National Bank of Kuwait

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Earnings Conference Call

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3Q/9M 2021 National Bank of Kuwait Earnings Call

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Edited transcript of National Bank of Kuwait earnings conference call that took place on Wednesday, 20 October 2021 at 15:00 Kuwait time.

Corporate participants:

Mr. Isam Al-Sager – Group CEO, NBK

Mr. Sujit Ronghe – Acting Group CFO, 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 2021 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 and good morning 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 2021 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 Acting Group CFO 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 you joined us today for our third quarter and nine months 2021 earnings webcast.

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 Group CEO, Mr. Isam Al Sager, followed by a detailed presentation on the quarterly and first nine months financials by Mr. Sujit Ronghe, our Acting Group CFO. Following the management presentation, we will answer your questions in the order they were 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. Al-Sager for his opening remarks.

Isam Al Sager: Thank you Amir.

Good afternoon everyone. Thank you for joining us today for our quarterly earnings webcast.

During the first nine months of the year, the global scene witnessed a gradual improvement in the macroeconomic environment. Restrictions to mitigate the impact of COVID-19 pandemic continued to ease, allowing for a gradual return of normal life. Although the future of the pandemic and its impact on economic activity remains uncertain, we expect that gradual improvement to continue and we maintain our cautiously optimistic view on the outlook of growth and the recovery of economic activity across different sectors.

In Kuwait, the Government continued to deliver on a comprehensive vaccination program which reflected positively on containing the pandemic and led to a significant drop in the daily number of new COVID cases, the hospitalization and the mortality rates. This improved health situation led to an acceleration in the relaxation of movement and travel restrictions; having a positive effect on business confidence and activity levels.

Moreover, the recent pickup and the improved outlook for oil prices have eased some of the budget deficit pressures, enhanced business sentiment and improved the macroeconomic outlook.

On the political front, the currently ongoing National Dialogue between the government and the parliament, in a bid to lessen tensions and resolve legislative impasse, is progressing in a very constructive direction. This will improve economic reform prospects; including restructuring the public sector, expediting the privatization process and paving the way for crucial approval of several laws. In return, project activity is expected to accelerate as the government resolves tensions with the parliament and resumes the implementation of major infrastructure projects.

Moving on to NBK, the improvement in the operating environment has reflected very positively on our results for the quarter as well as the year-to-date. Our net profits for the third quarter reached 94.1 million Kuwaiti Dinar; achieving a year-on-year increase of 63.3%. Similarly, for the nine-month period, we achieved strong bottom line growth of 51% year-on-year with net profits reaching 255 million Kuwaiti Dinars. This solid performance was mainly driven by continued growth in business volumes, increased operating income and a lower cost of risk environment.

Our strategy remains focused on digitization and on diversifying our operations, through our geographic footprint and breadth of services. Our drive towards digital excellence is ongoing and on track; with constant investments on the front as well as back end of our operations. Our digital agenda is group-wide and focuses on improving customer experience and satisfaction, increasing operational efficiencies and growing our business through higher market penetration in key geographies.

Our alignment to ESG principles remains core to the way we conduct business and how we operate and deliver on our social and economic responsibilities. As a Group, we continue to integrate ESG principles across the business strategies, and we are beginning to identify and quantify risks and opportunities vis-a-vis climate change and social trends. Our environmental commitment is ongoing, with initiatives to further reduce energy use and water consumption being rolled out, as well as looking after the health and development of our staff. In the meantime, we are also leading several initiatives across the Group that demonstrate our commitment to gender diversity and women empowerment.

With that, I want to conclude my comments and will now leave you with my colleague Sujit Ronghe, our Acting Group CFO, who will cover our quarterly and first nine months 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 for the nine months of 2021.

We have announced a net profit of KD254.8m for 9M21. This is a 51.1% increase in bottom line profit over the corresponding period of the last year.

The profit for quarter three of this year was KD94.1m. This compares with quarter two profit of KD76.5m, an increase of 23.0% due to lower credit provisions and impairment losses. The current quarter profit was 63.3% ahead of the corresponding quarter in 2020.

Before going into the details of our financial results, I would first like to say a few words regarding the overall operating environment so far this year.

The trend of a gradual recovery has picked up in recent months, reflecting improved levels of business activity, steady oil prices and significantly increased vaccine penetration in Kuwait. As the world progresses towards normalcy, an element of uncertainty with respect to the pandemic still prevails. We remain cautiously optimistic of a continued improvement in coming months.

Now turning to the financial results for 9M21.

As profiled at the top left of this slide, the KD86.1m i.e. 51.1% year on year increase in the net profit reflects a solid recovery by the Group, driven by continued growth in business volumes, increased operating income and lower credit provisions and impairment losses. Group lending in particular, registered a strong growth of KD1.5bn, i.e. 8.3% during 9 months of 2021.

I would like to highlight here that Kuwait is currently undergoing a second consumer and instalment loans deferral scheme for six-month period as in 2020. However, unlike the 2020 scheme, wherein the cost of instalment deferral was charged to shareholders equity, the cost of the 2021 program would be fully borne by the Government of Kuwait. The 2021 instalment deferral has resulted in a modification loss of KD140m to the Group. There was no impact on the income statement and the amount receivable from the Government is included in other assets in the balance sheet.

Coming back to operating results, as seen on the top right chart- operating surplus i.e. pre-provision and pre-tax profit for 9M21 at KD414.6m reflected a growth of KD8.3m. Net operating income increased by KD48.6m, 7.7% over 9M20 whilst costs grew by KD40.3m.

3Q21 operating surplus at KD132.2m was lower than that of the previous quarter by KD10.7m, primarily due to higher costs, a large portion of which was exceptional in nature and marginally a lower operating income.

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 26% 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 on the top left reflects net interest income of KD502.1m for 9M21, a growth of 6.2% over 9M20 benefiting from higher loan volumes and improving net interest margins.

As is evident from the chart at the bottom left, 9M21 NIM reflects recovery from the lows of the comparable period of previous year. Although yields dropped early in the cycle, the net margin improved gradually due to a declining funding cost. You will note that the net interest margin averaged 2.25% during 9M21 compared to 2.20% in the previous year.

The Group’s average yield for the 9M21 was 2.97%, compared to 3.54% in 9M20. The Group’s funding cost averaged 0.82% during the current period compared to 1.52% last year. 3Q21 yield and funding cost are at 2.90% and 0.81% respectively. 3Q21 NIM at 2.18% was lower than the previous quarter primarily due to a decreased yield with a slight increase in funding cost.

The Group continues to benefit from a strong growth in low cost deposits that we witnessed in 2020. This has also allowed the Group to retire relatively costlier institutional deposits.

At the bottom right of this slide, we can see the constituent drivers that moved the average NIM upwards by 5bps, to 2.25% in 9M21 from 2.20% in 9M20. A lower funding cost favorably contributed to improve the NIM by 66bps whereas the combined movements attaching to loans and other assets adversely affected the NIM by 61bps.

Moving on now to the next slide.

As we can see at the top left of this slide, total non-interest income at KD179m for 9M21 reflected a growth of KD19.2m i.e. 12% on that of 9M20. Fees and commissions income contributed KD123.8m, foreign exchange activities KD27.5m and KD27.7m from other non-interest income sources.

Fees and commissions income was 12.8% higher than 9M20 reflecting strong contributions from different lines of business. Fx income for 9M21 was KD4.3m lower than 9M20 due to the impact of adverse currency movements on our $ AT1 bond issuances. That said, underlying Fx business has reported a strong growth during the year.

Other non-interest income grew by KD9.5m compared to 9M20. Included herein is the net investment income, which grew by KD23.3m, largely due to improved market valuations. 9M20 included KD9.9m gain on the sale of NBK's earlier head office and KD6.1m Covid-19 related support. Excluding these two exceptional items, the Group's total operating income reflects an underlying growth of 10.5%.

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 as opposed to more volatile income from trading activities.

3Q21 non-interest income at KD60.1m remained at similar levels of 2Q21.

Turning now to operating expenses reflected in the top right hand chart. Total operating expenses in 9M21 at KD266.4m, were 17.8% higher than the comparable period in 2020. A part of the cost growth in both staff and other operating expenses reflect increased activity levels at Kuwait and across the Group's network. In 3Q21, the Group has accrued for certain exceptional and non-recurring staff and other costs resulting in an elevated cost to income ratio of 42.1%. The 9M21 cost to income ratio however remains at 39.1%.

The Group's operating expenses are also impacted by ongoing investments in key businesses initiatives, 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 continue to play a vital role in servicing customers, with electronic transactions reaching record highs. We also continue to press ahead with select product offerings in certain geographies e.g. Wealth Management business in Saudi Arabia, expansion of our Islamic banking operations through Boubyan Bank and our operations at NBK Egypt.

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

Total provisions and impairments for 9M21 amounted to KD122.8m, a 40.9% decrease from KD207.6m in 9M20. Of this, provisions for credit losses amounted to KD114.3m, 36.2% lower than previous year. The marked decrease in the current period stems from an overall improvement in the economic outlook and credit quality of certain exposures. At the same time, the Group has taken provisions in ordinary course of business for retail | corporate customers in Kuwait and overseas locations and continued with precautionary provisions as required. The Group remains committed to its conservative approach in managing credit exposures.

Resulting from the lower credit provisions, the cost of risk during 9 months 2021 improved to 81bps compared to 133bps for 9M20 and 121bps for the full year 2020.

Additionally, the Group benefited from lower ECL and other impairments losses during the current period, which at KD8.5m were 69.9% lower than 9M20.

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.

At the top left chart on the slide, operating income from the Group's international operations grew by 7.2% to reach KD168.1m in 9M21. We see that profit contribution from International at KD71.7m improved significantly benefiting largely from lower credit provisions and ECL charge and a stronger operating performance. International operations continue to contribute a healthy 25% and 28% to the Group operating income and net profit respectively.

The Group's Islamic banking subsidiary Boubyan Bank delivered a net profit of KD31.9m, up 37.2% on 9M20 resulting from strong operating results due to continued growth in business volumes and an improved NIM.

Finally, on the chart at the bottom right corner, you will note that International operations and Boubyan Bank contributed 39% 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 KD32.5bn at September 2021, a 7.0% increase on September 2020 and 9.4% on December 2020.

Group loans and advances at KD19.0bn, registered a strong growth of KD1.5bn, 8.3% over December 2020. Loan growth was achieved at Kuwait – both conventional and Islamic sectors and through International operations. It would be pertinent to note that a part of the loan growth in Kuwait was due to non-collection of instalments under the 2021 consumer loan deferral program that commenced in 2Q21 for a period of six months.

Customer Deposits i.e. non-bank and non-FI deposits, increased to KD17.4bn during 9M21. The Group continued to experience growth in its core franchise retail deposits- both conventional and Islamic, albeit at a lower rate than the previous year. This allowed the Group to retire relatively expensive institutional deposits and thus ensured an overall favorable funding mix.

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 63% of total funding mix of the Group. Other borrowed funds include NBK's recently concluded issuance of US$1bn 6 year senior unsecured bonds.

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 9M21 financial results had on certain key performance metrics.

The Return on Average Equity for the current nine month period improved to 9.6% from 6.6% in 9M20 and 7.0% for full year 2020. Similarly, Return on Average Assets now stands at 1.09% compared to 0.75% in 9M20 and 0.82% for the full year 2020.

At 18.1% the total Capital Adequacy Ratio remained strong and stable, marginally below 18.4% in December 2020. CET1 and Tier1 ratios were 13.2% and 15.6% respectively. Kindly note that interim profits are not included in calculation of the above capital ratios.

As regards asset quality, you would note an improvement in the NPL ratio of 1.43% compared to 1.72% as at December 2020. The NPL ratio had increased to 2.45% in June 2021 largely due to reclassification of certain customers against whom the bank has initiated legal proceedings. The drop in NPL ratio in 3Q21 stems from the improvement in credit quality of certain exposures and write offs.

As a result, the loan loss coverage ratio has improved to 230% in September 2021.

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 chart at the top left of this slide reflects the staging information on loans and contingent liabilities together with ECL on credit facilities. The chart at the top right reflects that as at September 2021, 91% of gross loans and advances are in Stage 1 with 7% in Stage II and 2% in Stage III.

The chart at the bottom right reflects that the ECL requirement as at September 2021 decreased to KD494m from KD605m at December 2020. The net decrease in ECL is the largely attributable to improved forward-looking macroeconomic factors as well as in the credit quality of certain exposures and write-offs.

Although IFRS 9 ECL and CBK provisions are two different regimes and should not be compared as such, as at September 2021, the balance sheet provision as per CBK instructions exceeds the ECL, by KD184m. 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 9M21. A continued recovery and a noticeable pick-up in the improvement of underlying operating drivers, strong loan growth, lower provisions and impairments, a healthy balance sheet, comfortable liquidity levels and a solid capital base were features of NBK's 9M21 results.

Now turning to the guidance for the remainder of 2021.

As the revival of trade activities, significantly improved vaccination status and opening up of economies continues towards a more normal operating environment, we are cognizant that an element of uncertainty arising from the pandemic still remains. The current low interest rate environment is not expected to change in the next quarter. All this makes it difficult to provide a meaningful guidance on some of the key metrics.

As regards loan growth. Loan growth during 9M21 was strong at 8.3%. We are expecting a continued high single digit growth for the full year 2021.

With respect to the NIM, we have recently seen a tightening of margins, which is likely to continue in the last quarter. We however expect the full year 2021 NIM to remain broadly stable compared to that of 2020, although marginally lower than 9M21 NIM of 2.25%.

The 9M21 cost to income ratio is currently at 39.1%. A challenging interest rate environment, the continuation of our investment program in support of various Group initiatives and the exceptional costs of 3Q21, will result in the full year ratio remaining in the high thirties.

Given that we are not fully out of pandemic related uncertainties, it would not be prudent to give a specific guidance on cost of risk and consequently on earnings / capital adequacy. At 0.81% the 9M21 cost of risk has reflected a significant improvement over 2020. We are cautiously optimistic that the trend of a lower cost of risk would continue into 4Q21. 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.

As our usual practice, we will pause for a minute to get all the questions and then group them to have one response to each topic for the sake of time. We will be back in a minute.

Hello everyone and sorry to keep you waiting. Basically, we got so many questions here; but as I mentioned earlier we'll try to cover specific topics.

At least there are 4 or 5 questions talking about NIMs and the outlook for NIMs and how we see it evolving from here.

We gave guidance on NIMs, but I will leave it to Sujit to give more details about what are our expectations in terms of yields and cost of funds going forward

Sujit.

Sujit Ronghe: On the NIMs front, we saw a slight contraction in the 3rd quarter. As you know, the lower 3rd quarter NIM at 2.18%, was primarily due to lower yields, affected by a number of factors. For example, the mix of the loan growth and lower yields on the new purchases of investment securities contributed to the downward pressure on the NIM. Typically, yields on loans and investments in the international segment are lower than Kuwait and the mix plays a role.

Funding cost which was trending down till the last quarter, slightly picked up during the 3rd quarter. If we book longer term deposits we can see some uptick in funding cost. From a guidance point of view, we are seeing that the benefit in funding cost is fully achieved, and are not expecting a lower funding cost from here.

On NIM outlook, any uptick would depend on the growth that comes in the next quarter or in the coming few quarters. This is where we can see a slight improvement in yields and NIMs overall. I would give a directional indication that the NIMs are expected to be broadly stable at the level of this quarter.

Amir Hanna: Few questions as well on the mortgage law and its potential approval in terms of timing, its impact on loan growth and profitability?

I think quantification is a bit difficult at this point.

For the details of the law and what is the update; Mr. Isam

Isam Al-Sager: With regards to the mortgage law, it is somehow politically driven. As we explained in previous calls, the need for the law is undoubted and is becoming a must.

The existing housing finance mechanism by Kuwait Credit Bank will delay the efforts to resolve the growing residential housing demand, especially considering the young Kuwaiti population.

If a mortgage law is passed, the banks will definitely benefit a lot, as they will offer a new product that is expected to have large demand in the Kuwaiti market similar to what we have seen in other GCC countries.

It is too early to quantify the prospects; considering there are so many unknowns on how the mortgage product would be structured once the law is approved.

Amir Hanna: A couple of questions also on cost to income ratio. Mainly asking about the new normal, where are the new levels and if there is a room for improvement in the future?

Sujit Ronghe: The cost to income ratio can be analyzed from two different sides. On the income side, the Bank has improved on its income generation when compared to the last year. However, because of the low interest rate environment we are not at levels that we used to be earlier. At the same time, the Bank continues to invest in strategic initiatives and digital technologies.

Also, if you compare the cost of 2021 with 2020; we would see increases with respect to incentives and variable pays which were not present for the first nine months of 2020. All of this, together with the exceptional component that I mentioned earlier, has resulted in a cost to income ratio of 39.1%.

To answer the question if this is the new normal; we don't expect the cost to income ratio to decrease very soon, because as long as the low interest rate environment continues and the interest rates don't pick up, the benefit that we used to see on the income side will not return. Once that benefit returns, we would see some drop in the cost to income ratio. However, it is all subject to the timing of the interest rate hikes and the Bank's book at that point of time.

Amir Hanna: A question on the digital strategy and the investment that the Bank is doing on the digital side. Also asks how will this reflect on revenue and cost to income ratio going forward.

Sujit Ronghe: The Bank has been investing in digital technologies even through COVID-19 times we didn't stop our investments in initiatives that were started before the emergence of the pandemic.

This is a medium-term goal for the Bank in the journey of digitization. We are not expecting significant benefits in the short-term. Of course, in the medium-term, we should be able to harness some of the benefits from our investments on the cost front.

Also, it is very important to know that the intention of the Bank in investing in technological and digital initiatives are not just cost related. These investments are also to enhance customer service and to remain relevant in a market that is digitizing rapidly.

Amir Hanna: Questions on retail loan growth and the expectation of the trend post the deferral program.

Sujit Ronghe: We saw last year and in the current year, a presence of 2 loan deferral programs wherein banks did not collect installments for a period of six months. Hence, current growth levels on the retail side are not expected to continue into 2022. We would probably go back to loan growth levels we had witnessed in the years preceding to COVID i.e. lower levels than in 9M 2021.

Amir Hanna: A question on cost of risk with some pressure over NIMs.

The nine months cost of risk is close to 80 bps vs 160 bps for the previous corresponding period. Can we take the figure of nine months as a trend for the full year with some pick up in Q4?

Sujit Ronghe: Cost of risk have been lowering year on year during the last few quarters and we have seen improvement in the operating drivers in Kuwait. Moreover, the credit quality of some of the exposures has also improved.

These factors have contributed to lowering cost of risk to c.80 bps that we have seen at the end of the 3rd quarter. From a guidance point of view, we can expect similar trends to continue into next quarter.

Amir Hanna: We will pause again for 30 seconds to get more questions. Please, if you have any questions, place it through the chat.

We're back again with few more questions.

There are some clarifications required on the cost of risk and how it would trend beyond 3rd quarter.

Sujit, you want to answer that?

Sujit Ronghe: Yes. As regards to cost of risk and as we had said often, the Bank has been taking a conservative approach to provisioning historically, also specifically during the last year.

The gradual improvement in the operating environment was reflected in the credit quality of some of the exposures. This meant that some of the provisions that we had set aside earlier, were no longer required; a part of which was released to P&L and some were utilized to write off certain exposures.

On the whole, cost of risk is expected to stay at current levels i.e. around 9M21 levels of c.80 bps for 4Q and early part of the next year.

Amir Hanna: There is a question on the movement of NPLs and the fact that it increased in Q2 and dropped in Q3.

Isam Al-Sager: Well it is a mix of This is a mix of improvement in some exposures as well as write offs. Throughout the pandemic we took a very conservative approach to NPL recognition especially considering the amount of uncertainty that existed at that time. We also built a provisioning buffer over the past quarters in an effort to capture any expected losses resulting from the impact of the pandemic on businesses.

Today as the operating environment improves and some of these previously categorized exposures remained performing and accordingly were removed from the NPL portfolio. Also because of the conservative provisioning approach in recent quarters we managed to write off some of the exposures bringing down the NPL ratio.

Amir Hanna: Just to clarify, some questions we have to skip because the answer in not in public domain so that is the reason we might be answering couple of questions

Another question on guidance. Why are we still cautious on the full year guidance despite the nine months strong loan growth?

Sujit Ronghe: Indeed loan growth for the nine months has been very strong and the bank does have a strong pipeline into the next quarter and the next year as well. That said we are a bit cautious with respect to loan growth guidance at the high single digit because some of the loans are of corporate nature and there could be an element of timing. They could be booked in 4th quarter or next year. Since the guidance is for the full year 2021 we have restricted ourselves to a high single digit, which is how we assess it today.

Amir Hanna: What is the timing for receiving the Government receivables on the modification program

Sujit Ronghe: The work on quantifying and audit of the amount to be received from the Government was completed during this quarter. The reports have been submitted to the Central Bank of Kuwait and there is a process at the end of the Central Bank and the Government which would determine the timing of this payment. That said, the Government is expected to pay us. I won't be able to put a date on it, but in a reasonable time frame.

Amir Hanna: Question on implementation of IFRS9 and if this can happen early next year. Also the impact of that on release of excess provision that could happen gradually or as a one off

Sujit Ronghe: The full implementation of IFRS9 replacing the CBK provisioning mechanism has been a topic of discussion ever since IFRS9 came into being. We have not got any signals from Central Bank of Kuwait whether the situation could change next year. We will have to wait and watch as to how things unfold

Amir Hanna: Is there any update on the debt law?

Isam Al-Sager: Well, despite the latest oil price increases and its positive impact on the budget deficit; we still see determination from the government on approving the debt law. Similar to the mortgage law it is a bit of a politically driven decision also. The liquidity in General Reserve Fund is depleting; maneuvering with asset swaps or drawdowns from Future Generation Fund is economically unfeasible and unsustainable. So we are hopeful that the national dialogue can cool off the tensions between the government and parliament and lead to approving the debt law as there are very limited solutions if it is not passed.

Amir Hanna: Back to cost to income again. Yu highlighted that there are some one off costs in Q3 which led to the deterioration in cost to income ratio, Can you tell us about the size and nature of these one offs.

Sujit Ronghe: The one off exceptional costs that we saw in the 3Q were in staff as well other costs. The significant part related to staff cost. If you want to assess the impact, removing these exceptional items from the cost base, the cost to income ratio for the third quarter which is at 42% will be close to what we have for the 9 months around 39%.

Amir Hanna: Does the debt law has to be passed first before the mortgage law is passed?

Isam Al-Sager: I think it is irrelevant. They can pass one and leave the other or can pass both of them, it is really irrelevant. But as I mentioned earlier it is a politically driven law and hopefully with what we are hearing now in the political media, hopefully the national dialogue will cool things off and the laws would be passed.

On the debt law, it is also worth mentioning that the future generation fund is economically unfeasible and unsustainable so this will mean the government will have no other choice but get it approved.

Amir Hanna: I think that is it for today, we are not seeing any other questions outside the topics we have answered. There are more questions on direction and guidance but I think we have covered that in a lot of details. Please if you have any more questions or you want to have any follow up responses, send it to our Investor relations email address and we will get back to you as soon as we can. Thank you all very much for attending today's call. I will conclude the call, Elena bank to you.

Elena Sanchez: Thank you Amir. I would like to thank NBK management for their time today and thank you everyone for attending this call.