National Bank of Kuwait

2Q/1H 2023

Earnings Conference Call

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Edited transcript of National Bank of Kuwait earnings conference call that took place on Tuesday, 18 July 2023 at 3:00 pm Kuwait time.

Corporate participants:

Ms. Shaikha Al-Bahar – Deputy Group CEO, NBK

Mr. Sujit Ronghe – Group CFO, NBK

Mr. Amir Hanna – Head of Investor Relations and Communications, NBK

Chairperson:

Elena Sanchez – EFG Hermes

Elena Sanchez: Good afternoon everyone. This is Elena Sanchez and on behalf of EFG Hermes, I would like to welcome you all to the National Bank of Kuwait second quarter and first half earnings call for the year 2023. It is a pleasure to have with us in the call today Ms. Shaikha Al-Bahar, Deputy Group CEO, Mr. Sujit Ronghe, NBK Group CFO and Mr. Amir Hanna, Head of Investor Relations and Communications at NBK.

At this time, I would like to handover the call now to Mr. Amir Hanna.

Please go ahead Amir.

Amir Hanna: Thank you Elena.

Good afternoon everyone. Thank you for joining us for today's webcast to cover the financial results of NBK Group for the second quarter and first half of 2023.

Like we always do, we will start today's call with the presentation disclaimer. I would like to bring to your attention that certain comments in this presentation may constitute forward-looking statements. These comments reflect the Bank's expectations and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described herein. The Bank does not assume any obligation to update its view of such risks and uncertainties or to publicly announce the result of any revisions to the forward-looking statements made herein. Please refer to the full disclaimer in our presentation for today's call.

Our Deputy Group CEO, Ms. Shaikha Al-Bahar, will start the presentation by giving some opening remarks on the operating environment and the highlights of the second quarter and first half. This will be followed by a detailed presentation on the interim financials by Mr. Sujit Ronghe, our Group CFO. Following the management presentation, we will answer any questions received through the webcast platform. And feel free to send any follow-up questions to our Investor Relations email address. Today's presentation is already available on our Investor Relations website for your convenience.

Now let me handover the call to Ms. Al-Bahar for her opening remarks.

Shaikha Al-Bahar: Thank you Amir.

Good afternoon everyone. I am pleased to join you today for our second quarter earnings call and to update you on NBK's performance during the period and the outlook for the rest of the year.

Globally, economic indicators have been gradually improving in most economies, refining the outlook and narrowing recession risks. Furthermore, the fallout from the recent banking crisis has dissipated, with no major deterioration seen so far in credit conditions following bank failures.

The growth outlook for most advanced economies has improved in the last few months. While in China, post-Covid economic recovery has been disappointingly uneven, influencing external balances for many countries including the GCC and arguably oil prices too.

As for the GCC region, economic growth is set to moderate after a solid year in 2022. The IMF revised down its GCC growth outlook for 2023 from 3.58% to 2.86% citing lower oil and gas output after the OPEC+ production cut and the effect of a global economic slowdown as main drivers; albeit still decent non-oil growth.

In Kuwait, economic conditions, although solid, are expected to soften in 2023 as post-pandemic bounce fades alongside lower oil output in compliance with OPEC+ cuts. As for consumer activity, the underlying drivers remain solid, including sustained job gains, supportive government measures and favorable demographics. On the other hand, corporate activity started gaining some traction after a period of stagnation on the back of improved sentiment, which is supported by some revival of the project market. We forecasts GDP in Kuwait to be flat in 2023 before rebounding by 3.3% in 2024.

The proposed expansionary draft budget by the government is likely to support domestic consumption and economic activity despite cuts to budgeted capex. That said, if execution rates pick up, on the back of some political stability, we can see year on year growth in Capex figures even on a budgeted reduction. Project activity has been a strong leading indicator with year-to-date project awards reaching around KD 900 million; signaling a significant recovery compared to 2022 levels. Looking ahead to the rest of 2023, positive momentum could continue as the newly appointed government comes to prioritize an acceleration in the development plan execution.

As for NBK, we continued to deliver very strong profitability trends both for the quarter and year-to-date figures. We delivered solid performance during the six months ended June 2023, with net profits of KD 275.3 million, growing by 15.8% year on year. This outstanding bottom line growth was mainly driven by higher core banking income. As for the three months ended-June 2023; NBK posted year-on-year growth of 16.4% in net profits to reach KD 141.1 million, the highest quarterly profits on record for the bank. Moreover, NBK's Board of Directors has approved its second semi-annual dividend distribution of 10 fils per share.

More importantly, we continued to deliver very strong trends operationally, with our revenue growth surpassing the increase in our operating expenses and hence delivering very solid growth in our pre-provision income to reach KD 359.2 milllion, growing by 23.1% year on year.

Our focus remains on creating shareholders value as evident in the constant and fundamental improvement in our profitability ratios with return on average assets of 1.53% and return on average equity of 15.2%.

On the strategy front, NBK continued to deliver on its key strategic pillar focusing on diversification and defending our market share. We continued to be competitive in the local market and the bank of choice whether for retail & high net worth clients, domestic and foreign corporates or institutions. Internationally, we remained focused on establishing a network for our clients in key priority markets; working on growing the business in the Egyptian, UAE and Saudi markets while consolidating a leading position as a regional player in the area of wealth management.

Moreover, the Bank looks forward to continue building and investing in technology and digital platforms. This will help us operate more efficiently and grow in key areas and markets, in order to achieve all stakeholders' aspirations. The Bank is putting significant emphasis on innovation as a key driver for future growth.

On another front, NBK continues to integrate critical ESG issues into the bank's business, culture and operations, creating meaningful change, and driving continuous improvement to our ESG policies and disclosures to secure a more sustainable future. The Bank focuses on four key pillars that shapes its updated sustainability strategy; Responsible Banking, Capitalizing on our capabilities, investing in our communities and Governance for Resilience. We view our ongoing sustainability journey as integral to improving business performance and increasing our positive impact in the world. We have just released our 2022 sustainability report, which focuses on these four pillars of our ESG strategy. Additionally and for the first, the report has received third party assurance on aligning with global GHG protocol as well for aligning with GRI reporting principles.

With that, I will conclude my comments and leave you with my colleague Sujit Ronghe, our Group CFO, to cover quarterly and half-year results in more details.

Please go ahead Sujit.

Sujit Ronghe: Thank you Ms. Shaikha

Hello everyone and welcome.

I am very pleased to have this opportunity to take you through the financial results in respect of the first half of 2023.

We have announced a net profit of KD275.3m for 1H23. This is a 15.8% increase in bottom line profit over the comparable period of 2022.These results reflect a solid operating performance by the Group and demonstrate the continued growth in our businesses. NBK's strong operating performance has resulted in the Bank reporting the highest quarterly profit to-date.

Before going in to details of our financial results, I would first like to say a few words regarding the overall operating environment during the current year.

The higher interest rate regime and an overall stable operating environment in Kuwait have benefitted the Bank during 1H23. Inflationary conditions in USA and some other advanced economies have started to wane and with that, the risk of a possible recession. We are cautiously optimistic that the overall operating environment will remain stable during upcoming quarters.

Now turning to the financial results for 1H23.

As profiled at the top left of this slide, the KD37.5m i.e. 15.8% increase in net profit compared to 1H22 reflects a robust performance by the Group, benefitting from increased interest rates, growth in business volumes and a strong operating performance. Group loans grew by 7.1% year on year across business lines and geographies. The investment securities contributed strongly to Group assets with a growth of 19.7% v/s June 22.

The top right chart reflects operating surplus i.e. profit before provisions and tax for the current six months at KD359.2m, a growth of KD67.4m, 23.1% over 1H22. Net operating income increased by KD89.5m, 18.8% whilst costs grew by KD22.1m, 12.0% over the first half of 2022.

Similarly, 2Q23 operating surplus exceeded that of the previous quarter by 3.6% on the back of a stronger operating income, mainly driven by net interest income. Lower credit provisions charge in the current quarter has resulted in a net profit increase of 5.2% vis-à-vis 1Q23.

I will go into the main drivers behind movements in income, margins and costs shortly.

The operating income mix profiled at the bottom right hand continues to show a healthy mix with 24% coming from non-interest income sources.

Moving on now to the next slide.

Here we will look at net interest income and drivers behind its performance.

The chart at top left reflects the net interest income of KD432.1m for 1H23, a growth of 24.1% over 1H22, largely benefiting from higher interest rates and yoy growth in loans and other interest earning assets across segments and geographies. You would also note from the chart at the top right that Average earning assets grew by 7.2% from June 2022, to reach KD34.5bn.

As can be seen from the chart at the bottom left, average NIM for 1H23 at 2.52% reflects an improvement of 34bps over 1H22 driven by a higher yield, despite increased funding cost. Group yield and funding cost for 1H23 was 5.53% and 3.36% respectively. The higher funding cost primarily results from the repricing of deposits at increased market rates and longer tenor deposits sourced by the Group. At the same time, an overall stable base of low cost deposits continues to benefit the Group.

2Q23 NIM for the Group was at 2.56%. Group yield for the current quarter was 5.73%, compared to 5.31% in 1Q23. At the same time, the Group's funding cost increased to 3.55% during the current quarter from 3.16% in 1Q23.

At the bottom right of this slide, we can see drivers behind the 34bps increase in NIM from 2.18% in 1H22 to 2.52%. Loans and other assets backed by a strong year on year growth in interest rates and volumes, contributed a net increase of 128bps and 111bps to the NIM respectively. Higher funding cost negatively affected the NIM by 205bps.

Moving on now to the next slide.

As we can see at the top left of this slide, total non-interest income at KD133.8m for 1H23 was 4.5% higher than first half of 2022. Fees and commissions income contributed KD99.6m, foreign exchange activities KD17.4m, while other non-interest income sources (mainly investment income) contributed KD16.8m.

Fees and commissions income reported a strong growth of KD7.2m, +7.8% on 1H22 reflecting strong contributions across business lines and geographies. Fx income for the first half of the year was KD6.7m lower than 1H22, mainly due to the impact of unfavorable currency movements on our $AT1 bond issuances.

Other non-interest income increased by KD5.3m compared to 1H22. Included herein is the net investment income, favorably affected by higher market valuations.

Our fees and commissions have been strong and are from a well-diversified pool of geographies and lines of business. Also, major sources of non-interest income are core-banking activities in respect of business related factors as opposed to more volatile income from trading activities.

Turning now to operating expenses reflected in the top right hand chart. Total operating expenses for 1H23 at KD206.6m, were 12.0% higher than 1H22. The cost growth reflects increased business activity levels at Kuwait and across the Group's network. Other administrative expenses also included Group's CSR donation of KD1m for the earthquake victims of Turkey and Syria.

The Group's operating expenses reflect continued investments in key businesses initiatives, digital technologies and processes. This enables the Group to offer best in class service to its customers and optimize resources to improve operational efficiency.

Our digital channels and products continue to play a vital role in servicing customers, with electronic transactions reaching record highs. We also continue to press ahead with selective product offerings in certain geographies e.g. our Global Wealth Management business, expansion of our Islamic banking operations through Boubyan Bank and our operations at NBK Egypt.

As a result of the marked growth in operating income, the 1H23 cost to income ratio was at 36.5% compared to 38.7% in 1H22, and 38.2% for the full year 2022.

Moving on to provisions and impairments profiled on the bottom right hand side of the slide.

Total provisions and impairments for the current six-month period amounted to KD48.0m, an increase of KD26.9m on 1H22. You would recollect that 1H22 and the fuller year of 2022 was characterized by significant specific provision recoveries. KD48.4m of the 1H23 charge was for provisions for credit facilities, with a small release towards ECL on other financial assets. Specific provision was KD12.2m, whereas KD36.2m was towards general provisions including a significant component of precautionary general provisions. The Group remains committed to its conservative approach in managing credit exposures.

The cost of risk for 1H23 was at 44bps compared to 8bps for 1H22, which benefited from provision recoveries as explained earlier.

It is worth noting that the Group’s Balance Sheet remains strong with a stable credit quality. NBK’s capital base along with the ability to generate healthy operating profits provides a strong credit loss-absorption capacity.

Moving now to the next slide.

On this slide, I would like to expand on the matter of earnings diversification through the International and Islamic banking arms of the Group.

NBK Group continues to benefit from its unique position amongst Kuwaiti banks in terms of geographical spread of operations and the ability to conduct business in both conventional banking and Islamic banking. This diversification provides a strong competitive advantage to the Group and gives a significant degree of resilience to Group earnings.

As you can see from the charts on the left hand side, operating income from the Group’s international operations reflected a strong year on year growth of 19.6% in 1H23. Net profit at KD72.4m has increased by KD26.5m benefiting largely from a strong operating performance and lower credit provisions and ECL. International operations continue to contribute a healthy 25% and 26% to the Group’s operating income and net profit respectively.

The Group’s Islamic banking subsidiary Boubyan Bank delivered a net profit of KD41.3m, up 24.8% on 1H22 due to a strong operating income and lower provisions.

Finally, on the chart at the bottom right corner, you will note that International operations and Boubyan Bank contributed 40% and 22% respectively to Group’s total assets enforcing the diversification agenda of the Group.

Moving to the next slide.

Here we will look at some of the movements in key volumes during the period.

As profiled on the chart at top left, the Group total assets reached KD36.1bn at June 2023, a 5.3% increase on June 2022.

Group loans and advances at KD21.6bn registered a strong yoy growth of KD1.4bn i.e. 7.1% and 2.7% during this first half year. EGP devaluation against the US$ has adversely affected the KD value of loan growth since 1H22. Loan growth was achieved at Kuwait – in both conventional and Islamic sectors and at International operations.

Customer Deposits i.e. non-bank and non-FI deposits at KD20.3bn, reflect a strong yoy growth of 7.1% and remained stable vis a vis Dec 22. Non-bank FI remained at KD3.7bn dropped slightly during 1H23 and since June 22. The Group has continued to benefit from its strong base of core franchise retail deposits. As can be expected in a rising interest rate scenario, we noted a limited migration from lower cost deposits to time deposits. However, the migration rate has slowed in recent months and the overall funding mix remains stable and favorable to the Group.

The growth in retail deposits reflects a sustained focus on the deposit gathering aspects of our business, leveraging NBK's longstanding ability to capitalize on the Group's strong brand, customer appeal and credit ratings.

Customer deposits comprise a healthy 66% of total funding mix of the Group.

I want to highlight that the Group continues to maintain healthy liquidity levels & comfortably exceeds minimum requirements of Basel III ratios.

Moving now to the next slide.

Here we will look at the impact 1H23 financial results had on certain key performance metrics.

The Return on Average Equity for the current six months improved to 15.2% from 13.6% in June 22. Similarly, Return on Average Assets now stands at 1.53% compared to 1.42% for 1H22.

At 16.4%, total Capital Adequacy Ratio remained strong, although adversely affected by non-inclusion of interim profits and interim dividend of 10 fils / share in the Group's regulatory capital. CET1 and Tier1 ratios were 12.1% and 14.2% respectively.

As regards asset quality, you would note that the NPL ratio was at 1.75% compared to 1.42% as at December 2022. Loan loss coverage ratio stands at 218% reflecting the conservative provisioning policy of the Group.

Moving to the next slide

I would now like to discuss Expected Credit Losses (ECL) on credit facilities as per 'IFRS 9 calculated in accordance with CBK Guidelines'. As per the regime adopted by CBK, Banks calculate the credit provisions required (i.e. the amount in the balance sheet) as per CBK instructions and compare it with the ECL on credit facilities as per 'IFRS 9 in accordance with CBK guidelines'. Consequently, the charge to income statement is based on the higher of the two balance-sheet amounts.

It is important to note here that CBK guidelines for calculating ECL on credit facilities as per IFRS 9 are on a more conservative basis compared to the original accounting standard.

The key chart on this slide at the bottom right reflects that ECL provision required as at June 23 was KD610m, slightly higher than Dec 22 levels, resulting from volume growth of assets, coupled with increased NPL.

Although IFRS 9 ECL and CBK provisions are two different regimes and should not be compared as such, as at June 2023, the balance sheet provision as per CBK instructions exceeds the ECL by KD283m. This provides ample cushion for the Group to withstand any possible adverse effect of prevailing uncertainties on ECL provision requirements.

Now to the final slide in this section.

Before concluding, allow me to summarize our financial performance in 1H23.

As mentioned earlier, benefit of increased benchmark interest rates, a strong operating performance combined with a healthy balance sheet, comfortable liquidity levels and a strong capital base were features of NBK's 1H23 results.

Looking forward, ongoing politics both locally and internationally and the risk of a possible recession could result in a macroeconomic environment that is less conducive to growth. We however remain cautiously optimistic that the overall operating environment will be more or less stable during coming quarters.

Now turning to the guidance for remainder of 2023.

As regards loan growth, the Group reported a loan growth of 2.7% during 1H23. Given the current local, political and the general macroeconomic situation, we are expecting the overall loan growth for 2023 to be in mid-single digit range. An improvement in overall operating environment will be a positive to loan growth.

Now turning to the NIM. As mentioned earlier, 1H23 NIM has improved to 2.52% benefiting from higher interest rates and stronger volumes compared to the last year. The general expectation is that US benchmark interest rates will probably increase by 25bps, before beginning to plateau. That said the extent and timing of changes to local interest rates remains uncertain. We should also expect increasing competition and the funding cost to remain high, despite Group's healthy overall funding mix. Our guidance is for an expansion in NIM compared to 2022 and we expect the full year 2023 NIM to remain broadly similar to 1H23, with a potential for a small upside.

The 1H23 cost to income ratio was 36.5%, compared to 38.2% for the full year 2022. While benefiting from higher incomes and in continuation of our investment program in support of various Group initiatives, we expect the cost to income for 2023 to remain under 40%, closer to 2022 levels.

Given the current macroeconomic uncertainties, it would not be prudent to give a specific guidance on cost of risk and consequently on earnings / capital adequacy. The cost of risk in 1H23 was 44bps given the sizeable precautionary general provisions. We do not expect a repeat of significant credit recoveries like in 2022. Although full year 2023 cost of risk will not be as low as 2022, we are cautiously optimistic that it will remain below 2021 level of 63bps. We are also hopeful of maintaining capital adequacy ratios in line with our internal targets above the regulatory minimum.

That ends my presentation.

Thank you very much for your time.

Back to Amir.

Amir Hanna: Thank you Sujit.

Thank you everyone for listening to the presentation.

We will break for a while to get all the questions in the platform, so we can start answering them based on topics.

Okay so we're back, we've got a big list of questions. I'll take the questions in the order we receive them.

So the first question asking about the drop in loan for the purchase of securities over the quarter.

Sujit Ronghe: From an absolute amount point of view, the loans for purchase of securities have not dropped significantly. However if we look as percentage of total gross loans, it used to be around 4% in Q4 or Q1 of this year and now it is approximately 3%. I do not think there is a major shift in movement for this category of loans.

Amir Hanna: Question on NIMS, the NIMs seems to be progressing better than your guidance, stable NIMs for 2023 beyond Q1 in the previous quarter, what is the outlook for the 2H2023.

Sujit Ronghe: NIM has benefitted from higher yields due to the fuller impact of interest rate increases and volume growth in loans and investment securities, also resulting in a better asset mix. Although funding cost grew both in Kuwait and overseas, the Group continues to benefit from sizeable CASA deposits in spite of the limited migration that we have seen in recent quarters.

As regards to the guidance, the CBK discount rate is currently at 4% and Fed is at around 5.25%. The general expectation is that the Fed rate hikes will pause after one increase this month and remain stable for a period of time. That said, there is no clarity whether CBK will follow the Fed as such. 1H2023 NIM was at 2.52% and under such interest rate scenario with some increased competition and high funding costs, we expect the full year 2023 NIM to expand compared to 2022 but remain broadly stable at current level with possibly a small upside. That said the Group continues to benefit from a significant portion of low cost deposits in form of CASA, which will help us manage our overall funding mix.

Amir Hanna: Question on the macro environment, with an economic rebound expected in 2024, do you see NBK benefitting more than peers from any key growth drivers.

Shaikha Al-Bahar: Yeah, well basically this is a good question, as you know the government submitted the 4 year plan to the Parliament, and the plan includes 5 main pillars namely ensuring public finance stability, economic development, job creation, welfare sustainability and productive government.

This will basically create opportunities for banks to get involved in the mega projects, by financing projects and NBK has the experience, as we have a specialised group dealing with all models of projects like PPP, BOT and so on. So definitely we will benefit a lot from such ambitious plan from the government.

Creating jobs, this means we will see more and more of Kuwaitis in the work market so this will create opportunities for our consumer business and hopefully when they will approve the mortgage law will create opportunities as well.

I saw other questions related to the new sovereign investment fund proposal that the government wants to have on their agenda. They proposed to create a new sovereign fund called (SEYADA) with the objective of investing in the local economy mainly to get involved in financing mega projects and other opportunities in the market.

So NBK definitely having a great relationship with different big quasi government and the experience that we have and the qualified team that will be able to manage and place such projects in the market.

I am very optimistic and believe that NBK will benefit a lot from movement in the economy.

Amir Hanna: Thank you. On the funding costs, can you please share which specific segments have contributed the most to the increase in funding costs?

Sujit Ronghe: The funding cost increase in the second quarter is because of two factors. Firstly, there is still some migration of CASA deposits to time deposits, which move from a very low cost base to higher cost of funding. Secondly, wholesale deposits were booked or renewed at a comparatively higher rate. Some of these deposits were procured probably a year ago or more at lower costs, which has resulted in an increase in funding cost.

Amir Hanna: Loan growth of 7% year on year is above system loan growth of 3%. Did the international operations drive loan growth in the first half?

Sujit Ronghe: The loan growth in the first half was a mix of growth in Kuwait- both at NBK and Boubyan Bank, as well as some growth in international operations. It is important to note that after a few quiet years, we have seen corporate activity and demand for loans picking up in Kuwait, which has helped us during the first half.

Amir Hanna: There are a few questions on the increase in NPLs and the drop in coverage ratios, so we will just cover the topics in one response, mostly asking about the sector contributions and the reasons behind the increase in NPLs and if there is a limit to the drop in coverage ratio.

Sujit Ronghe: The Group NPLs have increased to KD 391 million from KD 310 million in December 2022. The increase mainly stems from limited number of exposures across our network. We have seen a few of our customers impacted by cyclical factors like high inflation, higher interest rate environment etc. Although such exposures are largely well collateralized these have been classified as non-performing in accordance with the local rules. The Group has also conservatively set aside specific provisions in certain cases. We remain close to our customers and are continuously monitoring the situation.

That said, the NPL ratio of 1.75% although slightly elevated from December 2022 levels, still at considerably low levels. This is within the 1.5%-2%, which we consider as the normal level for our NPLs.

As regards for our loan loss coverage, the loan loss coverage of 218% reflects the conservative provisioning policy of the Group. This number has generally been above 200% and at times 300%. While the Group does not keep a specific target, we are comfortable with the overall provisioning coverage remaining above 200%.

Amir Hanna: Similarly, there are also a few questions on the trends in capital ratios, the drop that we have seen in the first half and the impact of semi-annual distributions.

Sujit Ronghe: The drop that we have seen in capital adequacy ratio is stemming from 2 reasons. First is of course that on one side you have the growth in risk weighted assets but on the other hand we are not allowed to include interim profits in the regulatory capital base. The interim dividend of 10 fils per share is also excluded from the regulatory capital.

As a combined result, we have seen our capital ratios drop when you compare them with December 2022. As we progress to the year-end and retained earnings would be added back to regulatory capital. We expect the capital ratio to be back at same or similar levels to December 2022.

Amir Hanna: On our targeted internal capital buffers?

Sujit Ronghe: The Bank typically targets a buffer of minimum 1.5% above the regulatory minimum levels, at a total CAR basis. This is applied at year-end when retained profits are included in the calculation of regulatory capital.

Amir Hanna: How does the Bank plan to maintain current levels of profitability on the interest rate cycle trends in 2024?

Sujit Ronghe: The Bank has typically benefitted from a high interest rate environment. Hence it is quite natural that there could be some impact of lower interest rates when the cycle reverses. At the same time, it depends on the pace at which interest rates reduce. As long as the pace is gradual, we believe there won't be significant implications for the next year; given the fact that volume growth in 2023 will be fully utilized in next year. Interest generating assets booked this year will certainly help us negate impact of lower interest rates.

Amir Hanna: There is a question on staff costs. What is the reason behind the increase in staff costs in 2Q23?

Sujit Ronghe: 2Q staff costs is usually at an elevated level given that annual promotion and increments are effective starting from the second quarter. This also includes a catch up on certain end of service benefits. You will not see such level of increase in staff costs, from second to the third quarter.

Amir Hanna: Many questions on CASA, what is CASA or non-interest bearing deposits as a percentage of total deposits? Can you remind us of CASA percentages? And also versus last year.

Sujit Ronghe: The Group continues to benefit from a favorable funding mix due to a strong and sticky pool of deposits. We have experienced a limited shift from CASA to time deposits, especially starting from the third quarter of last year, although the rate migration has slowed in recent months. That said, CASA deposits ratio as a percentage of the non-bank deposits is still at very healthy levels, close to 40%. This ratio has not changed significantly in the past 2 quarters, contributing to a very healthy funding mix for the Bank.

Amir Hanna: We see a lot of questions repeating on NIMs and NPLs.

There is one question on Egypt. Asset quality trends in Egypt and how do you expect cost of risk trends in Egypt to look like?

Sujit Ronghe: Our operations in Egypt continued to deliver very strong bottom line performance and asset growth in the local context. In the first quarter, Egypt has delivered a profit growth of 87% and 36% YoY growth in assets. Our Egyptian loan book has been stable over the years and we have not witnessed specific signs of deterioration in credit quality. NPL ratio remains low and comparable to levels similar to the last couple of years.

As such, from an Egyptian operational view, we do not have specific concerns with respect to credit quality at this stage.

Amir Hanna: A question on the component of retail deposits to total deposits? How that has been trending?

Sujit Ronghe: Retail customer deposits are typically in the range of 35-40% of our total book. These deposits are spread across a large population, mainly in Kuwait. The deposits have been very sticky in nature over many years and probably over generations. Many such deposits are also in form of CASA and we benefit from their contribution to the favorable funding mix of the Group.

Amir Hanna: Can you remind us on how much is your USD denominated loan book and whether its priced based on LIBOR or SOFR?

Sujit Ronghe: As far as foreign currency loan book, more than one-third of our book is denominated in foreign currency. The Bank has embarked on transition of floating rate financial assets and liabilities from LIBOR to SOFR. A significant portion of loans is already transitioned to SOFR; while the remaining is expected to be completed in coming quarters.

Amir Hanna: We are screening through questions to make sure that didn't miss any as there is repetition in many questions.

Something just came in on deposits; how much is from government institutions? How is the behavior of these deposits?

Sujit Ronghe: The Bank enjoys a very close and stable relationship with government institutions, not only in Kuwait but also regionally. We have historically benefitted from stable deposits from these institutions. About 20% of our total funding comes from Government institutions and has been in this range during the past two to three years. Hence, a very stable deposit base from government institutions.

Amir Hana: I think that's it for today. We are not seeing any other questions coming. If we have missed any questions or you have any follow-up, please send it to NBK's Investor relations email address and we'll respond at our earliest.

Thank you all for listening and for attending the call today.

Elena back to you.

Elena Sanchez: Thank you Amir.

Thanks to NBK's management for the presentation today and answers to questions.

Thank you everyone for joining the call.

Have a great day.