National Bank of Kuwait

3Q 2020

Earnings Conference Call

28 October 2020

3Q/9M 2020 National Bank of Kuwait Earnings Call

Sunday, Novermber 1st, 2020

Edited transcript of National Bank of Kuwait earnings conference call that took place on Wednesday, October 28th, 2020 at 15:00 Kuwait time.

Corporate participants:

Mr. Isam Al-Sager – Group CEO, NBK

Mr. Sujit Ronghe – Group Financial Controller, NBK

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

Chairperson:

Elena Sanchez – EFG Hermes

Operator: Good day and welcome to the National Bank of Kuwait third quarter and nine months 2020 results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Elena Sanchez. Please go ahead now.

Elena Sanchez: Thank you and 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 2020 results conference call. It is a pleasure to have with us in the call today Mr. Isam Al-Sager, NBK Group CEO, Mr. Sujit Ronghe, NBK Group Financial Controller and Mr. Amir Hanna, Head of Investor Relations and Corporate Communications at NBK. At this time, I would like to handover the call now to Mr. Amir Hanna.

Thank you.

Amir Hanna: Thank you Elena.

Good afternoon everyone. We are glad to have you with us today on our third quarter and nine months 2020 earnings webcast.

As our usual practice, 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. You are cautioned not to rely on such forward-looking statements. 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 answering all your questions in the order they were received. You can also send any follow-up questions to our Investor Relations email address. Finally and for your convenience, today's presentation is already available on our Investor Relations website.

We have with us today Mr. Isam Al-Sager, our Group CEO, as well as Mr. Sujit Ronghe, our Group Financial Controller. Now let me handover the call to Mr. Isam Al-Sager, our Group CEO, for his opening remarks.

Isam Al Sager: Thank you Amir

Good morning and good afternoon everyone and welcome to NBK's earnings call for the third quarter and first nine months of 2020. Thank you for joining us today. I hope you and your loved ones are keeping safe and healthy as we continue to navigate these difficult times.

We are operating in extraordinary circumstances, and the impact of the Covid-19 pandemic can be felt across the world – including in Kuwait. During the third quarter of the year we started to see a gradual recovery compared to the trends we experienced in the second quarter. While the outlook remains challenging, we are cautiously optimistic on improving macroeconomic conditions. During the nine-month period, we recorded net profit of 168.7 million Kuwaiti dinars, dropping by 44.2% year-on-year. For the three-month period ending 30 September 2020, our net profit was 57.6 million Kuwaiti dinars, a 72.3% increase compared to the second quarter, and a 38.1% decrease compared to third quarter of 2019.

The third quarter was marked by two important trends for NBK. On the one hand our diversification strategy has continued to demonstrate the resilience of the Bank in the face of adverse conditions. We remained focused on accelerating the digitization of back- and front-end operations, while carefully managing costs. This will continue to be a priority for the remainder of the year, and into 2021. The second trend is our unwavering commitment to people. In particular, the dedication we have shown to customers, colleagues and to the society and government of Kuwait.

At government level, the quarter was sadly marked by the passing of the late Emir of Kuwait, Sheikh Sabah Al Ahmad Al Sabah. This was followed by a transparent, peaceful and orderly transition of leadership to his successor, His Highness Sheikh Nawaf Al Ahmad Al Sabah, the new Emir of Kuwait. Shortly afterwards, Sheikh Meshaal Al Ahmad Al Sabah was sworn in as Crown Prince. The parliament endorsed and confirmed both the Emir and the Crown Prince, in a continuation of Sheikh Sabah's legacy towards a prosperous and stable future for the country.

With respect to our operating environment, the negative effects of the Covid-19 pandemic remain a major challenge for Kuwait and for the regional and global economy. In Kuwait, as in other GCC countries, the impact on economic activity has been made more severe by lower oil prices, which have put pressure on the country's fiscal position. Kuwait's budget deficit for the year is expected to peak to more than 30% of GDP.

Despite this challenging operating environment and its unavoidable impact on the profits of the banking sector, NBK's operations across geographies saw some recovery in the third quarter as governments started lifting movement restrictions and gradually opened up economic activity. Although Group profits dropped by 44.2% year-on-year, this decrease is proportionate to the scale of the challenges and overall impact on the banking sector and the economy.

The Kuwaiti banking sector is much stronger than it was a decade ago, which improves its ability to withstand the impact of this double challenge. NBK remained committed to a conservative approach to risk, as the Bank continued building provisions in anticipation of prevailing uncertainty and the difficult operating conditions that will prevail across many sectors. We increased provision charges by 98.4% year-on-year for the nine months period, leading to a negative impact on our net profits.

On the cost side, we continued to monitor our costs closely with sustained focus on cost cutting initiatives that we started earlier in the year. This helped us maintain operating expenses at an appropriate level, with potential for further improvement going forward. The Bank's approach to cost management is to strike a balance between strategic efficiency initiatives at the Group level to mitigate the impact on profitability, while continuing to invest to achieve our strategic expansion goals in key markets.

Although the pandemic is not over and we remain in the midst of an economic crisis, we are confident in the Bank's ability to absorb the impact thanks to our solid position, built over many years. We also benefit from a dynamic business model and strategy for growth. NBK continues to enjoy very strong balance sheet metrics as demonstrated by a solid capital ratio, healthy asset quality and comfortable liquidity levels. These underpin our ability to withstand the fallout of the crisis, and to continue growing our profits as we gradually move to a recovery phase.

Finally, I would like to emphasize that our ability to function fully remotely, our disaster recovery procedures, our contingency plans, as well as our digital channels have all proved to be critical differentiators during these unusual times. I would like to thank all NBK employees for their continued efforts and dedication, which have proved that human capital is truly our most valuable resource.

Before I leave you with the financial review, I would like to thank Jim Murphy, our Group CFO who is leaving us this year. Jim has decided to retire effective end of October after twenty years with NBK. Our colleague Sujit Ronghe, who is NBK's Group Financial Controller has been appointed Acting Group CFO, and will now take your through our financials in more detail.

Please go ahead Sujit.

Sujit Ronghe: Thank you Mr. Isam.

Hello everyone, and welcome.

I am very pleased to have this opportunity to take you through our results in respect of the nine months period ended 30 September 2020.

We have announced a net profit of KD168.7m for the 9 months of 2020. This is a 44.2% decrease in bottom line profit over the comparable period of 2019.

As we know, the ongoing Covid-19 pandemic and the resulting shut downs, travel restrictions etc. have adversely affected business activities across many industries, including Banking and FSI. The partial opening up of economies in the third quarter of 2020 did result in a small improvement in the operating environment but overall uncertainty with respect to the pandemic still prevails.

Before proceeding with the financial results, I would like to mention here that during the first quarter of 2020, the Group, through its subsidiary Boubyan Bank, increased its ownership in the Bank of London Middle East (BLME) from 27.9% to 71.1%. The Group's 9 months 2020 financial results include the consolidation of BLME. BLME contributed KD616m to the Group's assets upon acquisition.

Returning now to the operating performance and financial results for the period.

As profiled in the top left of the first slide, net profit for nine months 2020 at KD168.7m was resilient despite the uniquely challenging business environment. We saw a significant drop in benchmark interest rates, lower economic activity which affected business volumes and elevated cost of risk. The 44.2% decline in net profit over the comparable period of last year stems from a lower operating surplus (i.e. pre provision and pre-tax earnings) and higher provisions and impairments. More on provisions and impairments later in the presentation.

The net profit for quarter three 2020 was KD57.6m. This compares with quarter two profit of KD33.4m. This increase of 72.3% was primarily due to stronger operating income partly offset by a higher cost of risk. The quarter three net profit was 38.1% lower than the corresponding quarter in 2019.

The Group's operating surplus shown on top right of this slide for 9M2020 was KD406.3m, a 9.9% decrease on the comparable period in 2019. Income dropped during the period by 6.0%, whilst cost growth was a modest 1.9%.

As regards quarterly performance, operating surplus for the third quarter of 2020 was KD146.1m. This exceeded the Q22020 operating surplus by KD28.2m i.e. 23.9%, primarily due to higher operating income, while costs remained flat. Q32020 operating surplus was KD1.1m higher than the comparable quarter in 2019, due to higher non-interest income, lower costs, offset by lower net interest income.

Moving now to operating income at the bottom left of the slide. Operating income for 9M2020 at KD632.4m, although 6.0% lower than 9M2019, has been resilient through these unprecedented times. An 8.6% decrease in the net interest income together with lower fees and a lower investment income adversely impacted the 9M2020 operating income. The decrease in net interest income was due to lower benchmark interest rates (notably 150 bps drop in Central Bank of Kuwait Discount Rate from Oct 2019 onwards), partly offset by the benefit of growth in business volumes. Other operating income for 9 months of 2020 was very strong at KD17.6m.

You will note that the operating income in respect of quarter three 2020 was KD217.9m, KD28.1m in excess of the preceding quarter. Q32020 saw stronger fees and investment income than Q22020, also particularly benefited from a KD9.9m gain on the sale of NBK's earlier head office and KD6.1m Covid-19 related support received from Governments. Both are reflected as other operating income in the income statement.

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

The operating income mix is profiled on the bottom right hand right side of this slide. 75% of total operating income is in respect of net interest income and 25% from non-interest income sources. This compares with a mix of 77% and 23% in 9M2019.

Moving on now to the next slide.

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

The chart on the top left reflects net interest income of KD472.6m for 9M2020, which was 8.6% down on KD517m for the comparable period in 2019. Net interest income although adversely impacted by the significant drop in interest rates has been reasonably resilient through this challenging period. The resultant drop in margins was offset in part by strong growth in loans and investments volumes.

Net interest income for the Q32020, at KD154.1m was 3.2% in excess of the preceding quarter, but 10.7% down on Q32019.

Interest earning assets averaged KD28.7bn during 9M2020. This was a 7.5% increase on the prior year. The increased interest earning assets essentially reflected strong growth in the lending and investment portfolios, details of which we will look at shortly.

As just mentioned, we experienced a contraction in our net interest margin vis a vis 9M2019. This was in part due to the timing effect on our book in respect of the significant decrease in the local discount rate that occurred towards the end of Q12020. Our margins typically fall relatively quickly in a declining interest rate cycle due to the repricing characteristics of our book whilst awaiting the lagged impact of lower funding costs to take full effect.

At the bottom left hand side of this slide you will see that the net interest margin during 9M2020 averaged 2.20%. This compares to an average margin of 2.59% for 9M2019. The Q32020 margin at 2.13% improved over the previous quarter but was significantly lower than Q32019, reflecting the sudden drop in benchmark interest rates towards the end of Q12020.

During the nine months of 2020, the Group's yield averaged 3.54%, compared to 4.50% in 9M2019. The Group's funding cost averaged 1.52% during the period, as compared to 2.15% for the nine months of 2019. Group's yield and funding cost in Q32020 stood at 3.14% and 1.14% respectively.

At the bottom right hand side of this slide we can see the constituent drivers that moved the average NIM downwards by 39bps, to 2.20% in 9M2020 from 2.59% in 9M2019. The decrease in benchmark rates adversely affected the NIM by 98bps due to the combined movements attaching to loans and other assets, whilst the lower cost of funding improved the NIM to the extent of 59bps.

Moving on now to the next slide.

I will firstly address the Group's non-interest income.

Total non-interest income in 9M2020 was KD159.8m, slightly ahead by 2.6% than 9M2019. Fees and commissions income and Fx income streams were negatively impacted due to slower pace of economic activity following a period of shutdown since mid-March. Similarly, investment income was adversely impacted by lower mark-to-market valuations. Fx income for 9M2020 however increased marginally from last year, benefitting from the impact of currency movements on our $ AT1 bond issuances. As mentioned earlier, non-interest income includes KD9.9m gain on the sale of NBK's earlier head office and KD6.1m Covid-19 related support received from Governments. Both are reflected in other operating income of the income statement.

The composition of the KD159.8m total non-interest income was KD109.8m in respect of fees and commissions income, KD31.9m in respect of foreign exchange activities and a net KD18.2m from other non-interest income sources. Fees and commissions income was 6.0% lower than 9M2019 reflecting the slowdown in operating environment during majority of 2020.

Total non-interest income for Q32020 at KD63.8m benefitted from stronger fee income and investment income compared to the preceding quarter, apart from the gain on sale of head office building and Covid-19 related Government support, as mentioned earlier.

Our fees and commissions have been solid given the backdrop of the challenging conditions and is from a well-diversified pool of geographies and lines of business. It is important to note that our major source of non-interest income is 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 in 9M2020 were KD226.1m. This compares with KD221.8m in 9M2019, an increase of 1.9%.

This is a modest growth in costs resulting from our actions to realign costs to reflect the lower levels of economic activity, albeit cost reduction will not entirely offset lower levels of income. The 9M2020 costs also includes COVID related contributions, BLME consolidation and impact of ongoing expansions in some of our key business.

It is also important to note that 9M2020 includes the commencement of depreciation charge in respect of our New HQ and the fuller impact of commissioning our state of the art data center, hence the increase.

Moving on to quarterly operating expenses, I would like to highlight that at KD71.8m, total costs in Q32020 are similar to the preceding quarter and KD4.2m (5.5%) lower than Q32019.

It would be pertinent to mention here that the Group continues to invest heavily in its businesses (both front & back end technologies) and processes. This enables the Group to offer best in class service to its customers and optimize resources to improve operational efficiency.

The payback from our digital investments was evidenced during the crisis as our digital channels played a vital role in servicing customers, with electronic transactions reaching record highs. We continue to press ahead with select product offerings in certain geographies such as Wealth Management business in Saudi Arabia, expansion of our Islamic banking operations at Boubyan Bank and our operations at NBK Egypt.

To conclude on the subject of costs, I can say that our cost to income ratio is at 35.8%, impacted by the lower income resulting from the rapid drop in interest rates in March 2020 and a slower pace of economic activity during the current period.

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

Total provisions and impairments in 9M2020 amounted to KD207.6m, a 98.4% increase from KD104.7m in 9M2019. Credit provisions for the period at KD179.2m include amounts provided for corporate customers in Kuwait and overseas, a well-known international corporate customer at UAE (NMC Healthcare that has been fully provided for), Kuwait retail portfolio, and incorporates a prudently accelerated precautionary charge in anticipation of worsening credit quality due to the impact of Covid-19. KD28.4m impairment provisions reflect notably a charge in respect of our investment book to cater for the effects of volatility that may arise in anticipation of worsening macroeconomic factors due to the impact of Covid-19 and also in respect of our operations in Lebanon.

The aggressive credit provisioning for the nine months to September 2020 at KD179.2m vs. charge of KD101.3m in 9M2019 has led to increase our cost of risk to 133bps from 82bps at the end of September 2019.

Total provisions and impairment charge for Q32020 was KD81.0m vs. KD75.1m in Q22020 and KD37.5m in Q32019.

It is worth noting that despite elevated levels of credit provisions and impairments, the Group’s Balance Sheet remains strong with stable credit quality. NBK’s capital base along with an ability to generate healthy operating profits provides a strong credit loss absorption capacity – we will shortly look at the capital ratios in the subsequent slides.

Moving now to the next.

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 is unique amongst Kuwaiti banks in terms of its geographical spread of operations and also because of its ability to conduct business in both conventional banking and Islamic banking. This diversification gives a significant degree of resilience to Group earnings and provides what we consider a strong competitive advantage to the Group.

Looking firstly at diversification by geography.

Referring to the top left chart on the slide, operating income at KD156.8m from NBK's international operations was strong despite the prevailing conditions and reflected a decrease of 4.7% compared to KD164.4m in 9M2019. The net profit contribution from our international operations at KD25.9m was severely impacted by credit provisions and impairment charges, in comparison with KD83.7m of 9M2019.

You will find on the chart at the top right of this slide that despite the challenging business conditions, International operations continue to contribute a healthy 25% to the Group's operating income compared to 24% during 9M2019. However, resulting from the significant increase in credit provisions and impairments as mentioned above, International's contribution to the net profit of the Group decreased to 15% as against 28% in 9M2019.

The Group's Islamic banking subsidiary Boubyan Bank was also impacted by heightened credit provisioning, and delivered profits of KD23.2m, 48.6% lower than 9M2019 net profit of KD45.2m. However, I would highlight that the operating surplus at Boubyan Bank has been strong with an increase of 7.7% vs. 9M2019.

Finally, on the chart at the bottom right corner, you will note that Boubyan's share of assets increased to 21% of the Group reflecting growth in loan and investment volumes, plus the consolidation of BLME. International operations contributed a steady share of 36% to Group assets, whereas conventional domestic operations contributed 43%.

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, total assets reached KD30.4bn at September 2020. This a 3.8% increase on KD29.3bn assets at December 2019 and 5.1% on that of September 2019. The scope for growth during 9M2020 was limited due to unprecedented challenges posed by sudden lockdowns and a slow pace of economic activity resulting from the Covid-19 crisis.

Group lending increased to KD17.6bn, an increase of KD1.1bn i.e. 6.5% over December 2019 and by KD1.3bn i.e. 7.8% since September 2019. Kuwait conventional business, Boubyan Bank and BLME consolidation were major contributors to the loan growth during 9M2020.

Customer Deposits (profiled at the bottom left chart), reached KD17.5bn in September 2020 and were KD1.6bn i.e. 9.8% ahead of December 2019 and 10.8% more than September 2019- just for purposes of clarity please note that customer deposits as defined here do not include deposits taken by the Group from financial institutions. This is in keeping with the presentation of customer deposits in our published financial statements.

An important underlying message here is that within the headline numbers we continued to see a favorable movement in the Groups overall funding mix. We experienced very strong growth in core franchise deposits, noting in particular excellent growth in deposits at the retail banking arms of the Group in Kuwait, both conventional and Islamic.

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

The Group's overall funding mix is profiled on the bottom right hand of this slide. Customer deposits now comprise 68% of the total mix, which is higher than the 65% at Sep and Dec 2019

It would be worthwhile to note that a part of this significant growth stems from the limited spending opportunities for a major part of 2020 and the consumer loan-installment deferral. Further, the Group also retired relatively expensive institutional deposits, whilst maintaining strong liquidity levels.

I want to highlight that the Group, despite the 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 that the 9M2020 financial results had on certain key performance metrics.

The Return on Average Equity for the nine months in 2020 was 6.6% reflecting the impact of lower profit in the period vs. 12.6% in 9M2019 and 12.3% for the FY 2019.

Similarly the Return on Average Assets was 0.75% vs. 1.45% in 9M2019 and 1.42% for the FY 2019.

Profitability ratios have been impacted by the unprecedented drop in margins and curtailed fee income opportunities, given the lower levels of economic activity and elevated cost of risk.

The total Capital Adequacy Ratio (profiled at bottom left of this slide) at Sep 20 was 17.0% vs. 17.8% at year-end December 2019, noting that current year earnings are not factored into the computation of interim period ratios. The T1 capital ratio at Sep 20 was 15.1%, whilst the CET 1 ratio was 12.8%.

The capital ratios were also impacted by a KD89.7m charge recognized in other comprehensive income during the nine months to September 2020, being the net change in fair value of debt securities measured at FVOCI.

As regards Capital, it is important to draw your attention to the consumer loan deferral program. All Kuwaiti banks implemented a program to postpone instalments on consumer & other instalment loans and credit cards for a period of six months effective April 2020 with cancellation of interest resulting from this deferral. The instalment deferral resulted in a loss of KD149.9m to the Group from the modification of contractual cash flows.

The Central Bank of Kuwait instructed banks to adjust the Day 1 modification loss through Equity. KD130m of this charge was attributable to shareholders equity after adjusting for the Group's holding in Boubyan Bank. This charge will be phased out equally over 4 years starting 2021 for Capital Adequacy Ratio calculation purposes.

As regards asset quality, the NPL ratio increased from 1.10% in Dec 19 to 1.89% at September 2020 given the aggressive credit provisioning that I had referred to earlier. The loan loss coverage ratio at end of September 2020 at 191.0% remains at comfortable levels.

Now to the final slide in this section

Before concluding, allow me to make a few comments as to how we expect the fuller 2020 to unfold.

Generally speaking, the operating environment still remains challenging making it difficult to provide a meaningful guidance on some of the key metrics. Of course, the guidance being provided is after due consideration as regards timing and other factors, which will get refined over time.

As regards loan growth. Loan growth in the nine months to September 2020 was 6.5%. We expect to see mid to high single digit growth for the full twelve-month period.

The net interest margin averaged 2.20% in 9M2020 and was 2.13% for the Q32020. We expect the full year 2020 net interest margin to remain in this range.

Our cost to income ratio averaged 35.8% in 9M2020. A challenging rate environment and the macro economic landscape, together with the continuation of our investment program in support of various group initiatives, have influenced this ratio. We are therefore guiding a cost to income ratio to remain broadly similar to that of 9M2020.

Guidance on Cost of Risk is not included as although business and economic activities have slowly resumed, the pandemic is not yet over and its global repercussions are still unfolding. Hence we are of the opinion that it is not prudent to give guidance on cost of risk and consequently on earnings / capital adequacy.

That ends my presentation.

However, before handing back to Amir I would like to summarize by saying that the results for the nine months of 2020 have been satisfying in light of the benign operating conditions. The results reflected a resilient operating income, good growth in core franchise deposits and well-contained costs. Also, comfortable liquidity levels and solid capital base have been a feature of NBK's 9 months 2020 results.

The Group continues with its strategy of investing in its people and in emerging technologies and selectively into reinforcing its geographic footprint in order to best protect the bank into the future.

Looking ahead, we are hopeful that momentum will be back as restrictions are being eased in a phased manner and we remain optimistic of Kuwait's ability to lead a sound recovery, notwithstanding the various challenges and uncertainties.

Thank you very much for your time.

Back to Amir.

Amir Hanna: Thank you Sujit. Thank you everyone for listening.

We'll break for 1-2 minutes as the questions come in through the webcast. We have a couple of questions so far, but will pause for couple of minutes to get more questions and then will start answering them.

The first question is asking about the possibility of the debt law being passed this year.

Mr. Isam…

Isam Al-Sager: This question has been raised several times. In my opinion, the government has limited solutions if they don't pass the debt law; but now it is becoming more of a political issue. We have a new parliament to be elected within 5 weeks, and this decision will be politically driven. In the previous parliament, they member challenged the debt law and didn't pass it for political reasons. I am more optimistic this time with the new parliament that it will get passed, because as I have mentioned, they have limited solutions.

If the parliament doesn't approve the passing of the debt law, they have to go back to the Future Generation Fund; which is even more difficult to do so. And to conclude the answer, the decision is politically driven as mentioned and it will be passed when the new parliament is elected.

Amir Hanna: Another question on how much management overlay is built into the year to date provisions of KD179 million?

Sujit.

Sujit Ronghe: If you look at our financial statements, we disclose the specific provisions and general provisions separately. For the specific provisions of KD125 million include provisions towards specific names and towards the retail sector, and the general provisions of KD53.17 million that is where you can see the management overlay for risks.

Amir Hanna: Have you benefited from any recovery of loans in 2020?

Sujit Ronghe: I think it is a bit too early to answer that question. The consumer deferral program ended just finished in the end of September; probably we will get some signs in the coming quarters.

Amir Hanna: There is a question on the outlook of cost of risk, I think we covered that early in the presentation saying that it is too early to take a view on cost of risk for the rest of the year.

Next question, is on the impact of the cut in the monetary rates by the central bank yesterday? How does it change your margins outlook?

Sujit Ronghe: Yesterday, the Central Bank of Kuwait cut the repo rate and the rates we can get on CBK's assets by 0.125%. However, the discount rate was left unchanged. The discount rate is more important to us than this small cut of 0.125% cut on other rates.

We don't expect a material impact because of this rate cuts. Any impact that might happen will be largely marginal.

Amir Hanna: There are few questions on updates on the dividends and if a decision has been made on that front.

Isam Al-Sager: On the dividend side, it is still too early to have a clear view on the dividends. We still have 3 months till the year ends. However, we will follow our normal approach as we look at the year-end profits. We assist our future capital needs and accordingly decide on the distribution. That is followed by the Board's proposal and approval from the General Assembly.

What is important is to mention right now is to clarify that our capital position is in a very strong across all capital levels, with a comfortable buffer and ahead of any regulatory requirements.

Our CAR as of end-September 2020 reached 17% without including the profits of the period.

Amir Hanna: A question on NIMs. When you say tighter NIMs, do you mean for 2020 vs. 2019? We have already seen NIM recovering QoQ in third quarter.

Sujit Ronghe: Yes, absolutely. When I say that NIMs are expected to be tighter, they are in comparison of the 9 months of 2019. We saw NIM drop from 2.59% to an average of 2.20% and we see the same trend going forward.

Amir Hanna: Fees and commissions have gained some traction in the third quarter, can we expect this to continue in the fourth quarter?

Sujit Ronghe: Yes. What actually happened is that part of the third quarter was under severe lockdown and we have seen the resumption of some activities from August onwards. That helped in a bit of improvement in the fees and commission income, especially on the credit cards side, retail, trade finance etc.

If things continue the same way, we are hopeful of an improvement on this front. Of course, everything has to be taken with a pinch of salt, because of the uncertainty that is prevailing with the second wave and the news coming from other parts of the world. Thus, we would like to keep our figures crossed with respect to the degree of improvement in the coming quarter.

Amir Hanna: I see few more questions on NIM outlook and impact of yesterday's cut; I think we covered that more than once.

We will just pause for a minute to see if there are more coming questions.

Ok, couple more questions on the trends that we are seeing after the end of the deferrals, are there any pressures following the expiry of the deferral period for corporate and for retail.

And another question along the same lines, after the deferrals have ended what is the expectations of customer behavior on both corporate and retail? Sujit

Sujit Ronghe: There was a basic differentiation between the consumer lending deferral and the corporate lending deferral. The consumer lending deferral was across the board for all the customers for a period of six months, that was Q2 and Q3 of 2020 and installments will start from October 2020. As far as the corporate deferral is concerned, there was nothing across the board. It was on a case-by-case basis where the customer had to come to the bank and apply for a deferral. The nature of the deferral was also different. The payment holiday that was given for consumer loans that changed the structure of the consumer loan. That is the six months installments were added to the tenor of the loan. For example, If somebody had a retail loan of seven years that will become seven years and six months. As opposed to this, for corporate loan deferrals the interest and installment are deferred for only six months. So if the installment is due this quarter after two quarters you will have to pay the interest for the current quarter as well as the interest for the specific quarter so for that we don't see a lot of impact from this. In fact we have not seen any impact because of the difference in nature of deferrals compared to retail. Now the impact of the resumption of instalments, the retail installments started resuming only this month, and typically I think we would be getting better sense of how the repayment is happening towards the end of this quarter, once we have a month or two under our belt.

Amir Hanna: Do you expect NPL formation to increase towards the end of the year?

Sujit Ronghe: We have seen an increase in NPL ratio from 1.1% in December to 1.89% and this was in part a result of our accelerated and precautionary credit provisioning which required certain loans to be classified as NPLs. It is a bit too early to comment on what would be the outlook for NPLs. We are not yet through the pandemic and the repercussions are still unfolding and I think it would be wise to wait and see the finishing of the deferral program for corporate loans. That is when we will see get to see how NPLs are coming up.

Amir Hanna: These are most of the questions that are coming up. There are couple of question on the fee outlook which I think we already covered.

With that we will conclude the call, if you have any further questions you can send it directly to our investor relations email. Operator back to you.

Operator: Ladies and gentlemen, that conclude today's call. Thank you for your participation, you may now disconnect.