

Al-Sager: Our Strong Financial Position and High Asset Quality Make Us More Qualified to Benefit from the Gradual Recovery

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Our budget continued to grow despite the crisis, and our assets reached around USD 100 billion as of end of September

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The crisis did not dissuade us from performing our national duties and social responsibilities, and supporting our customers during these exceptional circumstances

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Our issuance of securities targets more efficient capital structures and lower cost of funds



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Our profits were impacted by uncertainty, and we continue to build precautionary provisions in anticipation of all scenarios

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Interest rate cuts resulted in lower profit margins and returns on financial investments, and lockdown negatively impacted our fees and commissions

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We achieved a leap in Q32020 profits compared to Q22020 as lockdown restrictions were eased

In his interview with Al Arabiya TV Channel, Mr. Isam Al-Sager, NBK Group CEO, said that the bank's profits 9M2020 were negatively impacted by challenging operating environment in all economies around the world due to the fallout of the Covid-19 pandemic.

In Kuwait and other GCC countries, this was combined with the fluctuations in oil prices, which affected the operational performance of the banking sector and its business results. Despite this, Al-Sager stressed, the bank continued its prudential risk management strategy by increasing credit and impairment provisions by 98.4% on a year-on-year basis during 9M2020, most of which were precautionary provisions in anticipation of all scenarios of the expected uncertainties regarding economic recovery in the coming period.

Al-Sager pointed out that profit margins were impacted by interest rate cuts in Kuwait, as discount rate was reduced by 1.5% since October 2019, and as a result of re-pricing loans, interest income was affected immediately, whereas the impact of lower funding costs is lagged and gradually takes effect. Globally, interest rates have decreased to low levels, thus affecting the return on the investment portfolio and loans denominated in foreign currencies.

Partial Recovery

On a positive note, Al-Sager mentioned that some

data showed signs of a partial recovery during Q32020 as lockdown was eased. This was reflected in the bank's results, as profits for the 3-month period ended September 30 grew by 72.3% compared to Q22020 profits.

Al-Sager affirmed that the Group's operations were negatively affected by the lockdown imposed to contain the pandemic in all the markets in which we operate. In addition, lockdown resulted in a decrease in the volume of transactions, and consequently, a decline in fees and commission income. In addition, with the increased uncertainty regarding many sectors, the bank increased precautionary provisions, and this, combined with historically low interest rates, led to a decline in profit margins and returns on financial investments.

Commenting on whether it is possible to distribute cash dividends to shareholders for the financial results of this year, Al-Sager noted that the bank enjoys solid capital ratios and capital adequacy ratio comfortably above regulatory requirements, which enable it to continue its cash dividend distribution policy that will be determined in view of the financial results of this year that has not yet ended, considering how difficult it is to set expectations amidst the continuing uncertainty. Additionally, at the end of the day, the decision is subject to the board of directors' recommendations and the general assembly's approval.

Solid financial position

NBK Group CEO affirmed that the bank enjoys a solid financial position thanks to high asset quality, strong capitalization, diversified and stable deposit base, as well as comfortable liquidity levels, as NPL to total loan portfolio ratio posted 1.89%, with a loss coverage ratio of 191%. Al-Sager noted that despite the pandemic, the bank's balance sheet continued to grow during 9M2020, as deposits boosted by 11% and loans by 8% on a year-to-year basis, which supported the growth of the bank's total assets to nearly USD 100 billion as of end of September.

Al-Sager added that NBK's strong financial position and high assets quality, in addition to its prudential policy, make it more qualified to benefit from a gradual recovery, as manifested in the remarkable improvement in Q32020 profits with the easing of lockdown.

Social Responsibility

On the other hand, cost increased due to NBK spending as part of its commitment to national duties and social responsibilities. The bank contributed, with other Kuwaiti banks, in a KD 10-million fund set up by the Central Bank of Kuwait to back up the government's efforts in fighting the pandemic, in addition to a donation of KD 1 million to Kuwait Red Crescent Society (KRCS). Furthermore, the bank incurred the cost of safety measures taken to protect

employees and customers, and continuing to provide exceptional services to customers through mobile branches and digital services to meet all their needs during these exceptional circumstances.

Al-Sager explained that profits were not affected by deferring loan installments for six months, as bank modified the loss to shareholders equity, and it will be phased out equally over 4 years starting 2021 for Capital Adequacy Ratio calculation purposes according to the regulatory instructions.

Issuance of securities

Al-Sager concluded the interview by talking about the bank's issuance of new bonds after redemption of matured bonds, confirming that NBK was the first bank to issue securities under tier 2 capital according to Basel 3 requirements on capital adequacy ratio in 2015. By November 2020, those bonds became redeemable, so, the bank exercised the redemption right and issued new bonds for the same purpose.

Al-Sager also stressed the bank's unchanging policy for issuing any securities, as it aims to raise the efficiency of capital and finance structure by focusing on reducing the cost of funds and diversifying its sources, as well as making the most of the group's solid financial position.

NBK Deputy Group CEO in an Interview with Bloomberg

Al-Bahar: Kuwaiti banks today are much stronger than before, and are major part of the solution, not the problem

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Diversifying our sources of income, both geographically and sectorally, is a key pillar of our strategy to achieve sustainable growth

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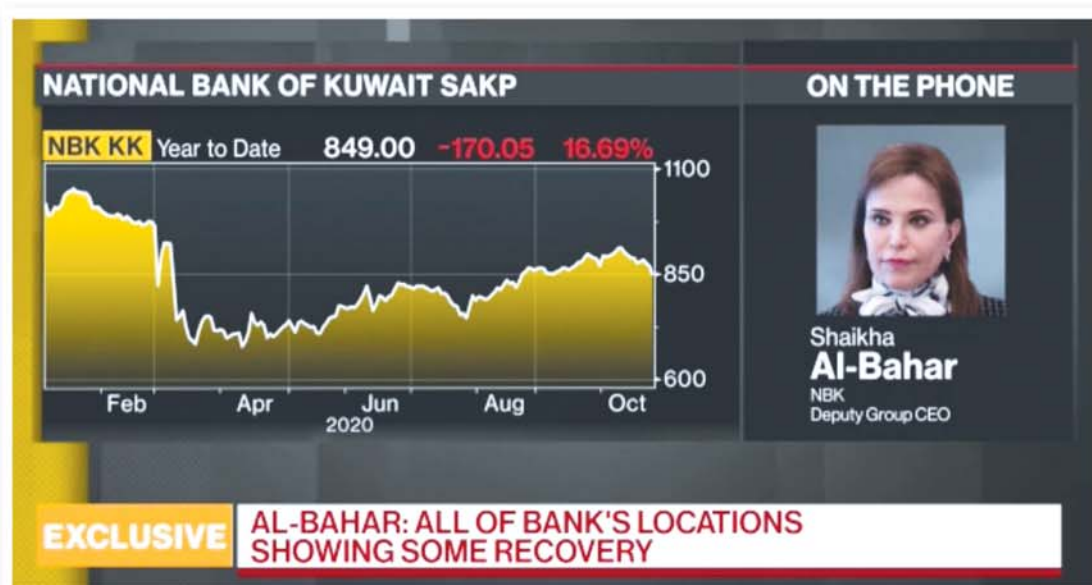
The crisis proved the success of our insightful and proactive vision in implementing the digital transformation strategy over the past years

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We are not considering any acquisitions now, yet, we regard everything that promotes further integration of the group's operations as an investment opportunity

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Our digital excellence enables us to increase our market penetration in Kuwait as well as other growth geographies within the group



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We are able to absorb all the impact of the crisis thanks to our solid position that was built over many years

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We focus on expansion in our main markets, and increasing our share in the retail sector in Egypt, and wealth management business in KSA

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Our strong liquidity position and exceptionally recognized franchise, both domestically and internationally, were the key enablers of our balance sheet growth

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Our asset growth trends are very healthy as they are focused on core banking volumes

Commenting on the bank's financial results for 9M2020, Mrs. Shaikha Al-Bahar, the Deputy Chief Executive Officer of National Bank of Kuwait (NBK) Group said in an interview with Bloomberg TV that world economies are still facing very unusual times and this is creating a lot of uncertainty, which led IMF to estimate world GDP to contract by 4.4% this year. Although there were some signs of recovery and pickup in economic activity in third quarter but the second wave of the outbreak around the world is creating a lot of risk of a potential reversal of that positive trend. Al-Bahar indicated that the third quarter across all our locations saw some recovery mainly on the business volumes as governments started lifting some of the restriction and gradually opening up the economies. The pandemic's fallout is still impacting the economic activity, but NBK is able to weather the crisis, thanks to its solid position that was built over many years as well as its dynamic business model and strategy that can easily adapt.

Operational Challenges

Al-Bahar affirmed that despite the drop in profits year-on-year, but we view the bank's results as very solid considering the amount of headwinds the economies are facing generally and the banks specifically.

Al-Bahar added that another key challenge, alongside with the impact of operating activities, is the increased of provisions and impairment charges by 98.4% compared to last year. This is a reflection of the increased uncertainty around the economic recovery across the world. With our very conservative approach to risk management, we have been building provisions to address future risks and to maintain our current solid asset quality position in the future.

On a positive note, the bank have worked very tirelessly to try to mitigate the impact of these factors

on the bottom line by implementing several cost cutting initiatives that helped us maintain operating expenses flat year on year with potentially further improvement going forward.

Strong balance sheet:

Al-Bahar mentioned that the bank's asset growth trends are very healthy as they are focused on core banking volumes and are diversified in nature in line with our strategy. Asset growth has been mainly driven by solid trends in loan growth by close to 8% year-on-year as the demographics in Kuwait continue to support solid growth trends in consumer lending, in addition to the bank's dominant market position secures a leading role in large tickets and development project lending.

Al-Bahar highlighted that a key enabler of balance sheet growth is the strong liquidity position that the Group enjoys and its exceptionally recognized franchise both domestically and internationally. This led to deposit growth reaching 10.8% year-on-year.

Digital transformation

Al-Bahar said that a key conclusion of this crisis is the validation of the importance of digital banking and e-payment solutions for the future of the industry. The proved the success of NBK's insightful and proactive vision in implementing digital transformation strategy and upgrading its digital banking services over the past years, which provided a more agile approach to servicing our customers and meeting their various banking needs.

The tremendous digital infrastructure allowed the bank to deliver exceptional services to our customers during various phases of the lockdown period with a service level that was very satisfactory. The bank aims to build on those levels of customer satisfaction and leverage further our digital capabilities and platforms to grow and increase our market penetration in Kuwait as well as other growth geographies within the group.

Al-Bahar emphasized that the bank focuses on continuing its digital transformation journey started years back, which is recently witnessing a remarkable advancement. This is manifested in the great success

to meet customer needs by providing outstanding digital banking services during the lockdown period, continuous upgrades to NBK Mobile Banking App, and developing branches to integrate with digital channels to enrich customer experience. The latest of achievements in this regard was the inauguration of NBK brand new state-of-the-art branch at the Avenues Mall.

Strategic diversification

Speaking on the bank's vision regarding some investment opportunities that may arise as a result of the crisis, Al-Bahar emphasized that, at the present time, the bank is focusing on expanding in the main markets in which the group operates, with a view to enhance market share in order to achieve more growth and integration between international operations. This goes in line with NBK's strategy to diversify income source and to benefit from its leading position as a provider of digital banking services

Al-Bahar underscored that diversifying the sources of income, both geographically and sectorally, is a key pillar of our strategy to achieve sustainable growth, with international operations contributed to increasing group volumes, noting that the group focuses on expansion in its key markets in Egypt and KSA, in addition to continuing to gain market share in Kuwaiti market.

In Saudi, we will continue to position our recently established wealth management entity and connecting it with our global wealth management platform. We will also work on increasing our commercial banking offerings to cross-sell our network and offerings to our clients in the Kingdom. While in Egypt, the bank aims to expand its operations in the retail market by boosting customer acquisition, streamlining processes and investing in the digital banking proposition.

Al-Bahar highlighted NBK's pioneering geographical expansion approach, which has proven successful over long years. This approach depends on assessment of the target market and entity based on the added value that the acquisition will realize to the bank's shareholders, as well as its contribution to enhancing

integration between the group's operations, noting that the same approach will be followed with any investment opportunities arising in the future.

Banking readiness

Al-Bahar stated that the banks in Kuwait are much stronger that they used to be a decade ago when the financial crisis hit and that gives a lot of hope for them to be able to stand the impact of that double hit of COVID-19 crisis combined with the drop in oil prices. Today, banks are believed to be part of the solution, not the problem, and will have a major role in backing all government and Central Bank's initiatives to support impacted sectors.

Al-Bahar indicated that this positive transformation is the fruit of banks' strategies for 10 years under the supervision of Central Bank of Kuwait, which made banks today well capitalized, with an exceptionally strong balance sheet, from liquidity and asset quality perspectives

Government support

Al-Bahar noted that the government support provided to banks since the beginning of the crisis was represented in the vital role played by the Central Bank of Kuwait in easing some of the regulatory requirements, which allowed banks to increase their lending capacity as we move towards recovery and to help the economy to bounce back to growth.

As regards government spending, Al-Bahar indicated that the government must gradually restore the pace of project awarding in the coming period. Additionally, it has to increase investment spending to support economic activities, as this will benefit the banking sector that enjoys comfortable liquidity levels and a strong financial position.