National Bank of Kuwait

3Q 2022

Earnings Conference Call

20 October 2022

3Q/9M 2022 National Bank of Kuwait Earnings Call

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Edited transcript of National Bank of Kuwait earnings conference call that took place on Thursday, 20 October 2022 at 15:00 Kuwait time.

Corporate participants:

Ms. Isam Al-Sager – Vice-Chairman and 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 third quarter and nine months 2022 earnings call. It is a pleasure to have with us in the call today Mr. Isam Al-Sager, NBK Vice Chairman and 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. We are glad you joined us today for our third quarter and nine months 2022 earnings webcast.

As our usual practice before we start, 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. Also I would like to refer you to the full disclaimer in our presentation for today's call.

We will start the call by some remarks from our Vice Chairman and Group CEO, Mr. Isam Al-Sager, followed by a detailed presentation on the quarterly and nine months financials by Mr. Sujit Ronghe, our Group CFO. Following the management presentation, we will answer your questions in the order they are received. Also, feel free to send any follow-up questions to our Investor Relations email address. And for your convenience, today's presentation is already available on our Investor Relations website.

Now let me handover the call to Mr. Isam Al-Sager for his opening remarks.

Isam Al-Sager: Thank you Amir.

Good afternoon everyone. Thank you for joining us today for our third quarter and nine months 2022 earnings webcast.

I am glad to join you today to update you on the overall operating environment, our performance during the period as well as our key strategic initiatives for the remainder of the year.

The challenging geopolitical turmoil continued to overshadow the global economic outlook. With ongoing monetary tightening, soaring energy prices and rising inflation.

This has led the IMF to downgrade its projected global growth for 2022 to 3.2%; implying a risk of slowdown in the global economy.

Against the challenging geopolitical turmoil and negative global economic outlook, the GCC economies including Kuwait continued to exhibit positive sentiment backed by higher oil prices. Moreover, the strong consumer and business sentiments are reflecting positively on non-oil activity thereby accelerating GCC growth. IMF forecasts a 6.5% growth for the region in 2022.

In Kuwait, the economy continues to witness overall positive signs despite concerns on global outlook. The oil sector continues to be a key contributor to GDP growth with both production and oil prices posting gains that are high enough to result in a meaningful fiscal surplus. Kuwait's GDP growth is expected to reach 7.8% in 2022 led by an anticipated 12.1% growth in the oil sector and 3.1% in the non-oil sector. With oil prices averaging $100 per barrel, we estimate Kuwait's fiscal balance to post a surplus of 10.2% of GDP in 2022/23 on modest increase in expenditure. We are confident that these encouraging trends will provide positive momentum in strengthening the banking sector's prospects; as calls to increase capex already dominating the scene.

On the political front, we remain optimistic that the recent formed cabinet and elected Parliament are committed to reach common grounds to provide a reset that will improve political cooperation and kick-start a period of political stability and creating a supportive environment for economic growth and diversification.

Moving to NBK, during the nine months ended September 2022, NBK built on its robust business model recording KD 374.2 million in net profits, growing by 46.9% year on year. As for the three months ended September 2022, we delivered a growth of 45.0% in net profits to reach KD 136.4 million; the highest quarterly profits recorded for the bank. That solid growth was attributed to higher core banking income and a healthy improvement in the cost of risk.

The Bank continues to operate from a position of strength, building on our strategy and financial solidness. NBK's prudent risk management, strong capital and liquidity positions as well as its dynamic-financial management, enables the Group to effectively overcome headwinds.

The Group will continue executing its responsible growth strategy, investing in innovation and new technologies, while advancing its sustainable practices across businesses and operations.

In Kuwait, we will build on our market position to benefit from the anticipated pickup in activity that will reflect positively on wholesale banking, the strong consumer sentiment and spending contributing to retail lending and our ability to deliver innovative products and services. Additionally, we continue to benefit from our presence in the Islamic banking space, as Boubyan Bank remains a key pillar in our growth and profitability targets.

Outside Kuwait, we will continue with our growth in international operations with special focus on MENA, most importantly GCC and Egypt. We will leverage on our strong franchise to reinforce our presence in KSA on the wholesale and Wealth Management fronts, while targeting all banking activities in Egypt with attention to retail and wholesale by investing in digital services.

NBK remains determined to lead the way in ESG throughout its businesses and operations to drive sustainable performance and growth. We take pride in the launch of NBK RISE, a Global Women Leadership initiative designed to elevate talented women to more significant leadership roles. Furthermore, we contributed KD 13 million to expand NBK's Children's Hospital specialized in stem cell transplant to support the Kuwait's efforts in advancing the healthcare services in the country.

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

Please go ahead Sujit.

Sujit Ronghe: Thank you Mr. Isam.

Hello everyone and welcome.

I am very pleased to take you through the Group's financial results.

We have announced a net profit of KD374.2m for the first 9 months of 2022. This is a 46.9% increase in bottom line profit over the comparable period of 2021. At KD136.4m, the Group recorded its highest quarterly profit, with an increase of 45% over 3Q21. These results reflect a solid performance by the Group and demonstrate continued growth in our businesses.

Before going into the details of our financial results, a few words regarding the overall operating environment during the current nine months period.

Increased oil prices and improved business activity have benefited the overall operating environment in Kuwait. Recent increases in benchmark interest rates and more expected in coming months are benefitting the Bank in general. At the same time, ongoing geo-political turmoil, high levels of inflation in developed countries (although to a lesser extent in Kuwait) and the resulting steep interest rate hikes have increased the risk of a possible recession in the coming year. We however remain optimistic of a stable overall operating environment for remainder of the year.

Now turning to the financial results for 9M22.

As profiled at the top left of this slide, the KD119.4m i.e. 46.9% year on year increase in net profit reflects a strong bottom-line performance by the Group, driven by robust business volumes, increased net operating income and lower net credit provisions and impairment losses. 3Q22 net profit at KD136.4m reflected a growth of 12.5% over the previous quarter reflecting a stronger operating performance.

The top right chart reflects 9M22 operating surplus i.e. pre-provision and pre-tax profit at KD465.8m, a growth of KD51.2m, 12.3% over the nine months of 2021. Net operating income increased by KD72.4m i.e. 10.6%, while operating expenses grew by KD21.2m, 8% over 9M21.

Similarly, 3Q22 operating surplus exceeded that of the previous quarter by 18.2% on the back of stronger net interest income as well as non-interest income and a limited cost growth.

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

The net operating income mix profiled at the bottom right hand continues to show a healthy mix with 27% 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 KD546.6m for 9M22, a growth of 8.9% over 9M21 largely driven by higher volumes of loans and other interest earning assets across geographies while benefiting from higher interest rates. You would also note from the chart at the top right that Average earning assets grew by 8.4% yoy.

As can be seen from the chart at the bottom left, average NIM for 9M22 at 2.26% remained stable at 9M21 levels despite increased yields, mainly due to higher funding cost. Fed Fund rates increased by 3% during the year, while the CBK discount rate increased by 1.50%. Also, the KD liabilities curve has grown at a steeper pace than that of the discount rate in Kuwait.

The Group’s average yield for 9M22 was 3.43%, compared to 2.97% in 9M21. Funding cost averaged 1.32% during the current period compared to 0.82% in 9M21. The higher funding cost primarily results from the repricing of deposits reflecting increased market rates and longer tenor deposits sourced by the Group. At the same time, the strong and stable base of low cost deposits continues to benefit the Group.

3Q22 NIM at 2.40% is 18bps higher than the previous quarter benefiting from recent interest rate hikes. The Group’s yield for the current quarter was 4.00% and funding cost was at 1.78%.

At the bottom right of this slide, we can see drivers behind the 1bp increase in NIM to 2.26% in 9M22 from 2.25% last year. Loans, backed by a strong year on year growth contributed a net increase of 28bps to the NIM, with other interest earning assets contributing 18bps. Higher funding cost however, negatively affected the NIM by 45bps.

Moving on now to the next slide.

As we can see at the top left of this slide, total non-interest income at KD206.9m for 9M22 reflected a strong growth of KD27.9m i.e. 15.6% over the corresponding period of 2021. Fees and commissions income contributed KD132.4m, foreign exchange activities KD60.3m, while other non-interest income sources (mainly net investment income) contributed KD14.1m.

Fees and commissions income was 7% higher than 9M21 reflecting strong contributions across different lines of business. FX income for 9M22 was KD32.8m higher than previous year, benefitting from the impact of favourable currency movements and stronger transaction volumes.

Other non-interest income was lower than that of 9M21, mainly due to a lower net investment income, affected by the drop in market valuations. 9M21 also included a one off gain on sale of assets, reflected as other net operating income in the income statement.

Our fees and commissions have been solid 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.

3Q22 non-interest income at KD75m, was 17.1% higher than the previous quarter, benefitting from a stronger FX income and an improved net investment income.

Turning now to operating expenses reflected in the top right hand chart. Total operating expenses for 9M22 at KD287.7m were 8% higher than 9M21. A part of the cost growth reflects increased activity levels across the Group's network and continued investments in key businesses, digital technologies, processes and human capital. 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 high levels of electronic transactions. We also press ahead with selective product offerings in certain geographies e.g. the Global Wealth Management business, expansion of Islamic banking operations through Boubyan Bank and our operations at NBK Egypt.

9M22 cost income ratio was at 38.2% compared to 39.1% in 9M21.

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

Total provisions and impairments for the current nine months period amounted to KD40.9m, a 66.7% decrease from KD122.8m in 9M21. KD27.3m was charged towards credit provisions, whereas non-credit ECL and other impairment losses were KD13.6m. Specific provision was a net release of KD121.9m, resulting from recoveries of amounts provided towards credit losses during prior years. At the same time, the

Group has taken provisions in ordinary course of business for retail and corporate customers in Kuwait and overseas locations. The Group remains committed to its conservative approach in managing credit exposures and has hence set aside precautionary provisions, which are included in the General provision charge of KD149.3m.

The cost of risk for 9M22 was 18bps compared to 63bps for full year 2021, favorably affected by significantly lower credit provisions, which benefited from loan 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 can be seen in charts on the left hand side, net operating income from the Group's international operations at KD192m, reflecting a yoy growth of 14.2%. Net profit at KD100.7m has increased by KD29m i.e. 40.5% benefiting from stronger operating results and lower credit provisions and ECL. International operations continue to contribute a healthy 25% and 27% to the Group's net operating income and net profit respectively.

The Group's Islamic banking subsidiary Boubyan Bank delivered a net profit of KD48.6m, up 52.4% on 9M21 primarily due to lower provisions and a stable operating performance.

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 KD34.7bn at September 2022, a 6.8% yoy increase, up 4.4% on December 2021.

Group loans and advances at KD20.6bn, reflected a yoy growth of 8.7% and 4.5% on Dec 2021. Loan growth was achieved in both conventional and Islamic customer segments, in Kuwait and overseas. Weakening of major currencies against the US$

and EGP devaluation, has adversely affected the KD value of loan growth during 9M22. Loan growth during 3Q22 was strong at KD465m reflecting the healthy loan pipeline across customer segments and geographies.

Customer Deposits i.e. non-bank and non-FI deposits at KD19.3bn reflected a yoy growth of 11% and 5.5% from December 2021 levels. Non-bank FI deposits increased by 26.9% during the 9M22 to reach KD4bn. The Group has continued to experience growth in its core franchise retail deposits- both conventional and Islamic. 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 65% of total funding mix of the Group.

I want to highlight that the Group, despite the continued relaxation offered by Central Bank of Kuwait, was able to maintain originally mandated liquidity levels & Basel III ratios.

Moving now to the next slide.

Here we will look at the impact 9M22 financial results had on certain key performance metrics.

The Return on Average Equity for 9M22 improved to 14.1% from 9.6% for the comparable period in 2021. Similarly, Return on Average Assets now stands at 1.47% compared to 1.09% for 9M21.

At 16.3%, total Capital Adequacy Ratio remained strong and stable, well above the regulatory minimum. CET1 and Tier1 ratios were 11.8% and 14.0% respectively. Kindly note that capital adequacy ratios reflects the reduction in regulatory capital due to payment of KD75.5m interim cash dividend. Interim profit for 9M22 was not included in the regulatory capital used for calculation of cap-ad ratios.

As regards asset quality, you would note that the NPL ratio was at 1.24% compared to 1.43% as at September 2021 and 1.04% as at December 2021. The year on year drop in NPL ratio stems from the improvement in credit quality of certain exposures and write offs.

Resulting from lower NPLs and continued precautionary provisions, the loan loss coverage ratio has improved to 308% in September 2022.

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 requirement as at September 2022 increased to KD535m from KD462m at December 2021. Changes to macro-economic factors forming inputs to the ECL model have resulted in an increase in the required amount compared to the previous year.

Although IFRS 9 ECL and CBK provisions are different regimes and the two should not be compared, as at September 2022 the balance sheet provision as per CBK instructions exceeds the ECL by KD325m. 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 9M22.

NBK's 9M22 results reflected improved underlying operating drivers, strong asset growth, lower provisions and impairments, a healthy balance sheet, sound liquidity levels and a solid capital base.

Now turning to the guidance for remainder of 2022.

Although we remain optimistic of a stable operating environment, the Bank is well positioned to overcome any possible challenges posed by the developing global macroeconomic scenario and ongoing geo-politics.

As regards loan growth, the Group reported a net loan growth of 4.5% during 9M22, adversely affected to an extent because of currency movements. Although the Group has a strong pipeline of loans, given prevailing global dynamics and the resulting uncertainty in timing of actual drawdowns, we are expecting the full year 2022 loan growth to end in the mid to high single digit range.

Now turning to the NIM. As mentioned earlier, quarterly NIM has reflected an upward trend, benefiting from increasing interest rates and stronger volumes. Although international benchmark interest rates are set to increase further, the timing and extent of local interest rate hikes remains uncertain. Also, headwinds of an increasing funding cost and competition will continue to affect the overall NIM. In light of these considerations, we expect the full year 2022 NIM to be a few basis points above 9M22 NIM.

The 9M22 cost to income ratio is currently at 38.2%. In continuation of our investment program in support of various Group initiatives, we expect the cost to income for 2022 to remain largely similar to 2021 i.e. below 40%.

Given the prevailing uncertainties of the global economics and ongoing geo-politics, it would not be prudent to give a specific guidance on cost of risk and consequently on earnings / capital adequacy. Cost of risk was 63bps in 2021. Strong credit recoveries resulted in a lower cost of risk at 18bps for 9M22. We remain optimistic that the full year cost of risk would continue to be favorable and materially lower than 2021 levels. 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 Mr. Isam and Sujit. Thank you every one for listening.

We will break for some time and come back to respond to your questions; reminding everyone to type their questions in the chat box and we'll respond once we are back from the short break.

Okay so we're back, thank you everyone for waiting. We've got a big list of questions, a lot of topics revolving around margins so we'll try to answer the questions as we go.

The first question is asking could you talk a bit about the NIM drivers in Q3 as a sequential expansion was quite strong, have you repriced all the deposits or should we expect some pressure in Q4 due to liability repricing from previous rate hikes, and if the CBK follows the Fed in a similar pattern should we expect NIM to continue to expand in Q4 and into 2023 estimates.

Sujit Ronghe: Speaking about NIM drivers, NIM for Q3 was very strong and that reflected the impact of more number of rate hikes compared to the earlier period. We had a hike of 75 basis points during the third quarter and 50 basis points in the 2nd quarter, which affected the yield favorably. Of course, this has also led to repricing of deposits and booking of new deposits at a higher rate. Hence, while we expect to benefit on the yield front, funding cost is likely to increase thereby affecting the net increase in NIM.

The other question is if CBK follows Fed in a similar pattern. Given the experience of last 6 months, the CBK has not followed the pattern of the Fed fund increases. On a hypothetical basis, if it follows the same, the NIM would continue to expand in to Q4 and 2023 as well, but that has not been the experience so far.

Amir Hanna: Another question, what is driving the strong growth in the sector in Kuwait, if you could throw some color on underlying growth; I am assuming this is sector loan growth. Sujit.

Sujit Ronghe: The loan growth in Kuwait was seen on both conventional and Islamic side. We saw increases in loans during the first 9 months through retail and some activity on the commercial side as well.

Amir Hanna: Another question on what is your house view on progress of economic reforms with a new Parliament / cabinet.

Isam Al-Sager: Well I think there will be some economic reforms, we look at it positively simply after the recent political change and the new elections. I think there will be some stabilization between Parliament and the government that drive many of the major projects that has been delayed for so long. As I mentioned in my words before, in Kuwait the economy continues to witness overall positive signs despite the global concerns on the global economic market.

The oil sector will also continue to be a key contributor to Kuwait's GDP and implying a positive sign that will lead to more economic reforms and drive mega projects forward.

Amir Hanna: Back to interest rates again, as interest rates have already increased meaningfully, does it hinder your ability to pass on future rate hikes, will you be absorbing more of the funding costs?

Sujit Ronghe: Yes, the interest rates have increased and as of now, we have not noted any compression in margins. We have been able to pass on interest rate hikes to the borrowers. Of course, the funding cost has increased as we are required to book deposits at a higher rate and that will affect the overall net interest margin going forward. However, our strong base of low cost deposits would help in cushioning this impact.

Amir Hanna: Can discussions on mortgage law now revive given political clarity as the higher oil prices returned for this law? Mr Isam.

Isam Al-Sager: Speaking of this law, as we mentioned before, it is politically driven, but knowing the demographics of Kuwait, we have to pay attention here to the fundamentals and dynamics of the housing market in Kuwait, as you know Kuwait has a very young population that demands housing at a higher rate than the capabilities of the existing financing mechanism.

That will lead the government to push forward for the mortgage law, and with the recent stability between the government and the parliament, I think they are more likely to approve the mortgage law. So I would say it is a matter of time and accordingly the mortgage law will be passed.

Amir Hanna: Net gains from dealing in FX has substantially increased in 2022, do you expect this to normalize going forward.

Sujit Ronghe: The net gains we see in 2022 are made up of different factors. Firstly, underlying transactions or volume driven increases has had a positive effect. Also, as I have mentioned in earlier calls, a stronger US$ helps us on our AT1 capital issued, and this year we have benefitted from the same. Also in the current year, currencies have played a bit of a role in giving us some additional revaluation gain. While we expect transaction volumes to continue to increase, it would not be possible forecast to what extent the US$ related gain would continue in the future. In our baseline budget scenario, we do not assume any gains from such US$ revaluation.

Amir Hanna: Again, on borrowing costs and rates, how do you expect higher borrowing costs to impact credit quality in Kuwait and across geographies where you operate?

Sujit Ronghe: Considering the sectors and customers whom we lend to in Kuwait, we don't expect any specific implications of higher borrowing costs. Our customers is stable and until now we have not seen any indications of issues with credit quality in Kuwait and through our network including international operations.

Amir Hanna: Can you elaborate on how the repo rates have moved relative to CBK's discount rate in Kuwait?

Sujit Ronghe: Since March 2022, CBK discount rate has increased by 1.50%. It used to be 1.50% and it is currently at 3.00%. That said the liabilities curve has increased more than the 1.50% increase on the discount rate side e.g. rate on 3 months deposits have increased by more 2.25% and 6 months deposit by more than 2.50%. Longer tenure deposits have repriced much higher than the discount rate on which loans are priced. This is where the increases in funding costs come from.

Amir Hanna: Is there any further upside risks to NIMs?

Sujit Ronghe: While we are optimistic of an increase in NIMs because of the interest rate hikes, the repricing of deposits and the attraction of new deposits at a higher rate would have an impact on the NIMs, but we will be able to manage this risk as we have done previously.

Amir Hanna: What is your estimates for the average cost of risk?

Sujit Ronghe: The cost of risk for this year was favorably affected by recoveries during the nine months period. The 18bps cost of risk for 9M22 is not representative of what we expect going further. At the same time, we are not expecting the cost of risk to be in the 60s (bps), as we saw in 2021. Our expectation of the cost of risk going forward is a materially lower number than what we recorded last year.

Amir Hanna: What is your expectation for loan growth in 2023 and which sectors would you think loan demand will come from?

Sujit Ronghe: NBK has always benefitted from its diversified operations, through consumer or corporate, Islamic or conventional and through Kuwait or international locations. We have a very strong pipeline of loans in Kuwait and at our international network. That said, the current global macroeconomic environment could have some effect on loan growth and it is very difficult to give a specific guidance at this stage. For now, we can expect the loan growth to be between mid-to-high single digits for the next year as well.

Amir Hanna: What is the impact of the current political environment on potentially approving the debt law?

Isam Al-Sager: As we mentioned several times before, the debt law is similar to the mortgage law; both are politically driven. But the recent improvement in the political scene and ease of gridlocks between the cabinet and the parliament is an important factor for passing the law. It is very essential for the law to pass to benefit the economy overall. There are increasing hopes of mutual understanding between both parties that may lead for the passing of the law.

Furthermore, despite the forecasted surplus from the increase in production and oil prices, we still believe that the law will be eventually passed.

Amir Hanna: What is the percentage of CASA deposits to total deposits? Has it change post to the increase in interest rates this year?

Sujit Ronghe: The Group has a very stable pool of CASA deposits and we haven't seen any significant movement on that front despite the increase in interest rates. In fact, we have seen that the CASA deposits remained stable and showing some growth compared to the beginning of the year. However, because of the increase in other deposits, the CASA deposits as a percentage of total non-bank deposits has slightly lowered from high to mid-40s.

Amir Hanna: There are few questions on the impact of higher interest rates on loan quality and I think we have addressed that already.

Questions are repeating.

There is a question on the timeline for provision reversals; can you provide some guidance on the timeline for provision reversals? How long is it going to continue?

Isam Al-Sager: I think provision reversals are also dependent on the guidance and approval of the regulator. Looking at NBK's balance sheet, we are in a very comfortable position with our buffer of provisioning accumulated during the last few years.

Maybe Sujit can mention some figures to elaborate.

Sujit Ronghe: We have a ratio of 308% for loan loss reserves to non-performing loans, which is very healthy. With respect to the reversals, these are all event driven and related to actual recoveries related to provisions taken in earlier periods. The extent to which this will continue would dependent on the timing of actual recoveries going forward.

Amir Hanna: Can you talk about what is your target on Capital ratios? Understanding that they are lower due to interim earnings not being included in the ratios.

However, considering the increase in minimum requirement from January-2023, how do you think about capital buffers for the next 12 months?

Sujit Ronghe: NBK typically targets the capital ratios to be at 1.5-2% above regulatory minimum. The decline in capital ratio during interim quarters is natural, due to payment of interim dividend and non-inclusion of interim profits. We expect the year-end capital ratios to be back at this range.

Amir Hanna: Any expectation of change in dividend policy?

Isam Al-Sager: Our dividend policy remain unchanged. The policy is determined in view of capital requirements amongst other factors, while the payout ratio targeted ranges between 50-60%.

During the first half of the year, we have opted for our first interim distribution following the changes made in our articles of association and getting the regulatory approvals; where we distributed 10% cash dividends.

We are confident in the Group's ability and capacity to continue generating profits and in rewarding shareholders; as well as our confidence in the bank's solid financial position.

We will continue paying dividends in line with what we have done in previous years.

Amir Hanna: Credit provisions in 2022 has basically come from general provisions. Do you think there is sufficient buffer built up in this regard?

Sujit Ronghe: NBK has always followed a conservative provisioning policy. The credit provisions that we see under general provisions are mainly precautionary in nature. These provisioning levels are not something that we haven't seen before. I believe we will continue with this policy and build up buffers as necessary.

Amir Hanna: How are you seeing projects rollout in Kuwait? Are you seeing corporate demand or do you expect loan growth to be primarily driven by the retail sector?

Isam Al-Sager: I would say that there is demand, but many of the projects have been postponed in the last 3 years. With the stability in the political scene, we expect the government to support awarding more projects.

The total value of as of end-September 2022 remained below the KD 1 billion mark. But when it comes to commitment, we expect the government to continue supporting spending on infrastructure and to accelerate tendering and awarding.

Moreover to say, the government intends to give a bigger role for the participation of the private sector going forward; representing an opportunity for banks through the acceleration of credit growth.

Amir Hanna: We will try to take another 2-3 questions maximum for the sake of time.

Can you speak of your funding plans and whether you intend to enter the Euro-Dollar market at some point?

Sujit Ronghe: The Group has a very diversified pool of funding sources across geographies and through different type of instruments. As we can see from our results, there is no imminent need for funding through the Euro Dollar market, at this point in time. We will continue to watch the situation and take appropriate decisions as necessary. Our LCR and NSFR ratios are very comfortable and we don't see a need to act immediately.

Amir Hanna: The CBK hiked rates by less than US Fed, do you expect to see some deposit outflow from the banking system as depositors find it more attractive to save abroad?

Sujit Ronghe: Hypothetically, this is a possibility but so far, we have not seen any impact of the difference in interest rate increases between the US FED and the CBK. Also, the deposit rate increases have been more than the CBK discount rate. Given the historical stickiness of Kuwaiti Dinar deposits, I don't think this is a concern at this point.

Amir Hanna: Does the bank still offer interest free retail loans?

Sujit Ronghe: The interest free loans offered by the Bank are in response to those given by the competition. At this stage, we are selectively giving these loans to deserving customers. We are expecting additional overall benefit based on the fuller longer-term relationship developing from interest free loans.

Amir Hanna: How do you view the Egyptian currency devaluation and how substantial would it be affecting your operations?

Isam Al-Sager: We are in Egypt for long-term and as we have always said, Egypt is a strategic market for the Group and we consider it our second home market. The opportunities in Egypt remain very attractive despite the current challenges and the pressure son the currency. Our efforts are focused on managing the short-term volatility while positioning for future growth. We are also confident on the Egyptian market t overcome these challenges considering the recent economic reforms undertaken by the government as well as the diversity of the economic activity in the country.

Amir Hanna: For the sake of time, we will take the last questions. Can you talk about the liquidity in the market?

Sujit Ronghe: The Kuwaiti market has shown good depth in liquidity even in times of crisis. We are have not seen any issues with liquidity situation and it remains sound and stable.

Amir Hanna: Ok, I think we got to the end of our call. If there are any follow up questions please send them to our investor relations email address and we will respond to them as we receive them.

Thank you very much for joining the call today and with that, I will conclude the call.

Thank you.