

## Business

# KFH holds AGM, approves distribution of 20% cash dividends, 10% bonus shares

## In 2018, KFH redefined several core aspects of growth



**KUWAIT:** Kuwait Finance House (KFH) held its annual general Assembly (AGM) yesterday and approved the Board of Directors' recommendation of distributing 20 percent cash dividends and 10 percent bonus shares to shareholders.

### Chairman's Message



Hamad Al-Marzouq

Praise be to Allah Almighty, and Peace and Blessings be upon our Prophet Muhammad (PBUH), his Family and Companions.

#### Esteemed Shareholders,

Assalamu Alaikum Warahmatu Allah Wabarakatuh...

On behalf of myself, my fellow colleagues and members of the Board of Directors of Kuwait Finance House ("KFH" / the "Bank"), I would like to present to you the KFH Group Annual Report for the year 2018.

KFH's performance in 2018 was unique and outstanding. I'm very proud of the remarkable achievements we have made this year. KFH Group's distinguished capabilities and strengths have enabled the Group to be a trustworthy partner in all regions where it operates. These characteristics have placed KFH Group in a leading position in the GCC as the safest financial institution for the year 2018 according to Global Finance Award. This award reflects remarkable customers trust and confidence, KFH Group credibility and acceptance on regional and international levels. It also reflects KFH's highly distinguished trademark in a promising market which offers great opportunities.

We have managed during the year to transform KFH vision and mission into a reality and reap the harvest of implementing the Board approved long term strategy to diversify sources of profit, mitigate risks, optimize cost, increase operating income from core banking activities, divest several non-strategic investments successfully and achieve inter-group harmony in terms of performance to ensure sustainable growth and profitability as affirmed through positive indicators, robust financial position and well-balanced sustainable growth over the last four years which have witnessed highly significant positive performance.

In pursuit of expansion and strategic growth opportunities on both regional and international levels to cope with the accelerating developments witnessed in the banking sector worldwide, KFH has focused on considering several opportunities and alternatives to enhance its position regionally and globally.

In continuation of our leading role in global development of sharia-compliant financial services, the performance of the first Islamic bank in Germany - KT Bank AG, core pivot to Europe, has been highly impressive as it achieved significant positive results and proved our vision of investment feasibility. KFH has continued its hedging policy to encounter all local and global variables and overcome economic fluctuations efficiently in regions where it operates. It has adopted conservative policies to enhance precautionary provisions and target a robust financial position with a view to focus on core banking activities, high asset quality, adequate capitalization and high level innovation and distinction.

KFH's strategy relied on three core pillars to achieve

its priorities. Pillar 1 targets growth and expansion of the customers base by providing distinguished and unique banking services. Pillar 2 targets transformation of fast developing financial technology, thus availing and implementing new technology to achieve customers' satisfaction and expectations through embracing of advanced revolutionary digitalization process as part of KFH business transformation program. Transformation to FINTECH application shall grant KFH access to highly advanced electronic banking services as the base of its services for the year 2018 and thereafter. Pillar 3 aimed to achieve highest levels of efficiency and appropriate utilization of operational activities and resources to achieve development and growth in all business lines.

KFH's transformation journey to electronic banking continued by releasing several initiatives and improvements on electronic banking channels, aiming to provide top notch services to customers including website, electronic banking applications on smart phones, e-corp, online for companies, Artificial Intelligence (AI) technology and advanced robotic technology in certain operations. KFH succeeded in granting its customers access to all banking transactions and availing finance at any time and place.

Our efforts for the year 2018 were crowned with the inauguration of the first fully automated electronic branch, comprising of high tech systems and advanced self-service machines, being the kick-off point to open similar branches in the near future and apply KFH's ambitious plan. KFH business sectors continue their endeavor to introduce innovative products and services to customers e.g. KFH has released KFH Xpress Service for electronic money transfer to beneficiaries worldwide. On the other hand, KFH endeavors to assimilate the Blockchain technology where money transfer services are provided through RippleNet.

Group main financial indicators continued their ascending trend through enhanced profitability. Net shareholders profit exceeded KD 227.4 million as at the end of 2018 i.e. an increase by 23.5 percent compared to approximately KD 184.2 million for the previous year. Earnings per share reached 36.36 fils i.e. an increase by 23.4 percent compared to 29.46 fils for the year 2017.

Total assets reached KD 17.8 billion i.e. an increase by 2.4 percent. Our strategy succeeded in achieving cost optimization where total operating expenses ratio reached 39.2 percent of total operating income, thus continuing its decline for the fourth year respectively. Meanwhile, depositors accounts increased to reach KD 11.8 billion i.e. an increase by 1.6 percent compared to 2017.

Return on average shareholders' equity increased to reach 12.4 percent in 2018 compared to 10.2 percent for 2017. Capital Adequacy Ratio reached 17.47 percent in 2018.

Net financing income reached KD 527.3 million in 2018 i.e. an increase of 18.5 percent compared to the preceding year. Total operating income reached KD 746 million i.e. an increase by 4.6 percent compared to 2017. Net operating income reached KD 453.5 million i.e. an increase by 11.1 percent compared to the last year.

Our well balanced performance comes on the back of the positive inter-connection at the group level, well planned and effective execution of our unified strategy which is characterized by appropriate integration, coordination among all concerned parties whether at Head Office or other various countries where KFH operates e.g. Turkey, Bahrain, Malaysia, Germany and Saudi Arabia. A set of successful strategic initiatives has been applied as core pillars to enhance governance and banking services at the group level.

As we are committed to realize exceptional earnings for shareholders on the long run, the Board of Directors has given its recommendation to the General Assembly to distribute cash dividends of 20 percent and bonus shares of 10 percent.

#### Positive ratings

KFH has retained all positive ratings rendered by global credit rating agencies in addition to many other outstanding awards presented by globally recognized institutions. KFH shares have been listed in FTSE

Russell Index for emerging markets in Kuwait. These are all positive indicators to the successful implementation of the set plans and the outstanding performance.

The outstanding credit rating given to KFH by global rating agencies reflects KFH's leading and pioneering position. Fitch Rating Agency has affirmed its rating for KFH at A+ Long Term and F1 Short term with a stable outlook. Moody's Rating Agency affirmed KFH rating at A1 Long Term and P-1 Short Term with a stable outlook.

Continuing its track record, and affirming its leading and pioneering position based on several standards set by highly specialized global neutral organizations to reflect its role as the leading Islamic organization in Kuwait and worldwide, KFH has received the Global Finance award of the safest Islamic Financial Institution in GCC for the year 2018. KFH has also won Best Bank for High Net Worth Clients award from Euromoney.

KFH financed major projects in Kuwait. It was a mandated lead arranger for Kuwait Integrated Petroleum Industries Company for KD 390 million syndicated facility that had a KD 156 million Islamic tranche, as well as, financing 50 percent of LIMAK's KD 249.2 million facility for the construction of Kuwait International Airport's new passenger terminal. Moreover, KFH extended a KD 120 million facility for MENA Homes Real Estate Company (a Kuwait Projects Company Holding "KIPCO" subsidiary) for the development of Hessa Al-Mubarak District project.

On both regional and international levels, KFH has arranged a syndicated finance transaction for Duqm Refinery amounting \$500 million, bearing in mind that total value of the transaction reached \$4.6 billion. KFH-Turkey has financed the Canakkale Project in Turkey through a KD 72 million finance transaction, which is part of a total finance transaction provided by several global financial institutions and banks of KD 800 million.

Group Treasury and Financial Institutions continued to integrate and develop an effective liquidity management process at the group level through diversification and provision of stable finance, development of human resources, implementation of high technology systems and highly developed structures to develop and enhance customer service by providing innovative sharia-compliant solutions for Group Treasury and Financial Institutions.

Group Treasury expanded its investment activities in Sukuk as KFH investments in the Sukuk market increased during the last two years to exceed KD 1.5 billion in 2018. While KFH is operating as a market maker for the active Sukuk market to ensure marketing of Sukuk in secondary market, Group Treasury continued to retain its leading role as a supplier of International Islamic Liquidity Management (IILM) Sukuk, thus out-performing regional and international banks.

On the other hand, Group Treasury has sought to innovate new products and add several hedging solutions to protect KFH investments in various regions where it operates by using sharia-compliant currency exchange transactions and profit Swaps against existing hedging products. Treasury has managed to centralize all Kuwait treasury activities and integrate the same with Group subsidiaries to ensure inflow of foreign currency, optimize costs and execute transactions at competitive rates to ensure development and enhancement of productivity and efficiency.

#### Kuwaitization

The year 2018 was a challenging year from a Human Resources perspective where we have continued our efforts in developing and attracting national talent in addition to transforming their academic and professional status in Islamic Banking and Finance. KFH Group committed to meeting required changes in regulations while maintaining efficient staff cost ratios. Nationalization remains a core focus for the KFH Group where we continued attracting and developing seasoned professionals as Bankers of the Future. We have shown exceptional progress in implementing our Human Resources Strategy where we reached a Kuwaitization ratio of 69 percent, thanks to Kuwaitis making up 97 percent of our recruitment and our continued focus on building and promoting our talent from

within KFH which has lead KFH Kuwait to be an industry leader in terms of Nationalization indicators and Kuwaitization ratios.

To strengthen the relationship between the bank and its' employees, KFH was keen on organizing events and taking advantage of occasions to communicate with all employees and to strengthen relations while maintaining positive interaction on a personal and professional level due to the importance of that in improving the general image of the bank and the performance of its employees. By doing so, KFH Group Entities continued advancing its Group Employee Engagement Scores in 2018 where our Group Employee Engagement Score reached 78 percent with a growth of 5 percent. Our continued focus on attracting and retaining our employees lead to recognizing Kuveyt Turk Participation Bank as one of the Top 3 organizations in Turkey in terms of employee engagement.

Development of our Successors and High Potential Employees across the Group has been high on our agenda for this year where we have successfully concluded a series of intensive courses with Harvard Business Publishing, INSEAD, and IMD to build their capabilities as KFH Group Future Leaders.

We have expanded, in 2018, our social participation and contributions activities in local society where KFH has donated KD 11.2 million to Zakat House based on its belief in the significance of performing Zakat obligation and placing it in sharia-compliant channels to better serve society and highlight the human side of our business.

We would like to avail this opportunity to convey our sincere thanks and appreciation to all our shareholders and customers for their continuous support. We are confident that we will, by the grace of Allah, achieve rewarding returns for shareholders and depositors. I would also like to avail this opportunity to thank our Group employees and members of the Fatwa and Sharia Supervisory Board for their continuous endeavor and constructive contributions.

Finally, I would like to convey our sincere thanks, gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard and protect him, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard him, and His Highness Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah, may Allah safeguard him. Our thanks and appreciation are also extended to His Excellency Dr Mohammed Al-Hashel, Central Bank of Kuwait Governor and all regulatory authorities for their ongoing support to the banking sector in the State of Kuwait.

May Allah Grant us Success  
Hamad Abdul Mohsen Al Marzouq  
Chairman



Mazin Al-Mahed

### Group CEO's Message

#### Exceptional growth and bright future

Since inception, progress for KFH meant providing an alternative through "sharia-compliant" banking products and services for customers' financial needs. Today, KFH's growth and advancement stand as a more