</b>	<b>279</b>	<b>+19%</b>					
	Provision for Loans	(8)	(18)	+129%	Provision for Loans	(25)	(58)	+132%					
	CBK Precautionary Provisions	(8)	(10)	+26%	CBK Precautionary Provisions	(26)	(33)	+26%					
	Other Provisions	(9)	1	n.m.	Other Provisions	(28)	3	n.m.					
	<b>Net Income<sup>(1)</sup> before AT1 cost</b>	<b>39</b>	<b>51</b>	<b>+30%</b>	<b>Net Income<sup>(1)</sup> before AT1 cost</b>	<b>128</b>	<b>168</b>	<b>+31%</b>					
	<b>Net Income<sup>(1)</sup> after AT1 cost</b>	<b>33</b>	<b>45</b>	<b>+35%</b>	<b>Net Income<sup>(1)</sup> after AT1 cost</b>	<b>110</b>	<b>150</b>	<b>+37%</b>					
	Balance Sheet	<b>Customers Loans</b>	<b>4,427</b>	<b>4,243</b>	<b>(4%)</b>	<b>Customers Loans</b>	<b>14,611</b>	<b>14,014</b>	<b>(4%)</b>				
Customers Deposits		3,930	3,901	(1%)	Customers Deposits	12,970	12,883	(1%)					
Total Equity		724	743	+3%	Total Equity	2,388	2,453	+3%					
KPI's	NIM's <sup>(2)</sup>	2.4%	2.9%	+50 bps	NIM's <sup>(2)</sup>	2.4%	2.9%	+50 bps					
	Cost to Income	41.7%	39.5%	(210 bps)	Cost to Income	41.6%	39.5%	(210 bps)					
	Cost of Credit	0.7%	1.3%	+60 bps	Cost of Credit	0.7%	1.3%	+60 bps					
	ROTE <sup>(3)</sup>	11.3%	14.7%	+340 bps	ROTE <sup>(3)</sup>	11.3%	14.7%	+340 bps					
	NPL Ratio	4.3%	2.8%	(150 bps)	NPL Ratio	4.3%	2.8%	(150 bps)					
	CAR	16.3%	16.6%	+30 bps	CAR	16.3%	16.6%	+30 bps					

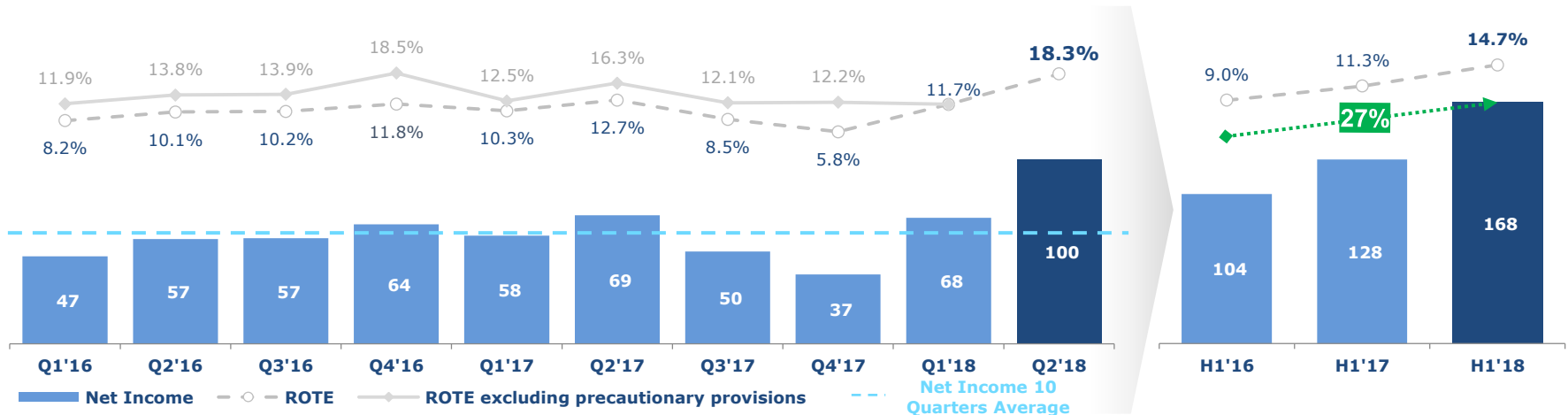
(1) Net Income attributed to equity holders; (2) NIM's based on EOP Interest Earning Assets; (3) ROTE after AT1 cost.

# WITH A CONTINUED MOMENTUM OF GROWTH...

## Revenues & Margins<sup>(1)</sup> | USD mn,%



## Net Income Attributed to Equity Holders<sup>(2)</sup> & ROTE<sup>(3)</sup> | USD mn,%



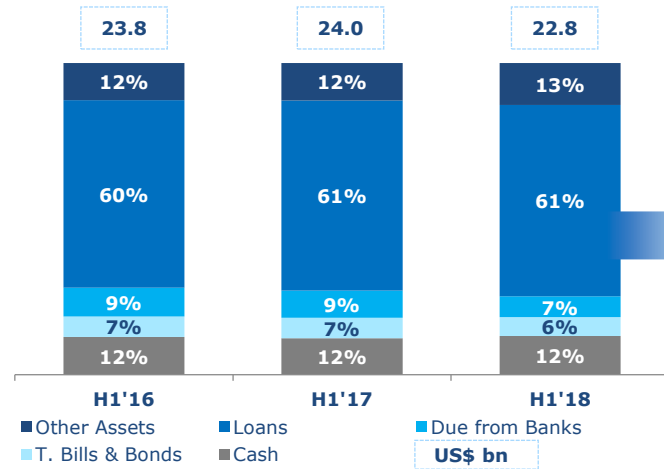
(1) NIM's based on EOP Interest Earning Assets; (2) Net Income attributed to equity holders before AT1 cost; (3) ROTE after AT1 cost and open shareholders equity.



# SUPPORTED BY A STABLE BALANCE SHEET WITH A WELL-MANAGED PORTFOLIO ...

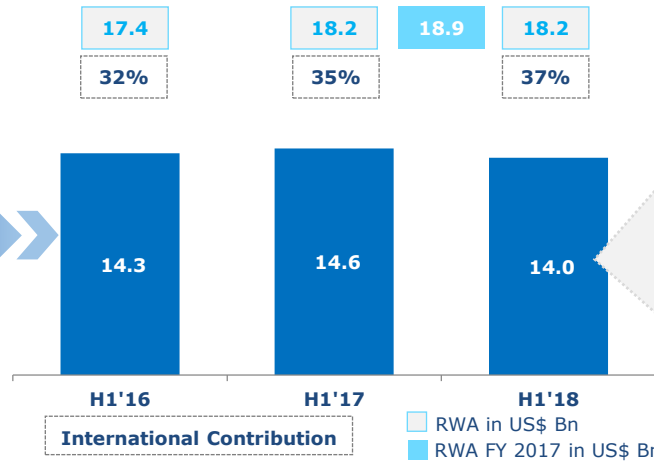
## Asset Mix

Stable asset mix driven by loans...

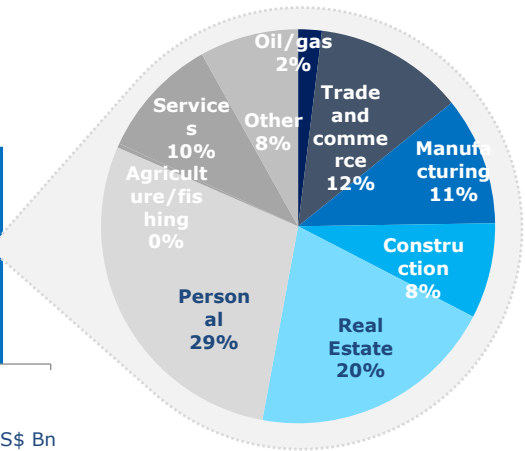


## Customers Loans | USD bn,%

With international operations loans growing at 2%

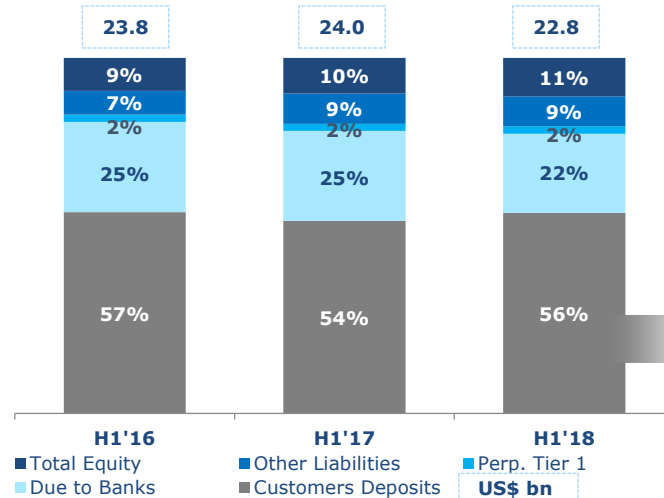


## Customers Loans by Sector | Q2'18



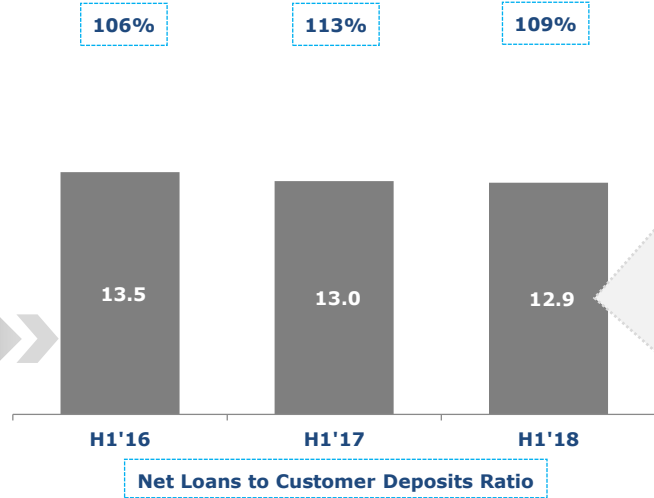
## Funding Mix

Funding mix focusing on customer deposits...

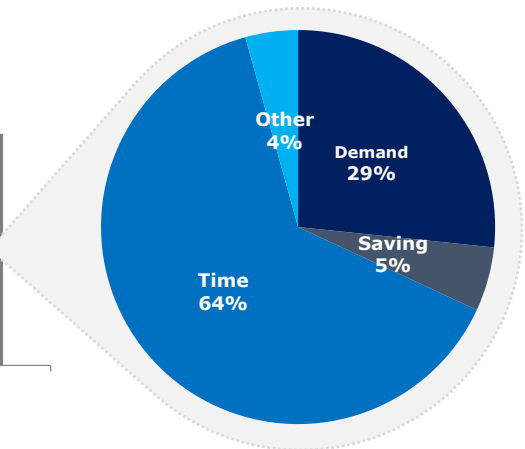


## Customers Deposits | USD bn,%

... with time deposits reaching 64% and CASA ratio at 33%

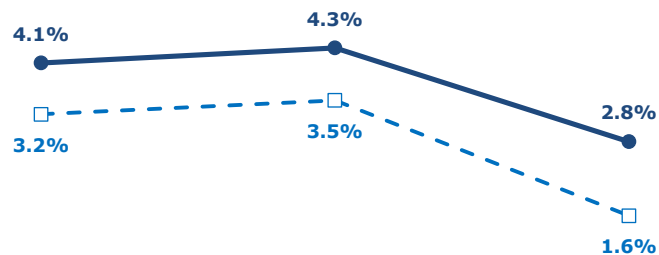


## Customers Deposits by Type | Q2'18



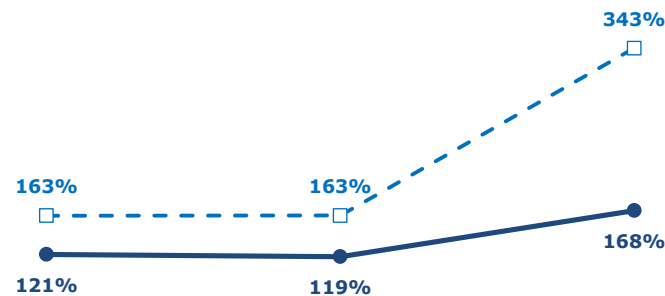
# WITH IMPROVED ASSET QUALITY AND COMFORTABLE CAPITAL LEVELS...

## NPL Ratios | %



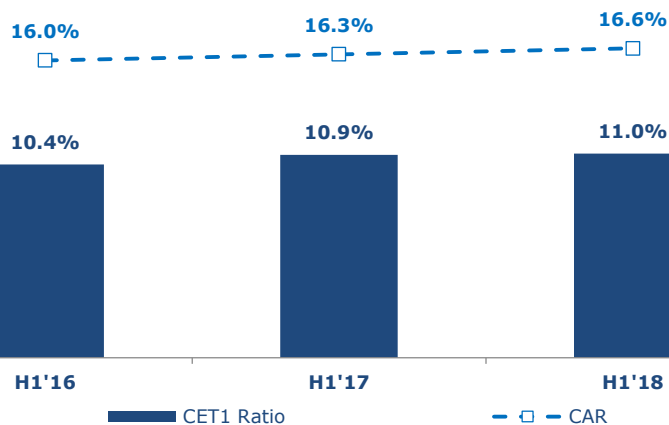
H1'16 H1'17 H1'18  
 ● Group NPL Ratio      □ Kuwait NPL Ratio

## NPL Coverage Ratios | %



H1'16 H1'17 H1'18  
 ● Group NPL Coverage Ratio      □ Kuwait Coverage Ratio

## Capitalization | %

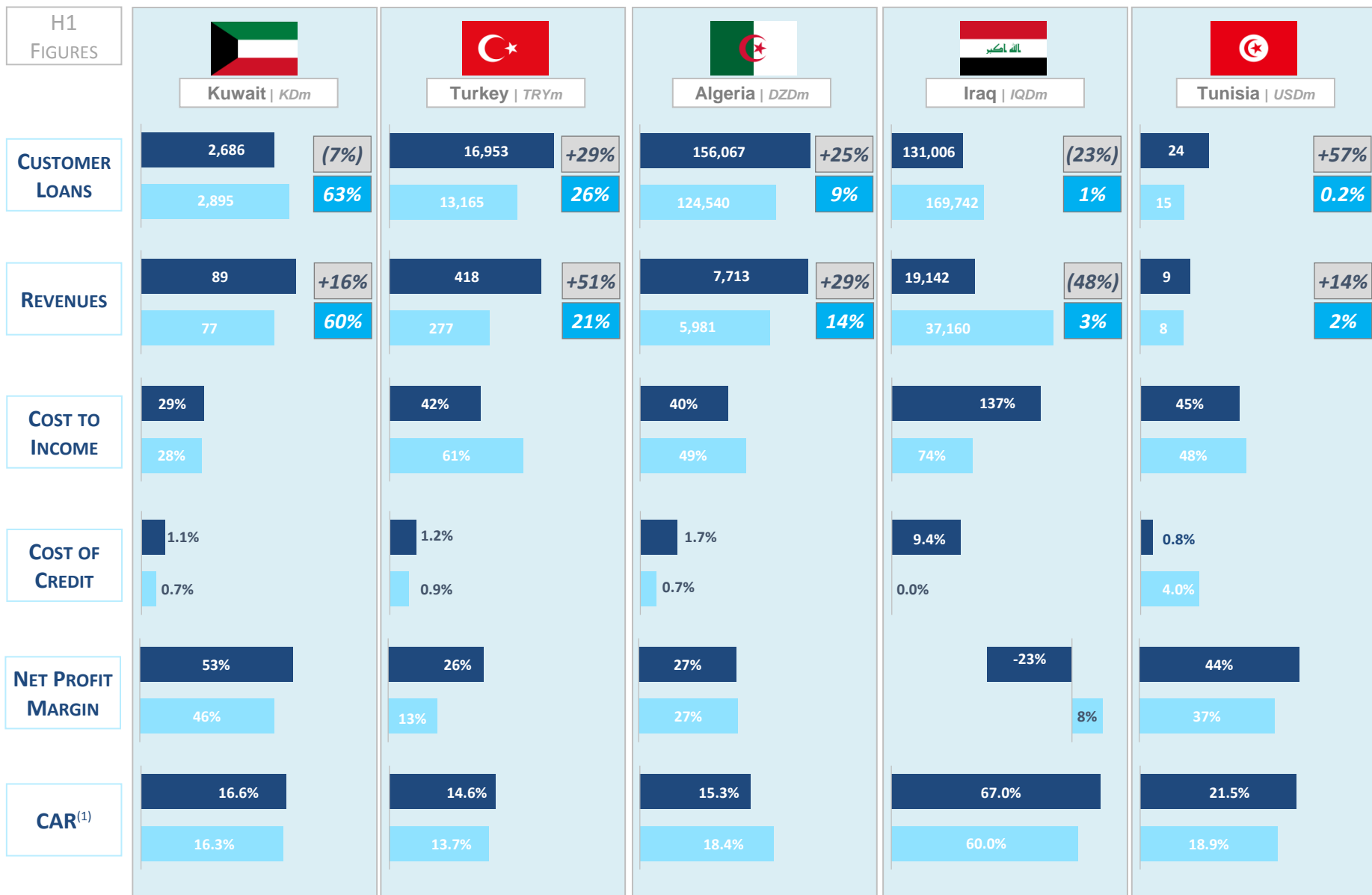


■ CET1 Ratio      □ CAR

## Management Commentary

- NPL ratio declined in Q2 2018 driven by proactive risk management and write offs of fully provided loans in Kuwait and international operations.
- NPL cash coverage ratio reached 168% as of Q2 2018 because of write offs and replenishing precautionary provisions.
- Capital levels are in a comfortable position, with CET1 at 11% and CAR at 16.6% above target levels.

# WITH SUBSIDIARIES COLLECTIVELY DRIVING PERFORMANCE...



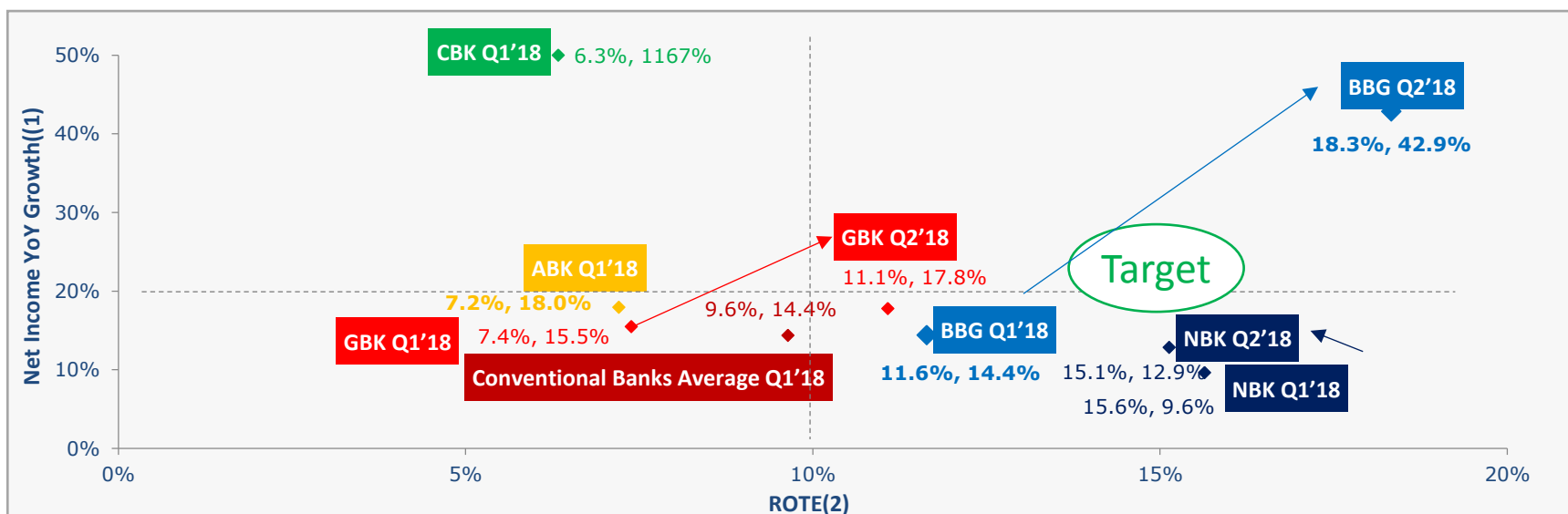
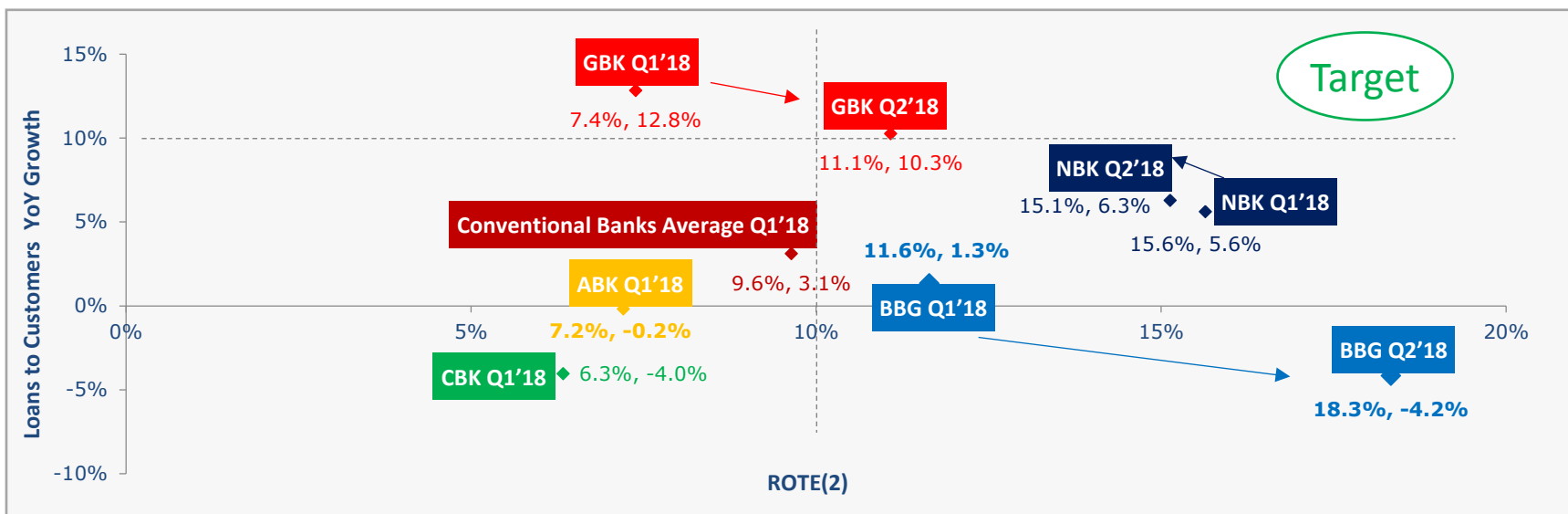
■ H1'18 Growth in Local Currency ■ H1'18 Contribution ■ H1'18 Figures ■ H1'17 Figures 11

(1) Based on CBK reporting and Kuwait CAR is for the Group. Note: Subsidiaries figures before consolidation adjustments.

# MARKET POSITIONING



# BURGAN BANK STILL HAS COMPETITIVE METRICS AMONGST PEERS, WHICH HAS AMPLE CAPITAL...



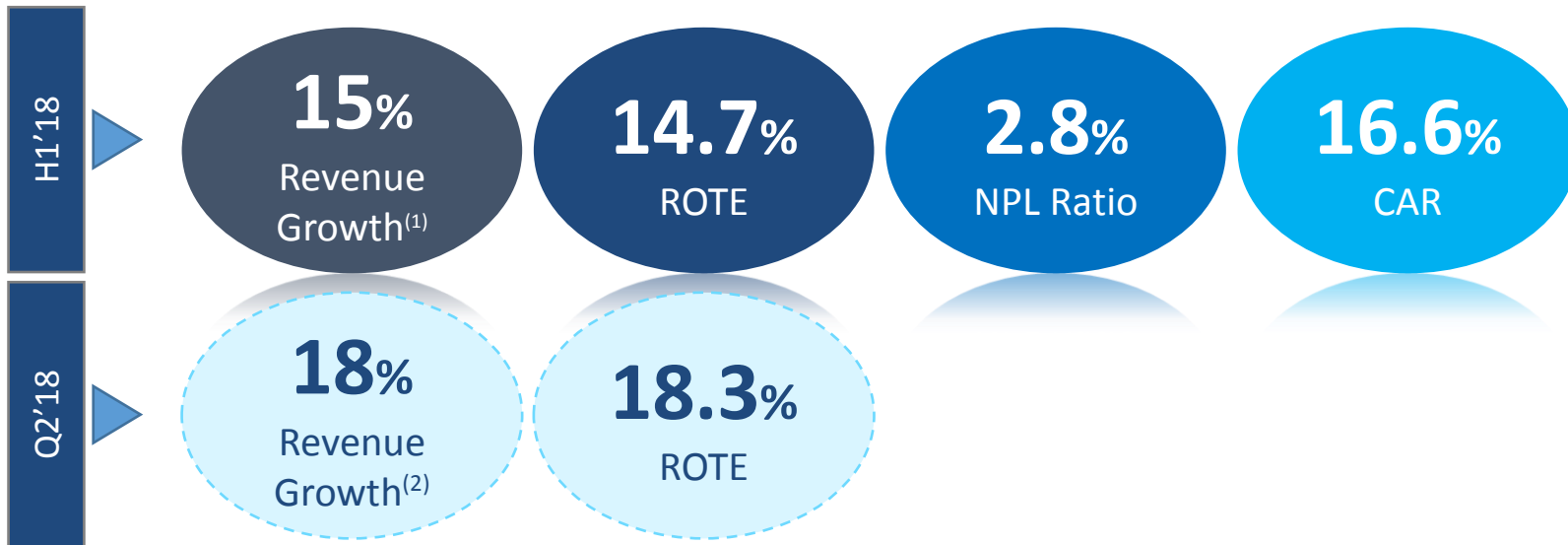
(1) Net Income attributed to equity holders before AT1 cost (2) Net Income attributed to equity holders after AT1 cost and based on open shareholders equity which is Dec'17.

Source: Companies Financials and Bloomberg database. Note: as of 22/07/2018, CBK and ABK didn't announce their Q2 2018 results.

# SUMMARY



## KEY TAKEAWAYS



**1**  
STRONG  
DELIVERY ABOVE  
TRAJECTORY

**2**  
SOLID BUSINESS  
MODEL WITH  
FOCUS ON  
RETURNS

**3**  
BUSINESS  
PIPELINE READY  
FOR NEXT WAVE  
OF GROWTH

(1) H1'18 vs H1'17 growth rate; (2) Q2'18 vs Q2'17 growth rate.

**THANK YOU**





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## INVESTOR RELATIONS

Contact details below for any enquiries related to Burgan Bank K.P.S.C. and Subsidiaries;

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## Foreign Exchange Rates

KWD:US\$ End Period: (Q2'18) 3.303, (Q1'18) 3.336, (Q4'17) 3.314, (Q3'17) 3.310, (Q2'17) 3.300, (Q1'17) 3.281.

KWD:US\$ Average: (Q2'18) 3.303, (Q1'18) 3.336, (Q4'17) 3.314, (Q3'17) 3.310, (Q2'17) 3.300, (Q1'17) 3.278.