

National Bank of Kuwait

2Q 2019 Earnings Conference Call

15 July 2019



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

Corporate participants:

Mrs. Shaikha Al Bahar – Deputy Group CEO

Mr. Jim Murphy – Group CFO

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

Chairperson:

Elena Sanchez – EFG Hermes

Operator: Good day and welcome to the National Bank of Kuwait 2Q 2019 results conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Elena Sanchez. Please go ahead Elena.

Elena Sanchez: Yes, thank you.

Good afternoon and good morning everyone. This is Elena Sanchez from EFG Hermes, welcome to the National Bank of Kuwait 2Q 2019 results conference call and webcast. It is a pleasure to have with us in the call today Mrs. Shaikha Al Bahar, Deputy 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 with us today on our second quarter 2019 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. 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.

During today's call our Deputy Group CEO, Mrs. Shaika Al Bahar, will start by commenting on the results and will follow by a quick update on our strategy and key markets. Following that, our Group CFO, Mr. Jim Murphy, will run you through the second quarter figures in more details, highlighting general trends and providing key guidance metrics. After concluding our presentation, we will start addressing all your questions but feel free to type them in at any time during the call. We will make every effort to answer all your questions but will also respond to all questions sent

to our investor relations email in case we won't have enough time on today's call. I also want to bring to your attention that today's presentation has been made available on our website for download before we started the call and that's for your convenience.

Without further delay let me hand the call over to Mrs. Shaikha Al Bahar, our Deputy Group Chief Executive Officer for her opening remarks.

Shaikha Al Bahar: Thank you Amir.

Good afternoon everyone and thank you all for joining us today.

I would like to start the call by briefly commenting on our quarterly and half year results. I will follow that by making some remarks on the operational environment across some of our key locations and briefly updating you on the implementation of our strategy.

Our second quarter benefitted from the continuation of the same trends that we witnessed in recent reporting periods. From a solid backdrop in our domestic market to strong contribution from international operations and our Islamic subsidiary, Boubyan Bank. The Group reported net profits of 209.1 million Kuwaiti dinars for the first half of 2019. That is equivalent to 689.7 million US dollars with a year-on-year increase of 12.5%. During the second quarter alone our net profits reached 101.4 million Kuwaiti dinars, growing at 9.9% compared to second quarter of 2018.

We are still on our strategic path to defend and grow our leading position in Kuwait and diversify our operation by product line and by geography.

In Kuwait we still expect non-oil economic activity to be solid, growing at a range of 2.5 to 2.8% over the period 2019 to 2021. For the oil sector, growth will remain soft capped by the recent extension of the OPEC+ agreement cut to March 2020.

Credit growth has picked up supported by the CBK's accommodative monetary policy. The CBK has raised its policy rate only four times out of the nine hikes seen by the Fed, and loosened the ceiling on personal loans late last year. Consumer spending is on the rise and with the large number of government projects in the pipeline, corporate credit is gathering speed.

Despite project awards coming short of our aspiration recently, our optimism of improved economic activity remains intact as the pipeline of scheduled project awards is quite strong and projects a stronger outlook going forward. We view the recent slowdown in award as a consolidation phase following the strong execution at the earlier parts of this spending cycle. We still believe the drivers of government spending are all in place from the existing infrastructure needs to having a government that still has the will and the financial capacity to deliver.

NBK remains at the forefront of Kuwait's national development plan and is in the best position to benefit given our dominance in leading, arranging and executing large financial transactions.

Similarly, another key strength that NBK enjoys domestically is Boubyan Bank. Boubyan remains a key contributor to our diversification strategy and an important competitive advantage that we have in the local market which helps the Group to defend and grow its market share

Moving to our operations outside Kuwait, we have seen a steady contribution from our international operations which now reached 26% during the 1H 2019.

As you all know, our expansion strategy has been in place for a long time so going forward we don't carry any consolidation or integration risks. On the contrary, all our geographies are turning into mature businesses and our focus now is on how to generate more contribution from that diversified model.

For the sake of time, I would like to focus on two key markets where we foresee good opportunities that we can leverage to grow our share and expand our market penetration. These would be Egypt and Saudi Arabia.

In Egypt, the country continues to perform well under the authorities' reform program. GDP growth is estimated at around 5.5% during this fiscal year and is expected to remain robust over the two coming years, while inflation has come down from its 2017 highs. The Egyptian Government continues to consolidate its fiscal position and aims at reducing the public debt. These developments bolstered investors' confidence, increased the country's competitiveness, and raised tourism receipts and remittances.

With that solid backdrop and the improving operational outlook, we have a growth strategy in Egypt to expand our market share with more focus on the retail segment which remains mostly untapped.

Similarly, in Saudi Arabia, non-oil growth is set to accelerate to 2.5% in 2019 from 2.0% in 2018, driven by record 290 billion USD budgeted spending, mainly on infrastructure and private sector development initiatives. Recent data show a pickup in consumer spending and private credit growth.

NBK was granted approval in 2018 to establish 2 additional branches for commercial banking activities, which we are currently staffing and bringing up to speed with our existing operations. Also we acquired a license to operate a CMA-regulated entity focused on wealth management business, an area that NBK has a lot to offer considering our private banking and asset management expertise. We see Saudi Arabia as a market that carries a wealth of opportunities for NBK.

Throughout the group we are considering banking technology as a top priority so I would like to give you an update on our digital transformation roadmap, considering its growing relevance to the Group's future. We are quite advanced in establishing

our digital execution platform for the Group. This will be our central innovation and execution hub to delivering all digital solutions in our different markets. We expect this platform to represent an agile, dynamic and solid foundation for our digital transformation strategy and to an accelerated path to becoming the bank of the future.

Finally, and as you all know, MSCI has announced recently that Kuwait will be upgraded to emerging market status in May 2020. This was very positive news for our market. I would like to take this opportunity to congratulate all listed companies as well as Boursa Kuwait and the Capital Markets Authority for the massive effort they put into realizing this accomplishment.

With this I conclude my comments and would leave you with Jim Murphy, our Group CFO, to run you through the second quarter results in more details and to address your questions.

Jim ...

Jim Murphy:

Thank you Shaikha.

Hello everyone, and welcome. I am very pleased to have this opportunity to take you through our results in respect of the half-year ended June 2019.

We have announced a profit of KD209.1m for the six months to June 2019. This is a 12.5% increase in bottom line profit over the comparable period last year. These results reflect a solid performance by the Group and demonstrate the continued growth in our businesses.

The profit for quarter two this year was KD101.4m. This compares with a quarter one profit of KD107.7m, a decrease of 5.9%, noting at the same time the strong results of quarter one. Profit for the quarter was however 9.9% ahead of the comparable quarter last year.

Before going into the details behind our results I would first however like to say a few words as to the overall operating environment so far this year.

Conditions have remained broadly favorable. That said, whilst good business opportunities were to be had, competition has been strong and keenness in pricing is a feature of the market. Overall however the general trend is encouraging and the current period demonstrates a continuation of the positive momentum that has been in evidence from last year.

Progress continued as regards implementation of the government's multi-year development plan. You may recall that the pace of project awards and execution rate last year was below expectations and below levels of earlier years. Similarly, although 2019 has seen a slow start, we none-the-less remain of the view that it is a matter of a time shifting to future periods and in this regard we hope to see a pick-up in activity as the year progresses.

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.

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

The strong 12.5% growth in profits reflects solid performances across the Groups range of operations, within Kuwait and also at our international operations.

We saw continued strong growth at our Islamic Banking subsidiary Boubyan Bank. Boubyan Bank delivered a solid 12.1% year on year increase in profits, to KD28.9m for the opening six months of this year.

Our international businesses also continue to perform strongly. 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 Groups operating surplus (i.e. pre-provision pre-tax earnings) was KD306.0m. This is slightly down on last year. Income growth in the period was 2.2%, whilst growth in costs was 7.9%.

The 12.5% growth in net profit was therefore driven essentially by a lowered cost of risk, with loan provisions totaling KD66.5m, as compared to KD86.5m last year.

As regards quarterly performance, the operating surplus for the second quarter of this year was KD151.7m. This was lower than the operating surplus in Q119, primarily due to the impact of valuation movements on our investment and trading income line. Similarly, the KD151.7m Q219 operating surplus compares to a higher KD158.2m in Q218. This was due to lower investment income, lower FX income, and higher costs.

As regards operating income, the operating income for the current half year was KD451.9m. This compares to KD442.2m in June 2018, a 2.2% increase.

The operating income in respect of the quarter to June 19 was KD226.3m. This slightly ahead of the KD225.6m reported in Q119.

The primary drivers behind the 2.2% year on year growth in operating income were a 2.3% increase in net interest income, and a 2.9% increase in fees and commissions. This increase in net interest income was due to strong growth in loan and investment volumes, the benefit of which however was tempered somewhat by a small contraction in the net interest margin.

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 first slide. 76% of total operating income is in respect of net interest income, and 24% from non-interest income sources. This mix is in keeping with the prior year.

Moving on now to chart number 2.

Here we will look net interest income performance, and at the growth drivers behind the performance.

Net interest income at KD344.4m in the half year to June 2019 compares to KD336.8m in the first half of last year. This is a 2.3% increase, primarily reflecting as already mentioned a strong growth in lending and investment volumes.

The net interest income for Q219, at KD173.2m was 1.1% ahead of the preceding quarter, and on par with Q218.

Interest earning assets averaged KD26.3bn during the opening six months of this year. This is a year on year increase of 3.8%. The growth in interest earning assets essentially reflected strong growth in our lending and investment volumes, the details of which we will look at shortly.

We did however experience a slight contraction in our net interest margin vis a vis the comparable period last year. This was in part due to the timing effect on our book in respect of the increase in the local discount rate that occurred in Q1 of last year. Our margins typically boost relatively quickly in a rising interest rate cycle due to the repricing characteristics of our book whilst awaiting the lagged impact on funding costs to take effect.

If you look at the bottom left hand side of this chart you will see that the net interest margin during the half-year averaged 2.64%. This compares to an average margin of 2.68% in H1 2018.

The Groups funding cost averaged 2.16% during the opening six months of this year, as compared to 1.57% in H1 2018.

The Groups yield averaged 4.55%. This compared to a yield of 4.08% in H1 2018.

On the bottom right hand side of this slide we can see the constituent drivers that moved the average NIM downwards by 4bps, from 2.68% in H118 to 2.64% in H119. The NIM was impacted favorably by 47bps due to the combined movements attaching to loans and other assets, whilst the higher cost of deposits impacted the NIM to the extent of 51bps.

Moving on now to chart no 3.

I will now speak about the Groups non-interest income.

Total non-interest income in the six months to June 2019 was KD107.5m. This is 2.0% ahead of the comparable period last year.

The composition of the KD107.5m total non-interest income is KD78.7m in respect of fees and commissions income, KD19.3m in respect of foreign exchange activities and a net KD9.5m from other non-interest income sources.

Fees and commissions income was 2.9% ahead of this time last year.

Total non-interest income for Q219 was KD53.1m. This was slightly down on quarter Q119 primarily due to the impact of valuation swings on the investment and trading income line. Importantly however, fees and commissions income was up 10.1% quarter on quarter.

Total non-interest income is similarly slightly down on Q218, due primarily on this occasion to the impact of currency movements on our \$ bond issuance. Fees and commissions income however was up 4.6%.

I would like to mention here that the sources of fees and commission income remain well spread across our various business lines and geographies. Businesses including banking, lending, credit card, Trade finance, brokerage and asset management continued to produce strong fee income on the back of solid operating performances.

As always, the bulk of our non-interest income came from what we regard as core banking activities. The Groups non-interest income is sourced primarily from fees and commissions and from foreign exchange activities. Earnings in respect of trading and investment income remains very small, at just 1.6% of total income, as was the case last year.

Turning now to operating expenses. Total operating expenses in the six months to June 2019 was KD145.8m. This is 7.9% ahead of last year.

There are a number of factors at play explaining the increase in costs and I would like to take time to elaborate on some of the cost drivers.

One such reason is the selective additional investments into a number of our businesses and geographies. We commenced new wealth management operations in KSA at the end of last year, and we have also embarked upon a modest enlargement of our commercial banking footprint in that country. Plus, we continue to press ahead with expansion of our Islamic banking operations at Boubyan Bank and our operations at NBK Egypt.

During the period we also incurred Brexit related costs on foot of converting our former branch in France into a full subsidiary of the Group as a means of safeguarding business continuity post-Brexit.

In addition to driving forward with the normal business of the bank, we of course remain committed to maintaining appropriate and additional investment into those areas of operation that drive long term and sustained value to the Group.

We continued our ongoing programme of investment in IT. The global banking model is facing significant challenges, not least from digital disruption from established industry players but also from the rapidly evolving FinTech sector. We must therefore respond appropriately to these challenges.

In this regard the Group invests heavily in (1) selectively developing and deploying the latest business enabling technology solutions, (2) in refreshing its IT platforms and (3) in ensuring first class cyber security resilience and capabilities.

We are focused on directing investment equally towards technologies that serve to improve the banking services that customers experience and also to technologies that improve the long-term efficiency and effectiveness of bank office operations.

We have recently reinforced the banks executive band-width by way of on-boarding a number of additional senior technology personnel. With this comes a commitment to making the necessary hard \$ investments into resourcing and progressing the banks well defined digital banking agenda.

And whilst on the subject of IT, I can advise that we are currently finalizing the commissioning of the Group's new modular data center in Kuwait City. The data center is state-of-the-art, complete with a full tier 3 certification.

Staying on the subject of costs, a new accounting standard took effect on January 1st this year, IFRS 16. The standard impacts on accounting treatments in respect of leases. This new standard requires an entity to recognize leases on balance sheet at amounts that recognize or value the right of use to an asset for the term of each lease, together with the associated liability in respect of future lease payments.

The salient part of the standard as regards its impact on our income statement is the recognition of the depreciation and interest expense associated with the relevant stock of leases, in lieu of rental expenses being included in other administrative expenses. The substantive impact in the first half of this year has been an increase in depreciation and reduction in other administrative expenses of approximately KD4.6m - essentially therefore a reclassification between expenses categories.

So, to conclude on the subject of costs, I can say that whilst our cost to income ratio, at 32.3% has trended slightly upwards of late in response to the various cost and investment programmes that add to the long term health and resilience of the Group, we none the less remain satisfied with what is still a very low ratio by international industry standards.

Moving on to provisions and impairments.

Total provisions and impairments in the opening six months of this year amounted to KD67.1m, which compares to a total charge of KD93.9m in H118. Note that KD7.4m of the H118 charge was in respect of impairment losses re investments in associates primarily held through our subsidiaries.

The relevant charge for the June 19 quarter was KD35.7m. This compares to a charge of KD31.4m in Q119 and to KD51.6m in Q218.

Credit provisions in the half-year to June 19 therefore amounted to 21.7% of the Groups operating surplus, significantly below last year's level. This is naturally a very welcome development.

I will take this opportunity if I may to remind you that the Central Bank of Kuwait had earlier determined that the provisioning regime applicable to banks in Kuwait is such that the provision for 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.

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 to be a strong competitive advantage to the Group.

As mentioned earlier we established a new CMA regulated Wealth Management company in KSA late last year and are currently in the course of opening two additional commercial banking branches in that country. This is significant as it now gives NBK a presence and enhanced reach in three cities, Jeddah, Riyadh, and Al Khobar.

We have also recently reinforced our private banking capabilities by creating an overarching Group level Private Banking structure that is tasked to grow and coordinate our private banking businesses across our international network.

And as mentioned earlier, the Group has not escaped the headaches and costs associated with Brexit. In order to best protect our business presence in Europe, we converted our operation in France into a fully-fledged subsidiary of the Group, from its earlier status as a branch of our UK subsidiary NBK International plc.

Returning now to the chart - the purpose of this chart is to demonstrate the impact of our diversification agenda on the Groups financial results.

Looking firstly at diversification by geography.

The operating income at our international operations, at KD109.1m, grew by a healthy 7.1% as compared to the prior year. The profit contribution from our

international operations however was 3.2% below last year's corresponding number. A large part of this disconnect is due to the increased investments and associated costs into our international businesses as already mentioned.

You will see from the pie chart on the top right hand side that the contribution to Group operating income from our International operations was 24%, slightly up on the 23% of last year.

The contribution to Group profits however in respect of our international operations reduced to 26% from 30%, essentially due to the falling cost of risk at Kuwait.

NBK is currently present in 14 countries outside of Kuwait, including of course in Egypt. NBK Egypt increased its number of branches in the 12 months period, from 46 to 50.

The Groups Islamic banking subsidiary Boubyan Bank continues to perform strongly, and delivered profits of KD28.9m in H1 of this year. This compares very favorably to a KD25.7m profit in H118, representing as it does a strong year on year increase of 12.1%.

And finally on this chart, we see that the profile of assets was such that 47% of Group assets were at our conventional Domestic operations in Kuwait, 36% at our International operations and 17% 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 2.3% on last year. The big contributor to this increase was a solid growth in business volumes during the period.

Total assets reached KD27.9bn. This is a 3.4% increase on the comparable period last year. The increase was driven primarily by strong growth in the lending and investment portfolios.

Group lending increased to KD16.2bn, an increase of KD1.0bn in the twelve-month period to June 2019, representing as it does a very solid year on year growth of 6.5%.

A significant part of this twelve-month loan growth occurred in calendar year 2019. The loan book grew by 4.6% since the end of 2018.

Customer Deposits, at KD15.5bn, are 5.7% ahead of June 18 and show a 7.4% growth in the six months to June 2019 - and 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 message here is that within the headline numbers we continue to see a favorable movement in the Groups overall funding mix. We experienced strong growth in core franchise deposits, noting in particular excellent growth in deposits at the retail banking arm of the Group in Kuwait. We were thus able to retire deposits of a more wholesale nature.

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 Groups overall funding mix is profiled on the bottom right hand of this chart. Customer deposits comprise 66% of the total mix, which is somewhat ahead of the earlier periods as shown on this chart.

Moving now to our penultimate chart.

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

The Return on Average Equity in the opening half of this year was 13.2%. This compares to 12.3% in H1 18, and to 12.0% for the full year 2018.

The Return on Average Assets was 1.53%, the comparable returns being 1.41% in H118 and 1.38% for the full year 2018.

The total Capital Adequacy Ratio at June 19 was 16.6%. This compares to 17.2% at year-end December 2018, noting that current year earnings are not factored into the computation of interim period ratios.

The T1 capital ratio at June 19 was 14.6%, whilst the CET 1 ratio was 13.3%.

As regards asset quality ratios, the NPL ratio was 1.39%, with coverage at 234.3%. These ratios are very much in keeping with Dec 18, and accordingly remain at very comfortable levels.

Before concluding, allow me to make a few comments as to how we expect the fuller 2019 to unfold.

Generally speaking, we expect the momentum and trends that we have seen so far this year to continue.

Specifically, as regards loan growth. Loan growth in the six months to June 19 was 4.6%. We expect to see out this year with high single digit growth for the twelve-month period, with some small potential for upside.

The net interest margin averaged 2.64% in the six months to June 19. Going forward, whilst the backdrop international interest rate horizon is currently a hot topic for speculation, we are for now assuming no change in the all-important CBK discount rate in the 2019 calendar year. Naturally this view could, and indeed may well

change. However, for now, if on balance the CBK discount rate holds as assumed, the net interest margin should remain broadly stable with perhaps some downwards pressure reflecting pricing headwinds and any changes in business mix.

As regards the cost to income ratio, which averaged 32.3% in the six months to June 2019. We expect this ratio to remain close to existing levels whilst noting however a slight upward pressure due to costs associated with our digitization and expansion agendas. We are therefore guiding a range of 32-33%.

The cost of risk has been falling from earlier periods, to 82bps in the opening six months of this year. We are assuming for now the charge for the fuller year to remain in or around this level.

Therefore, aggregating all relevant factors and assuming the reasonableness of the above, the growth rate in profits that we have announced in respect of the opening six months of this year could be expected to hold i.e. in the range of low double digits for the fuller year.

And finally, as regards our capital adequacy ratio. The ratio was a comfortable 16.6% at June, noting that going forward there will be some changes pertaining to the basis of computation.

That brings an end to my presentation.

However, before handing back to Amir I would like to summarize by saying that we are satisfied with the results for the opening half of 2019. Solid and sustained business growth continued throughout the Group, albeit in conditions characterized by aggressive competition in all markets, leading to pressure on margins.

It is against this backdrop that moderate growth in income was recorded. The income statement importantly however also reflects the progressive and future looking cost investment agenda that I touched upon earlier. 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.

And as always, it is reassuring to see the ongoing benefits of our diversified earnings base work to support the fuller Group performance.

Looking ahead, we are hopeful that the momentum will continue as the year progresses, notwithstanding the various challenges and uncertainties.

Thank you very much for your time.

And now back to Amir.

Amir Hanna: Thank you Jim, thank you all for listening.

We are getting questions. We will pause for a minute till we have all questions on hand and then we will start answering the questions one by one.

We are back. We are trying to put the questions that have similar topics together just to make it easier.

We will start with the big picture, there is a question on projects and the macro picture. Can you please talk about the progress in government projects awards and execution? And can you share an update about the passage of the debt law?

Shaikha Al Bahar: Let me just start with the position of projects in Kuwait.

Kuwait is more focused on prioritizing capital spending as we have lagged other GCC countries in our infrastructure spending in recent history and there is much catch-up work to be done in that area.

For your information, up to July, there are 5 projects that will be closed this month totaling 1.02 billion dollars mainly in oil & power and 12 projects have been awarded this year Up to July 2019, totaling two billion dollars, while the closed and not awarded projects are fifteen projects totaling 2.3 billion dollars.

So as you see, Kuwait is busy place, 32 projects totaling 5.5 billion dollars.

On the debt law, still it's on the agenda of the government and the parliament & I believe they will reach an agreement. The existing debt is 10 billion dollars to be renewed and then maybe they will approve an increase of up to 25 billion dollars.

Amir Hanna: I see a lot of questions coming on NIMs, cost of funds and impact of Fed rate policies so will address that in one comment.

Jim.

Jim Murphy: some of the questions pertain to the recent performance in margins, others pertain to the impact of any future changes in rates. Taking the first part, margins contracted as I have explained in the presentation due to the catchup effect of the earlier rate increase. We have a deferred impact on funding costs when rates are rising. So we had a bit of a boosted impact after the rate increase of last year. As the year progressed funding costs naturally picked up as the longer-term deposits repriced. A small contraction was therefore going to happen through the course of last year.

Going forward, what is important to us, although we are interested in what the Fed does, what is of a greater interest is what the CBK will do with regards to its discount rate.

We are assuming for now that although the likelihood of a Fed cut is high, we are not expecting the central bank at this point to cut its discount rate. However, in the

event that the discount rate was cut by say 25 bps; we typically say that the impact on our income statement would be up the order of KD 8-10 million, being the annualized impact. But for now, we are not assuming a central bank rate cut, but that could of course change.

Amir Hanna: On the international operations, the question says, out of the 26% profits coming from outside Kuwait, can you break down this number? And how important is Turkey?

Jim Murphy: Well, in the 26% the significant contributor there of course is Egypt. Egypt typically contributes around 8 to 9% of total earnings. The rest of the earnings are spread across all the locations. We have been present in many countries, regionally and across the fuller international spectrum, for many years and as Shaikha mentioned in the beginning of the presentation, these businesses are very mature. Collectively, the remaining contributions come from various locations.

Turkey is not by any means a player in our results. Turkey doesn't really contribute to our bottom line. We regard it more now as an investment than as a business. You can safely take it that we are unaffected by results at our bank in Turkey.

Amir Hanna: NBK seems to be investing in new fixed assets, can you help us understand what type of investments are taking place?

Jim Murphy: Two categories of assets; (1) we are building a fabulous new head office in Kuwait City. We are currently spread across various locations, renting buildings across the city as well as owning. We will consolidate our presence in a new head office which will hopefully happen, I guess if not at the end of this year, then early next year.

We have also spent heavily as I have mentioned on our data center. It is a fabulous state of the art data center here in Kuwait City. We are also investing in the fuller spectrum of IT inventories that is necessary to keep pace with developments in technology.

Amir Hanna: Questions are repeating. Just waiting to get in more questions.

Again on the international operations, there is a question specifically on Egypt's operation outlook and performance.

Shaikha Al Bahar: Well in Egypt the country continued to perform well under the authorities' reform program as I mentioned in the beginning. GDP growth is estimated to be around 5.5% during this fiscal year and is expected to remain robust over the two coming years, while inflation has come down from its 2017 highs. The Egyptian Government continues to consolidate its fiscal position and aims at reducing the public debt. So we believe the environment is positive and the government has increased its competitiveness, and this attracts more investors' money, tourism receipts and remittances.

Our operation over there is solid as Jim mentioned and we believe Egypt will contribute more to the bottom. The focus going forward will be on the retail segment which remains mostly untapped.

Jim Murphy:

I can take one last question where someone is asking for clarification on something said earlier.

The earnings contribution from Egypt is typically in the range of 8-9%. Also asking here is whether we could elaborate on lower provisioning charges. If you have been tracking NBK over the years you will know that we were heavily encumbered by the judgmental provisions that we carried over the years. We've worked our way through that and what we are seeing now I think is what we might regard as a more normalized cost of risk than would have prevailed in earlier years

Amir Hanna:

Well, there are no more questions at the moment.

So I will conclude the call. Thank you for listening and back to the operator.

Operator:

Ladies and gentlemen, this concludes today's call.

Thank you for your participation. You may now disconnect.