الرئيس التنفيذي للمجموعة
Group Chief Executive Officer

بيت التمويل الكويتي
Kuwait Finance House

Date: 31 July 2018
18 Dhu Al-Qa'dah 1439
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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 2 / 2018

الموضوع: إفصاح بيتك عن مؤتمر المحللين الربع الثاني 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:

KFH has conducted the Analysts Conference For Q 2 / 2018 through live broadcasting on internet (Live Webcast) at 1 p.m. on Monday 30 July 2018.

Attached is the Conference Minutes of Meeting and the Investors Presentation Q2 / 2018 for your reference. A copy of the same has been submitted to Capital Markets Authority.

Best Regards,

Mazin S Al Nahedh

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

عقد بيتك مؤتمر للمحللين للربع الثاني 2018 عن طريق بث مباشر على شبكة الإنترنت وذلك في تمام الساعة 1 من بعد ظهر يوم الإثنين الموافق 30 يوليو 2018.

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

وتفضلوا بقبول فائق الإحترام.

مازن سعد الناهض

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40 عاماً من النمو 1977 - 2017

بيت التمويل الكويتي، ش.م.ك.ع | المركز الرئيسي في دولة الكويت
رقم السجل التجاري ٢٦٠٦٦ | رأس المال المدفوع ٦٣٤،٢٢٦،٢٩١/١٠٠ د.ك
ص.ب ٢٤٩٨٩، الصفاة ١٣١١٠، الكويت
ت: ٢٢٤٥٥٨٦٢ ٩٦٥+ - ٢٢٤٢٩٩٤٣ ٩٦٥+ - ف: ٢٢٤١٣٩٢٠ ٩٦٥+
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<u>Second Quarter 2018 – Kuwait Finance House Earnings Webcast Transcript</u>
<u>Monday, July 30, 2018 Time: 13:00 Kuwait Time</u>

Transcript of Kuwait Finance House earnings conference call which took place on Monday, July 30, 2018 at 13:00 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

List of attendees:
Abu Dhabi Commercial Bank
Abu Dhabi Investment Authority
Arqaam Capital
Bank Muscat
Capital Investments
Daman Investments
Dark Horse Capital
Derayah Financial
EFG Hermes
Exotix Capital
Fiera Capital
Franklin Templeton
Heisco
HSBC
Jadwa Investment
Mazars Kuwait
Moody's
National Bank of Egypt
National investments Company
NBK Capital
NIC
Schroders Plc.
SICO
SP Global
HSBC
T Rowe Price
The National Investor

- WEBCAST TRANSCRIPT STARTS -

Fawaz Al Sirri:

Good afternoon ladies and gentlemen and welcome to this Kuwait Finance House webcast on July 30 2018. Today's call is held to review and discuss the Bank's earnings for the first half of 2018. My name is Fawaz Al Sirri. I'm the moderator on the call, and I'm joined today with today's speakers:

Mr. Mazen 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 attendees from the following institutions

Arqaam Capital
EFG Hermes
Abu Dhabi Commercial Bank
National Investment Company
HSBC
Moody's
SICO Bank
National Investment Company
Jadwa Investments
And other investment banks and research houses.

And a warm welcome to everyone.

I will soon handover the mic to Fahad to kick off the call, but before I do allow me to take you through the format of the call: For the next 10 to 15 minutes, the speaker's will make their Q1 announcement and statements on the Company's earnings. This will be then followed by a Q&A session.

To participate in the Q&A segment, just type in your question on your screen at any time during the presentation and we will address it during the Q&A session.

Before I handover, I would like mention that this call is held live. A recording of call will be available on the same link within 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 company's current expectations, predictions and estimates …there are no guarantees of future performance, achievements or results.

Fahad, please start.

Fahad Al Mukhaizeem:

Thank you Fawaz and good afternoon ladies and gentlemen. We welcome you to the second quarter 2018 earnings call for Kuwait Finance House Group. Today, we'll be covering highlights of the Kuwait operating environment with an overview of KFH and the second quarter business highlights. We'll also share with you KFH's strategy, as well as the second quarter financial results with time to answer your incoming questions.

Looking at Kuwait economic indicators the GDP value is expected to slightly increase by year end with expectations of higher growth in 2019 especially with oil prices closing near the 75-dollar range almost 18% above last year's close. Central Bank of Kuwait held its benchmark interest rates at a 3% following the last US Federal reserve rate hike. Fitch also affirmed Kuwait's sovereign rating at AA.

As an overview of Kuwait Finance House Group, the bank maintains either the top or second position between competitors within the local or regional markets. Being the first and largest Sharia compliance bank in Kuwait, second largest in the world by assets. In terms of our geographical diversification, we have 399 branches in Turkey, 59 in Kuwait, 14 in Malaysia, 10 in Bahrain, 5 in Germany and 1 in Saudi Arabia.

As part of KFH strengths going forward in addition to the long relationship and large customer base, we have long term agreements with key partners such as Microsoft to keep our system up to date and to gain the latest technology solutions which reflect positively on our customer service delivery. And this is in line with a variety of other contracts with international IT solution providers.

For the key business highlights, we've launched a variety of services to benefit the Youth segment in Kuwait, who are considered to be the driving force for the future success of Kuwaiti society. In addition to upgrading the group level websites for our subsidiaries including Bahrain, using the latest technologies. KFH continues its strong support and sponsorship for its CSR activities. With this let me 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 Second Quarter 2018 earnings call. Let me highlight the financial performance for the First Half 2018. Net profits to shareholders reached KD 95.22 million for the first half of 2018 compared to KD 81.64 million for the same period last year an increase of 16.6%. Y-o-Y.

Total financing income for H1 this year reached KD 424.14 million a growth of 22.2% compared to the same period last year.

Net financing income for H1 this year reached KD 277.8 million a growth of 32% compared to the same period last year.

The cost to income ratio decreased to 39.5% for the first half of 2018, compared to 41.6% for the same period last year.

Earnings per share for the first half of 2018 reached 15.23 fils, compared to 13.06 fils for the same period last year i.e. an increase of 16.6%.

In terms of our strategy, we are focusing on the quality of assets and improving our competencies within the bank, and we have seen a remarkable improvement during the period. The focus on moving forward will be with investment in technology and digital transformation of the bank. At KFH we look forward to a customer-centric approach through adoption of technology development. We invested heavily in this, whether internally or through investments in VCs, to provide fundamentally the latest technologies that benefit our customers.

Islamic finance can take advantage of technology to provide more efficient and accurate services to customers, helping to meet their banking needs that go beyond their expectations.

One of the most important aspects is to focus on human resources and customers by ensuring that our employees are highly committed to the organization, which is reflected in their performance in providing the best services to our customers

In regards to our strategy in supporting the national economy and achieving the comprehensive development, KFH financed different mega projects in Kuwait and the countries where it operates including financing of terminal II building for Kuwait International Airport and the construction of Çanakkale Bridge in Turkey.

KFH enjoys a leadership position in the Sukuk market and the Islamic financial services in general. The vast experience of KFH Group in the Sukuk issuance has positioned it as a trustworthy and highly recognized organization by major corporates and governments globally.

Finally, the positive ratings as mentioned by my Colleague Fahad, by international rating agencies are considered as a positive indicator on the soundness and success of set plans.

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

Shadi Zahran

Thank you Mazin, Good Day everyone, I am Shadi, I am pleased to present you the Financial Performance of KFH Group for the First Half 2018.

The Group Net Profit After Tax (NPAT) Attributable to Shareholders at KD 95.2mn has increased by KD 13.6mn or 16.6% compared to June 2017 resulting mainly from an increase in net finance income by KD 67.0mn, offset by a decrease in investment income by KD (26.1)mn, increase in Provisions by KD 14.9mn, besides an increase in Operating Expenses by KD (11.2)mn. And we will explain each part separately in the coming slides, however, I’d like to highlight that despite the increase in provisions for the first half compared to last year the group profit improved from the core stable activities with drop in investment income.

Net Financing Income at KD 277.8mn has increased by KD 67.0mn or 31.8% compared to June 2017 mainly on account of increase in Financing income, primarily due to increase in average yielding portfolios from all banking subsidiaries by KD 1.1bn or 8.7% which was further supported by increase in local and international profit rates.

Accordingly, the Total Operating income at KD 389.9mn increased by KD 46.7mn or 13.6% resulted from an increase in net finance income by KD 67.0mn contributing 71.3% to the total operating income higher than comparative period last year by almost 10% (H1-17: 61.4%), accordingly the non-financing income contribution has dropped by 10.4% to reach 28.7% on account of lower investment income that resulted from less divestment of non-core assets due to unfavorable market conditions. And timing differences.

Non-Financing Income Fees & Commissions remained at same level for the group of last year at KD 49mn, however investment income decreased by KD 26.1mn (from KD 55.9mn to KD 29.8mn) as a result of less divestment gain (KD 1.8mn vs. KD 20.8mn same period 2017); accordingly total non-financing income dropped from KD 132mn to KD 112mn. Investment income contribution dropped from 42% to 27%.

With Regards to Total Operating Expenses at KD 154.1mn increased by KD 11.2 million 7.8%. We look at the components -
Staff cost – The increase in staff cost is mainly from Kuwait Parent Company and due to impact of labor law amendments besides the annual increment of salaries and staff benefits, in addition to the increase in headcounts mainly in Turkey subsidiary as a result of high growth and expansion of banking operations.

Other expenses (G&A & Others) increased marginally by KD 0.7mn or 1.7% as the Group maintained its stringent policy towards cost optimization.

Net Operating income at KD 235.8mn increased by KD 35.5mn or 17.7% compared to H1-17.

Although operating expenses have increased by 7.8% and that's mainly attributable to support the growth in Kuwait and international banking operations as well translated to the increase in operating income by 13.6%. This proves continuous efficiency in group operations reflected in further reduction in C/I ratio which has reached 39.5% for H118 at a Group level compared to 42.8% for 2017 coming from 51% for 2014

Furthermore, at KFH-Kuwait, C/I ratio is maintained at 34.3% which is below both the local Islamic Banks average of 37.5% and local conventional Banks average of 35.3% for Kuwait as published for Q1-18.

Average Profit Earning Assets volume is up by 8.6%, vs. 2.7% growth in total balance sheet increasing yielding assets contribution trend. This is an evidence of efficient balance sheet that focuses on sustainability of earnings and also reflected in the improved NFI. As we said the 67 Mn growth.

Group NFM at 3.30% shows a 49bps increase over last year of 2.81%. The yield increased from financing and MM placements as a result of higher profit rates (in both local & international markets) and optimized balance sheet.

Provisions and Impairments increased on account of more conservative impairment against legacy real estate investments in GCC due to negative outlook. (KD 63.7mn out of total provision charge of KD 98.0mn taken in H1-18)

It worth to mention that Central Bank of Kuwait has still not fully adopted IFRS 9, and requirements for ECL on financing facilities have been replaced by CBK existing credit loss requirements. However, we have implemented internally IFRS 9 completely for the entire group entities and generated ECL numbers on financing facilities which are materially lower than current provisions.

Operating Profit from banking activities still at 92% of total Operating income of the Group and this is being maintained as part of overall Group Strategy and reflecting the contribution of the core banking activities to the group.

Total Assets at KD 17.6bn increased by KD 458mn or 2.7% over a 12 month (H118 vs. H117) .

Financing receivables at KD 9.6bn is the main contributor to the balance sheet growth as increased by 7.3% over a 12 months (H118 vs. H117) period. Growth in financing receivables came from all banking entities and business units, driven largely by Corporate Banking. Growth in financing portfolio compared to December 2017 is 3.7% despite the devaluation in TRL. Growth without TRL devaluation is 8.8 %.

Depositors' Accounts at KD 11.9bn increased by KD 492.1mn or 4.3% over a 12 month (H118 vs. H117) period from KD 11.5bn in Jun-17 (YoY increase in CASA is KD 287mn. Our CASA forms 48% of total deposits as of H118). As Compared to December 2017 our Depositors' accounts increased by 3.0%. If we take into account growth without TL devaluation is 7.4 %.

Customer deposits as a percentage of total deposits at 80.3% remains at a very healthy funding mix. It is worth to mention that KFH Kuwait dominates the market in saving accounts at market share of 42.5%.

Foreign subsidiaries contribution forms 41% to Group Net Operating Income.

Exit from Investments during H1-18 amounted to KD 17.3mn with a gain of KD 1.8mn (compared to KD 45.2mn in H1-17 with a gain of KD 20.8mn)

Now you look at the Key Indicators,

Return on Average Assets improved by 20bps from 1.12% in H1-17 to 1.32% in H1-18.

Return on Average Equity increased by 138bps from 9.22% in H1-17 to 10.60% in H1-18.

Capital Adequacy ratio at 17.1% is very well over the minimum regulatory requirement. Expected divestment of non-core assets will continue to reinforce the capitalization.

EPS is up 2.1fils to reach 15.2fils for the six months.

Now may I can Highlight the Q2-18 standalone performance vs. Q2-17, for the 3 months period ended 30th June 2018.

Profit attributable to shareholders for Q-2 2018 was KD 51.2 million representing KD 8.2 million or 18.6% increase as compared to Q-2 2017. And that resulted from improved operating income by 14.9% while keeping operating expenses at marginally higher than comparative period at KD 75mn with increase of 2.7% only higher than last year.

Profit attributable to shareholders for Q-2 2018 was higher by KD 7.3 million or 16.6% increase as compared to Q-1 2018 and that resulted from improved operating income by 6% with lower operating expenses by 5%, offset by higher provision by 6%

Group C/I ratio for Q2-2018 three months period was only 37.5% as compared to 41.7% for Q118 and 42.8% for 2017 full year. This shows the continuation of improved efficiency.

With this we would like to take the questions from you, back to Fawaz.

Fawaz Alsirri:

Thank you gentlemen with that detailed review we now take the audience questions

Q.1 What were the main drivers for the higher results? Khaled Al Ahmed

Shadi Zahran:

As I mentioned the main drivers for higher results and that witnessed in the second quarter standalone or in the first half as compared to the last full year or for the last year same period is mainly from the top line Net Financing Income and that came mainly from the increase in the profit yielding assets in the balance sheet, as I said increased by 8.6% while the balance sheet increased by 2.7%, increased by KWD 1.1 Billion… besides the increased and improved profit rates.

Fawaz Alsirri:

Q.2 Can you elaborate on the Cost to Income Ratio? Khalid Al Ahmed

Shadi Zahran:

The group before 2014 and before was operating in let's say, less efficiency at 51% Cost Income Ratio the group since starting from 2014, the group management, we started the projects on more cost saving and cost optimization, restructuring and centralization and that actually benefited the drop from 51% in 2014 to now reaching below 40% to the 39.5%. And if you look at the last quarter standalone it is at 37.5% and that proves the improvement is going on and we expect to further improve "Insha Allah".

Fawaz Alsirri:

Q.3 Could you give us any update on the AUB-KHF merger talks after an invite was sent by KFH? Also, if you could throw some color on the rationale behind this in terms of cost/revenue synergies and international rationalization that you are looking at? Also, do you see any hurdles in terms of shareholder structure of both banks? (Janany Vamadeva from Arqaam Capital, UK)

Mazin Al Nahedh:

Just to give you an update… we did send an invite and received a reply from Ahli United Bank accepting the signing of a memorandum of understanding and a non-disclosure agreement, so as such, we have disclosed on the 22nd July 2018 that KFH has signed an MOU and a non-disclosure agreement with AUB. HSBC and Credit Suisse have been selected based on their expertise and credentials in the investment banking industry, to conduct a study and valuation for the purpose of determining a fair exchange ratio.

Should the two banks agree on the exchange of share ratio which will be studied by those institutions and agree on the due diligence outcome and other related tasks on conservative basis, an official request will be submitted to the regulatory bodies Central Bank of Kuwait and the Central Bank of Bahrain and all other relevant regulatory bodies in addition to obtaining the shareholders general assembly approval at which time we would receive an approval from central bank to start with the official due diligence process and opening up of the books.

After which a study or after the due diligence process is completed, the final outcome will be presented to both boards. Both boards would naturally have to agree on the exchange ratio, if that is done, then an official request would be submitted to the regulatory bodies along with obtaining the general assembly approval on the transaction and that would be subject to a final approval by the regulatory bodies subject to providing them with all our plans for the new entity.

The second part of your question was…can you read it again please.

Fawaz Alsirri:

Also, if you could throw some color on the rationale behind this in terms of cost/revenue synergies and international rationalization that you are looking at.

Mazin Al Nahedh:

Well, as we stand today we anticipate that the organic growth for KFH Group, given our current footprint is not up to the expectation of our shareholders nor our board, as such they have requested us to see how can we accrete EPS value for shareholders and as such this process started three years ago in trying to identify how can we expand our operation and grow profitably and increase EPS value to our shareholders. And as such the non-organic growth approach through either acquisition or a merger was one of the considerations and as such we've looked at many targets and the one that would fit most to KFH strategy and geographic distribution would be Ahli United Bank. It demonstrated all the right financial structure and management expertise in addition to its long standing performance record, notwithstanding the geographies that they operate in that we would like to get into… the … rationale again … is going to be to create a large significant Islamic Financial Institution that would be able to compete and to support the development of the future projects of both Kuwait and the countries that it operates in and what makes Ahli United Bank unique is this would have.. if this merger goes through, it would give the opportunity for KFH Group or the new entity to have two home markets which I think is not available in any of their regional markets, those two markets being Kuwait and Bahrain since we will be one of the market leaders in Kuwait and in the market leader in Bahrain post-merger if it happens.

The final part of your question is, do I foresee any hurdles in shareholder structure of both banks…

Mazin Al Nahedh:

I do not foresee any hurdles, we are still at very early stages we would like to see what the conversion prices and if it's acceptable to both banks at that stage we can shed more clarity on the process and on the viability of the transaction but until we reach that stage we are not in a position to comment on such hurdles.

Fawaz Alsirri:

Q.4 With regards to margin expansion, how much of the yield gain on the financing side for the year came from Q2 vs. Q1 2018? (Fawaz Al Hendi NBK Capital)

Shadi Zahran:

Well, I can tell that Q2 is keeping the same momentum as Q1 of the yield. And the improvement of Q2 compared to last year same period, three months, is actually 26%. To recall the first quarter we had the same thing. There is another aspect that improved the yield, or the financing income, as I mentioned the growth in the portfolio by KD1.1 billion over the 12-month period and that actually reflected the profit for the first half, first quarter and second quarter as well, and enhanced the balance sheet to be more towards the income-generating assets. Answering your question simply, yes same momentum as first quarter and expected to continue.

Fawaz Alsirri:

Q.5: I have a few questions:
What is the outlook for loan growth during the rest of 2018 and 2019? Can you please provide guidance on Net financing margin going forward? Can you please provide guidance on cost of risk going forward? (Adnan Farouq, Jadwa)

Shadi Zahran:

I think I answered already number 2 the guidance on Net Financing Margin going forward and expected to keep the same momentum for the growth as well as we expect as I mentioned despite the devaluation of Turkish Lira still we are making higher than the market growth by 3.7%, if we ignore devaluation of the Turkish Lira for one of our subsidiaries then it is then 8.8% and we expect that the growth will continue. With regards to Cost of Risk

Mazin Al Nahedh:

I think also to add to that, one of the key drivers behind the growth that we anticipate in the rest of 2018 and I say primarily in 2019 would be the oil sector planned growth or planned investments that are worth in excess of KD30 billion Kuwaiti dinar. We have so far participated in pretty much all the syndications that have taken place, and we look forward, we are in very close contact with the ‘K-group of companies’, the oil sector, to ensure that we get the financing. So that will be one of the main drivers for loan growth in 2019.

Shadi Zahran:

For the third part of the question I recalled can you please provide guidance on cost of risk going forward. Cost of risk is declining for the group and if we take out the one off that I mentioned in the provision in the first half that was for legacy investments in properties in the GCC. Then its proved that it’s actually improving and going forward we expect to improve further especially in the past years starting from 2014 we were more in taking Specific Provisions more conservatively and that reflected very well when we implemented IFRS9. So we expect cost of risk forward to be lower or at least to maintain that improved… improvement that we witnessed in the first half and in the last year as well.

Fawaz Alsirri:

Q.6 What gave rise to the increase in provisioning and impairment in 1H18? (Heidi Chiu, Tahan Capital)

Shadi Zahran:

As I mentioned there was a one off provision KWD 63.7 million, in the first half for legacy investments in properties in GCC and that's due to market conditions.

Fawaz Alsirri:

Q.7 What is the size and nature of planned asset disposals? What could be the potential benefit to capital ratios?
Where does KFH feel that its organic growth prospects are most constrained, (hence the push and rationale for inorganic expansion) - can you provide more background on this point? (Rahul Shah, Exotix Capital)

Mazin Al Nahedh:

The size and nature of planned asset disposal, the size that we have planned to dispose of during '18 is around KWD 140-150 million so far… Mr. Shadi Zahran mentioned that our disposal for the first half was 17.2 significantly subdued but I can tell that there are deals that are currently being closed primarily in the real estate that we should anticipate closure of them during Q3 & Q4 this year. Hopefully, we should reach our target disposal of KWD 140-150 million, in terms of the potential benefits to the Capital Ratios, the improvement is going to be positive but at the same time would be used for increasing our financing portfolio, so as such we should not see significant growth in our or an increase in our Capital Adequacy Ratio but we should see better utilization of that capital.

With the third element of that question… where does KFH feel that its organic growth prospects are most constrained? Hence to push a rational organic expansion.

Mazin Al Nahedh:

Well, we feel that the organic growth specifically when it comes to Kuwait, our major home market; we have reached a point of more or less saturation in terms of growth, so we do not anticipate beyond market growth for specific segments where we are extremely strong such as retail. We anticipate to grow with the market and that growth is somewhat subdued. On the corporate side is mainly on the government infrastructure projects due to their low capitalization and absolute net return to the bank from a risk return perspective or from a RORAC perspective. So as such we would like to increase our footprint in for example in Bahrain and the merger would actually create a very strong presence in Bahrain where we would have a second home market in that jurisdiction supporting the Kuwait market in addition to access to other markets such as the UK and Egypt where our customers are asking us to be in those locations and as such we anticipate further growth in those geographies.

Fawaz Alsirri:

Thank you Mazin, I just want to point out that we've also had questions from Elena Sanchez and other regarding KFH and AUB transaction. The management feels that the first answer on the matter is substantial and covers all aspects of where they stand today and what they are willing to comment on. So if you missed the answer.

Mazin Al Nahedh:

If you don't mind, I think point 2.. "if the merger happens KFH would be the only major Sharia compliant bank in Kuwait along with Boubyan", this is not a true statement because as you well know Kuwait has 5 Islamic Banks, Kuwait Finance House being the biggest followed by AUB, Boubyan, Warba and Kuwait International Bank. So as such if the merger does happen it will be 4 Islamic banks instead of 5.

Fawaz Alsirri:

And if you want to hear the extended answer and commentary on the transaction , please log in again and watch the on-demand version of this webcast where its one the first few questions that the CEO Mr Mazin Al-Nahedh tackles. We have no more questions coming in and with that we will be concluding our calls for today, like I just said there is a live recording of this webcast will be available on the same link you use to get here in about 2 hours and with that thank you all for joining us and have a good day.

- WEBCAST TRANSCRIPT ENDS -

The analyst conference was held on Webcast on July 30, 2018.

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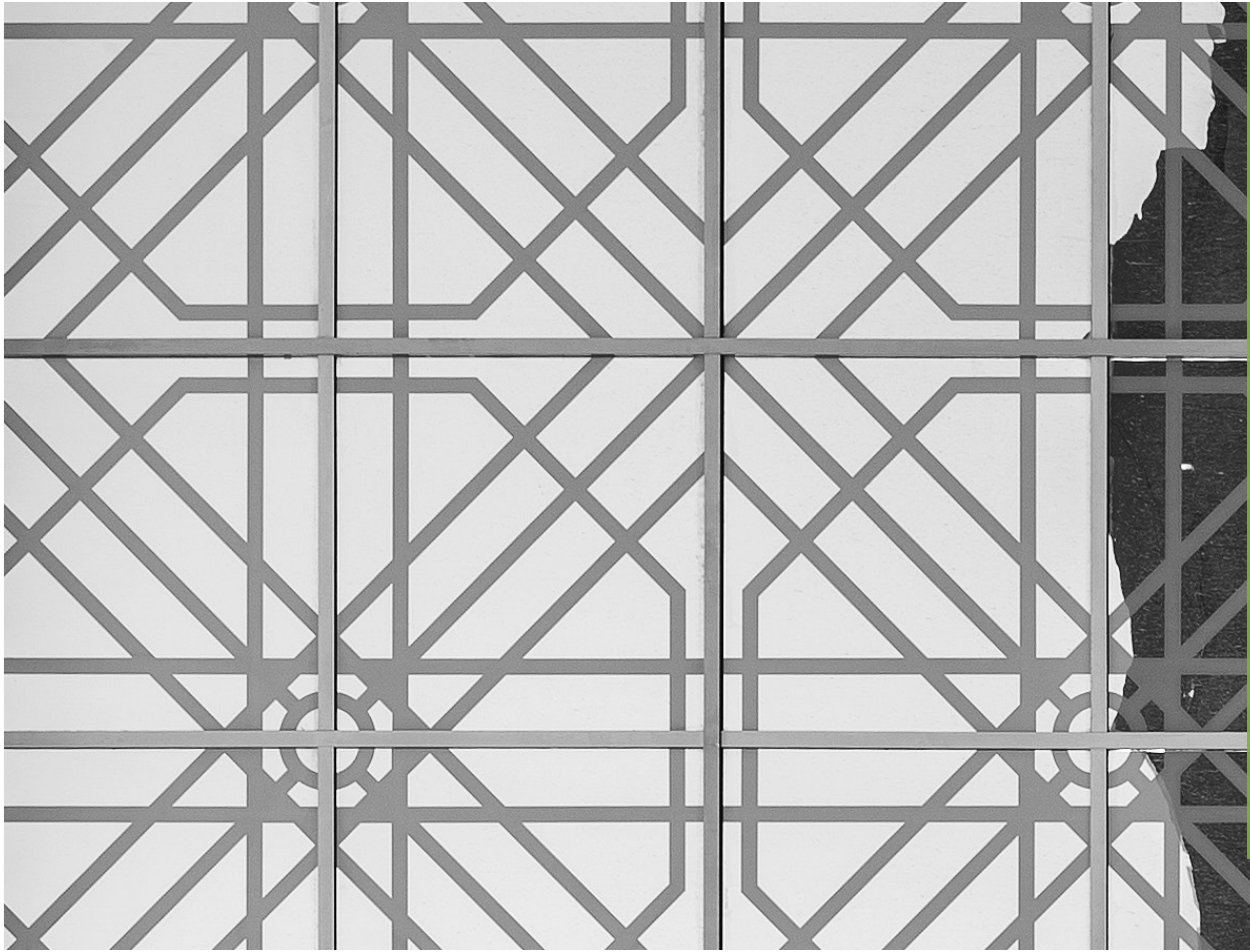


بيت التمويل الكويتي
Kuwait Finance House

H1'18

Earnings Presentation

July 30, 2018

40 YEARS OF LEADERSHIP 1977 - 2017

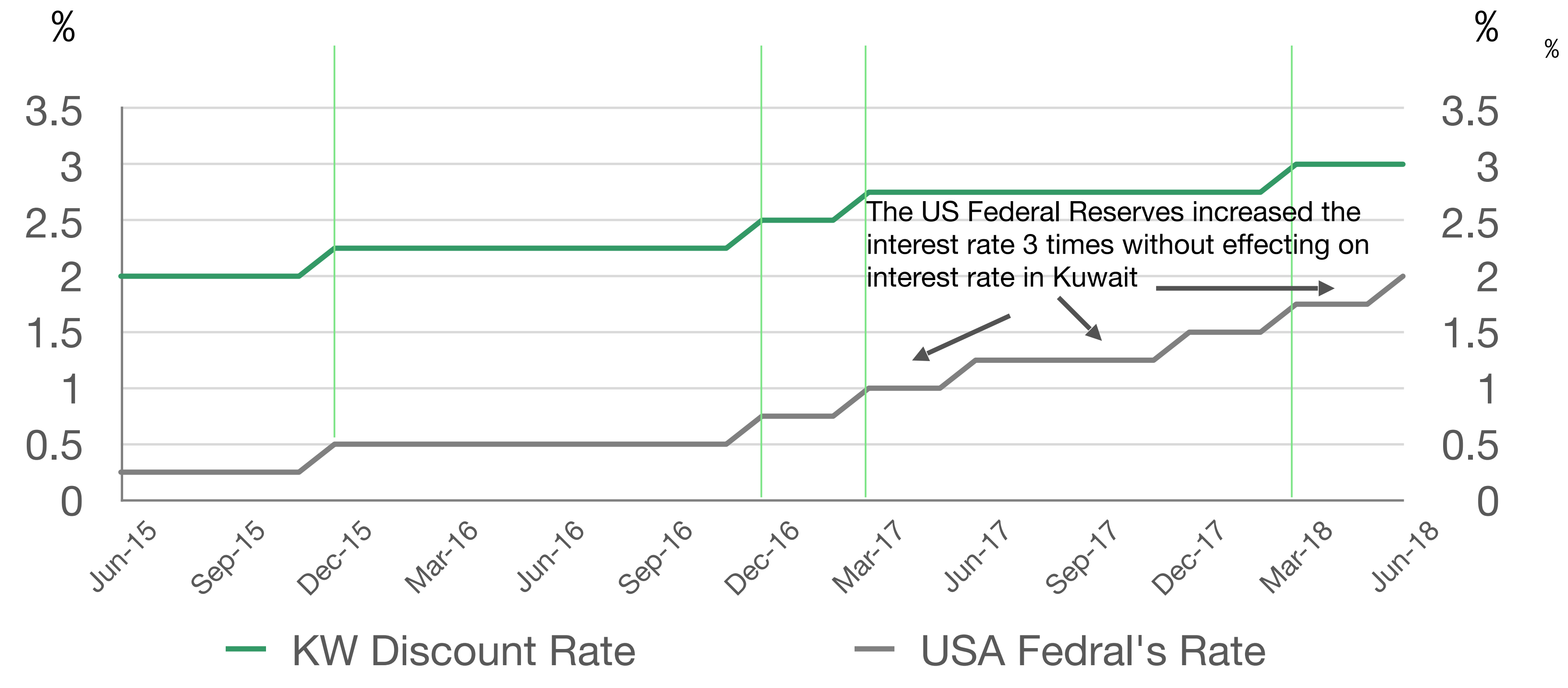
© Kuwait Finance House, 2018.

Agenda

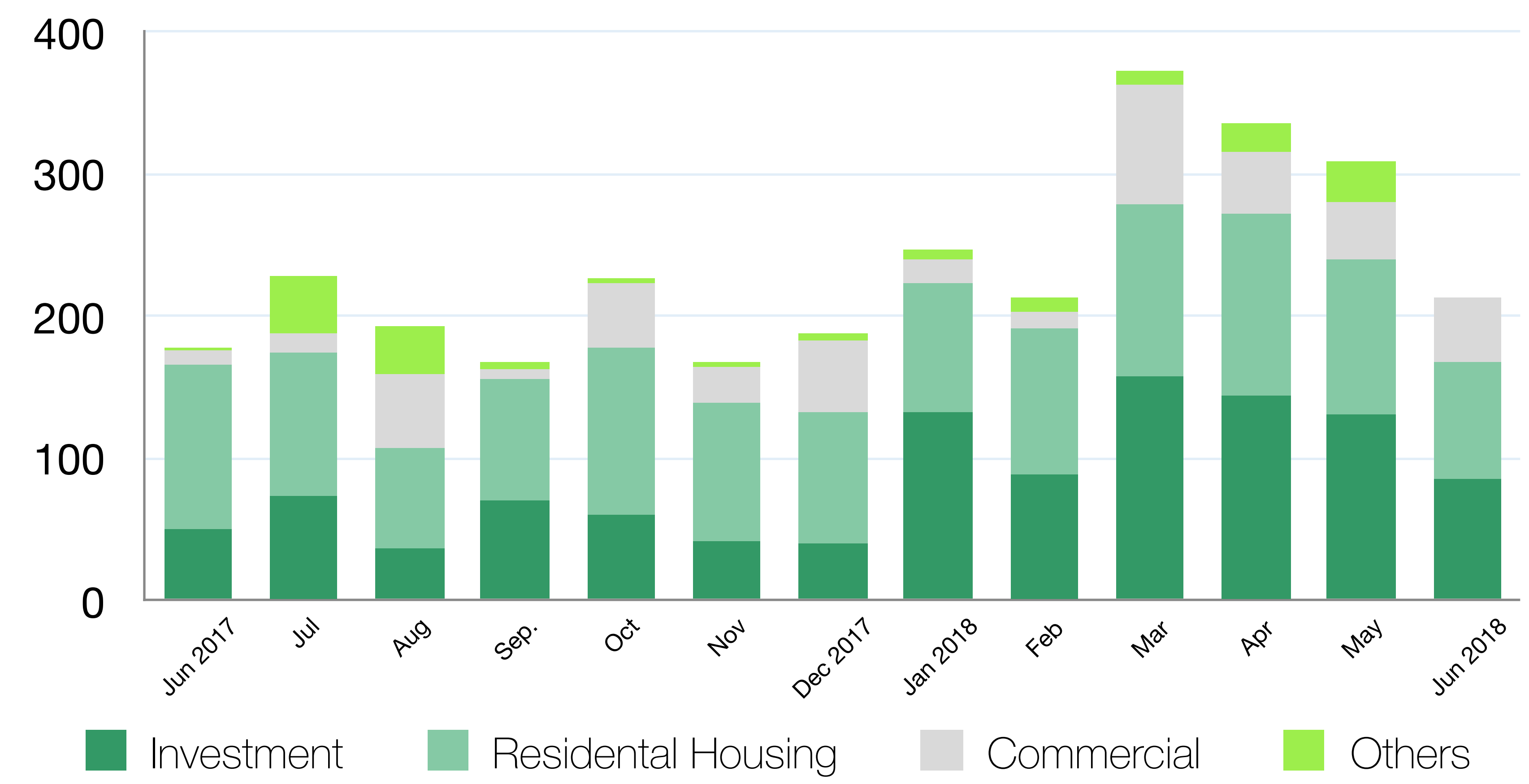
1. Kuwait Operating Environment (Highlights)
2. KFH Overview
3. H1 Business Highlights
4. KFH Strategy
5. H1 Financial Results

Kuwait Economic Indicators

Development of Discount rate by Central Bank of Kuwait



Development of Real-Estate transaction values in Kuwait in 2017 - 2018 (KD bln)



- The Central Bank of Kuwait held its benchmark interest rate at 3% on 13 June 2018, following the US Federal Reserve's decision to raise its target interest rate by 25bp from 1.75% to 2%. The decision to maintain the discount rate at 3% came to support recovering economic growth rates.
- Fitch affirms Kuwait at 'AA'; outlook stable, the agency expects state budget to post surplus of KWD 900 mln, or about 2.4% of GDP. Kuwait's key credit strengths are its exceptionally strong fiscal and external metrics, and at a forecast of USD 56 bbl, one of the lowest fiscal breakeven oil prices.

- Real-Estate transaction values reached KWD 210 mln in June 2018 according to the latest data by the Ministry of Justice, continued its descending trends since beginning of the second quarter of the year 2018, it reached to the highest levels in March 2018 however declined in May. Number of transactions decreased by 15.5% compared to June 2017.
- Investment and commercial real-estate sectors witnessed a significant increase in June, however residential housing sector recorded a decrease.

Source : IMF, Central Bank Of Kuwait, Central Statistical Bureau, Ministry Of Justice, KFH

KFH Overview

Kuwait

1st

and largest Shari'a-compliant bank in Kuwait

Regional

2nd

largest Shari'a-compliant bank in the Gulf

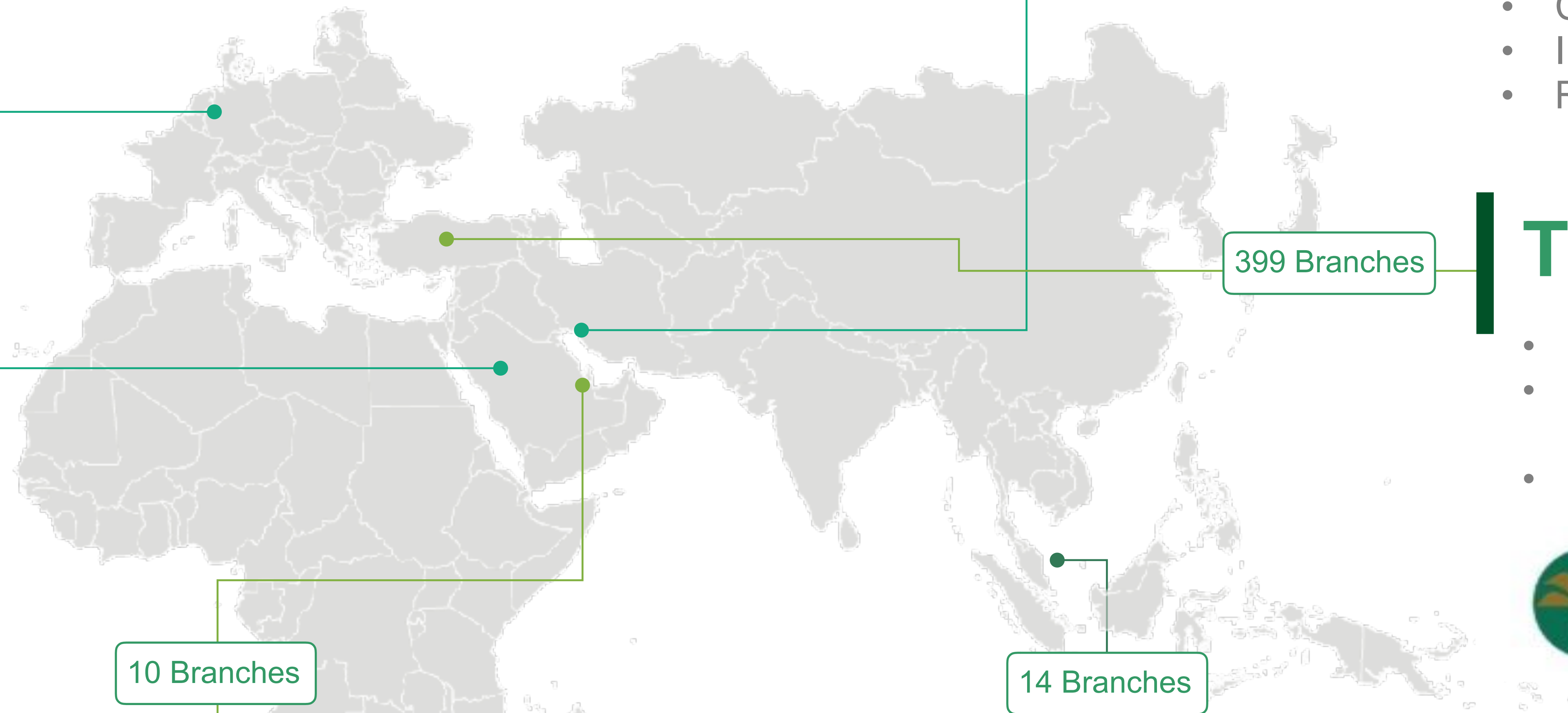
Global

2nd

largest Islamic bank by assets in the world

KFH Overview

Vertically and geographically diversified banking group



Kuwait

59 Branches

- Retail Banking
- Wealth Management and Private Banking
- Corporate Banking
- Investment Services
- Real Estate

Germany

5 Branches

1st Islamic bank

- Retail Banking
- Corporate Banking
- Investment Services
- Real Estate

Turkey

399 Branches

- Retail Banking
- Wealth Management and Personal Banking
- Corporate Banking

Saudi Arabia

- Asset Management
- Wealth Management and Custody
- Investment Services
- Product & Business Development

Bahrain

10 Branches

- Retail Banking
- Wealth Management
- Corporate Banking
- Real Estate

Malaysia

14 Branches

- Retail Banking
- Wealth Management
- Corporate Banking
- Commercial Banking

KFH Strengths

Robust Financial Performance

A consistent track record of profitability & dividend payment

Solid funding and liquidity profile

Consistent low NPF rates

Improving cost to income ratio

Solid profit margins and improving efficiency

Leading Islamic Financial Institution

Second largest Islamic Financial Institution globally in terms of asset base

Operating history of over than 40 years

Strong retail franchise

Pioneer of Islamic products in Kuwait

“Islamic Bank of the Year - Middle East”

Strong Government Sponsorship

48% ownership by various Kuwaiti Government authorities

KFH operates mainly in Kuwait where the economy benefits from high level of economic strength

Systemic important bank in Kuwait

Large retail deposit and global flagship Islamic bank

Professional Management Team

Well-rounded human capital through meritocratic management structure

Significant improvement in the Management team for the dispersed international operation

Strong and stable Board of Directors, collectively bringing more than two hundred and fifty years of professional experience

Strategic Distribution Channels

Diversified international operations

Presence in 6 countries giving access to Europe, Middle East and Asian markets

Extensive accessibility option with a wide network of over 480 branches and over 1,100 ATMs

Effective Risk Management Framework

KFH continuously develop its risk management framework in light of development in the business, banking and market regulations

Disciplined and risk-adjusted approach to capital allocation

Large and diversified portfolio

Reduce non-core assets

H1’18 Business Highlights

300 million shares

KFH Saudi was as one of the main underwriters of premier equity shares to Al-Jazeera Bank.

Euro 200 m

Credit facilities for Limak Insaat for the construction of a bridge in Turkey.

KD 120 Million

Credit facilities transactions in favor of MINA HOMES

SME Support

Supporting over 1000 customers of SMEs.

Products and Services

- Launching a new banking product Visa Credit Card (Signature) with sundry and unique advantages at market level.
- Inaugurated the opening of two banking halls in to serve Ruwaad, Tamayuz and Nukhba customers.
- Launching an exclusive offer to KFH customers holding MasterCards in cooperation with “Trolley” when using “KFH Wallet”.

Awards

- Best Bank for High Net Worth Clients Award from Euromoney.
- Recognition Award from MasterCard for implementation of Wallet application.
- Best Islamic Bank award in Kuwait from Islamic Finance News (IFN).
- Best Islamic Bank Award in Kuwait and Middle East from EMEAFinance.

Social Responsibility

- KFH paid KD 11.2 million to Zakat House. Over 90 initiatives in Ramadan, over 27,000 Iftar Meals.
- Honoring 120 distinguished high schools graduates.
- Partnership and cooperation agreement with Kuwait Red Crescent Society (KRCS), an agreement of cooperation and support of “AGRIVAGE” initiative with the help of Kuwaiti youth to recycle vegetables and fruits into organic fertilizer.
- Strategic partner in “Kuwait Capital of Arab Youth” Activities. The Bank Sponsored Programs, Activities of this Occasion.

Information Technology

- KFH Bahrain inaugurates the release of a total new product “Jazeel”, as a social digital platform.

H1'18 Financial Highlights

Net Profit for Shareholders	Total Financing Income	Net Financing Income
KD 95.2 m	KD 424.1 m	KD 277.8 m
+16.6%	+22.2%	+31.8%

Cost to Income Ratio

39.5%

Improved by 2.1%

EPS (fils)

15.2

+16.6%

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 three main business sectors

- Retail
- Corporate
- Private

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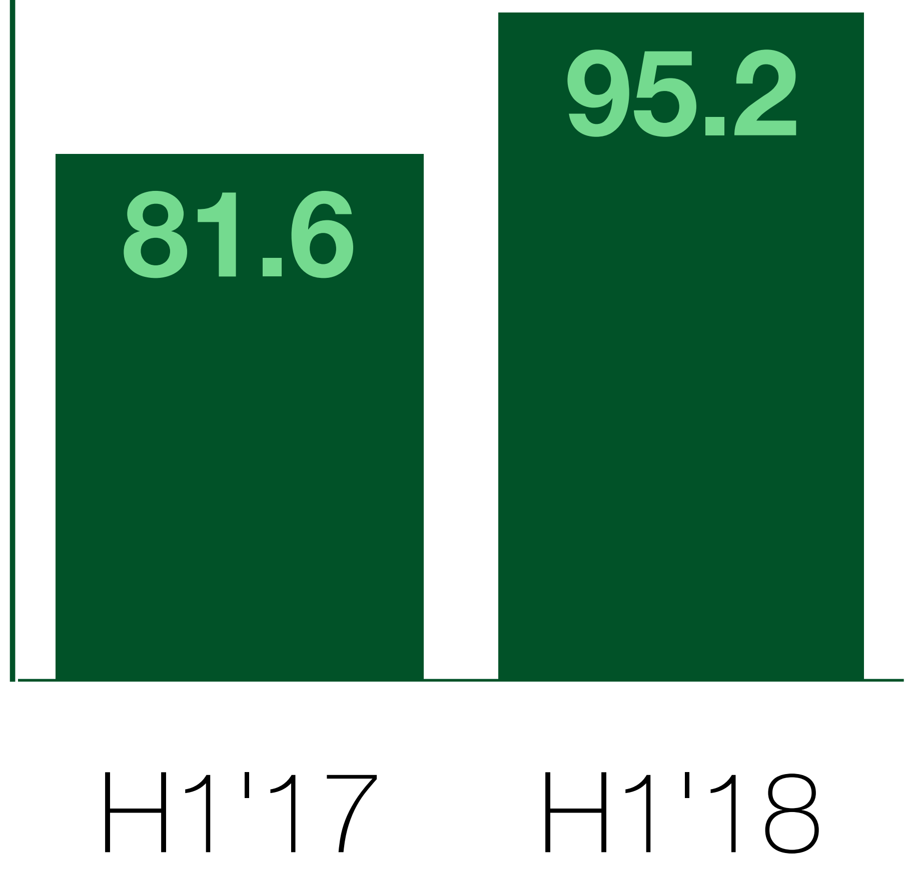
H1’18 Operating Performance (KD mn)

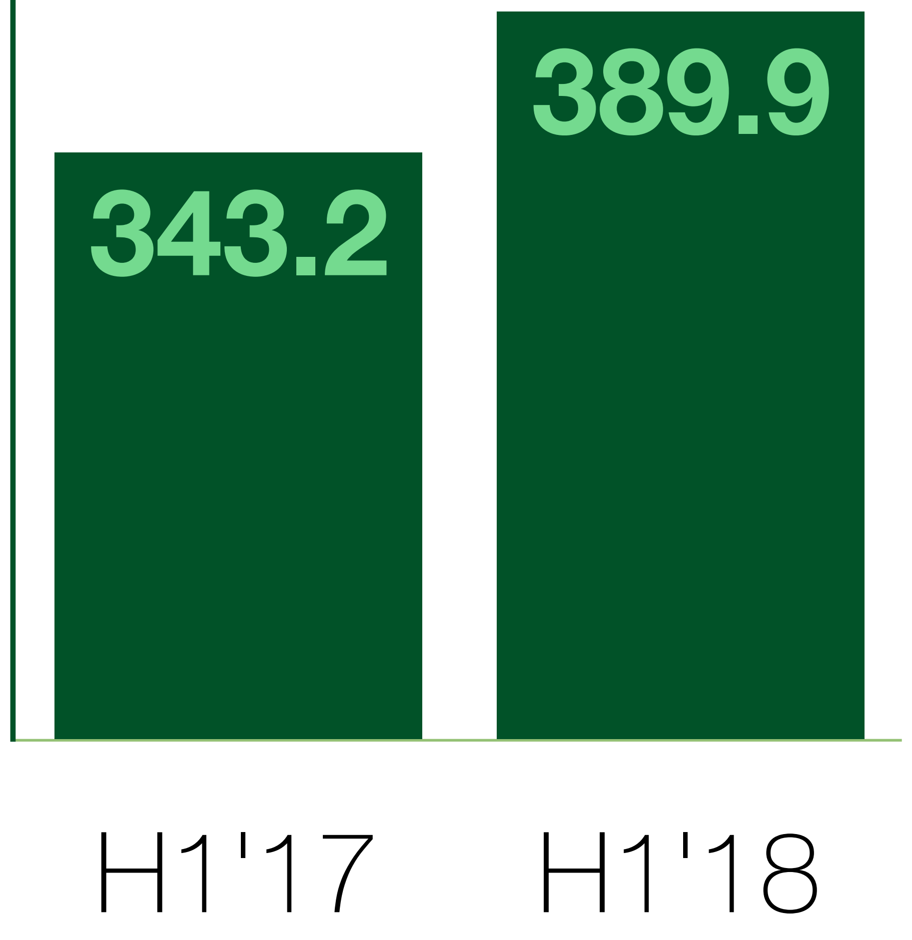
Net Profit
for Shareholders

+16.6%



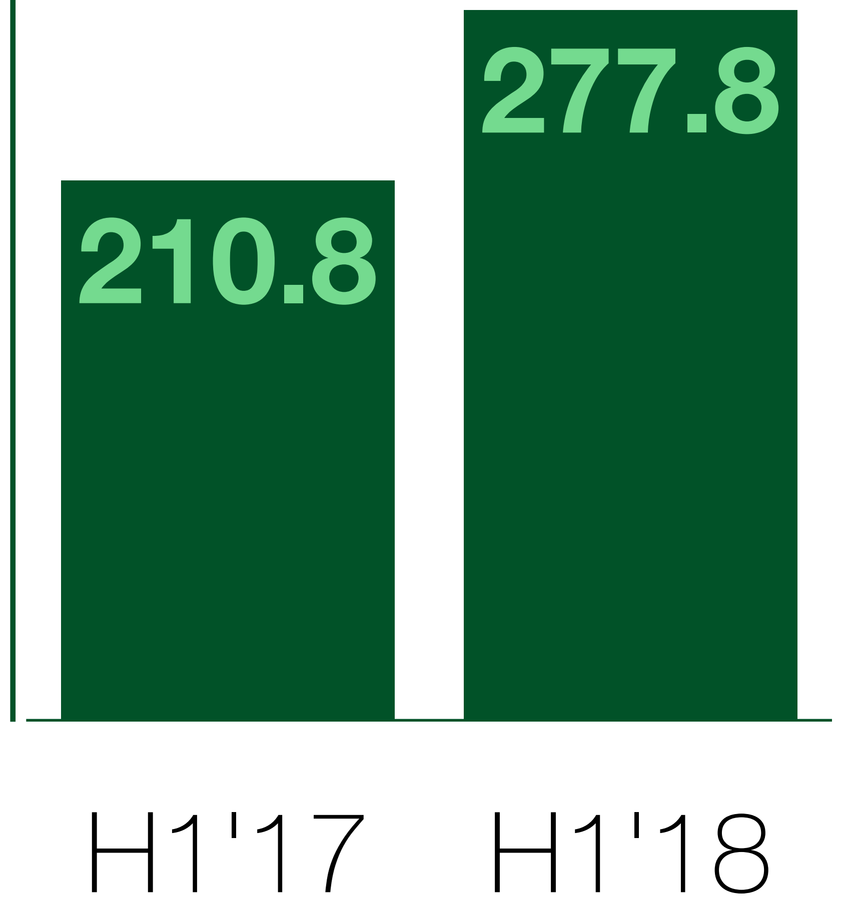
Operating Income

+13.6%

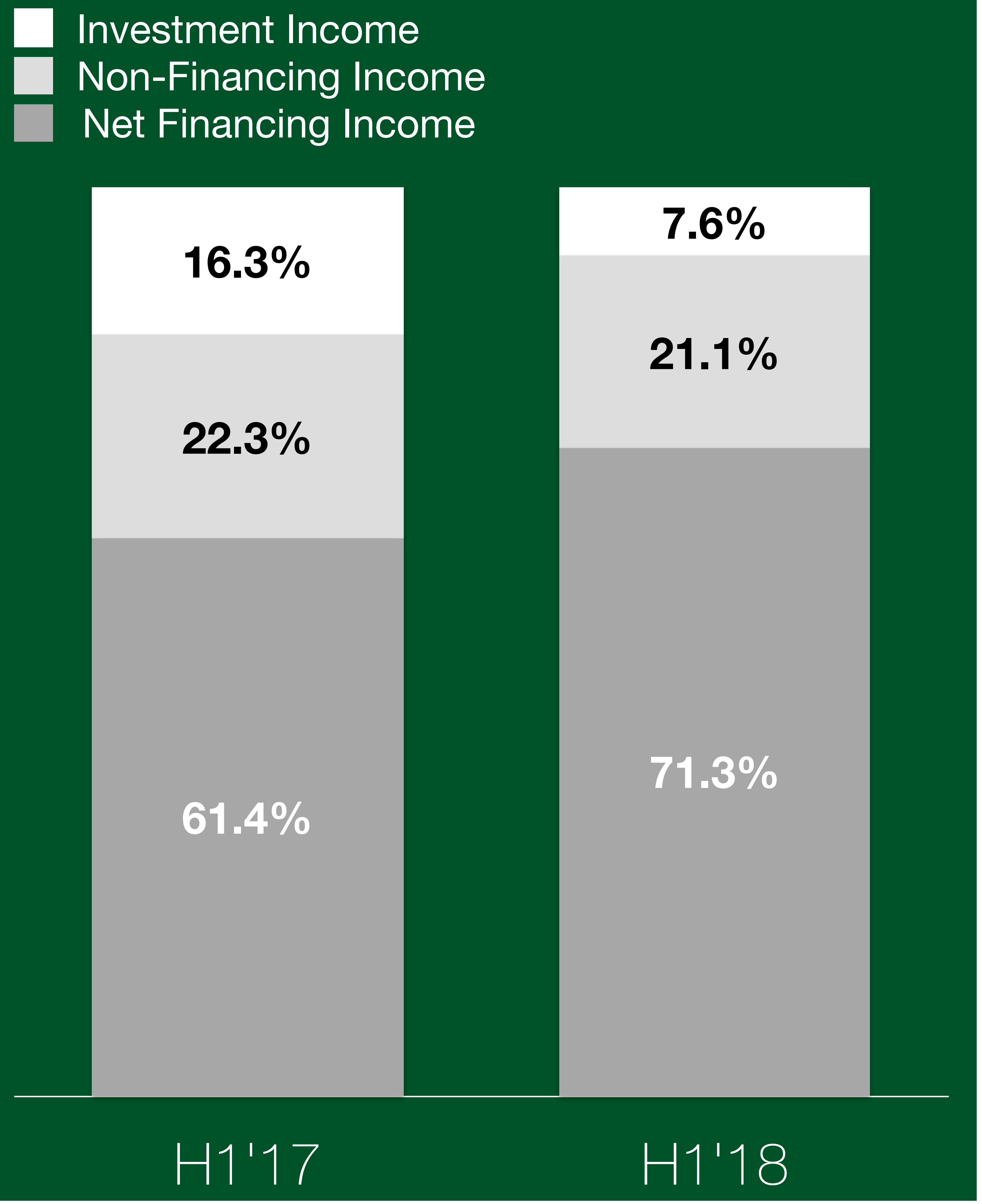


Net Financing Income

+31.8%

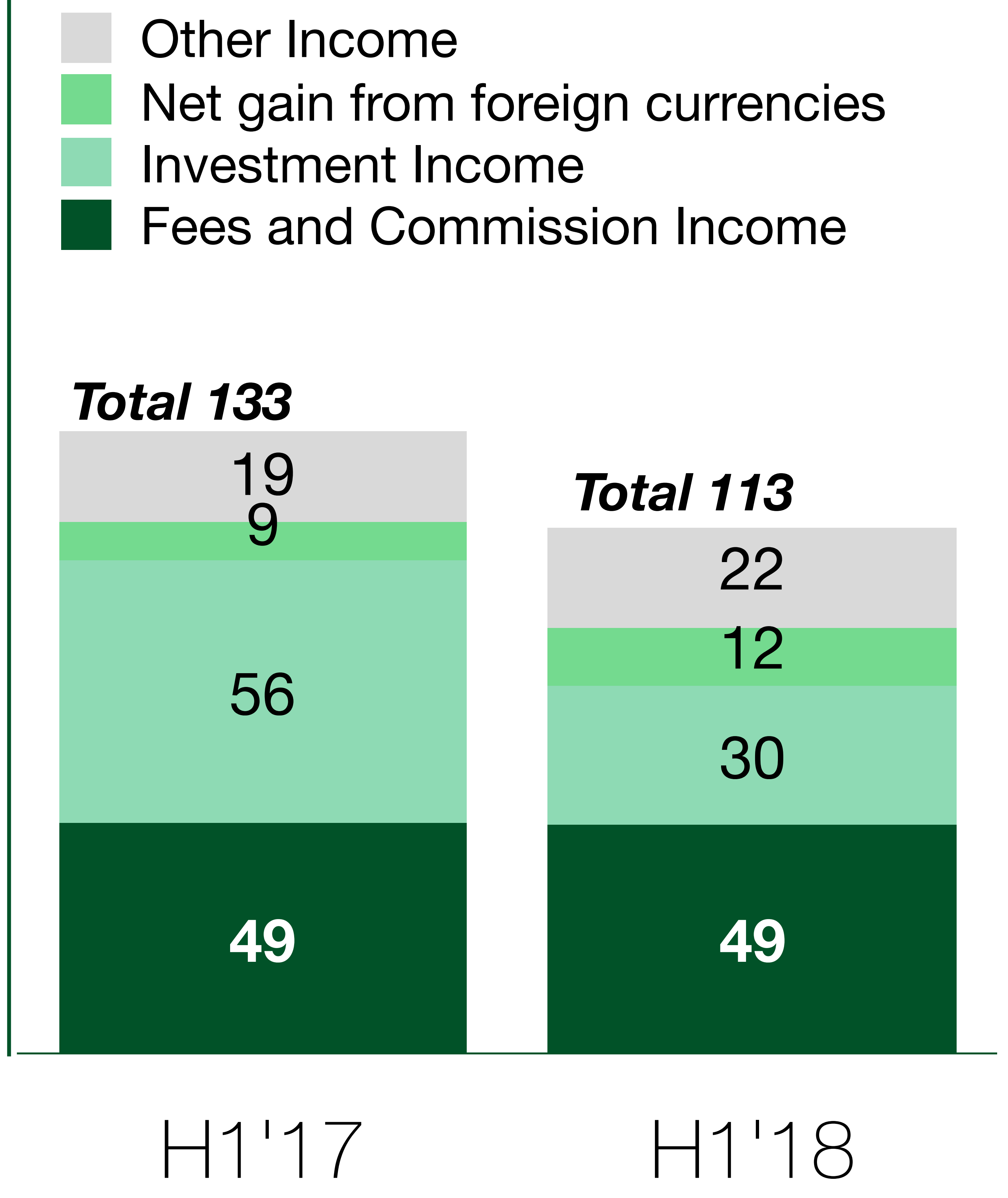


Operating Income Profile

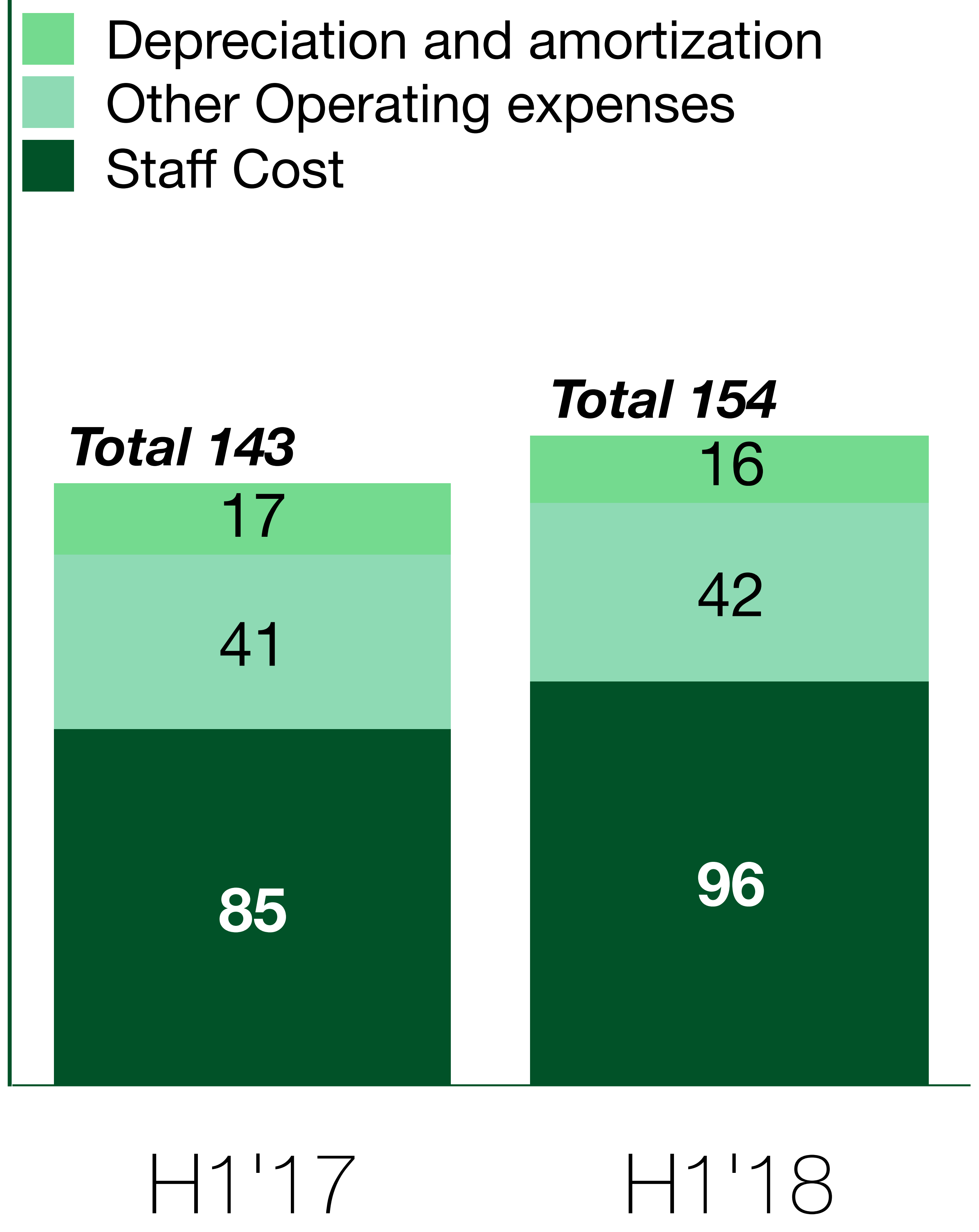


H1'18 Operating Performance

Non Financing Income *(KD mn)



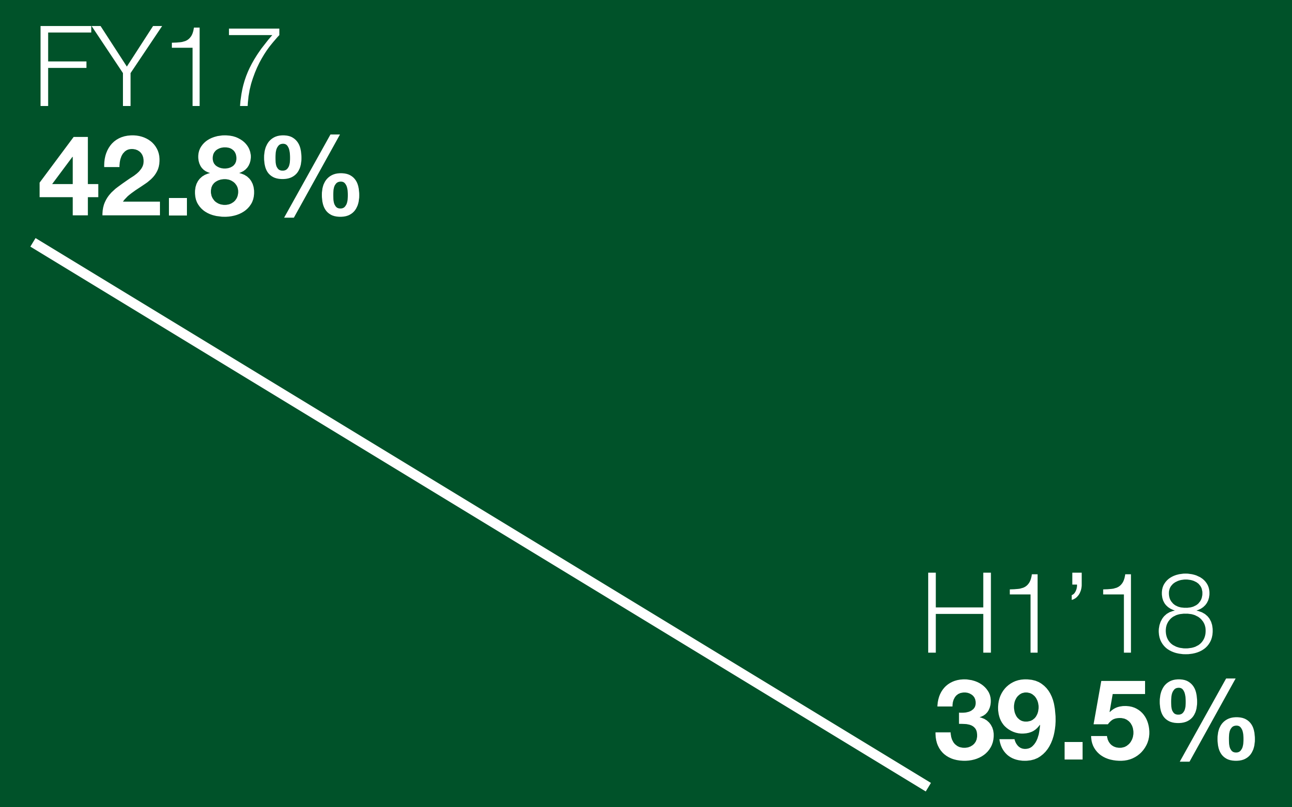
Total Operating Expenses *(KD mn)



* The figures are rounded to the nearest whole number except for totals. The totals are aggregates of the figures before rounding.

Investment Income as % of Non-Financing Income

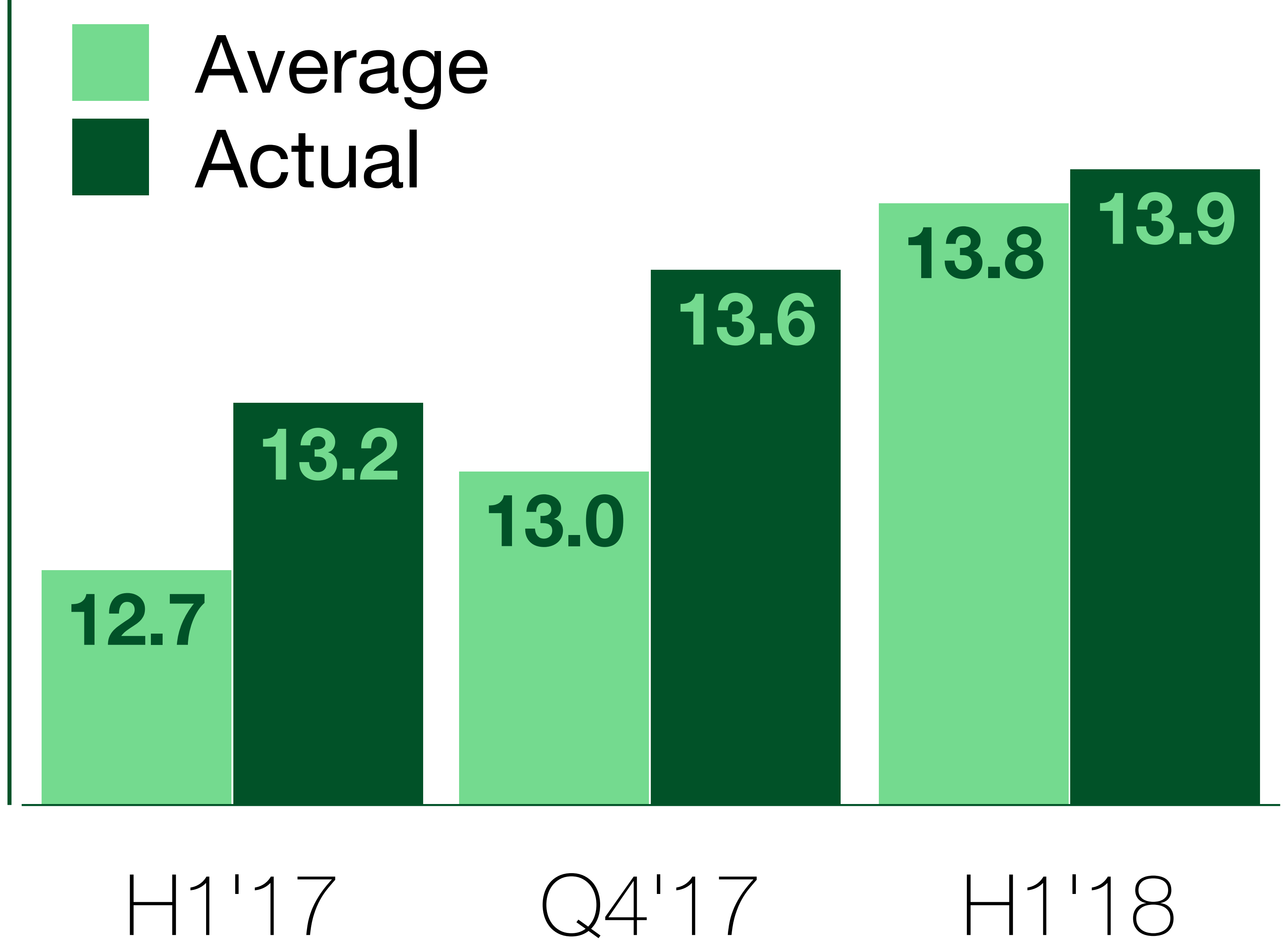
C/I Ratio



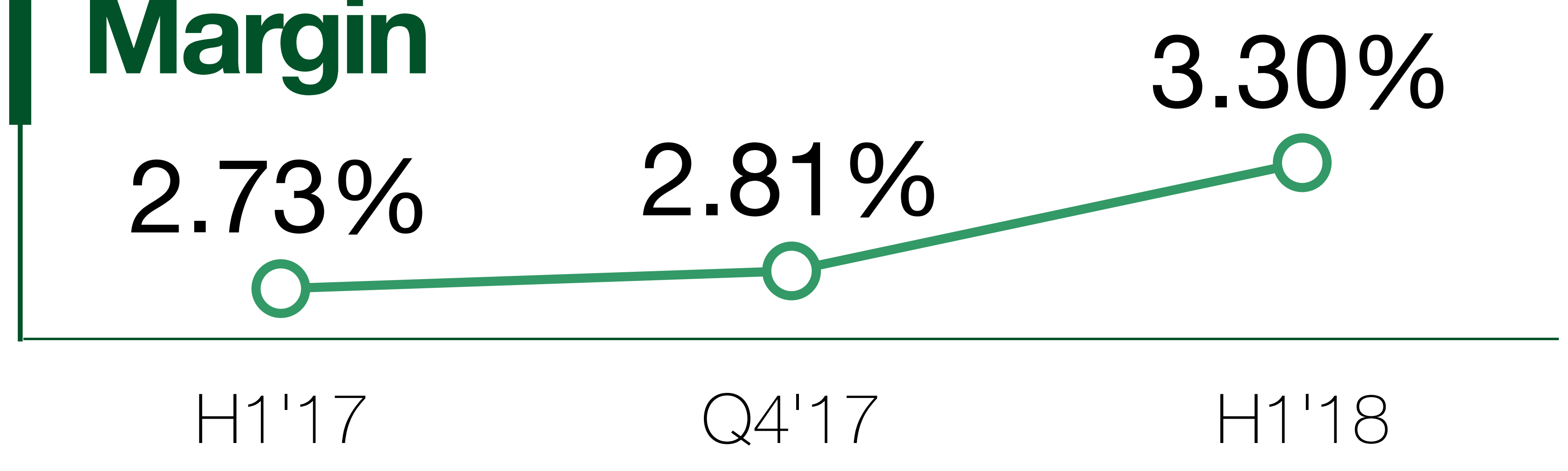
H1’18 Operating Performance

Actual / Average Profit Earning Assets (KD bn)

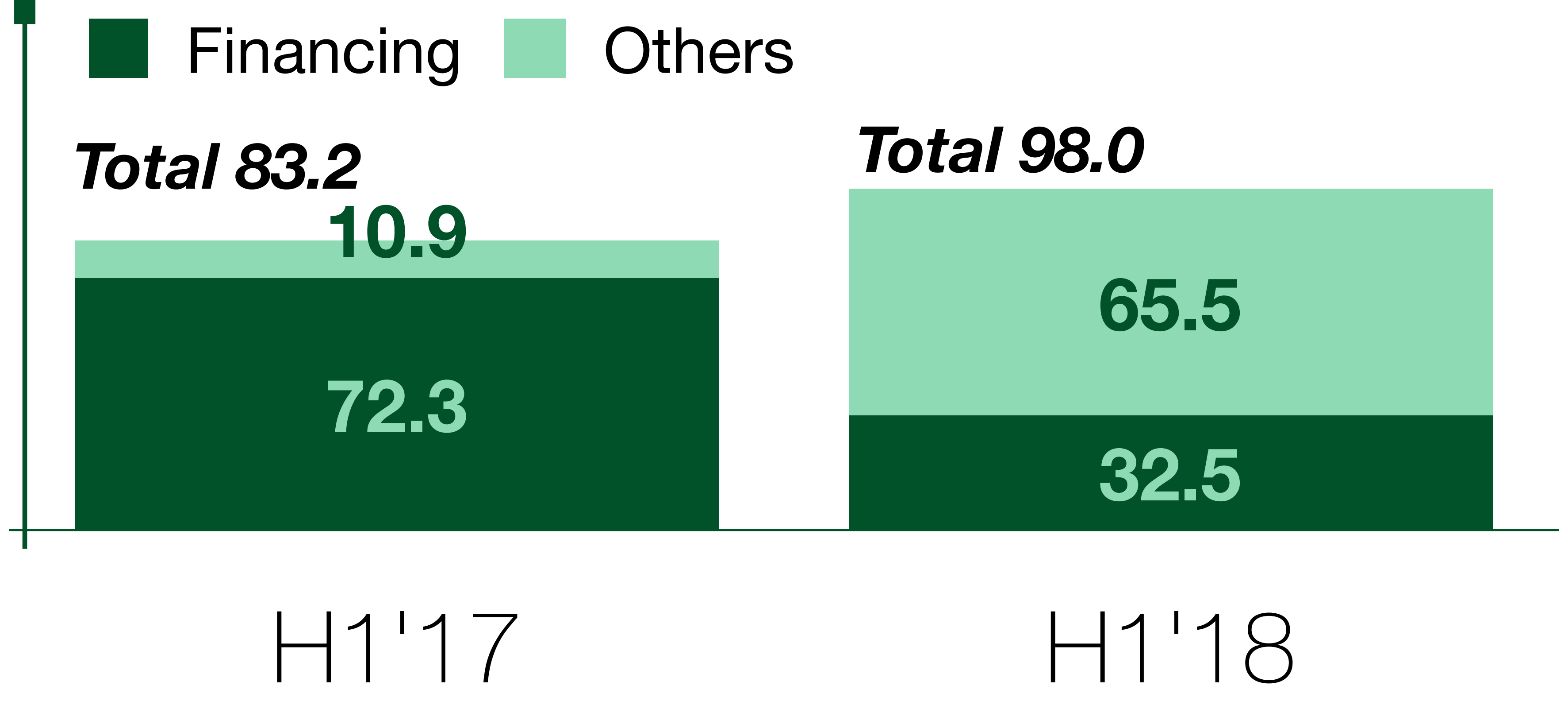
+8.6%



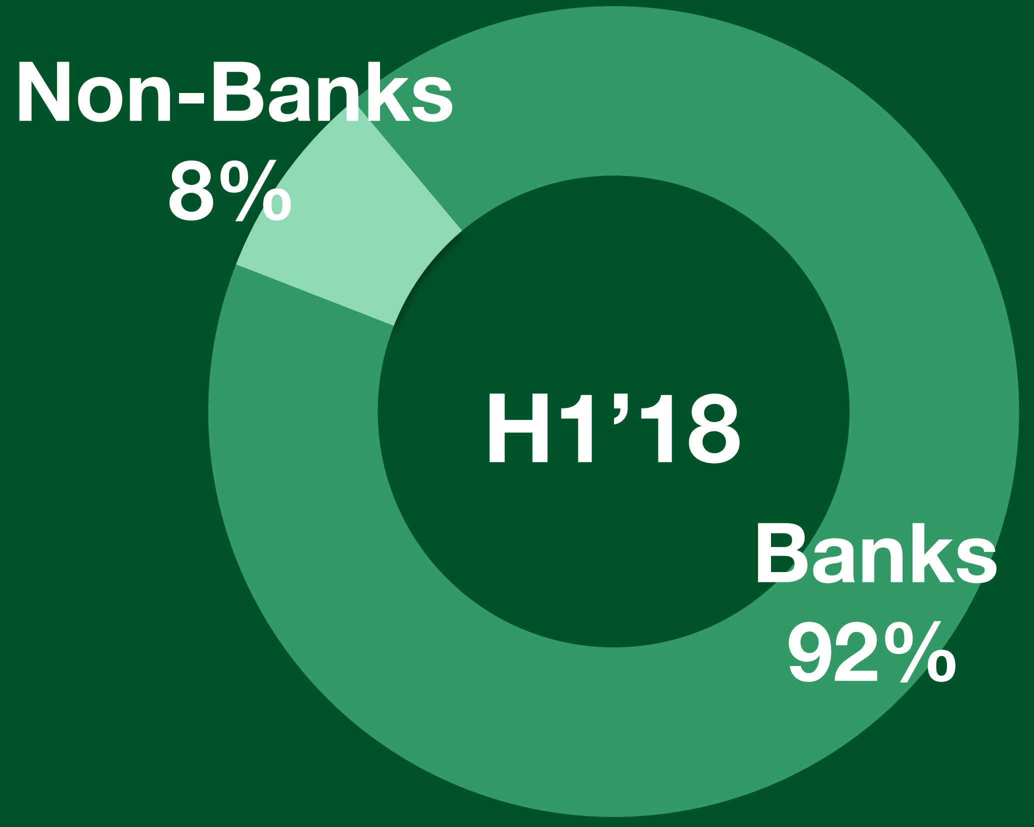
Net Financing Margin

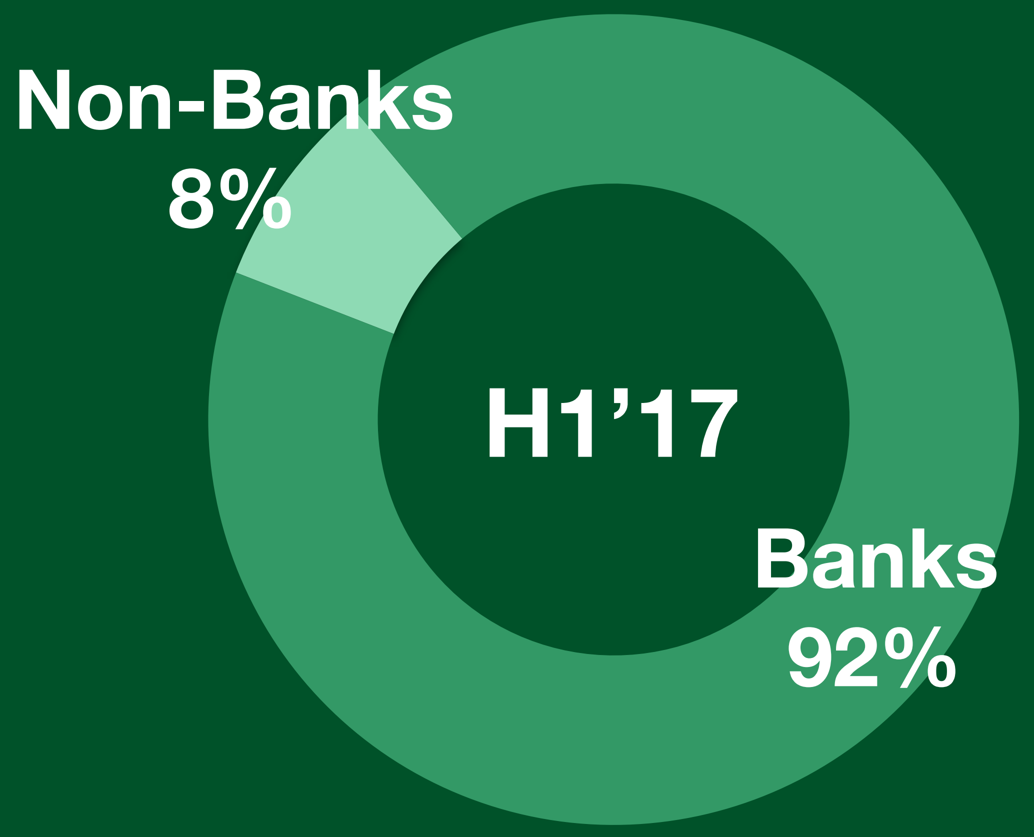


Provision and Impairment (KD mn)



Operating Profit – Banks / Non-Banks

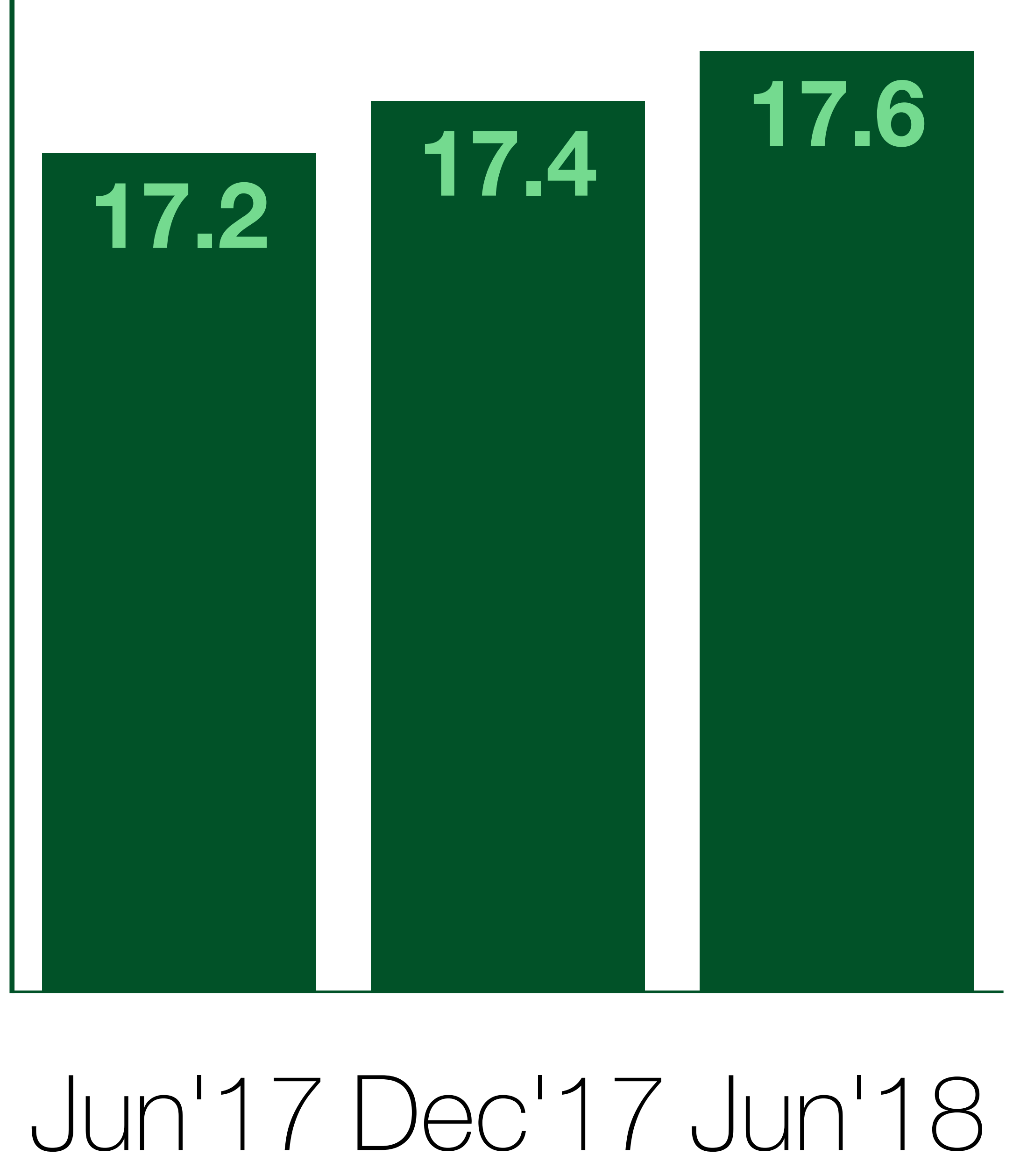




H1’18 Operating Performance

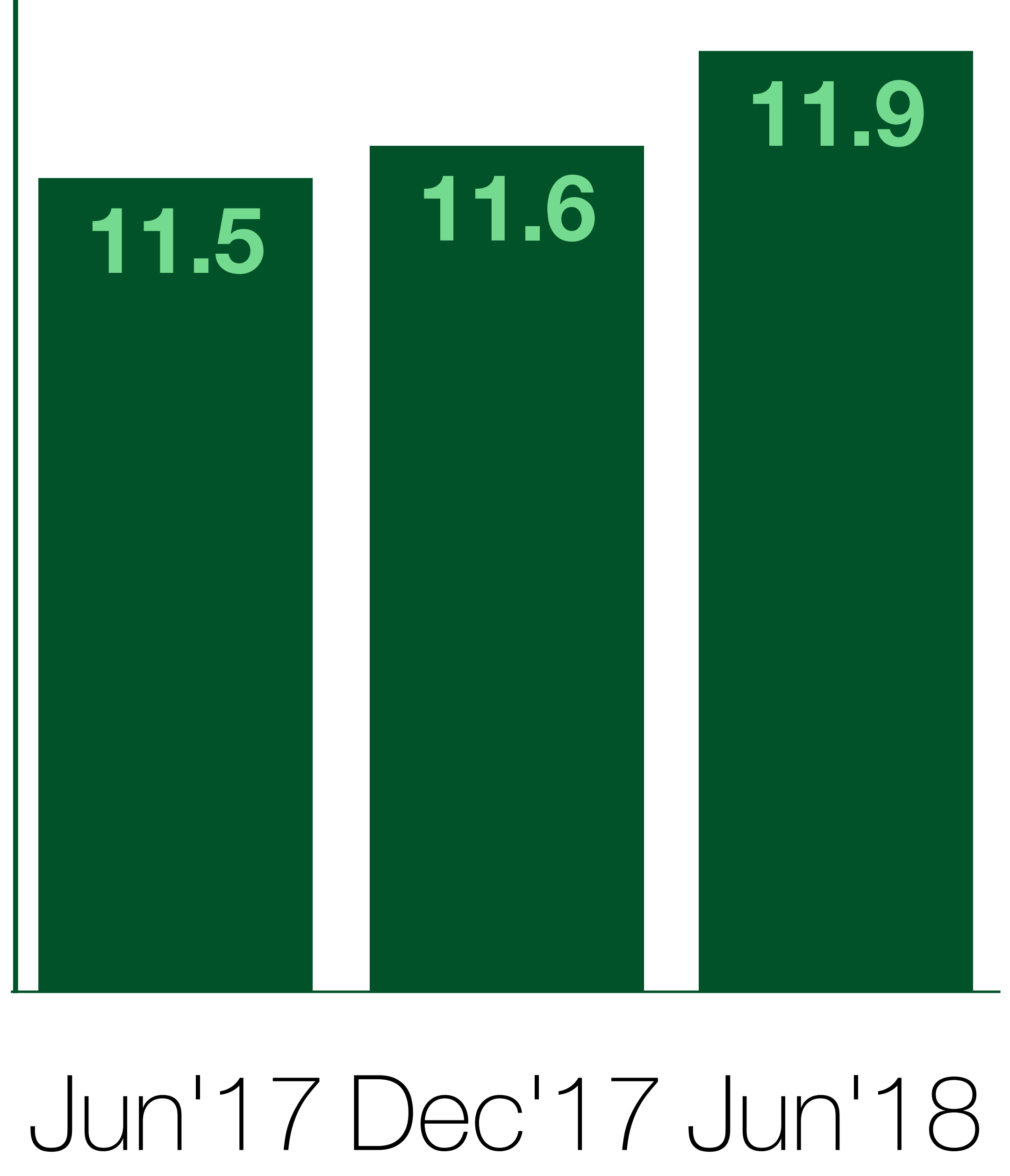
Total Assets
(KD bn)

+2.7%



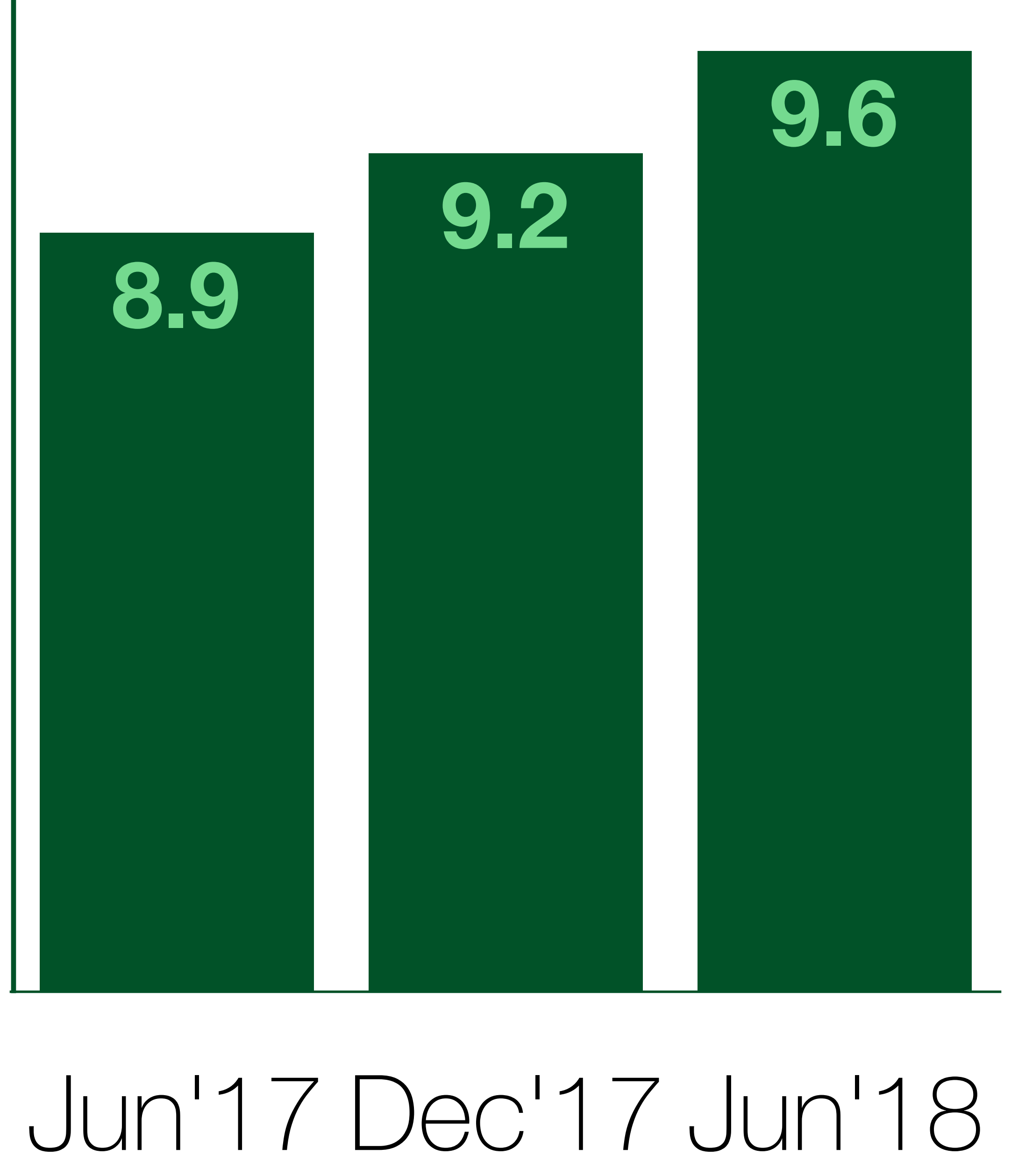
Depositors’ Accounts
(KD bn)

+4.3%

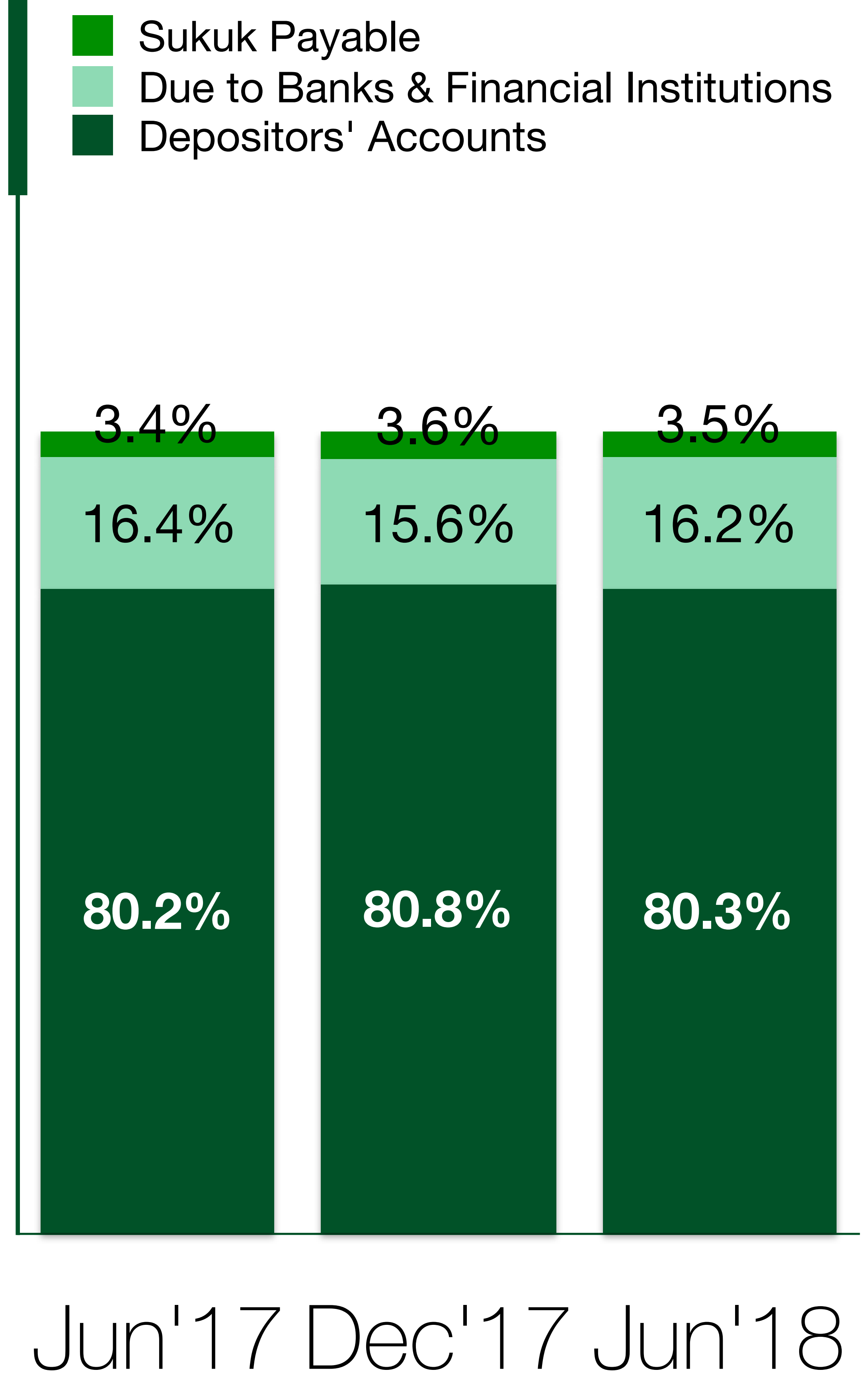


Financing Receivables
(KD bn)

+7.3%

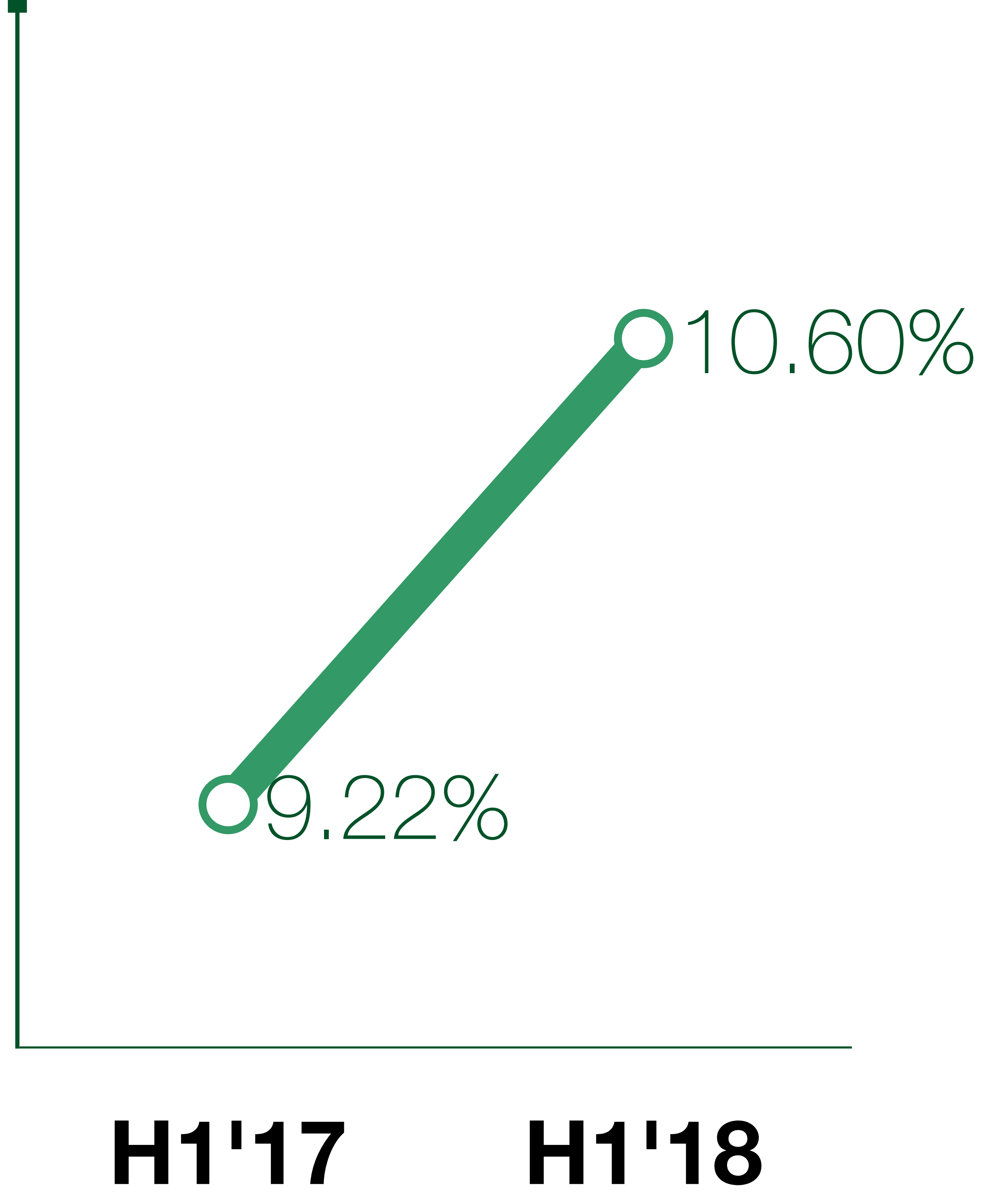


Funding Mix

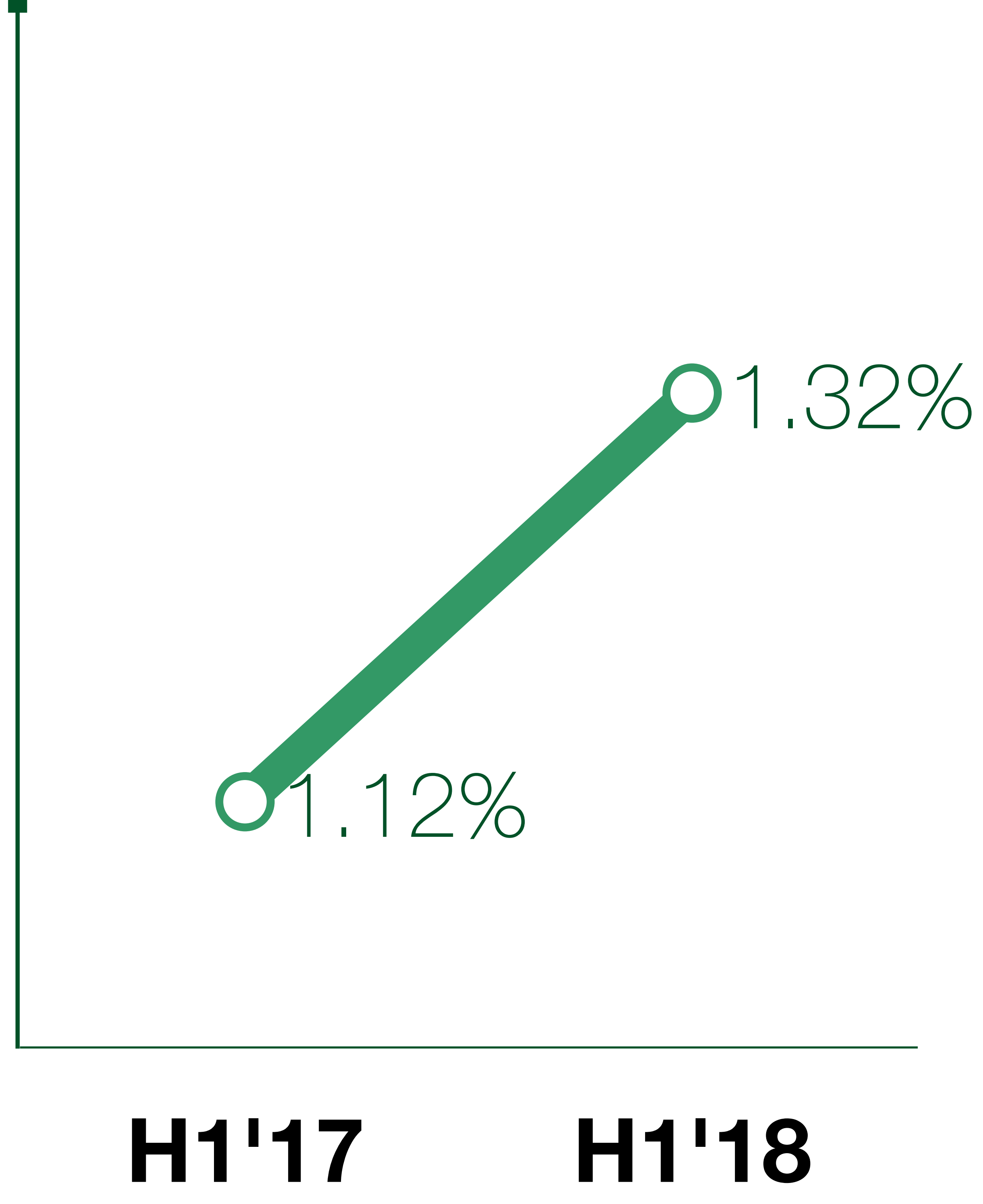


H1’18 Operating Performance

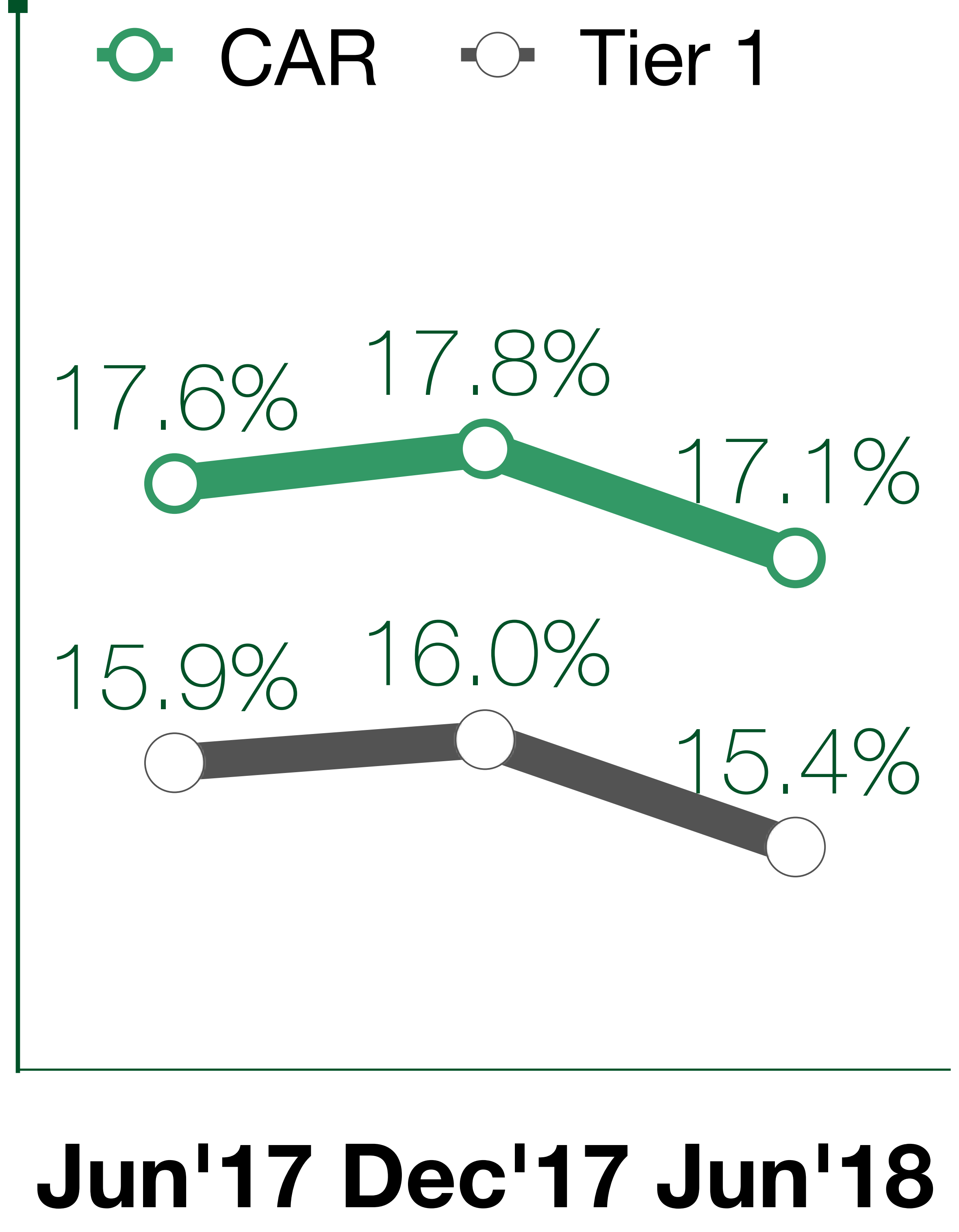
Return on Average Equity



Return on Average Assets



Capital Adequacy Ratios

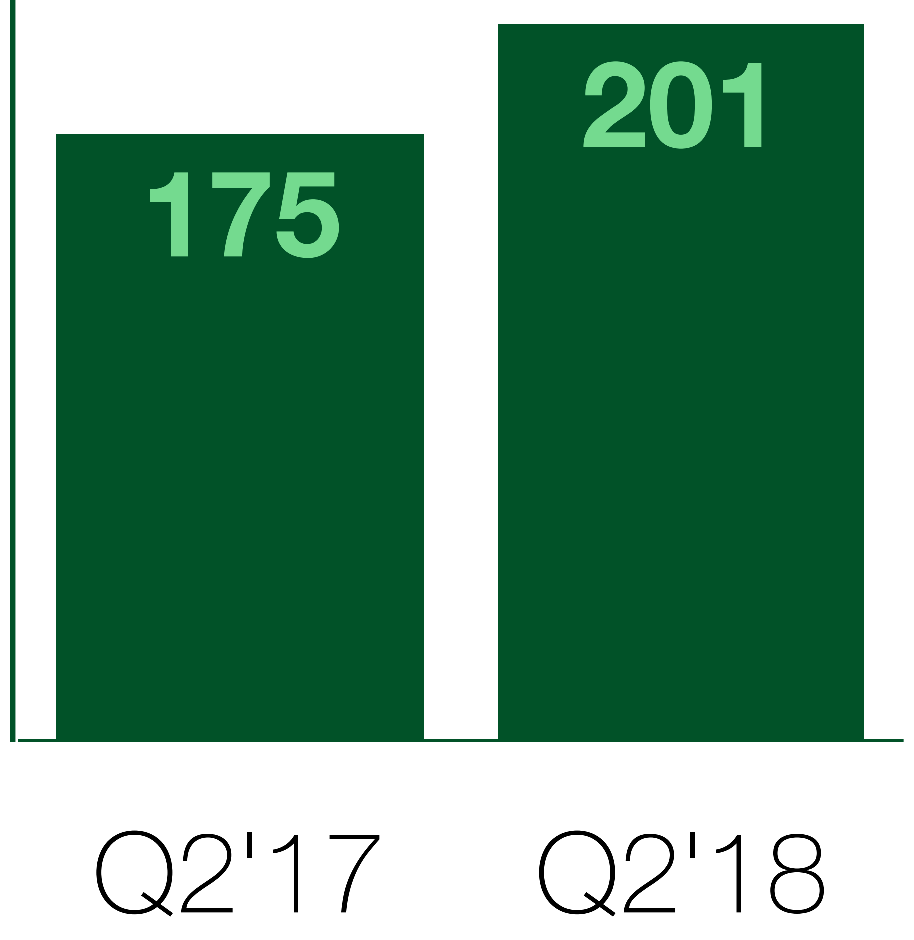


EPS (fils)

Q2’18 Operating Performance (KD mn)

Operating Income

+14.9%

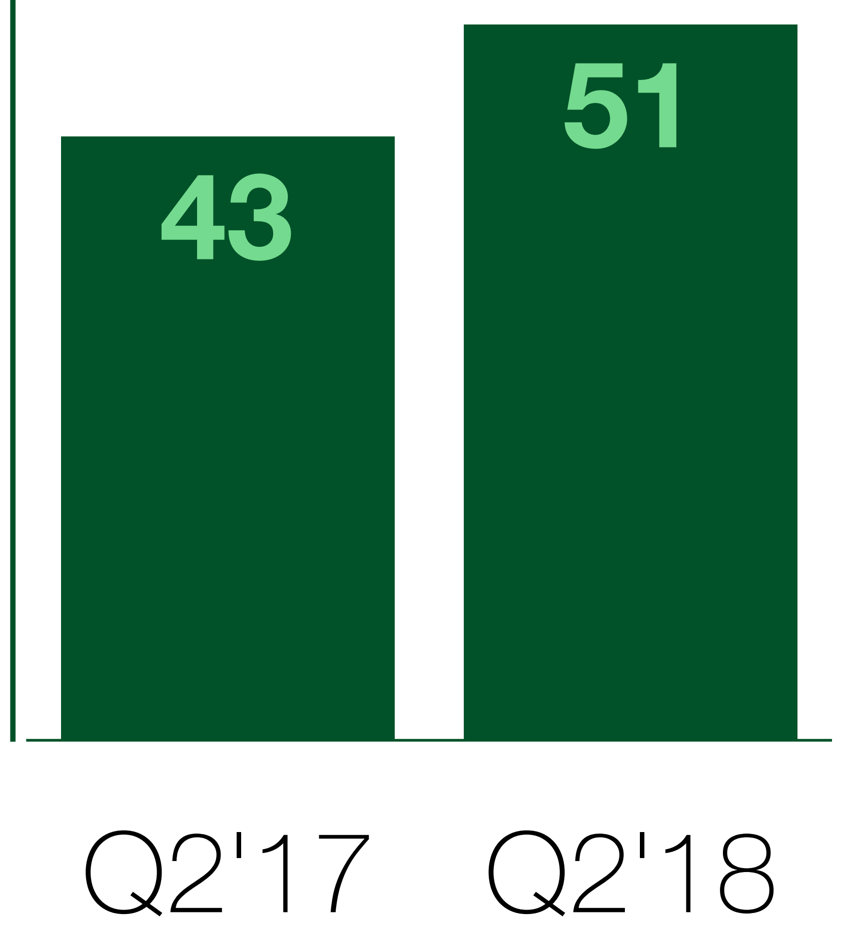


Total Expenses

+2.7%

Net Profit for Shareholders

+18.6%



Consolidated Statement of Income (KD million)

	Q2’18	Q2’17	% Change
Financing income	216	180	20.0%
Finance cost & estimated distribution to depositors	76	69	10.1%
Net Finance Income	**139**	**111**	25.2%
Investment income	18	29	-37.9%
Fee and commission income	26	23	13.0%
Net gain from foreign currencies	5	4	25.0%
Other income	12	8	50.0%
Non-Financing income	61	64	-4.7%
Total Operating Income	**201**	**175**	14.9%
Staff costs	47	43	9.3%
General and administrative expenses	21	21	0.0%
Depreciation and amortization	8	9	-11.1%
Total Expense	75	73	2.7%
Net Operating Income	**126**	**102**	23.5%
Provisions and impairment	50	40	25.0%
Loss for the period from discontinued operation	1	-2	-150.0%
Profit before Tax	**76**	**59**	28.8%
Taxation	12	10	20.0%
Non-controlling interests	12	7	71.4%
Profit Attributable to Shareholders of the Bank	**51**	**43**	18.6%

Q&A

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Appendix

H1’18 Consolidated Financials

Consolidated Statement of Income (KD million)	Jun’18	Jun’17
Financing income	424	347
Financing cost and estimated distribution to depositors	146	136
Net Financing Income	**278**	**211**
Investment income	30	56
Fees and commissions income	49	49
Net gain from foreign currencies	12	8
Other income	21	19
Non-Financing Income	112	132
Total Operating Income	**390**	**343**
Staff costs	96	85
General and administrative expenses	42	41
Depreciation and amortisation	16	17
Total Expense	154	143
Net Operating Income	**236**	**200**
Provisions and impairment	98	83
Loss for the period from discontinued operations	4	6
Profit for the Period Before Taxation	**134**	**111**
Taxation	20	18
Non-controlling interests	19	11
Profit Attributable to Shareholders of the Bank	**95**	**82**

Consolidated Statement of Financial Position (KD million)	Jun’18	Jun’17
Cash and balances with banks and financial institutions	1,435	1,314
Short-term murabaha	3,010	2,945
Financing receivables	9,561	8,914
Investment in sukuk	1,370	1,331
Trading properties	158	169
Investments	300	340
Investment in associates and joint ventures	491	464
Investment properties	514	588
Other assets	521	526
Intangible assets and goodwill	38	41
Property and equipment	207	215
Assets classified as held for sale	17	318
Total Assets	**17,624**	**17,165**
Due to banks and financial institutions	2,414	2,345
Sukuk payables	517	489
Depositors' accounts	11,947	11,455
Other liabilities	769	673
Liabilities directly associated with assets classified as held for sale	3	172
Total Liabilities	**15,651**	**15,133**
Share capital	634	577
Share premium	720	720
Treasury shares	(45)	(46)
Reserves	472	545
Total Equity Attributable to the Shareholders of the Bank	**1,782**	**1,796**
Non-controlling interests	192	236
Total Equity	**1,973**	**2,032**
Total Liabilities and Equity	**17,624**	**17,165**

H1’18 Key Performance Indicators

Key Performance Indicators	H1’18	H1’17
Return on Average Assets (ROAA)	1.32%	1.12%
Return on Average Equity (ROAE)	10.60%	9.22%
NFM	3.30%	2.73%
Cost to Income	39.52%	41.64%
Earnings Per Share (fils)	15.2	13.1
Key Performance Indicators	**Jun’18**	**Dec’17**
CET1 Ratio	15.03%	15.38%
Tier 1 Adequacy Ratio	15.35%	16.00%
Capital Adequacy Ratio	17.10%	17.76%
NPF	2.83%	2.65%
Coverage by Provision (%)	168%	178%
Coverage by Provision and Collateral (%)	213%	217%

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position (KD million)	2014	2015	2016	2017
Cash and balances with banks	1,604	1,600	1,495	1,262
Short-term murabaha	3,222	3,194	2,877	2,925
Financing receivables	8,090	8,095	8,176	9,216
Investments in sukuk	857	807	1,100	1,429
Trading properties	179	214	186	161
Investments	512	508	357	304
Investment in associates and joint ventures	463	535	469	464
Investment properties	529	580	591	554
Other assets	639	469	549	465
Intangible assets and goodwill	62	48	39	39
Property and equipment	877	264	216	214
Leasehold rights	117	180	0	0
Assets classified as held for sale	0	0	445	324
Total Assets	**17,153**	**16,495**	**16,499**	**17,358**
Due to banks and financial institutions	3,226	2,730	2,399	2,240
Sukuk payables	225	322	473	518
Depositors' accounts	10,915	10,756	10,717	11,597
Other liabilities	690	630	645	699
Liabilities directly associated with assets classified as held for sale	0	0	227	188
Total Liabilities	**15,056**	**14,439**	**14,461**	**15,242**
Share capital	433	477	524	577
Share premium	720	720	720	720
Treasury shares	(52)	(50)	(49)	(45)
Reserves	518	487	450	436
Current period income	126	146	165	184
Total Equity Attributable to the Shareholders of the Bank	**1,746**	**1,779**	**1,810**	**1,872**
Non-controlling interests	351	276	228	244
Total Equity	**2,097**	**2,055**	**2,039**	**2,116**
Total Liabilities and Equity	**17,153**	**16,495**	**16,499**	**17,358**

Consolidated Statement of Income

Consolidated Statement of Income (KD million)	2014	2015	2016	2017
Financing income	678	695	718	741
Financing cost and distribution to depositors	278	263	283	296
Net Finance Income	**400**	**432**	**435**	**445**
Investment income	136	108	79	107
Fee and commission income	92	79	89	97
Net gain from foreign currencies	28	25	23	17
Other income	63	59	34	48
Non-Financing Income	**319**	**271**	**225**	**268**
Total Operating Income	**719**	**703**	**660**	**713**
Staff costs	175	172	174	188
General and administrative expenses	109	81	84	83
Depreciation and amortization	77	78	37	35
Total Expenses	**361**	**330**	**295**	**305**
Net Operating Income	**358**	**372**	**365**	**408**
Provisions and impairment	177	184	157	163
Gain / (Loss) for the period from discontinued operations	8	22	(22)	0
Profit Before Tax and Zakat	**188**	**211**	**186**	**245**
Taxation and proposed directors' fees	28	21	24	30
Non-controlling interests	34	44	(3)	30
Profit Attributable to Shareholders of the Bank	**126**	**146**	**165**	**184**

Annual Performance Measures

Key Performance Indicators	2014	2015	2016	2017	Jun'18
Return on Average Assets (ROAA)	0.94%	1.10%	1.00%	1.30%	1.32%
Return on Average Equity (ROAE)	7.27%	8.40%	9.30%	10.20%	10.60%
NFM	2.56%	2.61%	2.71%	2.81%	3.30%
Cost to Income	51.3%	47.01%	44.71%	42.76%	39.52%
CET1 Ratio	13.52%	14.81%	15.61%	15.38%	15.03%
Tier 1 Adequacy Ratio	14.80%	15.38%	16.25%	16.00%	15.35%
Capital Adequacy Ratio	16.25%	16.67%	17.88%	17.76%	17.10%
Earnings Per Share (fils)	22.3	25.7	29.1	32.4	15.2*

**EPS for the period*

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