بنك الخليج
GULF BANK

Kuwait, 17 August 2020

Boursa Kuwait
<u>State of Kuwait</u>

<u>Subject: Gulf Bank's Disclosure on the details of Analysts/Investors Conference For Q1 & Q2, 2020</u>

Dear Sirs,

This is made pursuant to the provisions of Clause (4) Article (8-4-2) of Boursa Kuwait rules under Resolution No. (1) of 2018, after Gulf Bank was classified under Primary Markets.

We would like to advise3 you that Gulf Bank held an Analysts/Investors Conference for Q1 & Q2, 2020 held via Live Webcast at 1:00 p.m. (Kuwait Local Time) on Sunday 16/8/2020.

Attached is the Analyst Conference Call Presentation and the Analyst Conference Minutes/Script of the Call for Q1 & Q2, 2020.

We would like to assure you our continuous cooperation

Best Regards,

Jihad Khodr
Assistant General Manager
Head of Compliance & Disclosure Unit

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GULF BANK

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60 GROWING WITH YOU SINCE 1960

Gulf Bank

Earnings Presentation

1st Half 2020

16 August 2020

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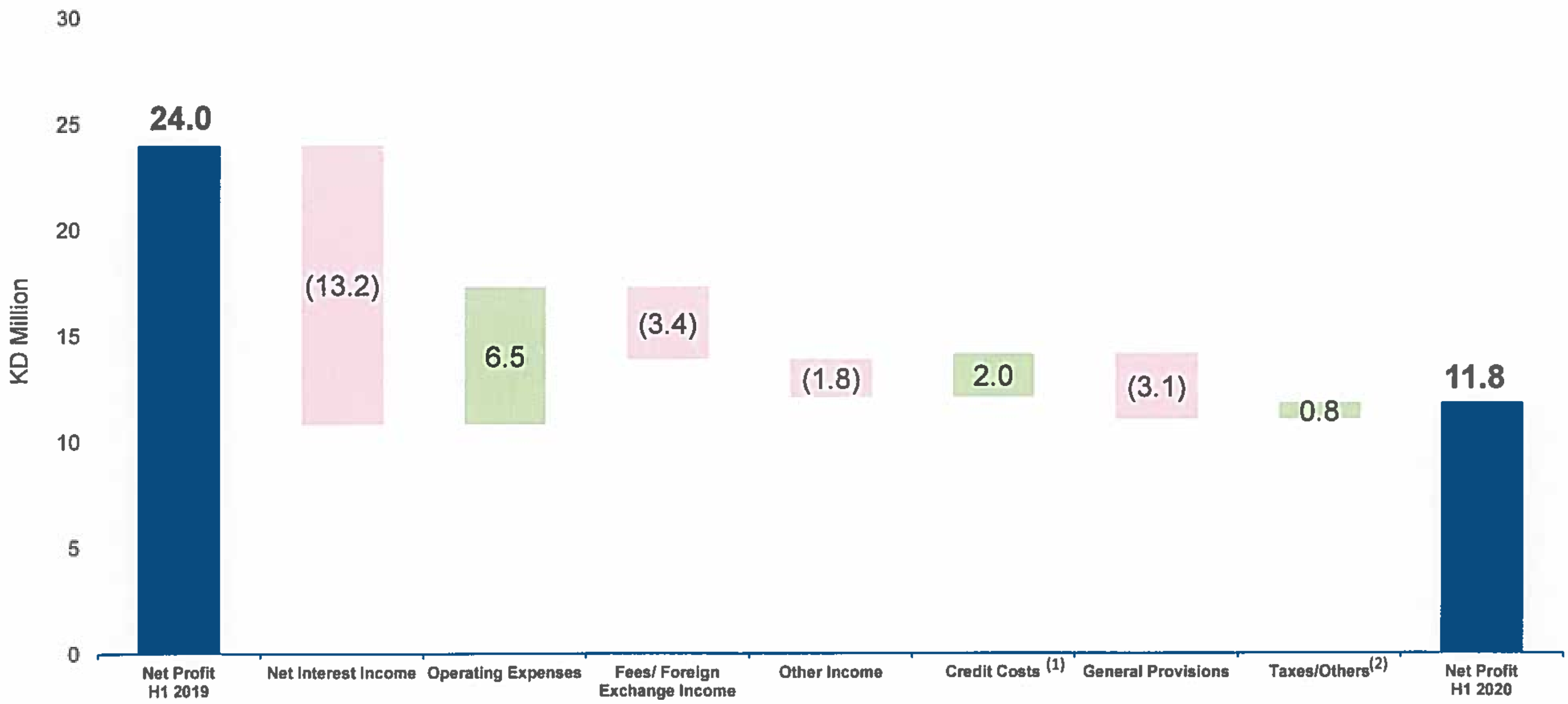
H1’20 Net Profit vs. H1’19 Net Profit



(1) Credit Costs includes specific provisions, recoveries and write offs
(2) Taxes/Others includes other provisions & impairments, taxes and contributions.

Income Statement

	KD Millions	Q1 2019A	Q1 2020A	Q1 20A vs Q1 19A		Q2 2019A	Q2 2020A	Q2 20A vs Q2 19A		H1 2019A	H1 2020A	H1 20A vs H1 19A	
				Amt	%			Amt	%			Amt	%
1	Interest Income	63.7	58.0	(5.7)	-9%	64.4	55.2	(9.2)	-14%	128.1	113.3	(14.9)	-12%
2	Interest Expense	(26.2)	(29.1)	(3.0)	-11%	(27.5)	(22.8)	4.7	17%	(53.7)	(52.0)	1.7	3%
3	**Net Interest Income**	**37.6**	**28.9**	**(8.7)**	**-23%**	**36.9**	**32.4**	**(4.5)**	**-12%**	**74.5**	**61.3**	**(13.2)**	**-18%**
4	Fees/ FX	8.9	8.8	(0.0)	0%	9.6	6.3	(3.4)	-35%	18.5	15.1	(3.4)	-18%
5	Other Income	0.8	0.6	(0.2)	-27%	1.8	0.2	(1.6)	-87%	2.6	0.8	(1.8)	-68%
6	**Operating Income**	**47.2**	**38.3**	**(8.9)**	**-19%**	**48.3**	**38.9**	**(9.4)**	**-20%**	**95.6**	**77.2**	**(18.4)**	**-19%**
7	Operating Expenses	(21.6)	(18.7)	2.8	13%	(18.3)	(14.7)	3.6	20%	(39.9)	(33.5)	6.5	16%
8	**Operating Margin**	**25.7**	**19.6**	**(6.1)**	**-24%**	**30.0**	**24.2**	**(5.8)**	**-19%**	**55.7**	**43.7**	**(11.9)**	**-21%**
9	Credit Costs (1)	(13.9)	(7.3)	6.6	47%	(16.5)	(21.0)	(4.5)	-27%	(30.4)	(28.4)	2.0	7%
10	General Provisions	0.9	(3.3)	(4.2)	-476%	(0.5)	0.5	1.1	203%	0.3	(2.8)	(3.1)	-893%
11	Other Provisions/Impairments	(0.3)	0.1	0.4	127%	(0.2)	(0.4)	(0.2)	-103%	(0.5)	(0.3)	0.2	39%
12	Taxes/ Other	(0.6)	(0.4)	0.1	27%	(0.6)	(0.1)	0.4	74%	(1.1)	(0.6)	0.6	51%
13	**Net Profit**	**11.8**	**8.6**	**(3.2)**	**-27%**	**12.2**	**3.2**	**(9.0)**	**-74%**	**24.0**	**11.8**	**(12.2)**	**-51%**
14	Return on Assets (ROA) %	0.8%	0.5%			0.8%	0.2%			0.8%	0.4%		
15	Return on Equity (ROE) %	7.7%	5.3%			7.9%	2.1%			7.8%	3.7%		
16	Net Interest Margin (NIM) %(2)	2.6%	1.8%			2.5%	2.1%			2.5%	2.0%		
17	Cost to Income Ratio (CIR) %	45.7%	48.9%			38.0%	37.9%			41.8%	43.4%		
18	Cost of Risk (COR) %(3)	1.3%	0.6%			1.6%	1.9%			1.4%	1.3%		

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

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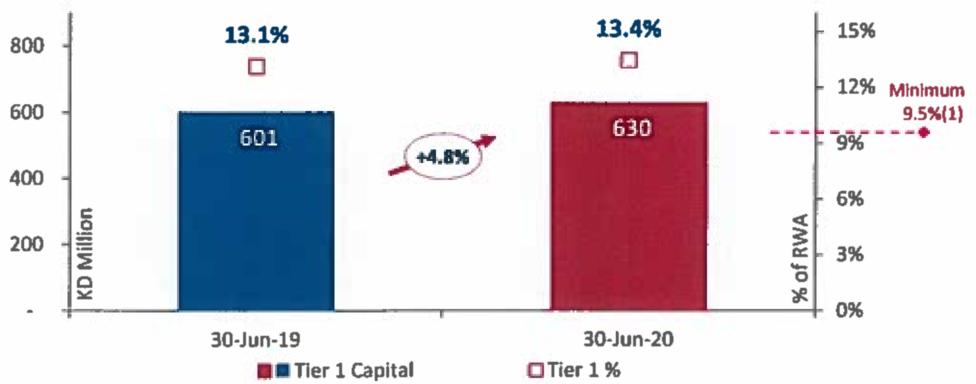
Balance Sheet

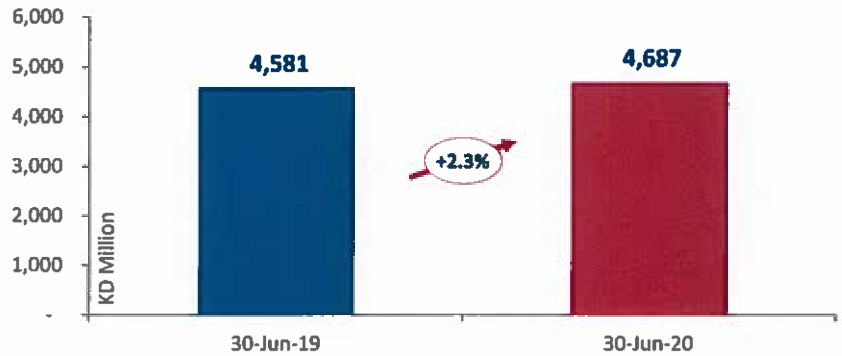
	KD Millions	30-Jun-19	% of Total	30-Jun-20	% of Total	Var Jun 20 vs Jun 19	
						Amount	%
	ASSETS						
1	Cash and cash equivalents	848	14%	812	13%	-36	-4%
2	Kuwait Government Bonds	327	5%	166	3%	-161	-49%
3	CBK Bills	284	5%	280	5%	-4	-2%
4	Deposits with banks and OFIs	161	3%	56	1%	-105	-65%
5	**Liquid Assets**	**1,619**	**27%**	**1,313**	**22%**	**-306**	**-19%**
6	Loans and advances to customers	3,955	66%	4,189	70%	234	6%
7	Loans and advances to banks	134	2%	206	3%	72	54%
8	**Net Loans**	**4,089**	**68%**	**4,395**	**73%**	**306**	**7%**
9	**Investment securities**	**154**	**3%**	**165**	**3%**	**11**	**7%**
10	Other assets	112	2%	117	2%	5	5%
11	Premises and equipment	37	1%	35	1%	-2	-5%
12	**Other assets**	**149**	**2%**	**153**	**3%**	**4**	**2%**
13	TOTAL ASSETS	6,011	100%	6,025	100%	14	0%
	LIABILITIES						
14	Due to banks	506	8%	434	7%	-71	-14%
15	Deposits from FIs	842	14%	874	15%	32	4%
16	Customer deposits	3,804	63%	3,916	65%	111	3%
17	Subordinated Tier II Bonds	100	2%	100	2%	0	0%
18	Other liabilities	134	2%	102	2%	-33	-24%
19	**TOTAL LIABILITIES**	**5,386**	**90%**	**5,426**	**90%**	**40**	**1%**
20	**Total Equity**	**625**	**10%**	**599**	**10%**	**-26**	**-4%**
21	TOTAL LIABILITIES AND EQUITY	6,011	100%	6,025	100%	14	0%
22	Average assets	5,955		6,235		280	5%
23	Average equity	622		634		12	2%
24	NPL ratio (Dec'19 1.1%), (Mar'20 1.5%)	2.7%		2.2%			
25	Coverage ratio (Dec'19 602%), (Mar'20 465%)	288%		325%			

Capital and Leverage Ratios

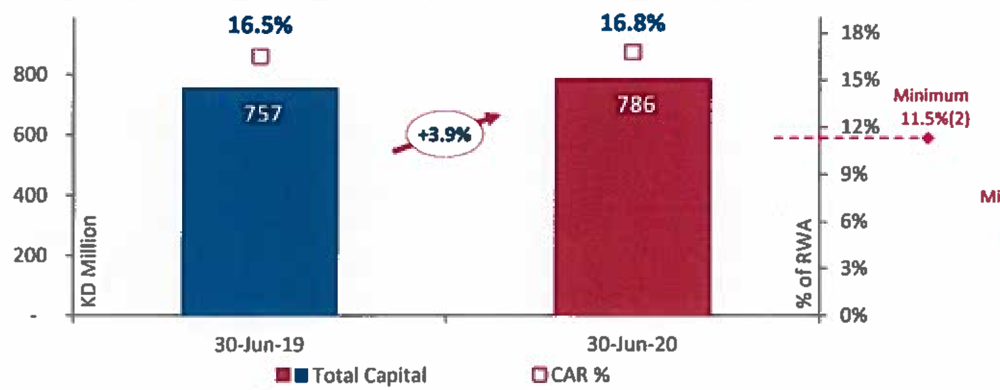
Tier I Capital[3]



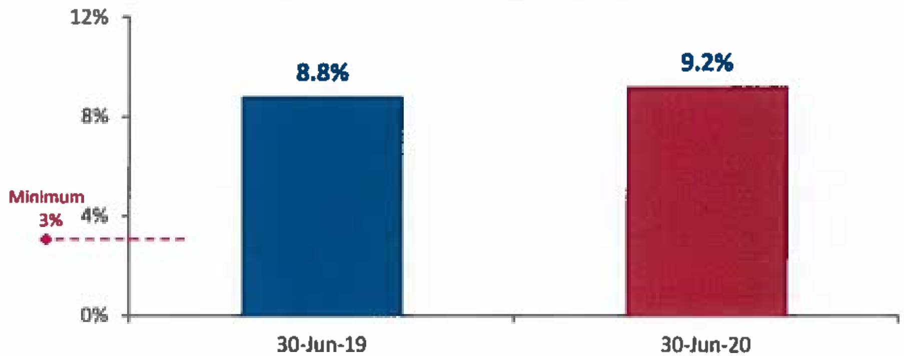
Risk Weighted Assets



Total Capital[3]

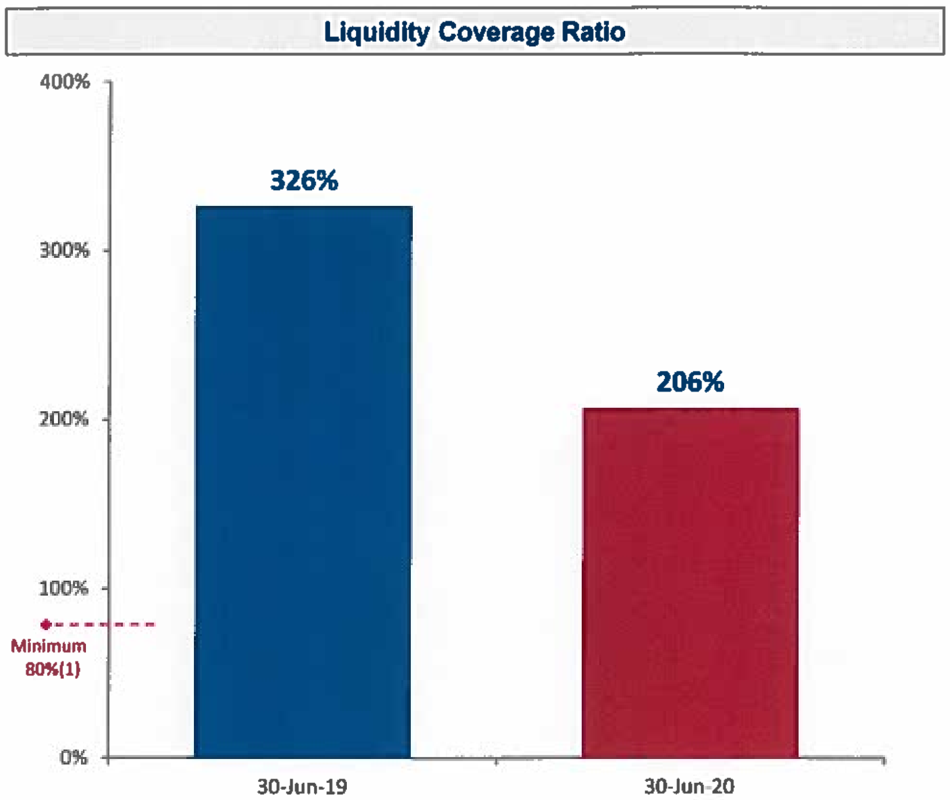


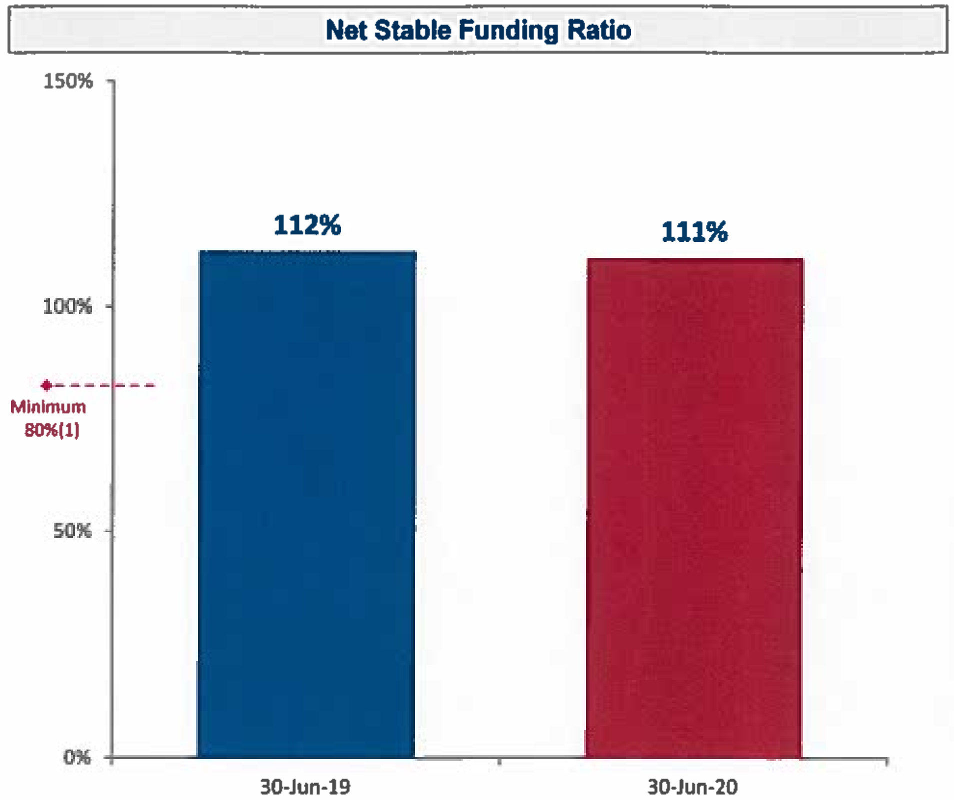
Leverage Ratio



% Tier 1	79%	80%

Liquidity Ratios





(1) Liquidity Coverage Ratio and Net Stable Funding Ratio regulatory minimums have been changed from 100% to 80% and are in place until 31 Dec 2020.

Credit Ratings

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

Q&A

Gulf Bank

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Gulf Bank of Kuwait

Earnings Conference Call Edited Script – H1 2020

16 August 2020

Corporate Participants:

Mr. Antoine Daher – CEO

Mr. Kevin Smith – CFO

Ms. Dalal AlDousari – Head of Investor Relations

Host:

Ms. Janany Vamadeva – Arqaam Capital

Janany: Good afternoon and good morning everyone. This is Janany Vamadeva on behalf of Arqaam Capital I would like to welcome you all to the Gulf Bank 2020 first half results conference call. It is a great pleasure to have with us on the call Mr. Antoine 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 and then we will open the call for the Q&A session. I will now turn the call over to Dalal.

Dalal: Thank you, Janany. Good Afternoon and Welcome to Gulf Bank's first half 2020 financial results conference call. We will start the call today with the key highlights of the operating environment that Gulf Bank operated in during the first half of 2020 presented by the Chief Executive Officer, Mr. Antoine 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 9** of the presentation, with respect to forward looking statements and confidential information. Please feel free to reach out to our investor relations team at investor.relations@gulfbank.com.kw if you have any questions.

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

Antoine: Thanks Dalal. Before we cover the detailed financials, I would like to make a few brief points.

It's an understatement to say that these are unprecedented times and I certainly don't want to repeat what everyone already knows and what has already been said. As it relates to our target market in Kuwait, the Central Bank of Kuwait lowered its discount rate by 125 basis points in March. By our estimates, this provides immediate cash flow relief of KD 350 million per year to corporate borrowers in the form of lower interest payments. To support retail customers, the Banking community agreed to provide cash flow relief in the form of deferring interest and principal payments from April to September of this year. Again, by our estimates, this provided cash flow relief across the industry of another KD 1 billion in the form of pushing contractual obligations out by 6 months. So, nearly 1.2 billion of cash flow relief has been provided to retail and corporate borrowers from April to September, but this comes at a cost for the Kuwait banking industry and our first half results have been impacted in direct proportion to the benefits that have been passed onto banking customers. However, the hope is that this cash flow relief provides a necessary bridge for our customers to get through this shock, allow them to fulfill their long-term obligations to us, and prevent unnecessary provisions and write-offs in the future.

For us at Gulf Bank, our focus has been on being open for business from the start by providing essential services to our corporate and retail customers in Kuwait in the safest manner possible. More specifically, our digital platforms and 24/7 call center have operated without disruption. We now have more than 40 branches or two thirds of our branch network available to serve customers and we will continue opening up as the government allows. To do this, we have adopted strict health protocols throughout all our offices and branches.

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

Kevin: Thanks Antoine.

Page 2 shows the major variances from our first half 2019 net profit of 24 million to our first half 2020 net profit of 11.8 million. As you can see, the reduction in our net profit was primarily driven by lower net interest income of 13.2 million, but 6.5 million or nearly 50% of that reduction was offset with lower operating expenses. As a result of lower activity in connection with the lockdown, our fee and foreign exchange income was down 3.4 million. Other income was down 1.8 million mainly the result of booking a non-recurring gain during the first half of 2019, but we were able to offset that with lower credit costs of 2.0 million. Finally, our H1 profit was pushed down by 3.1 million driven mainly by adding general provisions in the first quarter of 2020.

On **page 3**, you can see a more detailed breakdown of our first half 2020 and 2019 income statement line items. On the far right of line 1, interest income was down 14.9 million or 12% mainly due to the re-pricing of our 2.9 billion corporate loan portfolio after the Central Bank of Kuwait lowered its discount rate by 125 basis points and generating lower yields on our liquid assets. The good news is that liquidity conditions have turned favorable and you can see in the green boxes on line 2 that our interest expense declined by 6.3 million or 22%, from 29.1 million in the first quarter of 2020 to 22.8 million in the second quarter of 2020. So, the trend going into the third quarter is favorable and the re-pricing of our term deposits isn't fully reflected in the second quarter run-rate. On the other hand, in the red boxes on line 4, you can see that our fee and foreign exchange income dropped from 8.8 million in the first quarter of 2020 to 6.3 million in the second quarter of 2020 as the country was virtually shut down, the low point being in May. The good news is that we've seen an uplift in June and July as the country has re-opened. More good news is shown in the green boxes on line 7 where we're starting to see the impact from the actions we are taking on operating expenses. Our second quarter operating expenses were down 4 million or 21% compared with the first quarter. In the red boxes on line 9, you can see our credit costs increased from 7.3 million in the first quarter of 2020 to 21 million in the second quarter of 2020. This was mainly due to specific provisions associated with an increase in our non-performing loans in both our corporate and consumer loan segments.

Page 4 shows the balance sheet at the end of June 2020 compared with the end of June 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 27% at the end of June 2019 to 22% at the end of June 2020. This helps mitigate the impact on interest income from a lower interest rate environment. On line 6, customer loans grew by 234 million or 6% to 4.2 billion. On line 24, as mentioned previously, you can see the increase in our non-performing loan ratio from 1.1% at the end of December 2019 to 2.2% at the end of June 2020. This ratio is down from 2.7% at the end of June 2019.

Turning to **page 5**, our regulatory capital ratios remain strong. As of 30 June 2020, our Tier 1 ratio of 13.4 % was roughly 390 basis points above the regulatory minimum of 9.5% and our Capital Adequacy Ratio of 16.8% was roughly 530 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.

Also, just wanted to remind everyone the capital ratios don't include the Day 1 modification loss of 42 million or our H1 profit of 11.8 million.

On the bottom right, our leverage ratio ended at 9.2%, higher than the end of June 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 326% as of 30 June 2019 to 206% as of 30 June 2020, still well above the minimum of 80%.

On the right side of the page, our NSFR ratio as of 30 June 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 31 December 2020.

Turning to **Page 7**, you can see Gulf Bank continues to be well recognized in terms of its credit worthiness and financial strength internationally. We are still rated "A" by all four leading credit rating agencies. 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): **Please comment on your growth in the first half and what you expect in the second half. Did you see any growth in the new government loan scheme for corporate and SME customers? Kevin, can you cover this?**

Kevin (A1): Let me start with the industry. According to Central Bank of Kuwait statistics, the Consumer loan segment was flat in the first half of this year while the Corporate loan segment grew approximately 1 billion or nearly 4% during the first six months of the year, driven mainly by corporate borrowers drawing down on their existing credit lines. In contrast to the first half industry trend, we continued to grow our consumer loan portfolio and gain market share. We didn't have as much undrawn credit lines, so our corporate loans have been relatively flat during the first half.

In terms the new government loan scheme, it's too early to judge the potential, but the volume thus far for us has been extremely light.

Dalal (Q2): **There are several questions on the accounting and capital treatment of the six-month retail loan deferral.**

Kevin (A2): Let me start with the accounting treatment. As we disclosed, the first impact was recording a Day 1 loss of approximately 42 million directly to retained earnings. This Day 1 loss will be essentially offset by accruing the contractual interest for the six month period from 1st of April to 30th of September 2020 on the income statement. So, at the end of September 2020, from a retained earnings point of view, these impacts net to zero. This makes sense because our retail customers don't owe us any interest income over the six-month period, so retained earnings should not include any such income.

The capital treatment is favorable. Specifically, we are allowed to count the interest income on the P&L at the end of the year as Tier 1 capital, but the Day 1 loss to retained earnings is excluded as a deduction of Tier 1 capital. This benefit will be reduced 25% per year from 2021 until 2024.

Dalal (Q3): **What percentage of the corporate loan book has been given a six-month moratorium.**

Kevin (A3): As of the end of June, less than 10% of our KD 2.9 billion corporate loan book elected to defer principal for the six-month period from April to September 2020.

Dalal (Q4): **What have been the key drivers of your expense reductions and do you expect to sustain those reductions going forward?**

Kevin (A4): The cost reductions have been across the board, but driven mostly in staff, marketing, and third-party costs. In addition, we've been able to maintain our depreciation and occupancy costs at the same level as the first quarter. These reductions are the result of a dedicated effort across the bank to identify cost savings, but we're also making conscious decisions to free up expense capacity to invest in areas where we see opportunities to serve customers more safely and more efficiently in the long term, especially in the digital space. Regarding the second part of your question, while some of the cost reduction is related to lower activity in the second quarter and those costs will come back in the second half, we are expecting most of the reductions to carry forward into the second half.

Dalal (Q5): **Can we expect the re-pricing of loans and other assets to have been almost complete as of June 2020 and some pickup in margins in second half 2020 vs. first half 2020?**

Kevin (A5): The corporate loan re-pricing has been fully reflected in the second quarter, but the re-pricing of liquid assets and consumer loans have not been fully reflected in second quarter interest income. Having said that, we also haven't seen the full impact of the favorable liquidity conditions and we expect interest expense to continue trending down in the second half. So, going into the second half, continued pressure on yields offset by lower cost of funds.

Dalal (Q6): **As Gulf Bank has almost 40% of its loans in the retail segment (not subject to re-pricing), the market expects lower NIM compression vs. other banks with lower retail exposure. Is this a valid argument?**

Kevin (A6): Initially, this is true. However, over time, existing retail loans written at higher rates can be paid off and replaced with new loans at much lower rates, so that will cause yield compression to the extent we see that trend materialize. In addition, new retail loans will be priced at 125 basis points lower than the current portfolio, so that will add pressure to NIMs.

Dalal (Q7): **What is the exposure of your retail loan book to expatriates?**

Kevin (A7): Nearly 2/3 of our retail loan balance are to Kuwaiti nationals. Having said that, there is a heightened focus on the expatriate segment of our portfolio, and we have and will continue adding resources to monitor and optimize collections and recoveries more closely.

Dalal (Q8): **We are seeing a number of questions on the trend in non-performing loans, credit costs, and coverage?**

Kevin (A8): As I mentioned on page 4, the increase in the non-performing loans ratio across both business segments was the principal driver of the increase in our credit costs in the second quarter of 2020 vs. the first quarter of 2020. The decrease in our coverage ratio was also driven by the increase in the non-performing loans ratio over this period of time, particularly in our unsecured Consumer segment where non-performing loans initially require a 20% provision, leaving 80% of the balance uncovered. As the country opens up and collection activity fully resumes, we expect consumer non-performing loans to come down and stabilize. At that point, specific provisions would be released accordingly.

Dalal (Q9): **What is the status of the corporate account downgraded last year? Has the court case started and what is the visibility on reversing the provisions Gulf Bank took last year for this account?**

Kevin (A9): The case is still in court and the court of cassation has not rendered a decision. If we don't agree to an out of court settlement, we don't expect any recoveries on this account in 2020.

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.