National Bank of Kuwait

FY 2018

Earnings Conference Call

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Edited transcript of National Bank of Kuwait earnings conference call that took place on Thursday, January 24, 2019 at 15:00 Kuwait time.

Corporate participants:

Mr. Isam Al Sager – Group CEO

Mr. Jim Murphy – Group CFO

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

Chairperson:

Elena Sanchez – EFG Hermes

Operator:

Welcome to the National Bank of Kuwait 2018 earnings call. Today's conference is being recorded. At this time I'd like to turn the conference over to Elena Sanchez of EFG Hermes. Please go ahead.

Elena Sanchez:

Good afternoon and good morning everyone and welcome to the National Bank of Kuwait full year 2018 results conference call and webcast. It is a pleasure to have with us in the call today Mr. Isam Al Sager, Group CEO of NBK, Mr. Jim Murphy, Group CFO of NBK and Mr. Amir Hanna, Head of Investor Relations and Corporate Communications of NBK. I would like to handover the call now to Mr. Amir Hanna.

Thank you.

Amir Hanna:

Thank you Elena for the introduction.

Good afternoon everyone. We are glad to have you on our full year 2018 earnings call today.

I will start the call as usual by reading a brief disclaimer while our full disclaimer will be displayed on the screens in front of you "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."

Moving to our presentation, we will start our call today by some opening remarks from our Group CEO, Mr. Isam Al Sager. Following that, our Group CFO, Mr. Jim Murphy, will run you through the quarterly and full year figures in more details. After concluding the management presentation, we will start addressing all your questions but feel free to type in your questions at any time during the call. We will answer all questions received, if time allows it, but if any questions were left unanswered or for any follow up questions that you might have, please feel free to reach us through our investor relations email address which you can find on NBK Group website.

Without further delay let me hand the call over to Mr. Isam Al Sager, our Group Chief Executive Officer for his opening remarks.

Isam Al Sager:

Thank you Amir.

Good morning and good afternoon everyone.

Thank you all for joining us today in our fourth quarter and full-year 2018 earnings conference call and webcast.

2018 performance marked a continuation of the strong operational trend that we have been seeing in recent years. During the year, we continued consolidating our leadership position in Kuwait, while increasing the scale and contribution of our international operations and strengthening our Islamic banking brand. This has all affirmed the successful execution of our diversification strategy.

The Group recorded a set of exceptional results in the fourth quarter and the full year of 2018. Our profits for the fourth quarter reached KD 98.3 million, growing at 17.0% year-on-year. While for the full year, we reported a net profit of KD 370.7 million, growing at 15.0%.

The diversification of our income sources and the diversity of our customer base were key drivers for consistently reporting strong profits. We remained focused on core banking income and rigid cost controls as will be clearly evident when we go over our numbers in more details throughout the call.

Shifting to the business environment; Kuwait's operating environment proved to be resilient against headwinds of economic growth. We remain optimistic regarding the health of domestic economic activity as the government continues with its capital expansion plans given the foreseen pipeline of scheduled project awards.

Despite concerns of slower economic activity on the back of the retreat of oil prices towards the end of 2018, Kuwait manages to withstand such concerns as a result of its low fiscal break-even oil price and large sovereign reserves. This provides much protection from future volatility and supports our optimistic outlook for the continuation of growth in the business environment.

As we always like to stress, NBK plays a key role in supporting economic growth and the execution of "New Kuwait 2035 vision". As the leading financial institution in

Kuwait and with our regional and international presence, we will continue to see that role expanding, which gives more confidence in our growth outlook.

Moving to our international operations, we had a solid year in most of our key businesses outside Kuwait. International accounted for 29% of the Group's profits and continued to provide essential risk mitigation for the wider Group.

Similarly, Islamic banking, through our subsidiary Boubyan Bank; provided further strength to our domestic positioning and to the diversity of our income profile.

The year 2018 was a year of diversification for the Bank's business with a special focus on digital transformation for future growth. The digital transformation is cross-segment and cross-geography, impacting our internal processes and systems as well as the experience and opportunities of our customers.

Looking ahead, our strategic pathway remains essentially unchanged as we defend our leadership of core businesses, maintaining a dominant share in the Kuwaiti market, a position that will be supported by the growth we are achieving from our Islamic banking subsidiary, Boubyan Bank.

Outside Kuwait, we remain opportunistic but generally focused on our existing foot print, strengthening our positions in our key markets and building on the successful growth. Let me focus on two specific markets here; in Egypt, we will look to consolidate and build upon our recent growth as the country goes through an ambitious economic reform program. This will continue to support growth and create lending opportunities for banks. In Saudi Arabia, we will seek to grow the client-base after adding two new branches in Riyadh and Dammam. Concurrently we are quite optimistic on our newly established CMA-licensed entity Al Watani Wealth Management, as we target this lucrative market in Saudi Arabia building on the expertise of our private banking team and our investment banking arm, NBK Capital.

Finally, I would like to conclude by updating everyone on our credit ratings and the actions taken during the year. We continued to be rated by the three major rating agencies Fitch, Moody's and Standard & Poor's. All our credit ratings were affirmed during 2018 and still carry a stable outlook. These ratings remain the highest in Kuwait and among the top ratings in the region.

I will conclude with that and now let me handover the call to Jim Murphy, our Group CFO, to run you through the quarterly and full year results in more details and to address your questions.

Jim….

Jim Murphy: Hello everyone, and welcome.

I am very pleased to have this opportunity to take you through our full year financial results for 2018.

We have announced a profit of KD370.7m for the twelve month period to December 2018. This is a 15% increase in bottom line profit over last year. These results reflect a very solid performance by the Group and demonstrate the continued growth in the scale and profitability of our business. We were particularly pleased to see that our growth in profits was driven by strong performances across our portfolio of business lines, and across the various geographies in which the Group operates.

Profit for the fourth quarter of 2018 was KD98.3m. This is an KD11.8m increase on the profit for quarter three 2018, a 13.6% increase, and is KD14.3m ahead of quarter four 2017, a 17% increase.

Before going into the details behind our results I would first like to say a few words as to the overall trading environment that prevailed though the course of last year.

Operating conditions through the year were broadly favorable. We consider the environmental conditions as having been supportive, with business confidence having remained in positive territory. The underlying directional trend was encouraging and demonstrated a continuation of the good momentum that has been in evidence from earlier periods.

Progress continued as regards implementation of the government's multi-year development plan, albeit at a pace of project awards and execution that was below expectations and below levels of previous years. That said however, we believe that this is a matter of a time shifting to future periods and we expect to see a pick-up in activity in the year ahead.

The implication for the banking sector remains therefore that the consequent cascade or ripple through effect associated with the execution of the development plan will continue to offer good business prospects and financing opportunities over time.

Allied to these accommodating operating conditions was the rise in domestic and international interest rates. Higher rates have been conducive to supporting earnings growth at the Group. It was against the backdrop of increases in international rates that the Central Bank of Kuwait raised its benchmark discount rate during the year, albeit on just one occasion, in March.

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

As I have already mentioned the strong results for the year reflected solid performances across the entirety of the Groups operations i.e. across our various lines of business within Kuwait and also at our international operations. Indeed as regards our international operations I would mention that we logically group, if you will, these activities into business carried out at our offices in the MENA region and business carried out at overseas offices further afield. I am pleased to say that both these parts of our international operations continued to perform strongly.

We are also very pleased to see continued strong growth at our Islamic Banking subsidiary Boubyan Bank. Boubyan Bank delivered an excellent 17.9% increase in profits, to KD56.2m for the full year.

We will see later in this presentation the materiality and importance of our fuller diversification agenda when looking at the contributions to total Group earnings made by the various banking footprints enjoyed by the Group.

The operating surplus (i.e. pre-provision pre-tax earnings) for 2018 was KD606.9m. This is an 8.9% increase on 2017. Total income in the year grew by 7.4%, whilst growth in costs was contained at 4.1%.

I will shortly drill into the main drivers behind the growth in income and in costs, but firstly I would like to try pre-empt some questions that you might have as regards the KD17.7m year on year reduction in the Groups investment income.

Firstly, 2017 had the benefit of a number of once-off investment gains, realizations and distributions across the Group. Secondly, and as you may recall, the Group recognized in quarter three of 2018 a once-off net loss in respect of reclassifying an associate held through one of our subsidiaries to an FVOCI investment. The net loss was in fact due to the recycling from equity of legacy accumulated FX losses attaching to the associate.

Therefore in order to better appreciate the underlying growth in our business operations it is appropriate to adjust for the effect of the period on period movement in investment income. Making such an adjustment reveals that total income grew by 9.7% and operating surplus grew by 12.5%.

As regards the results for the final quarter of 2018, the KD147.2m operating surplus compares to KD152.6m in the previous quarter. The quarter on quarter decline reflects the fact that although the fourth quarter was not encumbered by negative investment income as was the case in quarter three, the fourth quarter experienced lower levels of fee income at certain parts of the Group due to a relatively quiet quarter including seasonal considerations, and also experienced an increase in costs period to period. I would point out that quarter four costs were impacted by a number of timing events, including the impact attaching to the commencement of our new Wealth Management operations in KSA.

By way of comparison with last year, the operating surplus in the final quarter of 2017 was KD138.3m, putting the current quarter ahead by 6.4%.

Total operating income for full year 2018 was KD883.2m. This compares to KD822.7m in 2017, representing therefore a year on year increase of 7.4% - noting, as just mentioned, that the underlying increase having adjusted for movement in investment income is 9.7%.

Returning again briefly to the quarterly results. The operating income for the final quarter of 2018 was KD221.4m, as compared to KD219.6m in the previous quarter, and with KD212.8m in quarter four 2017.

The two primary drivers behind the 7.4% growth in full year operating income in 2018 are (1) a solid 9.8% growth in net interest income and (ii) a strong performance in fee income. Fee income is 8.4% ahead of last year. I will go into some details on both of these matters shortly.

The operating income mix is profiled on the bottom right hand right side of this first slide. 78% of total operating income is in respect of net interest income, and 22% from non-interest income sources. Non-interest income last year was 24% of total income, reflecting the higher levels of investment income as mentioned earlier.

Moving on now to chart number 2.

I will examine our net interest income performance during the year, and also the growth drivers behind the outcome.

Net interest income at KD690.5m in the twelve month period to December 2018 compares to KD629.0m in 2017. This is a solid 9.8% growth, and is a rate of growth with which the Group is very pleased.

Looking at the quarterly results, net interest income at KD175.4m in the final quarter of 2018 compares to KD178.2m in quarter three, and to KD162.7m in quarter four 2017. Net interest income in the final quarter experienced the lagged impact of earlier interest rate increases.

One of the drivers for the year on year increase in net interest income was the steady growth in interest earning assets.

Interest earning assets averaged KD25.6bn during 2018. This is an increase of 6.3% on 2017. The growth in interest earning assets essentially reflected strong growth in our lending and investment portfolios.

I will return to the matter of loan growth shortly.

Coupled with the solid growth in interest earning assets, the Group also enjoyed the benefit of an increase in its net interest margin.

If you look at the bottom left hand side of this chart you will see that the net interest margin for the twelve month period to December 2018 averaged 2.69%. This compares to an average margin of 2.61% in 2017.

The NIM for the final quarter of 2018 was 2.67%, slightly down on the prior quarter largely due to the catch-up impact in respect of the repricing of longer tenured deposits.

The Groups funding cost for the year averaged 1.72%, as compared to 1.26% in 2017, and closed the year at 1.95% in the final quarter.

The Groups yield for the year averaged 4.23%. This compared to a yield of 3.73% in 2017. The yield in the final quarter was 4.40%.

If you look at the bottom right hand side of this slide you will see the constituent drivers that moved the average NIM by 8bps, from 2.61% in 2017 to 2.69% in 2018. The NIM was impacted favorably by 43bps due to the combined movements attaching to loans and other assets, whilst the higher cost of deposits impacted the NIM to the extent of 35bps.

Moving on now to chart no 3.

I will talk about how the Groups non-interest income performed during the year.

Non-interest income for 2018 was KD192.8m. This is broadly in line with the prior year. However, the underlying increase when adjusted for the movement in investment income was a year on year growth of 9.6%.

The composition of the KD192.8m total non-interest income is KD150.2m in respect of fees and commissions, KD39.0m in respect of foreign exchange activities and a net KD1.4m from other non-interest income sources.

Fees and commissions income at KD150.2m represents a strong 8.4% year on year increase.

We are particularly pleased with the performance of this income line, demonstrating as it does buoyant levels of business activities across our operations. The sources of the increase in fees and commission income were many, and were well spread across our various business lines and geographies.

You can see that the bulk of our non-interest income came by far from core banking activities. The Groups non-interest income is sourced primarily from fees and commissions and from income in respect of foreign exchange activities. Earnings from non-core banking income streams is negligible.

Total non-interest income in the final quarter of 2018 was KD46.0m. This compares to KD41.4m in the prior quarter. Just to remind once again that non-interest income in quarter three was negatively impacted by the once off reclassification of an associate to an FVOCI investment held through one of our subsidiaries, hence the large quarter on quarter movement.

The key message that I would like to convey before moving on is that growth in core banking non-interest income i.e. fee income and FX income was and remains very solid, and reflects continued levels of healthy activity across our core businesses.

Turning now to operating expenses. Total operating expenses for 2018 amounted to KD276.3m. This compares to KD265.4m in the previous year, a 4.1% increase. Staff costs grew by 3.6%, and other operating expenses by 4.8%.

The modest rise in costs demonstrates the tight rein that is consistently applied to our cost base. That said however, we of course remain very cognizant of the need to maintain appropriate investment into those areas of operation that drive long term and sustained value to the Group. We maintained a very healthy cap ex programme in this regard.

We also continue to actively support our two important growth phase subsidiaries, Boubyan Bank and NBK Egypt. These two key subsidiaries continue to deliver significant earnings growth, and accordingly they experience a higher rate of cost increase than is typically in effect across the fuller Group.

Turning to the quarterly results, total operating expenses in the final quarter of 2018 amounted to KD74.3m, as compared to KD67.0m in quarter three.

The increase in quarterly costs reflected a number of events largely affected by timing, including the booking of formation costs in respect of the coming on stream of our new Wealth Management subsidiary in Saudi Arabia.

I would like to take the opportunity at this juncture to point out that the Group continued to invest heavily in IT during the course of the year. The global banking model is facing significant challenges, not least from digital disruption within the industry and from the ever pervasive FinTechs. In this regard the Group invests heavily in selectively developing and deploying the latest business enabling technology solutions, in refreshing its IT infrastructures and in ensuring first class cyber security resilience and capabilities.

We are also very well advanced in the building of a new state-of-the-art Data Centre in Kuwait City and expect to see this come on stream in the coming year.

On the subject of IT, those of you familiar with NBK will know that we invested very significant sums in replacing our core banking platform in the not too distant past, a hugely challenging and complex undertaking for any bank – the significance of this being that our new digital offerings and technology inventories are built on and bolted into best-in-breed technology foundations.

A simple but important barometer of operating efficiency is of course the cost to income ratio. We are very pleased to see that the Groups cost to income ratio has fallen to 31.3% in 2018, from 32.3% in 2017. I think it is fair to say that by most international benchmarking standards this is a very impressive level for such a key efficiency measure, and one to which we will apply continued attention going forward.

Moving on to provisions and impairments.

Total provisions and impairments in the twelve month period to December 2018 amounted to KD179.7m. This KD179.7m charge comprised KD169.3m in respect of provisions for credit facilities and KD10.0m in respect of impairment losses re investments in associates primarily held at or through our subsidiaries.

Total provisions and impairments in respect of the final quarter amounted to KD34.3m. This compares to KD51.5m in quarter three 2018, and to KD41.9m in the final quarter of 2017.

As regards the matter of IFRS 9 and the basis used for calculating loan provisions. The Central Bank of Kuwait issued instructions to the effect that the provisioning regime applicable to banks in Kuwait at year end 2018 was such that the provision for credit losses on credit facilities be determined as the higher of expected credit losses under IFRS9 as per Central Bank of Kuwait guidelines, and provisions as computed in accordance with CBK rules and instructions.

As the latter instance prevailed, we therefore computed an ECL charge in respect of non-credit financial assets only, the income statement impact of which was immaterial in the period.

Moving on now to chart no 4.

I would like to return to the matter of earnings diversification at the Group.

You will know that one of the primary strategic objectives at NBK has long been an imperative to diversify the Groups base of operations and also therefore to diversify the sources and stability of Group earnings. The ongoing execution of this strategy continues to drive forward this competitive advantage for the Group.

The purpose of this chart is to demonstrate the impact of the diversification agenda on the Groups financial performance.

Looking firstly at diversification by geography. NBKs International operations contributed KD112.7m to Group profits in 2018. This compares to KD94.7m in 2017, an increase of 19%.

You will see from the pie chart on the top right hand side that earnings from our International operations contributed 30% to total Group profits. NBK is currently present in 14 countries outside of Kuwait, including of course in Egypt where we continue to see excellent growth at our subsidiary NBK Egypt.

In addition to geographic diversification, NBK remains unique amongst Kuwaiti Banks in being positioned to operate in both conventional banking and Islamic banking. The Groups Islamic banking subsidiary Boubyan Bank continues to perform extremely well, and delivered profits of KD56.2m in 2018. This compares very favorably to KD47.7m in 2017, representing as it does a strong year on year increase of 17.9% in bottom line profit.

If we look at the earnings impact arising from the totality of our diversification strategy, it is pleasing to observe that approximately 40% of Group earnings in 2018 was derived from our International and Islamic banking operations combined. This demonstrates a high degree of resilience and robustness in the earnings profile of the Group.

And finally on this chart, we see that the profile of assets at the year-end was such that 48% of Group assets were at our conventional Domestic operations in Kuwait, 36% at our International operations and 16% at Boubyan Bank.

Moving to chart number 5.

On this slide we will look at some of the movements in key volumes during the period.

You will recall that our net interest income increased by 9.8% on last year. A big contributor to this growth was a solid growth in business volumes during the period.

Total assets grew to KD27.4bn by year end December 2018. This is a 5.4% increase on December 2017. The increase was driven primarily by strong growth in our loan portfolio.

The Groups loan portfolio increased to KD15.5bn, having increased by KD1bn in the twelve month period to December 2018. This represents a solid 6.9% growth.

In addition to the magnitude of the overall growth itself, it is encouraging to note that strong underlying growth was had in all of the Groups key lending markets i.e. Domestic, International and Islamic, notwithstanding a number of material settlements through the course of the year.

Customer Deposits, at KD14.4bn, grew by 4.4% on December 2017. Please note for purposes of clarity that customer deposits as defined here do not include deposits taken by the Group from financial institutions.

The overall deposit mix moved favorably during the year. The Group experienced strong growth in core franchise deposits, noting in particular excellent growth in deposits at the retail banking arm of the Group.

The growth in retail deposits reflects a particular focus on the deposit gathering aspects of our business in recent times, including a focus on bringing new, innovative and relevant savings products to the market, together of course with the long standing ability to capitalize on NBK's strong brand, reputation and credit ratings.

In terms of overall funding mix, you can see on the bottom right hand panel of this chart that customer deposits comprise 62% of the total mix. This is in keeping with 2017.

Moving to our final chart.

We will look at the impact that our financial results had on certain key performance metrics.

The Return on Average Equity for the twelve months to December 2018 was 12.0%. This compares to 10.8% in 2017.

The Return on Average Assets increased to 1.38%, as compared to 1.28% in 2017.

The overall Capital Adequacy Ratio at year end 2018 was 17.2%. This compares to 17.8% at year-end December 2017. Note that the partial transition to IFRS 9 (i.e. as applicable to financial assets other than credit facilities) at the commencement of 2018 served to impact the Groups opening ratio by approximately 16 basis points.

The T1 capital ratio at year end was 15.3%, whilst our CET 1 ratio was 13.8%.

As regards the subject of dividend distribution, please note that the Board of Directors has recommended a cash dividend of 35 fils per share, together with 5% bonus shares, with the distribution naturally being subject to approval at the shareholders general assembly in due course.

The distribution in respect of 2017 was 30 fils per share cash dividend, and 5% bonus shares.

Asset quality ratios remain solid, with the NPL ratio at 1.38% and the coverage ratio at 228%. Although somewhat tighter than the very high ratios that were in existence at the end of last year, the current ratios remain very comfortable.

That brings an end to my presentation.

However, before I hand back to Amir, I am happy to conclude and summarize by saying that we consider 2018 as having been a very robust and satisfactory year overall. Solid and sustained growth took place across all operating units and geographies of the Group and the benefits of diversification continued to strengthen the quality of Group earnings.

As we look to the year ahead there is no doubt that the landscape presents challenges and uncertainties from many quarters, including those emanating from markets further afield.

That said however we look forward with optimism to 2019, albeit with a prudent degree of caution. The Group has strong hopes of building on the excellent results of 2018 and remains confident of further harnessing the strong momentum that is in and across our multiple businesses.

Thank you very much for your time.

And now back to Amir.

Amir Hanna:

Thank you all for listening.

If you have any questions just type it in to the webcast in the questions section.

We will pause for a second to receive questions and then we will come back to answer questions as they come into the que.

We are back and we'll start going through the questions. Keep typing in your questions so we can answer them in time.

Our first question, refers to the sectors that drove growth for the bank.

Our GCEO will answer that.

Isam Al Sager:

With regards to the sectors, as I mentioned before that most of our core banking divisions contributed to our bottom line. In Kuwait, we have a very strong growth in corporate banking and retail banking. In our international presence, we have a growth of 29% that is mainly coming from our operations in Egypt with a contribution of 9% to bottom line; in addition to our Islamic arm, Boubyan Bank, contributing about 10% to our bottom line so as I mentioned before, we have a well-diversified income coming from different sources.

Amir Hanna:

A question on capital and plans for 2019. Jim you want to take that?

Jim Murphy:

We are pleased to see the increase in dividends. One of the questions coming in asks if we expect to have a need to raise capital in the year ahead. The answer is no at this stage. In setting dividend payouts we obviously calibrate what we see coming down the tracks for the coming years. We are satisfied that given the growth that we foresee in the business and the profit generation at the Group going forward, we retain sufficient capital to support the growth agenda going forward.

So nothing at this stage on the capital front. If of course there was to be a material shift of magnitude in growth ahead, we would naturally have to recalibrate again. As we see things however, we can accommodate a sufficient growth in business utilizing available capital and whilst continuing to operate within our policy risk appetite. The Group always carries capital levels that we consider appropriate given our credit rating and DSIB status within the country. We expect to carry this headroom going forward through 2019.

Amir Hanna:

Few question on IFRS 9 are coming in, I think we covered that in the presentation but we will just say few words on the impact of that on the outlook on provisioning in 2019.

Jim Murphy:

IFRS 9 has been on our agenda and no doubt your agenda for quite a period of time now. The matter concluded at the end of the year to the effect that the higher of two provisioning regimes would be applicable. The regime per IFRS 9 in accordance with CBK guidelines or the Central Bank of Kuwait's own provisioning regime.

Prudently, the higher of the two prevails. The situation that came into effect at the year-end was such that the Central Bank regime prevailed. We were pleased regardless to see that the cost of risk declined in the final quarter.

Now obviously the question is what would be the recalibrated of cost of risk going forward. What might we may expect in the coming year. That's obviously a big question. We need to be cautious given that there is the potential for either regimes to be applicable, therefore implying a certain degree of uncertainty.

We are therefore reluctant to give guidance as to the cost of risk. But in so far as we saw a reduced cost of risk in the closing quarter of 2018, we would be hopeful that we would see a reduced cost of risk through the fuller course of 2019 as compared to the fuller 2018. I think it will be important to see how the first quarter turns out in that regard. A key point is that the change in the direction of risk cost that occurred at the closing quarter of last year was a welcome development and hopefully it's a sign of an improvement down the road. We remain prudently optimistic that this may prove to be the case, but obviously we have to wait and see how the year progresses. 2019 first quarter should be key in this regard.

Amir Hanna:

Back to growth, specifically loan growth, there is a question on loan growth guidance for 2019 in different countries and different sectors. How that would shape up?

Isam Al Sager:

Part of the loan growth will depend so much on the government major mega projects if they will be implemented, which we think it will be. We had a slowdown in some of these projects in 2018 and most likely in 2019 many projects across various sectors will be awarded and this will help us build more in our loan growth.

Jim Murphy:

Yes, a key part of the equation will be how that part of the business behaves. I think generally we are looking at a high single digit growth overall for the Group next year.

Sources for that growth are across our different businesses. We expect to see the normal growth in our consumer book. Our domestic corporate operations have a good pipeline. Our foreign corporate operations depend on deal execution, but there are some good tickets in the pipeline.

The international business is very healthy and many of our locations have got strong pipelines with high quality credits. Much will depend on the timing as to when those credit come to book. We are also very pleased to see that Boubyan has good expectations for loan growth in the year ahead.

Collectively therefore, putting all the businesses together, at this stage we should be looking at a high single digit growth.

Amir Hanna:

I have few questions on the direction of interest rates in Kuwait and if the central bank of Kuwait will follow the direction of the US and what should we expect for NIM direction in 2019?

Jim Murphy:

Recent developments have been such that the expectation for a continued pickup in interest rates is no longer there. We are assuming for now no increase in rates through the course of 2019. Obviously that position moves from time to time, but as we speak we are proceeding on the basis that there will be no further increases through 2019. If the Fed were however to move once or twice and whether the Central Bank was to follow, it is hard to say.

In terms of the earnings impact, we are assuming no rates increase which means therefore that our margins going forward would probably remain in line with current levels. Perhaps a little bit of movement depending on whether any residual repricing kicks in. We are looking at margins holding at close to 2018 levels with maybe a small movement due to mix. Otherwise I would keep assumptions similar on an averaged basis.

Amir Hanna:

The direction of fees and commissions, can 2018 growth be repeated in 2019 and the drivers behind that.

Jim Murphy:

Yes, again it depends on activity levels through 2019. 2018 was a very good year, there is no doubt about that. We had very good performances in all lines of business; credit cards business, trade finance business, asset management business, investment banking business and so on. Will increases come through at the same magnitude next year? I guess we would guide to somewhere between mid to slightly above mid-single digit percent increase, but that will depend on a lot coming together. Some transactions that attract fees are subject to timings. Broadly though if we were to see a repeat of the 2018 growth it would be highly satisfactory. It may however be prudent to wind expectations back a bit pending timings.

Amir Hanna:

A question on expectation of cost to income going further down in 2019 and 2020, in terms of direction generally.

Jim Murphy:

Well, the cost to income ratio is at very low levels. The objective is to keep it in the territory of the low thirties and we will work to accomplish that. We are investing very heavily in our businesses and have a lot of Capex, so we should expect a pickup in the depreciation line going forward. But that said, the territory where we are at the moment is low thirties, and we expect to stay around this level.

Amir Hanna:

A question on M&A and are there any plans to do any acquisition activity to drive double digit growth similar to this year?

Isam Al Sager:

We have no plan for expansion activity now, no acquisition and nothing in the pipeline for 2019. All what we have done in 2018 was that we expanded our wealth management business in Saudi Arabia which will not affect our capital. Other than that there are no expansions in our pipeline for the time being.

Amir Hanna:

There are couple of questions on the write offs in 2018 and what is the reason for that? I think we answered that and we have been communicating over the past couple of years that as part of our preparation for IFRS9 we have done a cleanup exercise that will help us to go into the staging process under IFRS9, since we were expecting it to be implemented this year. And part of that was using the excess provisions in our view to clean up the book which means that we go into the exercise of implementing IFRS9 easier and in a smoother way and that was the purpose of those write offs.

Amir Hanna:

We are waiting for more questions, I think we have 5 more minutes for the call.

There are few questions again on NIM and cost of funds and I think we addressed that excessively both in the question and through the presentation.

There is one more question on what's stopping us from increasing our stake in Boubyan and I also think we addressed that before but our Group CEO will address that now.

Isam Al Sager:

Well if we have the opportunity to increase our ownership in Boubyan we will do that but there are some regulatory issues as we have to have permission from the regulator and besides if there is any availability of shares to be offered to us to buy and so far we are watching it very closely. Nothing in the pipeline so far. I think probably in the next few years there might be something available but so far there is no change in our ownership in Boubyan.

Amir Hanna:

I think that's it for today's call, again if you have any follow up questions or if any questions were left unanswered due to time issues please send to our investor relations email on our website and we will address every follow up questions or a question that was not answered.

I will take that call back to the operator to conclude.

Operator:

This concludes today's conference call. Thank you for your participation, you may now disconnect.