

Bank achieves exceptional growth with sustainable positive results: CEO

KFH Chairman presents Group's annual report for 2018

Following are the messages of Hamad Abdul Mohsen Al Marzouq, KFH Chairman and Mazin Saad Al-Nahedh, Group CEO during the presentation of the Group's annual report for the year 2018.

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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 Shari'a – 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

Table (1) Depositors Profit		
Account Type	2018	2017
"Khumasiya" Investment Deposit	3.125%	2.625%
"Mustamera" Investment Deposit	2.625%	2.250%
"Sidra" Investment Deposit	2.100%	1.950%
Dima Investment Deposit (12 months)	2.500%	2.000%
Dima Investment Deposit (6 months)	2.300%	1.875%
Long Term Investment Plans	2.125%	1.930%
Investment Saving Account	1.250%	1.000%

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% 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% compared to 29.46 fils for the year 2017.

Total assets reached KD 17.8 billion i.e. an increase by 2.4%. Our strategy succeeded in achieving cost optimization where total operating expenses ratio reached 39.2% 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% compared to 2017.

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

Net financing income reached KD

527.3 million in 2018 i.e. an increase of 18.5% compared to the preceding year. Total operating income reached KD 746 million i.e. an increase by 4.6% compared to 2017. Net operating income reached KD 453.5 million i.e. an increase by 11.1% 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% and bonus shares of 10%. The distributed returns on investment deposits and saving accounts are provided in the below table (1).

KFH has retained all positive ratings provided 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% of L1-MAK'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 Heshah Al-Mubarak District project.

Finally, I would like to convey our sincere thanks, gratitude and appreciation to His Highness the Amir of Kuwait Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, may Allah safeguard and protect him, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed 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

Group CEO's Message

Since inception, progress for KFH meant providing an alternative through "Shari'a Compliant" banking products and services for customers' financial needs. Today, KFH's growth and advancement stand as a more productive and effective pioneering financial model, providing retail and corporate customer care to achieve the highest prosperity for society. The KFH brand wherever it operates is a symbol of utmost trust. KFH has built this trust through a long journey of successful partnerships with various tiers of customers. We fully believe that the bank's success is conditioned to customers' security and satisfaction.

KFH was keen, over a 40 year journey, to provide the utmost level of care and service to customers and societies. This goal was achieved through gradual and clear regional and strategic growth towards the future. We focused on developing our employees' talents to build responsible and talented future leaders. We have innovated a new financial system based on genuine social values. We comprehend market needs and the actual momentum of the regions where we operate. To achieve gradual sustainable growth and lead our team and customers to further progress, we have provided specially designed services and accounts to fulfill their expectations and achieve a continuous increase in assets, income and managed funds, thus proving our gradual growth with sustainable positive results.

In 2018, KFH redefined several core aspects of growth and progress by endeavoring to achieve exceptional growth involving time management and progress. KFH has considered, during the year, several opportunities to achieve further growth, strength and stability.

Regional power provides a strong, unleashed position to support our local commitment to growth. We have the ability to grow along with various customers'

needs and according to their changing styles. KFH's strength has attracted several opportunities for our customers, societies, employees and the region in general. We have ensured sustainable progress and growth through appropriate utilization of resources to achieve a positive and effective change. Our markets in Bahrain, Saudi Arabia, Germany, Malaysia and Turkey embody the concentration of our regional power and provide a vast scheme of services and products, thus enabling customers to have access to several alternatives, resources and services through our widely spread branch network.

KFH has a prosperous future, by the grace of Allah, by achieving sustainable success and availing proper opportunities. As a leading and pioneering bank we invest in our employees, facilities and our ability to provide outstanding retail services which have acquired the full satisfaction of customers' including small companies aiming to obtain capital to achieve further progress or provide a service to corporate, trade and industrial sectors to enhance growth or real estate customers who wish to purchase and invest in properties.

Distinct Financial Indicators

KFH recorded a net profit at KD 227.4 million in 2018 i.e. an increase by 23.5% compared to the preceding year. Furthermore, financial indicators achieved clear improvements and growth over the last four years. Profit for the year resulting from the Group's local activities in Kuwait increased remarkably to reach KD 162 million in 2018 compared to KD 37 million in 2014. As KFH Group heads towards a global spread and expansion, seeking better investment opportunities and returns, profit for the year resulting from international operations approximated KD 101 million in 2018.

Total assets increased to reach KD 17.8 billion as at the end of 2018. On the Middle East level, assets increased as at the end of 2018 to reach more than KD 12.2 billion i.e. an increase by 15% compared to its volume 4 years ago, thus representing 69% of total assets in 2018 compared to 62% in 2014. KFH efforts succeeded in giving KFH an effective presence in the Euro Zone and Turkey where assets represented 26% of total assets (2014: 24%). Assets in Europe and Turkey exceeded KD 4.5 billion as at the end of 2018 with an increase of 10.3% compared to 2014.

Digital Retail Banking Services

In the year 2018, KFH has embraced the digital revolution by adopting innovative solutions using FINTECH, thus contributing to the exceptional growth of KFH. Kuwait banking sector witnessed for the first time in Kuwait the birth of a fully automated comprehensive electronic branch in Ishbiliya area (KFH – GO) which provides 24 hour service via electronic systems and self-service machines, thus eliminating traditional methods where customers await service from employees. Ten similar branches are expected to be opened mid next year. Banking and commercial services shall be enhanced through the internet and mobile phones. XTM and ATM machines shall be increased to accommodate all new innovative technologies, artificial intelligence, active systems and robotics for transactions in addition to our core branches network.

Retail and Private Banking

KFH inaugurated five banking lounges in various branches for Awlawyaya customers, "Nukhba" and Ruwad" as part

of the bank's vision to provide banking services based on high global standards. KFH is committed to quality and distinction in developing the appropriate environment to provide services via a modern design and transformation to the modern generation of e-banking to satisfy customers' inspirations and reflect KFH's pioneering global role. Accordingly, KFH could benefit from lower costs and provide better service to customers. Expansion was achieved in the direct sales team to reach 100 employees with an increase in direct sales presence in more than 30 different locations. To increase geographic expansion and serve customers in new areas, new branches were opened in Qairawan Mall and Arabia Mall.

As we celebrated our 40th anniversary with our customers and shareholders, we have redefined several core aspects of our services to cope with their requirements and ensure that our service level remains extraordinary. In four decades of customer service, our reputation grew, rendering us as the prime Islamic banking leader in Kuwait. Our financial expertise has helped our customers to plan their future, and demand increased on products we provide through our business lines. We are committed to focus on being partners with our customers rather than just being a service provider. In order to accommodate the society's banking preferences, we have advanced to a non-cash payment banking technology as there was substantial demand for our digital services.

To ensure that our customers and partners receive all available tools to fulfill their needs in the best possible manner, we have added new services to our line of products including Visa Platinum – Smart Pay and New Visa Signature with variable advantages as part of our customer care scheme. KFH continues to provide and enhance diversified services and products to fulfill customers' inspirations and enhance the bank's global leading position. Our continuing endeavor in this respect has been crowned with KFH winning the Visa Global award of the Fastest Growing Debit Portfolio in Kuwait in 2018. KFH sales of the Visa Global Card increased by 32% during summer 2018 compared to the same period last year i.e. highest growth ratio in 4 years for the Visa card.

KFH focused on developing ATM machines by adding 7 new services, thus providing more comfort and ease for customers and achieving many of their practical requirements and needs around the clock through an advanced set of services including cash withdrawal using QR Codes instead of the ATM card. Customers are able to use their civil ID or mobile No. for withdrawal, updating civil ID information, activating new ATM cards, changing PIN codes and using KFH Xpress instant and swift money transfer in a competitive way to almost any destination worldwide.

Private banking continued its approach to provide outstanding banking services. KFH provided money delivery service for private banking customers 7 days a week throughout the year, thus enhancing customers' satisfaction level. In line with our integration strategy at the Group level, management has continued to facilitate account opening procedures at KFH Turkey, KFH Bahrain and KFH Malaysia through the coordination of account opening process at Kuwait Head Office.

Authorities investing heavily in tech

Kuwait tax authority placing greater focus on compliance

Following is the interview with Fahim Bashir, Tax Partner in KPMG Kuwait, on Kuwait and Regional tax updates.

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How does tax fit into the digital disruption that we are expiring today?

There is a lot to talk about on the digitisation of tax. Two key aspects, the first of which is digitisation of the tax function where companies globally are embracing tax technology, in part to comply with new electronic reporting requirements but more importantly to leverage automation to make their tax functions operate more accurately and efficiently. There is increasing pressure on tax functions to question their tax operating models and find new ways to structure their people, processes and technology to meet the demands of the future. Secondly, there is the digitisation of tax authorities as they invest heavily in technology in order to improve their ability to gather more information and insights on tax positions of taxpayers.

The other challenge for tax is the digital economy, where companies now reach markets in jurisdictions in which they may have relatively little physical presence through online platforms. Traditional tax rules would typically look at taxing rights based on physical presence, but this is now changing. Digitisation is allowing governments to direct policy toward economic activity at the level of distinct transactions and to consider new forms of taxation of activity in the digital domain.

What are key tax issues impacting businesses in Kuwait?

For local business, primarily it is compliance with tax retentions and possibility of tax liabilities arising due to contracting with foreign companies. In fact, the tax retention requirements have been in effect since 1985, so these are not new requirements. These require contract owners to deduct 5% on payments to certain beneficiaries. However, the Kuwait tax authority has recently

placed greater focus on compliance. We have seen more and more occurrences of the Kuwait tax authority approaching local companies to confirm they are compliant with these regulations and, in certain cases, to recover tax debt on behalf of taxable entities that have not been compliant. This not only has a cash impact, but there is increased reputation risk for companies that are considered non-compliant. Certainly, this is an area which companies in Kuwait should place greater focus.

In addition to the above, local companies should disclose contracts they enter into through periodical submissions, known as a tax retention return. This provides the Kuwait tax authority with information on companies conducting business in Kuwait.

Both the above factors help the Kuwait tax authority enforce the Kuwait corporate income tax law, as it is through compliance with Kuwait tax obligations that companies would be able to obtain a release of tax retentions.

We are holding a tax seminar on 20th March which will discuss the above in more details. Other topics that are on the agenda are Value Added Tax (VAT) and Excise. We will also discuss Common Reporting Standards (CRS) and Foreign Account Tax Compliance Act (FATCA) reporting which are significant matters for the financial services sector.

Do you feel tax does not have the prominence it should have in today's business environment?

At a macro level, globally tax is at the forefront of negotiation and debate, and it is driving decisions on policy and trade. Tax has become a greater talking point amongst boardrooms, the C-suite, across businesses and their supply chains. Reputational risk around tax has reached new heights as governments and the general public have taken more interest in large corporations and how much tax they pay. Transparency has become a critical factor when deciding on tax strategy together with corporate responsibility.

It appears inevitable that these changes will, in time, come to Kuwait. The global effort to curb tax base erosion and profit shifting has concentrated attention on both tax competition among countries and tax responsibility among corporations.

Project aims to boost performance and simplify data management

Gulf Bank selects Dell Technologies to reimagine its transformation journey

KUWAIT CITY, March 18: Gulf Bank, one of the leading financial institutions in Kuwait, today announced their strategic agreement with Dell Technologies for a digitally transformative project. Taking significant steps towards sustaining business continuity and scalable data mobility, the bank will leverage industry-leading storage management and data protection solutions by Dell Technologies, to ensure maximum return on their investment.

This collaboration was announced at the Dell Technologies Forum held at Jumeirah Messilah' Beach Hotel in Kuwait. Themed 'Make it Real', this one-day free event brought together Dell Technologies' seven technology powerhouses together, to help organizations in Kuwait accelerate national and business transformation initiatives with speed and purpose. Kuwait's strategic Vision 2035 centres on transforming the country into a world class financial hub, with the private sector leading economic activities, fostering competitiveness, and creating an enabling business environment. With this primary goal at the heart of their transformative efforts, Gulf Bank aims to be at the frontlines of emerging industry innovation and embrace data-driven banking – which is evolving as a key driver of operational and competitive differentiation.

To this end, Gulf Bank planned to modernize their IT infrastructure with a robust and flexible data management backbone that can effectively store and protect the growing volume of data from multiple sources. Therefore, this project with Dell Technologies is divided into two critical

parts – data management and backup.

To realize efficient data management, continuous data availability, seamless mobility and accelerate data centre modernization, Gulf Bank will leverage Dell Technologies VPLEX and RecoverPoint solutions. These solutions are purpose-built to ensure operational agility and flexibility to match IT infrastructure to the speed of changing business needs. In addition, VPLEX and RecoverPoint will help Gulf Bank expand their operations across 3 data centres in the future. To comply with offshore data regulations set by Central Bank of Kuwait (CBK) and manage operational overhead costs for storing long term retention data on tapes, Gulf Bank has opted to deploy Data Domain and Deduplication technology to speed backups and reduce costs. These market-leading solutions by Dell Technologies will also help the bank to save valuable floor space, simplify operations, improve disaster recovery, reduce backup and recovery risks and importantly, enable a tapeless environment.

With this agreement, Gulf Bank alongside Dell Technologies aims to empower their business and propel their transformation journey to offer maximum value to their customers. Thereby making a concerted effort to support

and help Kuwait realize its ambitious vision to become an economic powerhouse.

Customer Quote(s):

Dr Waleed Al-Hasawi, General Manager of Information Technology at Gulf Bank

"To win today's market and ensure business sustainability, it is critical that financial institutions change their direction and elevate their pace of business innovation.

Keeping this in mind, we at Gulf Bank wanted to set our foundation for the new digital era. To do this, our first step was to choose a trusted partner who could not only help us imagine our IT environment, but also help us as an organization to ensure effective outcomes. And, we hope our partnership with Dell Technologies enables us achieve this vision."

Executive quote(s):

Havier Haddad, General Manager – Gulf at Dell Technologies

"It is always great to see established organizations look at technology as a platform to uncover the answers of tomorrow. Therefore, we are pleased to be a part of the transformation journey embarked by Gulf Bank. Their vision to modernize and simplify data management to unlock new enterprise capabilities and offer more value to their customer, is something we advocate completely. We look forward to helping Gulf Bank build a benchmark by being fully committed to investing our expertise in this relationship."



Dr Waleed

KIB sponsors 24th Business Makers Career Fair at KU

KUWAIT CITY, March 18: As part of its ongoing efforts to support local talents and young graduates, Kuwait International Bank (KIB) sponsored the 24th Annual Business Makers Career Fair organized by Kuwait University's



KIB being honored for its sponsorship and participation.

(KU) College of Business Administration Office of Students Training and Alumni (OSTA). Running from March 5 to 7, the three-day event was held under the patronage of Her Excellency, Minister of Public Works and Minister of State for Housing Affairs, Dr Jenan Boushehri. The career fair aimed at introducing young Kuwaiti talents to various career opportunities on offer within the private sector.

Held on the KU campus, the career fair sought to introduce students and soon-to-be graduates to the various career opportunities available following their academic careers. KIB's participation aimed at highlighting the wealth of opportunities that are available within Kuwait's finance and banking sector.

In its latest edition, the career fair featured a large number of companies and institutions from across Kuwait, including some of the biggest names from the banking sector. On its part,

KIB was represented by a team from its Human Resources Department (HRD) at the Bank's dedicated booth. The team also introduced visitors to the nature of working at a bank and advise them on how they can start their professional career at KIB. Additionally, the Bank provided visitors with career advice to guide them through choosing suitable future careers.

KIB's participation in this event came as part of its dedication to supporting and empowering young, local talent. The Bank believes in the importance of guiding enthusiastic youth by providing them with employment opportunities that match their career goals. As part of its leading social responsibility program's youth empowerment pillar, KIB participates in career fairs all year round, as they serve as excellent opportunities to introduce students to the Bank – thereby attracting the right caliber of candidates.