

P.O. Box 5389, Al Safat 12170  
State of Kuwait  
Telephone: +965 2298 8000  
Fax: +965 2298 8419  
Authorized Capital KD 400,000,000  
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[www.burgan.com](http://www.burgan.com)

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فاكس: ٨٤١٩ ٢٢٩٨ ٩٦٥+  
رأس المال المصرح به ٤٠٠,٠٠٠,٠٠٠ د.ك  
رأس المال المصدر والمدفوع ٣٦٢,٤٨١,٣٢٨ د.ك  
سجل تجاري رقم ٢٤٠٦٧



Date: 20/05/2024

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**M/s Bursa Kuwait**

*Dear Sirs,*

**Sub: Burgan Bank Analyst Conference Transcript  
for 1<sup>st</sup> Quarter of 2024**

In compliance with the provisions of clause (4) of article (8-4-2) of Bursa Kuwait Rulebook, Resolution No. (1) of 2018 and amendments thereto, attached is the transcript of the Analyst conference for the 1<sup>st</sup> quarter of 2024 that was held on Thursday 16/05/2024 at 01:00 pm via conference call.

Best regards,

**Khalid Fahad Al-Zouman**  
Chief Financial Officer





بنك بروگان  
BURGAN BANK

Q1'24

Earnings Conference call Transcript

Thursday, 16<sup>th</sup> May 2024

## **Q1' 24 Burgan Bank Earnings Call**

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**Thursday, 16<sup>th</sup> May 2024**

**Transcript of Burgan Bank Earnings conference call on Thursday 16<sup>th</sup> May 2024  
at 13:00 Kuwait time (UTC+03:00)**

**Burgan Bank Participants:**

**Mr. Khalid Al Zouman**

**Chief Financial Officer**

**Mr. Gaurav Handa**

**Assistant General Manager – Finance Group**

**Mr. Hamad Al Bader**

**Manager – Investor Relations**

**Operator (Elena Sanchez):**

Good afternoon everyone and welcome to the Burgan Bank Group Q1'24 Earnings call. Thank you very much for taking your time to attend this conference call. Today's call is being recorded. With that, I would like to hand over to Mr. Hamad Al Bader from Burgan Bank to kick off the call.

**Hamad Al Bader:**

Thank you, Elena. Good afternoon everyone and welcome to the Burgan Bank Group Q1'24 earnings call. Thank you very much for taking the time to attend this call. Joining this call from Burgan are Mr. Khalid Al Zouman, Chief Financial Officer and Mr. Gaurav Handa, Assistant General Manager – Finance Group and myself, Hamad Al Bader, Manager-Investor Relations. We shall cover the slides over the next 20 minutes or so and would welcome your questions at the end once the presentation has been covered. With that, I'll kickoff this presentation with the key highlights on slide 8:

- 1) During this quarter, we witnessed a decent growth in our loan book which has been led by Kuwait:
  - Kuwait's loan book has reached KD 3.5bn, up 6% y-o-y.
  - While the Group's loan book increased by 3% y-o-y to KD 4.3bn.
- 2) Our key P&L operating metrics for the quarter has also been robust:
  - Our Revenues increased by 7% y-o-y to reach KD 54mn.
  - and our bottom-line grew by 34% y-o-y to KD 10mn.
- 3) The Group's capital levels remain very strong:
  - CET1 ratio was at 13.2% While the CAR stood at 19.5%, both well above regulatory requirement with substantial buffers.
- 4) The Group's continued to remain very liquid:
  - With both NSFR and LCR trailing well above minimum regulatory requirements.

I will now hand over to Mr. Khalid Al Zouman to cover the financial review.

**Khalid Al Zouman:**

Thank you, Hamad.

Good afternoon everyone. Moving on to slide 10, covering the financial review for the quarter;

- Q1'24 revenues increased by 7% y-o-y to KD 54mn, driven by strong Non-Interest Income of KD 20mn (which increased by 27% y-o-y) and a stable Net-Interest Income of KD 34mn.
- Net Interest Margin for the Group was more or less stable at 2.0%.
- Due to higher revenues and a stable cost base, the Group's Operating Profit for the quarter reached KD 24 million, up 14% y-o-y.
- The group's Cost to Income Ratio improved to 55.6% in Q1'24 as compared to 58.1% reported in Q1'23.
- The cost of credit for the Group net of recoveries remained low at 30bps. As CoC is considered as crucial forward-looking risk indicator – such low ratio reiterating inherent strength of our portfolio.
- Accordingly, Burgan's Net Income in Q1'24 increased by 34% y-o-y to KD 10 million.

Moving to slide 11, which reflects the Group's healthy Asset Quality metrics:

- The Group's NPLs were slightly higher y-o-y. This increase was predominantly driven by Kuwait and Algeria. However, the bank is already working with a few of these customers – particularly in Kuwait - for resolution and we think this temporary increase would be normalized over the next few quarters.
- Despite the increase, the Group's NPL ratio still remains very healthy at 2.6%.
- Our NPL coverage ratio continue to very strong at 170% and our ECL buffers over ECL requirements are in excess of KD 100mn.
- Provision charge net of recoveries for the quarter was just KD 3mn.

Moving on to slide 12, the key messages on this slide are as follows:

- Group's assets grew to around KD 7.8 bn in Q1'24, with Kuwait driving the growth, Kuwait grew by 7% y-o-y to reach KD 6.3bn.
- The Bank continues to hold healthy levels of liquid assets in its books as reflected in the bottom chart. Liquid assets ratio reached 27.3% in Q1'24.
- The Group's loan book was robust at KD 4.3bn+, primarily driven by its Kuwait book which increased by 6% y-o-y.
- Loans sector concentration continues to be well diversified. Also, importantly, there was no major movement in the sector concentration Y-o-Y.
- The staging of loan also remained more or less stable; of-course the stage 3 uptick indicates the slight increase in our NPL which we discussed earlier.

I will now hand over to Mr. Gaurav to cover the next few slides.

**Gaurav Handa:**

Thank you, Mr. Khalid.

Moving on to slide 13, I want to highlight key messages on the liquidity profile:

- The Group's deposit base expanded by 23% y-o-y and stood at KD 5.1bn at the end of Q1'24.
- Our CASA % was lower Y/Y mainly due to increase in customer deposit base.
- The Key Liquidity ratios, NSFR & LCR were well within the regulatory requirements.

Moving on to slide 14:

- Our capital levels continue to be strong and healthy with considerable buffers. This is expected to strengthen and support our growth momentum particularly in our core market – Kuwait. Our CET1 ratio was at 13.2% and CAR at 19.5% as at end of Q1'24.

Moving on to slide 15, with an update on the recent AT1 Issuance:

- The bank has just concluded the first ever KD denominated perpetual bond issuance in the local market with an issue size of KD 150mn.
- The issuance has been very successful which demonstrates investors confidence in Burgan's credit.
- This issuance entails fixed and floating tranches equally split 50-50%. The floating tranche is expected to reduce our overall cost when the expected rate cuts are executed.

Moving on to slide 16:

This slide provides a birds-eye view highlighting performance of our key subsidiaries:

- Kuwait continue to be the largest asset contributor and there has not been any material change in the asset mix y-o-y.
- The numbers are highlighted with variance as compared to last year.
- As apparent, our franchises are stable with most of the metrics trending in the right direction with no major surprises.

I will now hand over now to Mr. Khalid to conclude this presentation.

**Khalid Al Zouman:**

Thank you, Mr. Gaurav.

Moving to slide 18, in summary:

- Stable financial performance underscores Burgan's resilient business model.
- The Group's high capital levels enables it to deliver consistent growth.
- Kuwait will continue to remain the key growth driver for the Group.

With that I will conclude our presentation and will hand it back to Elena to coordinate the Q&A session.

**Elena Sanchez:**

Thank you, gentlemen, for the presentation. We will now open the floor for your questions, so if you'd like to ask a question you can either type it in the question box on your screen, or you can click on the Raise Hand button and I will unmute your microphone. We have a question from Rakesh Tripathi. Please go ahead.

**Rakesh Tripathi:**

A few questions from my side. First one, if you can talk a little bit more, give us a bit more granularity on the NPL increase in the first quarter in Kuwait. Was this in the corporate segment or the retail segment, one or two large accounts, or there were more? Was it concentrated to any particular sector? Is that linked? Are you seeing any signs of stress in any particular area of the economy? That's on the asset quality side.

Secondly, if you could talk a little bit about the NIMs as well. The NIMs declined relative to where they were in the last quarter. And in parallel, there was an increase in time deposits, as you mentioned earlier, with CASA ratio declining from 32%, I believe, at the end of last year, from there to 28% now. So has that driven the higher funding cost and NIM decline? What do you expect for the rest of the year?

Thirdly, if you can talk a little bit about your growth expectations for the full year, for this quarter particularly. What I understand is that Kuwait saw good growth, around 3.7-3.8% year to date in the first quarter, but it was the international segment where the loan book contracted. Part of it would have been Turkey, But what else can you tell us? What is the sense that you're getting? What is your growth expectation, now that your capital levels are quite strong?

And last question is if you could talk a little bit about your progress on the retail strategy. How are we progressing on the loans and deposits?

**Khalid Al Zouman:**

In regards to the NPLs, it is mainly coming from two large customers and they do not have a cash flow issue. We internally have decided to classify those two clients and we are going ahead with the legal procedures. We expect in the coming quarters, if not this quarter, that there will be a solution for this and that these two accounts are going to be normalized. Please note that they are fully collateralized.

**Rakesh Tripathi:**

Right. And is this also reported under stage three? Because in that case, you might be able to move it out of NPL but not out of stage three, I believe, for the next 12 months, the curing period that is required.

**Khalid Al Zouman:**

The moment we restructure, we can move them to stage two.

**Rakesh Tripathi:**

Okay. So, you can move it to stage two, but not from stage two to one for another 12 months.

**Khalid Al Zouman:**

No. No, we don't. But the moment we restructure, we move them to stage two.

**Rakesh Tripathi:**

Okay, that's clear. Thanks.

**Gaurav Handa:**

In regards to your question on NIMs, if you look at our NIMs year on year, comparatively, we have always maintained it at 2.1% or 2% levels. So that's our usual NIMs at the group level. Q4 last year, they were one-offs. We hold inflation-linked bonds in Turkey, where the return, the interest income is linked to the inflation in the country, and we had recorded substantial income last year in Q4 from these bonds as the inflation had touched 60-65% in 2023. So that, there was a one-off in Q4 last year. And hence, you see a drop in Q1 as compared to Q4. But if you compare Q1 to Q1, we are at that 2% or 2.1% levels.

**Rakesh Tripathi:**

Should we expect this level to be maintained over the rest of the year, assuming no cuts?

**Gaurav Handa:**



Yes. So, in our planning, we were anticipating that there could be a rate cut somewhere in June. But, as of now, it doesn't look likely. Probably, it may happen only by end of this year. And it's also uncertain whether Central Bank would follow that Fed cut, because if you look back, Central Bank was not following the Fed increase like-to-like. So, it's currently uncertain. So at least this year, 2024, we expect the NIMs to be stable at around 2% or 2.1% levels. Moving on to your next questions on the CASA, yes, although you see a percentage drop, but our CASA balance had remained at the same level. Because of the increase in time deposit, the ratio has come down. Again, the increase in time deposit is being offset. If you look at our liability section in the balance sheet, there is a drop in other balances where we are borrowing lower amounts from banks and OFIs, and we have also reduced our other borrowed funds. And these have been compensated by increase in customer time deposits.

**Rakesh Tripathi:**

If I may ask, can you give us some clarity on a comparison of the funding cost when it comes to, say, borrowing in the interbank market from banks or other financial institutions vis-à-vis the cost of these time deposits? Which one is essentially cheaper for banks?

**Gaurav Handa:**

See, it keeps fluctuating. Actually, it's difficult to say which is cheaper. But as we stand today, when you borrow interbank, we were borrowing dollars, which is more expensive than borrowing KDs. Currently we are able to borrow from customers KD, local KD deposits, which is cheaper than borrowing foreign dollar deposits. So our Treasury actively keeps on managing the funding profile, based on the interest rates in the market and, of course, the liquidity situation in the market as well.

**Rakesh Tripathi:**

That's fair. Thank you. On the growth side?

**Gaurav Handa:**

Yes. Loan growth, we have seen a good, decent growth in Q1. Kuwait operations has grown by 4% in Q1. And in our planning, we were expecting a mid-single digit, around 5% to 6%. At the Group level, we would still see a growth of 5% to 6%, but we anticipate Kuwait would grow higher. Both corporate and retail growth is going to be higher than the market average in 2024.

**Rakesh Tripathi:**

Are you confident about that guidance, given where we are right now? I believe the international book is weighing down a little bit on the overall group growth numbers, the impact that you would be seeing from some of the international operations.

**Gaurav Handa:**

Yes. So, when I'm talking about the growth, it's net of the currency devaluation. Because as of now, we don't know how the Turkish Lira would move by end of the year. But if there is a higher devaluation, yes, it will be difficult to achieve that growth target. But in terms of real growth, we are expecting that 5% at the Group level. In regards to your last question on the retail strategy, as you know, we have highlighted to you in the past, we continue growing our retail book, both on the asset and liability side. The unit is working on introducing new products. There are a lot of cross-sell initiatives. We are selling more credit cards. The loan growth is higher than the market. We are also increasing the salary accounts. So, the strategy is in line with the expectations that were built during beginning of the year, and we expect to continue that strategy going forward.

**Rakesh Tripathi:**

Thank you. Just a follow-up on this one on the retail portion. There's a lot of Kuwaiti banks from whom we've heard commentary. And I know Burgan has talked about this strategy for a long time now. This is not something new that we are hearing from Burgan. But we've started hearing this commentary from a lot of Kuwaiti banks, even the smaller-sized banks, banks that are significantly smaller than Burgan, where everybody is talking about looking to capture the retail market, looking to capture the youth, trying to capture college students as they get into their careers. We've got one of the incumbents, the largest one, which already has a significant retail market share, including share of youth. You are trying to grow in this segment. There're other smaller banks that are trying to grow. And we are hearing reports of increasing market share. So how is this working out? What kind of competition do you see? Is the market itself growing? Is there room for a lot of players? Or do you expect a significant rise in the competitive intensity there that could impact the performance?

**Khalid Al Zouman:**

Yes. There is no doubt that all the banks are trying to capture market share and try to excel in the retail space. I think the difference is with the tactics and strategic approach along with smart marketing tactics, efficient digital channels and a strong sales force towards providing a better customer service and reaching out. Remember, Burgan has a very limited branch network, now, we are trying to increase it.

**Rakesh Tripathi:**

Thank you.

**Elena Sanchez:**

Next question is from Konstantin Rozantsev. Please go ahead.

**Konstantin Rozantsev:**

Thank you. I had three brief questions that I wanted to ask. The first one. So, you mentioned that the bank has raised perpetual bonds in Kuwaiti dinars recently. I just wanted to check, do you make any disclosure, or do you provide commentary on the fact, who would be investors into these perpetual bonds? Who would these bonds be placed with? You mentioned in the local markets, but any additional color, I would appreciate. The second question. What is the bank's target buffer for the operation for the CET1 above the minimum? And the last one, also just a quick check. You mentioned in the past that there is a plan to reduce the size of related-party lending. Could you please update us on your thoughts in this area as of now? Thank you.

**Khalid Al Zouman:**

Unfortunately, I cannot disclose the names of the investors in our AT1 Perpetual bonds. In regards to your question on related party, I think we previously mentioned that we are working on reducing this exposure and it will take time. But let's step back and look from KIPCO's level, you'll see them restructuring their investments, they are selling some, they are merging some companies, which might help us reduce our related party exposure. We don't see any impact on Burgan's loan quality. Further, please note, Burgan has never lost any money (no NPLs/impairments) on the related party exposure.

**Gaurav Handa:**

Regarding your question on CET1, as we mentioned earlier, we are at 13.2%, with a very decent amount of buffers as compared to minimum, which is 10.5%. The planned growth during the year is going to reduce the ratio a little bit, but then we are not going to be anywhere close to the minimum. So, the target is to be at around 12% to 12.5% level. So, we will maintain those ratios about 12% with the planned growth for this year, and even 2025.

**Konstantin Rozantsev:**

Thank you very much.

**Elena Sanchez:**

Okay. We'll take a few questions now that were sent to the Q&A chat. One of them is about the AT1. Was there a request from the central bank to issue your new AT1 in Kuwaiti dinars? All issuances of AT1 capital by Kuwait banks have been in USD.

**Gaurav Handa:**

No, there was no request from Central Bank. It was internal, it was the bank's Treasury's decision that we can go locally in KD market, and we will be able to subscribe, we'll be able to have investors who will be interested in the KD market. This was the first perpetual that was issued locally in KD terms. But there's no requirement or request from Central Bank to do that.

**Elena Sanchez:**

Okay. Another question on the AT1. When are you planning to redeem the AT1 bonds issued in 2019?

**Animesh Aseem:**

So, we have received the Central Bank of Kuwait's approval, and it has been disclosed. However, we still can't comment on our intention. That decision is still being contemplated, and it'll be disclosed as the final decision is taken and the bondholders are notified. So once that happens, we will make the required disclosures.

**Elena Sanchez:**

All right, thank you very much. Another question. Will the total cost for the AT1 bonds for 2024 be equivalent to one quarter of the expense of the previous bond and half a year of the expense of the new bond?

**Gaurav Handa:**

No. So I think there is a time lag of around one, one and a half months, where we will have both the bonds on our balance sheet. Yes, so there could be a duplication, but then we would reduce our other borrowings and reduce our funding cost and compensate this increase.

**Animesh Aseem:**

Just to add to what Gaurav said, so what happens is, the moment we make our intention clear and we notify the bondholders, the AT1 would cease to be a Tier 1-eligible security. So, any expenses towards that would not basically be counted as a capital cost, so to say. It'll be an above-the-line item and not an OCI item anymore. So, once we disclose that to the bondholders, then that will cease to be a capital instrument.

**Elena Sanchez:**

All right, thank you. Next question. You mentioned on slide six of your presentation the sale of non-core assets as a strategic priority. Are you referring to any of your international subsidiaries?

**Khalid Al Zouman:**

We discussed this earlier and this is a continuation of the strategy from last year where we sold the Bank of Baghdad (BoB) portion. Also, before year end, we did sell 52% of BBT.

**Elena Sanchez:**

All right, thank you very much. Next question. Why is the minority interest on the balance sheet a negative number?

**Gaurav Handa:**

I think this was resulting from the transaction that we did when we sold BBT in November last year. The foreign currency transition losses relating to that entity were transferred to minority, which resulted in a negative impact on the minority shareholders.

**Elena Sanchez:**

All right, thank you very much. Next question. What does other income of about KD 10 million in Q1 2024 include?

**Gaurav Handa:**

Yes. So, in the past years, where we have done some DAS transactions, Debt Asset swaps, both in Kuwait and Turkey, for the exposures that were closed in settlement of collateral debts, real estate, we are in the process of selling those collaterals. We have realized gain from that, which is classified as other income, both in Kuwait as well as Turkey. Plus, there were some one-off gains due to change in tax regulation in one of our subsidiaries, which was also classified as other income.

**Elena Sanchez:**

Thank you for that. Next question. What is the reason behind the significant increase in deposits? Does it imply a strong loan growth in the coming quarters, especially given the rate environment?

**Gaurav Handa:**

So, as we also highlighted earlier, although there is an increase in the customer deposits, but you will see a compensating decrease in borrowings from banks, OFIs and other borrowed funds. On a net-net basis, there is around KD 300 million to KD 400 million increase in our deposits, which we have utilized for lending to our customers, and we are keeping resources for further growth that's expected during the year.

**Elena Sanchez:**

Next question. Could you share your thoughts on any impact you may see from the recent headlines on the political front?

**Khalid Al Zouman:**

We have an optimistic view, and it has also been reflected even in our stock market the past couple of days.

**Elena Sanchez:**

All right. Thank you for that. How should we think about the hyperinflation accounting charge for the rest of the year?

**Gaurav Handa:**

So far in Q1, we have seen inflation at around 16% levels. For the full year, the expectation in our planning and as per the guidance that we have received from Turkish economists is that would be around 40% for the full year 2024. This is lower as compared to last year. Last year, it was around 62%. So, the charge will accordingly vary and will reduce as compared to last year.

**Khalid Al Zouman:**

We are conservative also in our view. But, things look positive in Turkey, either from the rating agencies perspective or from the overall political situation. Our team in Burgan Bank Turkey indicate that things stable and we hope this will have an impact on the inflationary rate.

**Elena Sanchez:**

Next questions. Can you provide an outlook on Turkey operations growth and margins?

**Gaurav Handa:**

So, we have a slide which gives the margins by entity. So, our margins in Turkey were stable at around 3.8%. The interest rates have increased significantly. The policy rate is now 50%, which has resulted in the increase in cost of deposits, as well as we have increased our rate when we charge to customers. So, on an overall basis, between our US Dollar and local Turkish Lira portfolio, we are able to maintain our margins of around 3.8%. In terms of loan growth guidance, there is a restriction imposed by the regulator, that the maximum growth that you can have per month is restricted to 2%. So, the planned growth in local currency terms is expected to be around 20% to 22% for 2024.

**Elena Sanchez:**

Next question. What is your target loan-to-deposit ratio?

**Gaurav Handa:**

We are quite comfortable there. We are around 75-80-ish level, and we usually maintain at 80% level.

**Elena Sanchez:**

Another question from the chat. Can you please reconfirm your cost of risk guidance for full year 2024?

**Gaurav Handa:**

Yes, currently, what we have seen, net of recoveries, is around 30 BPS. In our planning, we were expecting 40 to 50 BPS, but usually we don't factor in recoveries. It's difficult to exactly give a guidance on cost of risk, but 40 to 50 basis points is our planning assumption.

**Elena Sanchez:**

We can take now additional questions from Rakesh. Please go ahead.

**Rakesh Tripathi:**

Thank you, team. Just one more question from my end, and a follow-up on an earlier question. On the recent suspension of the parliament, from a business standpoint, what are the expectations on some of the key laws that are due to be passed but have been held up, some of the key reforms, and the potential impact on project activity and corporate activity over the rest of the year?

**Khalid Al Zouman:**

As I said earlier, we are optimistic and we expect things to move faster. The parliament's authority has now been handed over to the government, which should allow the government to have certain laws easily passed.

**Rakesh Tripathi:**

Thank you very much. That's very helpful.

**Elena Sanchez:**

The last question that I can see here that has not been asked before, what is your view on the outlook for funding costs in Kuwait in the coming quarters?

**Gaurav Handa:**

Based on the discussion we have with our Treasury team, they see a good amount of liquidity in Kuwait. So, we are expecting that the cost of fund should come down, especially for KD borrowings. But, however, it depends how the interest rates move locally and internationally, also dependent on the Fed decision and the inflation outlook in the US and in the country as well. So, the outcome is that we expect some positive movement and reduction in cost of fund from now until end of the year.

**Elena Sanchez:**

I see no additional questions in the queue. Therefore, we can conclude the call. I would like to thank the management team of Burgan Bank for their time today and all the participants for joining today's call. I'll hand over to the team at Burgan Bank for any concluding remarks. Thank you.

**Khalid Al Zouman:**

We would like to thank you, Elena, and we'd like to thank all the attendees. They gave us the time to discuss with them our results. I'd like also to thank my team here for helping me in answering the questions.

**Elena Sanchez:**

Thank you. This concludes the call.