Friday Times

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Gulf Bank built a solid foundation to continue tackling headwinds

Virtual analyst conference call reviews bank's financial performance during H1 2021

KUWAIT: Gulf Bank held a virtual analyst conference call to review and discuss the Bank's financial performance during the first half of the year 2021 on August 3, 2021. The conference call was organized by EFG Hermes and attended by Ahmad Al-Duwaisan, GM Corporate Banking and Acting CEO of Gulf Bank, and David Challinor, Chief Financial Officer of Gulf Bank. The discussion was moderated by Dalal Al-Dousari, Head of Investor Relations at Gulf Bank.

On behalf of Gulf Bank CEO Tony Daher, Ahmad Al-Duwaisan commenced the virtual analyst call with key updates regarding Gulf Bank's operating environment during the second quarter of the year 2021. Al-Duwaisan commented, "We started the quarter with partial curfew and further restrictions on businesses and travel for locals and foreigners, however by the month of May, most of these restrictions were lifted helped by the acceleration in the rollout of vaccination efforts which reached on average 20,000 doses a day. Starting first of August, vaccinated foreigners are now allowed to enter Kuwait. Growth prospects have improved with the lifting of most restrictions. Consumer sentiment is more upbeat and increased demand has boosted consumer spending growth."

Strong capital

Al-Duwaisan also announced the completion of issuance of Tier 2 Compliant Subordinated Bonds of KD 50 million: "Despite the challenges that we continue to face as a result of the COVID-19 pandemic, Gulf Bank has successfully completed the redemption of its existing KD 100 million subordinated Tier 2 bonds, and the issuance of new KD 50 million Subordinated Tier 2 Bonds which was oversubscribed. This issuance optimizes the Bank's capital adequacy, in compliance with Basel III frameworks, and supports our overall investment plans towards making Gulf Bank the leading Bank of the Future."

Partnership with Murex

As part of Gulf Bank's ongoing digital transformation plan, Al-Duwaisan indicated that Gulf Bank is happy to launch the new treasury system after an 18-month partnership with Murex. The integrated solutions will offer a robust technological infrastructure that meets the evolving requirements of today's customers and provide an even more seamless workflow and better risk management. Moreover, the launch of the new treasury system seeks to make most of the Bank's ongoing digital transformation, transforming Gulf Bank into a fully integrated digital bank.

Sound financial performance

Al-Duwaisan summarized Gulf Bank's first-half results for 2021 with five key messages:

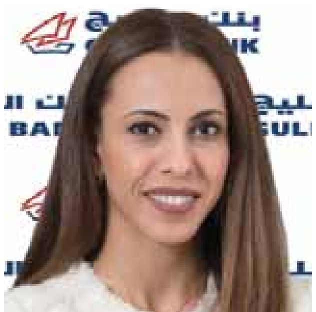
1. Net profit grew by 40% for the first half 2021, to reach 16.5 million in comparison to 11.8 million reported in first half of 2020.
2. Reported operating income reached 83.2 million for first half 2021, growing by 8% compared to the first half of 2020. This growth was driven primarily by a significant decline in the cost of funds that exceeded the decline in interest income and improvement in fees and commission income.
3. Asset quality remained resilient, as Gulf Bank's non-performing loan ratio in the second quarter of 2021 stood at 1.4%, an improvement when compared to same period of last year of 2.2%. In addition, Gulf Bank has ample provisions with a coverage ratio of 443%.
4. Relaxed capital regulatory minimums that were introduced in 2020 remain in place, allowing the Bank additional buffers over the minimums. Gulf Bank's Tier 1 ratio has a buffer of 480 basis points (14.3% vs. 9.5%) and capital adequacy ratio has a buffer of 510 basis points (16.6% vs. 11.5%). With these comfortable buffers in place, Gulf Bank exercised the call option for the redemption of the KD 100 million subordinated tier 2 bonds that matured in May and issued a new tier 2 compliant bond at a maximum of KD 50 million at favorable rates.
5. Gulf Bank maintained its 'A' ratings from the three major credit rating agencies, noting its ratings as of today:

a. Moody's Investors Service maintained the Long-Term Deposits Rating of "A3" with a "Stable" outlook.

b. Fitch Ratings affirmed the Bank Long-term Issuer Default Rating of "A+" with a "Negative" outlook.

c. Capital Intelligence affirmed Gulf Bank's Long-term Foreign Currency Rating of "A+" with a "Stable" outlook.

d. In addition S&P Global Ratings has recently changed the Bank Issuer Credit Rating to "BBB+" from "A-"and revised the "Negative outlook to "Stable". This most recent rating action followed the S&P downgrade of Kuwait Sovereign rating from "AA-" to "A+" with a "Negative" outlook.



Dalal Al-Dousari

Tony Daher

David Challinor

Al-Duwaisan also noted that although the Bank continues to operate in challenging times, it has also built a solid foundation to continue tackling the headwinds while supporting the growth needs of its customers.

Increasing profitability

Gulf Bank's CFO, David Challinor, discussed Gulf Bank's H1 results of 2021 in more detail, noting three positive factors. First, net interest income is up KD 4 million, due to the continued decline in cost of funds. Second, as economic activity regained momentum so did the Bank's fees and foreign exchange income which improved by 2.6 million, and third, the Bank's cost of credit improved by 5.4 million. however, these positive drivers were partially offset by a 6.7 million increase in operating expenses.

Challinor highlighted that liquidity conditions remained favorable, and that the Bank's interest expense declined by 26 million or 50 percent, from 52 million in the first half of 2020 to 25.9 million in the first half of 2021. Operating income grew by 8 percent to KD 83.2 million compared to KD 77.2 million during the first half of 2020. This was due to interest expense falling more than interest income.

Operating expenses has increased by KD 6.7 million or 20 percent year on year. Gulf Bank continues to invest in its business as it focuses on its digital transformation strategy going forward. Challinor also pointed out that credit costs have declined from KD 28.4 million during the first half of 2020 to KD 24.8 million during the first half of 2021.

Gulf Bank's financial position

Challinor also presented Gulf Bank's financial position, indicating how individual line items have moved from 30th of June 2020 to 30th of June 2021. Challinor also presented the Bank's mix of assets and highlighted its changes over the last 12 months. He said: "over the last 12 months, Gulf Bank's total assets increased by 266 million or 4 percent to 6.3 billion compared to 6.0 billion the year before. This was largely driven by a 160 million or 12 percent increase in Liquid Assets, and a 123 million or 3 percent increase in Net Loans, While, on a year-to-date basis, Net Loans grew 210 million or 5 percent and total assets grew by 179 million or 3 percent, reflecting a pick-up in overall economic activity." He continued, "In terms of the major components of total assets, the mix is essentially unchanged from a year ago."

As for Gulf Bank's funding, Challinor indicated that nearly all of Gulf Bank's funding comes from Due to Banks, Deposits from Financial Institutions, and Customer Deposits. As a result of growing its customer deposits and attracting more short-term bank funding, Gulf Bank was able to reduce the deposit mix coming from financial institutions. The Bank's non-performing loan ratio also increased from 1.1 percent at the end of December 2020 to 1.4 percent at the end of June 2021, and its coverage ratio exceeded 443 percent at the end of June 2021.

Prudent financial management

Challinor also indicated that as of 30 June 2021, Gulf Bank's total provisions reached KD 298 million with IFRS 9 ECL requirements at KD 191 million, allowing the Bank KD 107 million in excess provisions, representing 36 percent of total provisions.

In addition, Gulf Bank's loan stages are fairly stable with Stage 1 loans are above 90 percent for the three periods, while Stage 2 declined from 7.7 percent at the end of June 2020 to 5.6 percent at the end of June 2021. Stage 3 also improved from 2.2 percent to 1.5 percent for the same period.

As for Gulf Bank's IFRS 9 ECL Stages composition, Challinor indicated that Stage 1 reached 21.8 percent as of 30 June 2021, moving from 14.7 percent a year ago, Stage 2 is in a declining trend moving from 44.2 percent a year ago to 38.5 percent as of 30 June 2021 and Stage 3 reached 39.6 percent moving from 41 percent a year ago. Challinor also highlighted that, as of 30 June 2021, the IFRS 9 ECL coverage for gross loans and contingent liabilities and commitments was: 0.6 percent for Stage 1, 19.4 percent for Stage 2, and 85.1 percent for Stage 3. Overall coverage, however, is much higher since the Bank has provisions of KD 107 million over the IFRS 9 ECL requirement of KD 191 million.

Challinor said, "Gulf Bank's regulatory capital ratios remain well above both our current minimums and our pre-Covid-19 minimums. Our Tier 1 ratio reached 14.3 percent, 480 basis points above our current regulatory minimum of 9.5 percent, and 230 basis points above our pre-Covid-19 regulatory minimum of 12 percent. Our Capital Adequacy Ratio of 16.6 percent was 510 basis points above our current regulatory minimum of 11.5 percent and 260 basis points above our pre-Covid-19 regulatory minimums of 14 percent."

He continued: "Our risk weighted assets fell by nearly 0.3 percent mainly due to increase in collaterals and reduction in market risk in comparison to the same period of last year." He