



YE 2021 Kuwait International Bank KSCP – Earnings Call

Edited transcript of KIB's earnings call conducted on Wednesday, 23 February 2022 at 14:00 PM (Kuwait) and 11:00 AM (London - UK)

---

*Corporate Participants:*

Mr. Mohamed Said EL Saka	Deputy Chief Executive Officer
Mr. Ajai Thomas	General Manager - Financial Control & Planning/ CFO
Mr. Abdullah Alasouse	Executive Manager - Investor Relations & Financial Reporting

*Host:*

Ms. Ahmad El-Shazly	EFG Hermes
---------------------	------------



Ahmad El-Shazly

Good afternoon and good morning everyone, thank you for joining with us today.

This is Ahmad from EFG Hermes, I am pleased to welcome you to Kuwait International Bank's YE 2021 and 4Q 2021 earnings conference call and webcast.

I have with me here today Mr. Mohamed Said EL Saka, Dy. Chief Executive Officer, Mr. Ajai Thomas, General Manager Financial Control and Planning/Chief Financial Officer and Mr. Abdullah Al Asouse, Executive Manager - Investor Relations & Financial Reporting.

I will now turn the call over to Abdullah, without any further delay.

Abdullah Al Asouse

Thank you, Ahmad, Good morning and good afternoon everyone.  
Thank you and welcome to all joining us today on our Q4 and year- end 2021 conference call and webcast.

Please allow me to start this call today by reading a brief disclaimer while full disclaimer is available to read on the screens in front of you.

*Disclaimer:* Statements included or incorporated by reference in this presentation, other than statements or characterizations of historical fact, are forward-looking statements. Such forward-looking statements are based on KIB's current expectations, predictions and estimates and are not guarantees of future performance, achievements or results.

This presentation contains certain data based on internal management estimates, which may have not been independently verified by a third party.

In addition to the disclaimer I have just read, I request you all to read the full disclaimer text on slide #2 of our presentation.

Allow me to go through with you the format for today's call:

Our Deputy Chief Executive Officer Mr. Mohamed Said EL Saka, will provide a brief update on strategy and financial performance for 2021.

Mr. Ajai, our CFO, will take you through with the presentation pack for the financial review in detail.



After concluding the presentation, we will address your questions received through webcast platform. As the case may be, we will make every effort to answer the questions received. However, if any questions are left unanswered due to time constraints, or for any follow up questions that you might have, please feel free to contact us through the KIB's Investor relations email address, which you can find on our website or on the last page of the presentation pack.

The presentation pack is also available for download from KIB website and will also be published through Boursa Kuwait.

I will now hand over the call to KIB's Deputy CEO - Mr. Mohamed Said EL Saka.

Mohamed Said EL Saka

Thank you Abdullah, Good morning and good afternoon everyone.

Thank you all for joining. I would like to take this opportunity to wish everyone a prosperous 2022. I'm pleased to welcome all the participants to our earnings call for the performance for the fourth quarter and the year ended 31 December 2021.

The local economy is recovering, thanks to the government's rapid response, which helped alleviate the pandemic and better control its health and economic repercussions. Prudent policies and effective control measures imposed by the Central Bank of Kuwait have helped the banking sector emerge from this pandemic as strongly as it has begun. As a result, the banking business activities are building momentum, recovering, and are well close to returning to pre-pandemic levels.

As part of our ongoing efforts to enhance the quality of services provided to our customers, respond to their needs and aspirations, follow up on the rapid changes in the operational environment and build the capacity to respond effectively. During 2021, we have reviewed and updated our comprehensive strategic plan to cover the next three years (2022-2024), aiming at bringing about a qualitative shift in our business activities by building a strong, flexible, harmonious, and responsive business model, to deliver unique banking and financial products tailored to the individual needs of each of our customers and exceed their expectations.

KIB continues to provide a comprehensive and advanced banking and financing solutions experience to customers, and designed specifically to respond to the fast-paced and changing needs of KIB customers.



KIB's financial performance for the year ended 31 December 2021 demonstrates our strong performance in terms of the core business.

The net profit attributable to shareholders was 10.9 Million Dinars for 2021. This was supported by increase in net financing income from KD 48.8 million in 2020 to KD 50 million in 2021 along with lower net provisions which declined to 14 million dinars from 26.8 million dinars in 2020.

KIB's total assets increased by 333 Million Dinars to reach 3.1 billion KD, a growth of 12% compared to 2020, primarily driven by growth in financing portfolio.

Additionally, KIB's investment securities grew by KD 111 million KD reaching 296 million KD, a growth of 60% compared to previous year while our asset quality matrices improved in 2021 compared to previous year which was achieved through prudent asset - liability management.

The Bank's Board of Directors has recommended cash dividends of 4% (i.e. 4 fils per share) and bonus of 4% i.e. 4 shares for every 100 shares; which is subject to the approvals by the Bank's shareholders' general assembly and regulatory authorities.

I would like to conclude my short briefing; handing over to Ajai to take you through our financial results in detail and answer any questions that you may have. Thank you very much.

Ajai Thomas

Thank you, Mr. Mohamed.  
Good morning and good afternoon everyone.

Thank you for joining and welcoming all to our YE 2021 earnings webcast.

Standard & Poor's affirmed State of Kuwait's sovereign ratings at 'A+' with a Negative outlook, while Fitch Ratings revised Kuwait's sovereign rating to 'AA-', with a stable outlook in 2022.

Please allow me to take you through the presentation.

Slide #5 and #6 of the presentation pack provides a snapshot of our strategy and external ratings' update.



Fitch Ratings revised KIB's long term ratings to 'A' and viability rating (VR) at "bb-", with a stable outlook. KIB sukuk limited senior unsecured programme was assigned LT & ST IDR rating of 'A/ F1' while LT rating of KIB's Tier 2 sukuk subordinated notes is 'BBB+'.

The ratings update was due to the change in Kuwait sovereign ratings by Fitch in January 2022 and the Stable outlook reflects that on the Kuwaiti sovereign ratings.

Slides #8 to #12 provides details of the Banks financial performance during 2021.

Coming to slide # 8 & 9:

KIB reported net profit attributable to shareholders at 10.9 Mln Kuwaiti Dinars for the year ended 31 December 2021 compared to 1 thousand Kuwaiti Dinars for 2020, mainly due to increased net financing income and lower provisioning costs compared to 2020.

Financing income declined by 8% to 82.1 Mln KD compared to 89.1 Mln KD in 2020, which was largely in line with the decline in benchmark rates as CBK discount rate was lowered to 1.5% in March 2020.

Impressive double-digit growth in our core business compared to last year ie; total assets, financing receivables and customer deposits are listed in slide #8. Investments securities also grew 60% to reach 296 Mln KD compared to last year.

Non-financing income grew by 12%, at 16.8 Mln KD mainly on account of fees and commission income which grew by 39% or KD 3 million reflecting improving economic activity and gradual recovery.

Investment income grew by 74% or 1.6 Mln KD in 2021 as compared to previous year, resulting from gains on sale of investments further supported by higher dividend income compared to previous year.

Lower Other income in 2021 compared to previous year is mainly on account of KD 3.5 Mln from collection of insurance claim and government grant under MGRP support received in 2020 which were not expected to recur.

Operating expenses at 41 Mln KD was higher by 11% compared to 2020 due to increase in staff costs and general & administrative expenses to support our digital transformation strategy.

Pre-provision income at 25.6 Mln KD was lower by 5% compared to 2020 for the reasons mentioned above.

Net provision charge at 14 Mln KD in 2021 was lower by 48% compared to 26.8 Mln KD for 2020 with improving asset quality.

Banks in Kuwait follow CBK instructions while calculating the amount of credit provision and compare it with ECL on credit facilities as per IFRS 9. Provision charged to income statement being higher of the two in line with CBK guidelines.

KIB has disclosed the corresponding ECL amounts as a note to the consolidated financial information in note 10 to the financial statements. The lower ECL charge for 2021 was due to improved macro-economic factors and general improvement in credit quality.

Navigating through slides #10, 11 and 12:

These slides show an overview of the bank's core business.

KIB reported double-digit growth in its core business in 2021 with 12% growth in total assets or KD 333 million as at 31 December 2021 to reach 3.1 Billion KD compared to 2.8 Billion KD last year, largely due to the financing portfolio which improved by 14% or 285 million KD as at 31 December 2021 to reach 2.3 Billion KD compared to 2 Billion Dinars in 2020.

Investment securities also grew by 60% or 111 million KD as at 31 December 2021 to reach 296 million KD compared to 184 million KD of last year largely from additional investments in our high quality sukuk portfolio. We do not maintain an active trading book for investments which are primarily classified as Fair Value through Other Comprehensive Income (FVOCI)

Total customer deposits registered a growth of 25% or 417 million Dinars as at 31 December 2021 to reach 2.1 Billion KD compared to 1.6 Billion KD as at 31 December 2020 demonstrating customer confidence in our product offerings in this current competitive environment.

Continuing to Slide #12

KIB's maintained capital ratios well above relaxed regulatory requirements which was set at 10.5% for Basel III total capital adequacy ratio and 7% for CET1 ratio until 31 December 2021.

KIB's total CAR stood at 19.2% and CET-1 was 11.12% as of 31 December 2021. Common Equity Tier 1 represents 11.1% of the total capital. Financial leverage ratio stood at 9.2% and NSFR was 100.7% as at 31 December 2021, well above the CBK requirements of 3% and 80% respectively. Day 1 loss booked for deferral of financing receivables is phased over a period of four years for capital related ratios.

Banks in Kuwait are required to unwinding measures for relaxations to the reach the previously mandated capital and liquidity ratio levels in 2023.

Slide #14 shows the Bank's commitment to shareholders with 4 fils per share cash dividend and 4% bonus shares (i.e. 4 shares for every 100 shares) subject to the required approvals.

Slide #16 summarizes broad expectations for 2022

Thank you.

Handing it back to Abdullah for the Q&A session.

Abdullah Al Asouse

Thank you Ajai.

We will now start taking questions, after a few minutes pause so as to receive most of your questions.

Operator

Ladies and gentlemen, we will now start our question and answer session.

If you wish to ask a question, please type your question into the "ask a question text" area then click the submit button. Thank you for holding.

Abdullah Al Asouse

We have some questions on asset growth, components of growth and the expectations for 2022?

Ajai Thomas

Impressive financing and investment portfolio growth contributed towards a robust asset growth of 12% compared to 31 December 2020.

We expect to maintain this momentum during 2022.

Growth in investment securities is largely contributed by additional investments in high quality sukuku in line with our policy.

Abdullah Al Asouse  
Ajai Thomas

We have questions on asset quality ratios?

We are pleased that NPL and coverage ratios as at 31 December 2021 have improved from a challenging previous year which was reflected in IFRS 9 ECL as mentioned before.

We continue with our efforts in improving our asset quality ratios of the Bank.

Abdullah Al Asouse  
Ajai Thomas

What were the impact of the two deferrals of financing receivables in Kuwait?

The day 1 loss from the first deferral in 2020 was charged to the Bank's shareholders' equity. The Government of Kuwait absorbed the impact of the second deferral scheme in 2021 and had no impact in the financial statements of KIB.

Abdullah Al Asouse  
Ajai Thomas

Your comments on capital adequacy ratios?

KIB maintains adequate capital buffers and remain well capitalized,

KIB's total CAR ratio at 31 December 2021 was 19.2% vs 10.5% required regulatory limit, which was relaxed by CBK ratio from 13% until December 2021, to be increased to 11.5% in 2022 and 13% in 2023.

KIB's total CAR was also supported by AT1 and AT2 issuances in 2019 and 2020 for US\$300 million each.

Abdullah Al Asouse  
Ajai Thomas

Non-finance income grew by 12%. Could you please elaborate?

Non-financing income grew mainly due to growth in our fees and commission income growing by 39% or KD 3 million with improving economic activity and also increase in investment income from gain on sale of investments and dividend income during 2021.

Other income dropped of 76% or KD 3.2 million on account of income booked from insurance claim received for KD 1.6 million and KD 1.9 million from MGRP during the year of 2020.

Excluding this one-off, growth in non-finance income for 2021 has been fairly robust for KIB.





Abdullah Al Asouse	Last question to Mr. Mohamed, customer deposits growth has been impressive and consistent, what are the expectations for 2022?
Mohamed Said EL Saka	Our successful marketing campaigns, attractive profit rates and new product offering has helped us to achieve 25% growth in 2021 also deferment of payment of consumer and installment facilities in April 2021 for six months to eligible customers, help aid this growth. We are keen to offer new and innovative products in 2022 to keep up with similar growth expectations.
Abdullah Al Asouse	Thank you all. We are nearing the close of our scheduled time for the call. Please feel free to get in touch with us at the investor relations contact provided at the end of the presentation, and we will respond to your inquiries. Any final words, Mr. Mohamed?
Mohamed Said EL Saka	On behalf of KIB, I would like to thank all the participants and look forward to discuss our next quarter results. Thank you all for joining KIB's earnings call.
Operator	This concludes today's conference call. Thank you for your participation. You may now disconnect.