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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

بنك برقان
BURGAN BANK
K.P.S.C. | ش.م.ك.ع

Date: 12/05/2025
Ref: 324/2025

M/s Boursa Kuwait

Dear Sirs,

Sub: Burgan Bank Analyst Conference Transcript
For the Period ended as of 31/03/2025

In compliance with the provisions of clause (4) of article (8-4-2) of Boursa Kuwait Rulebook, Resolution No. (1) of 2018 and amendments thereto, attached is the transcript of the Analyst conference for the Period ended as of 31/03/2025, that was held on Thursday, 08/05/2025 at 02:00 pm via conference call.

Best regards,

Fadel Mahmoud Abdullah
Acting Group Chief Executive Officer

بنك برقان
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Burgan Bank

BB/005-03/2025

Q1'25
Earnings Conference call Transcript
Thursday, 8th May 2025

Q1' 25 Burgan Bank Earnings Call

Thursday, 8th May 2025

Transcript of Burgan Bank Earnings conference call on Thursday, 8th May 2025 at 14:00 Kuwait time (UTC+03:00)

Burgan Bank Participants:

Mr. Gaurav Handa	**Assistant General Manager – Finance Group**
Mr. Animesh Aseem	**Executive Manager – Finance Group**
Mr. Hamad Al Bader	**Manager – Investor Relations**

Operator (Elena Sanchez):

Good afternoon everyone, this is Elena Sanchez from EFG Hermes and I would like to welcome you all to the Burgan Bank Group Q1'25 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 Q1'25 earnings call. Thank you very much for taking the time to attend this call.

Joining this call from Burgan are Mr. Gaurav Handa, Assistant General Manager – Finance Group, Mr. Animesh Aseem, Executive manager- Strategy and Capital Management 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, let's us turn to slide #8, which provides an overview of the key highlights and strategic developments for the quarter:

    - To begin with, Burgan delivered a strong financial performance. Revenues reached KD 58 million, representing an 8% increase year-on-year, while net income rose to KD 10.7 million, reflecting a 5% growth over the same period. This performance was primarily driven by solid net interest income, supported by a 50-basis point expansion in net interest margins, along with a continued low cost of credit.

    - Turning to the balance sheet, the Bank maintained its positive business momentum, with assets growing by 11% year-on-year. At the same time, asset quality remained sound, with the non-performing loan ratio held at a low level of 1.8%.

- In terms of capital and liquidity, the Bank continues to demonstrate strength, maintaining substantial buffers that are well above regulatory requirements. This positions Burgan well to support future growth and navigate evolving market conditions.

- Now, let us move on to the business updates for the quarter

  - First, the acquisition of United Gulf Bank (UGB) was successfully completed during the quarter, resulting in an immediate capital impact of approximately 60 basis points. It's important to note that while UGB's balance sheet has been consolidated in our Q1 2025 results, its profit and loss statement will be included starting from Q2 2025. Our focus now shifts to implementing the strategic operating model for UGB, with a clear emphasis on driving onshore revenues, better serving the Bahraini client base, and enhancing value for our existing customers through a wider range of products and services.
  - Next, a key milestone this quarter was the launch USD 500 million Certificate of Deposit program. This initiative is an important step in diversifying our funding base, strengthening liquidity resilience, and ensuring continued alignment with Basel III liquidity requirements.
  - In addition, we are pleased to share that Burgan was recognized with the 2024 Visa award for Best-in-Class Premium Active Cards Growth in Kuwait. This award reflects our continued commitment to innovation and customer engagement within the retail banking space.
  - Lastly, Burgan published its FY 2024 Sustainability Report, becoming the first bank in Kuwait to release this year's edition. The report highlights our key achievements in the Environmental, Social, and Governance areas, demonstrating how sustainability is integrated into our strategy, operations, and stakeholder engagement. The full report is available on our website under the Sustainability section, and we encourage you to review it at your convenience.

With that, I will now hand it over to Gaurav, who will walk us through the key financial highlight of the Group.

Gaurav Handa:

Thank you, Hamad, and good afternoon, everyone. Let's turn to Slide #10 for a closer look at the P&L Metrics:

- The Group's revenues reached KD 58 million, with an increase of 8% year-on-year. This growth was driven by a robust increase in net interest income
- Our Net Interest Margins (NIMs) improved by 50 basis points year-on-year, rising from 2% to 2.5%. This increase was mainly supported by increase in volumes and higher margins in Turkey.
- The Cost to income ratio marginally increased to 57%, resulting in 3% Y/Y increase in operating expenses.
- The Net income grew by 5%, reaching KD 10.7 million for the quarter.
- Just to highlight, there was no impact of UGB consolidation on the income statement. Only the balance sheet was consolidated at the end of Q1. We will start seeing the impact on the income statement starting from Q2.

Moving on to Slide 11, that provides an overview of the Group's asset quality:

- Our non-performing loan (NPL) exposure decreased from KD 126 million in Q1'24 to KD 95 million in Q1'25
- As a result, the Group's NPL ratio improved to 1.8% in Q1'25, marking an 80-basis point improvement compared to Q1 last year.
- We also maintained a strong provisions coverage ratio of 170%, along with healthy ECL buffers of KD 66 million above the required levels.

Let's now move to Slide #12, highlighting the key balance sheet indicators:

- We maintained our growth momentum this quarter, with our asset book expanding by approximately 11% year-on-year, reaching around KD 8.6 billion. This growth was primarily driven by our operations in Kuwait, where our asset base increased by 7% year-on-year, reaching approximately KD 6.8 billion.
- Just to note and as highlighted earlier, our Q1'25 asset base also includes UGB's asset contribution of about KD 239 million, which represents around 3% of our total assets.
- The bank also continued to hold healthy levels of liquid assets, which is reflected in the bottom-right chart on the slide.
- Our loan book grew by 8% year-on-year, reaching about KD 4.7 billion, with the Kuwait franchise's loan book growing by 6% year-on-year, totaling approximately KD 3.7 billion.
- Lastly, the staging of loans improved significantly year-on-year, with an increase in Stage 1 exposure and a decline in both Stage 2 and Stage 3 exposures. This reinforces our proactive risk management approach and the overall strength of our credit profile.

I will now hand it over to Animesh to take us through the next few slides

Animesh Aseem:

Thank you, Gaurav, and good afternoon, everyone. Let's now turn to Slide #13, which provides an overview of the Group's deposit and liquidity metrics:

- Burgan's liquidity position remains exceptionally strong.
- Our deposit base has remained robust, standing at KD 5.4 billion, reflecting a 7% increase year-on-year. Specifically, deposit volumes in our Kuwaiti operations grew by 5% year-on-year, reaching KD 4.1 billion.
- The deposit mix remained stable, with CASA levels around 27%.

- Burgan maintained an optimal regulatory Loans-to-Deposit ratio of 80%, well below the regulatory maximum of 90%.
- Key Basel III liquidity ratios, including both the LCR and NSFR, continued to remain strong at 181% and 113%, respectively, compared to the regulatory minimum of 100%.

Let's now move on to Slide #14, where we will review the details of our regulatory capital position:

- Our CET1 and CAR ratios for the quarter stood at 11.7% and 17.5%, respectively. This indicates comfortable buffers of 120 basis points and 350 basis points over the required regulatory minimums of 10.5% and 14.0%.
- These capital levels are optimal, providing us with ample room to sustain our growth momentum and deliver enhanced returns to our shareholders.
- It's also important to note that the impact of UGB's acquisition has been fully reflected in our capital ratios.

Now, let's move to Slide #15, which provides a breakdown of performance by entity:

- Our Kuwait operations remain the cornerstone of Burgan Bank Group, continuing to represent the largest contribution to our asset base.
- The Kuwait business delivered a strong performance in Q1 2025, with solid net interest margins, improved cross-sell ratios, and a notable reduction in both the cost of credit and NPL ratio.
- On the international front, BBT posted significant improvement in net interest margins—from 3.8% in Q1 2024 to 7.2% in Q1 2025—driven by the high interest rate environment and ongoing asset growth. BBT also maintained a low cost of credit and stable asset quality.
- As for our Algerian and Tunisian operations, performance remains stable, with key indicators broadly in line with expectations and no material surprises.

With this, I will now hand it over to Hamad, to conclude this presentation

Hamad:

Thank you, Animesh. Let's now move on to Slide #17 for a quick summary of our Q1 performance:

- We have started the year on a strong note, with consistent improvements across key metrics and business franchises—reaffirming the resilience of our operating model.
- Our asset quality remains healthy, supported by minimal credit costs.
- Finally, we continue to deliver solid asset growth, and we are well-positioned to sustain this momentum, backed by our strong capital base.

With that, I will conclude our presentation and hand it over to Elena to facilitate the Q&A session

Elena Sanchez:

Thank you, gentlemen, for the presentation. We will move now to Q&A, 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 Chiro Ghosh. Please, go ahead and unmute your microphone.

Shiro Ghosh:

I have three questions. The first one is related to the non-interest income. So, if you can give some clarity on what you believe is a sustainable non-interest income level because it dipped a little bit in this quarter and some color on why it dipped, especially on the other operating income part of it and the FX part of it. That would be my first question.

Secondly, we are seeing an overall improvement in asset quality. So, what would be an ideal cost of risk to look forward to? I know Algeria business has not done that great, but all others have shown fairly good improvements. What could be an ideal cost of risk we can look forward for the rest of the year?

Lastly, a slightly longer-term question, when do you expect Cost to Income ratio to reach or breach the 50% mark? When will it go below that? Because that is eating away out of profitability.

Gaurav Handa:

We'll start in the same sequence, starting with the non-interest income. Now, the main fluctuation or the movement that you had seen in the non-interest income is coming in under other income. The other incomes are usually the one-offs income that you record here that are classified as other income. Sometimes you have recoveries from sale of debt-asset swap or there could be some exceptional income which cannot be recorded as a banking income. That is what you classify as other. So, this fluctuates every year and there is no specific guidance that we can give.

Shiro Ghosh:

What about FX income?

Gaurav Handa:

Usually we make a decent amount of FX income in Kuwait operations, which we continue to do. In Turkey, we had some losses in Q1 due to US dollars against lira depreciation the bank was holding, which may not continue for rest of the year but there was some one-off loss. Hence, the overall FX income was more or less flattish for the group.

Coming on to the second question on the asset quality. Usually, when we do our planning, 40 to 50 basis points is the cost of credit that we estimate. Again, there are sometimes one offs, which results in increase in this ratio, but on a normalized level, 40 to 50 basis points is the guidance that we have for 2025. This 50-basis point, what we report is including the general provision and the specific provision net of recoveries.

On the cost to income ratio, yes, as we have also mentioned previously, we do have a target to reach 50%. However, that's the medium-term target. I think we would still need a year or two to reach those levels. Currently we are at around 57% and the main reason for that is the inflation effect in Turkey, which is quite significant as compared to the overall operating expenses growth.

Elena Sanchez:

We will take a question now from Solena Gloaguen.

Solena Gloaguen:

I've got three questions. First, if you could confirm the minimum buffer you like to maintain towards your minimum required capital levels. The second question is that on the Tier two call next year, could you provide a bit more color on that. You will call that Tier two and how do you intend to refinance it going forward. The final question is on the mortgage law in Kuwait, if there is any update there.

Animesh Aseem:

Regarding the minimum buffers. Currently, we are sitting at a comfortable buffer of about 120 basis points, if we talk about the CET1 levels. Historically, the bank has operated with a buffer of about 50 to 100 basis points and that is something that we have been comfortable with in the past because that helps us enhance the return on equity ultimately. So, these are the historical trends that we have maintained over the past few years. Given our current growth, we expect to be around the same levels of capital. I think we should still maintain a good 100 basis points buffer over the required minimum. That would be our internal target.

Regarding the Tier two call, that is due next year in Q3. Unfortunately, because of the regulatory compulsions we cannot provide any guidance with respect to what would be the bank's strategy, whether the call will be made or not, we cannot sort of disclose our strategy beforehand. Of course, when the call becomes due we will make the disclosures accordingly.

Hamad Al Bader:

In regards to the Mortgage law, as we reiterated in past, it's a huge opportunity for the banking sector. In general, the banks benefit from a stable and regulated market and are very liquid. Hence, the mortgage law could provide opportunities for the banks. It should be very close and we expect the government to pass this soon.

Elena Sanchez:

We'll take the next question from Rakesh Tripathi.

Rakesh Tripathi:

A couple of questions from my end. First one, a little bit on the NIMs. The NIMs have benefited from the increases seen in Turkey. So just wanted to get a sense on your outlook for Turkey in particular and for the group in 2025.

Second question is on your asset quality. It's been kind of stable quarter-on-quarter and in terms of Year-on-year there's been a significant improvement. Last year we saw first couple of quarters, seeing a spike in the NPL ratio. This year, the first quarter at least we haven't seen that. So, your expectations going forward for the rest of the year.

Gaurav Handa:

We can start with the NIMs. So, if you would have noticed, there is a significant improvement as compared to Q1 last year. NIMs have improved from to 2.5% and this is resulting mainly from Turkey. In Kuwait, our NIMs have been pretty much stable at around 1.3%. Now, recently, the Central Bank of Turkey has hiked the policy rates from 42.5% to around 46%. It's very difficult to forecast what would be the NIMs in Turkey. However, we expect some easing in the second half of this year. We expect the rates to gradually come down before we close 2025, but at the group level in 2024, our average NIMs were at around 2.3% and we expect to maintain these levels in 2025 as well. So that would be our guidance for now.

On the asset quality, yes, that's been the practice or the strategy that the bank has, as this has been highlighted in the past. We do put some pressure on some clients if there is a problem in recoverability or in the recoveries. So, we take some legal measures just to put some pressure on clients so that we can recover those by end of the year. So, that may happen, but again, by end of the year, we expect our asset quality to be at the same range. Again, there could be some increases during the quarter, but by end of the year, we expect it to be stable.

Rakesh Tripathi:

Just one follow-up related to NIMs. If you can give us a sense of what's happening with CASA. I think the CASA ratio number was down four percentage points quarter-on-quarter. So, it was around 31% at the end of last year. It's 27% now. I think there has been a focused effort to grow the CASA deposits to manage NIMs better. So, if you could give a sense of what's happening there and what are your expectations going forward.

Gaurav Handa:

There was some movement in our private banking unit where some of the CASAs were actually converted into fixed deposit, time deposits and also invested in our wealth management business. So, that is one which resulted in a slightly reduction in our actual CASA volumes. The other factor that is impacting the ratio is the increase in the total customer time deposits. If you would have seen from our financials, we had some reductions in borrowings from OFIs, and that was actually transferred— we raised borrowing from some deposits, which are classified as customer deposits. So, this has resulted in slight reduction in the CASA ratio, but overall, the balances were more or less stable, except the one or two one off cases that we had in our private banking business. By end of this year, we should be aiming to come back at that 30% level.

Rakesh Tripathi:

If I may, I wanted to check on a couple more things quickly. One was this certificate of deposit launch. So, how is this different from the traditional time deposits that are being offered by the bank? What kind of quantum would you look to raise? What proportion of your overall funding base do you expect this to be once this stabilizes? Is this something you're looking to grow significantly and what's the rationale behind this new route?

Secondly, on the UGB acquisition, what kind of P&L impact would you expect going forward?

Gaurav Handa:

Let me start with the certificate of deposit program. We have recently, November or December of last year launched this program, which is $500 million program. These are funding— short term funding, which is less than 12 months. These are not the usual customer deposits, they are foreign inflows, where these are agents in Asian markets or Far East that have been placing money with our banks. So, we do expect some increase in this funding. The main purpose is diversification. We expect at least $200 million to $215 million borrowings under this program in 2025. This is helping us to diversify our funding base. That's the main intention of launching this program.

Rakesh Tripathi:

Is this a sticky form of funding? Do you expect this to be a reliable funding source if there were any macro pressures or any sense of, say, broader sense of outflows from EMs?

Gaurav Handa:

These are usually short term; the average range maturity would be three to six months. These keep rolling over and we have various requests that comes in, but as and when the pricing is good and we need those funding, we go and take these borrowings. We are not relying 100% on these, but we do expect this balance to be maintained. So, there is no risk as such, we see that there would be any reliance or withdrawal of these borrowings.

Rakesh Tripathi:

What's the price typically on these deposits?

Gaurav Handa:

It's in line with our average cost. It's usually linked to SOFR and it's in line with our average funding cost in foreign currency.

Animesh Aseem:

Also, just to supplement to what Gaurav said, this is a program that is worth $500 million. So, it's not like we have completely made a complete draw down of $500 million. It's on a need basis. As and when required, we borrow on this. As he said already, it's short term. So, that's on that, It's not like we have completely made a drawdown of $500 million on this. I just want to clarify that.

Rakesh Tripathi:

That is very clear and helpful. Thank you. Last thing was on the UGB impact, if you can talk on P&L basically, what should we expect?

Animesh Aseem:

Sure, Rakesh. As you know, we do not usually provide guidance, but you would have already seen it on the financials, the whole business combination has been detailed out in the notes. You would see that because we were not able to consolidate UGB from the P&L point of view this year, because the acquisition was completed at the end of Feb and as you know, we report with a one month lag, so we could not do that, but the impact of that on actual would have been about KD 5 million in terms of revenue and almost about KD 900,000 in terms of bottom line had we been including UGB in the consolidation. But as you know, we have discussed this quite a bit that there are a lot of synergies, lot of complimentary offerings that we see and a lot of opportunities for cross-selling, etc., that we see with this integration. But as of now, I think it's very difficult for us to give you an exact impact at this stage, but obviously we remain confident that it will strengthen our position in the market and support our long-term growth plans.

Elena Sanchez:

We'll take the next question from Fatema Alshakar.

Fatema AlShakar:

I just have two questions. The first one is about the minority interest income. If you can shed light why it was negative this quarter? Secondly, if you can guide us about the effective corporate tax for this year and the coming years.

Gaurav Handa:

So, as we highlighted earlier, there were some FX losses in one of our subsidiaries that resulted in the losses. A portion of that was given to minorities, so that resulted in the loss in minorities.

On taxation, yes, the new law is applicable to the ultimate parent company, our holding company, which is KIPCO and they are evaluating the impact. Probably once the executive guidelines are issued, which is expected somewhere in June, we will have a real assessment of what the impact could be on taxation for Burgan Bank Group.

Fatema AlShakar:

Just to follow-up, the tax this year was 21%. Do you expect it to remain the same?

Gaurav Handa:

We have always been paying taxes on our subsidiary's profits, which is roughly, on an average, we pay around 25% tax in all the entities that we operate outside Kuwait. In Kuwait, there is a new tax that has been introduced, which is the 15% tax, which is being implemented, which the regulatory guidelines or executive guidelines have yet to be issued, and we are assessing the impact of that. But overall, we don't expect a material change in our tax charge this year. The impact will not be that materially different as compared to what we reported last year.

Elena Sanchez:

We have no additional questions at this point. Therefore, we can conclude the call. I would like to thank the management team of Burgan Bank for the presentation and all the answers provided today. Thank you to all the participants for joining. I'll hand it over to you, Hamad, for any closing remarks.

Hamad Al Bader:

Thank you, Elena and thank you, everyone, for joining this call. Please feel free to reach out at ir@burgan.com for any follow-up questions or general queries and we'll be happy to address them. Thank you very much.