الوطني
NBK

Kuwait: 31st of January 2023

Chief Executive Officer – Boursa Kuwait Company
State of Kuwait

Dear Sirs,

Subject: Analysts / Investors Conference's transcript and presentation for Q4-2022

As per requirements stipulated in article No. (7-8) "Listed Company Obligations" of Boursa Kuwait Rule Book and since National Bank of Kuwait has been classified under the "Premier Market" category.

We would like to advise that Analysts / Investors Conference for Q4-2022 was held through Live Webcast at 3 PM (local time) on Monday 30/1/2023. Kindly note that during the conference there was no disclosure of any material information that is not in the public domain.

Attached; the transcript of the aforementioned Conference and the presentation for Q4-2022.

Sincerely yours,

On behalf of National Bank of Kuwait (S.A.K.P.)

Isam J. Al-Sager

Vice-Chairman and
Group Chief Executive Officer

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بنك الكويت الوطني
National Bank of Kuwait
SAKP ش.م.ك.ع

T ت +965 22422011 F ف +965 22431888
ص.ب 95 الصفاة 13001 الكويت
P.O. Box 95 Safat 13001 Kuwait
nbk.com
C.R. No. 8490 سجل تجاري رقم
Issued and paid-up capital KD 685,018,518/100 رأس المال المصدر والمدفوع د.ك.

National Bank of Kuwait

FY 2022

Earnings Conference Call

30 January 2023

FY 2022 National Bank of Kuwait Earnings Call

Tuesday, 31 January 2023

Edited transcript of National Bank of Kuwait earnings conference call that took place on Monday, 30 January 2023 at 15:00 Kuwait time.

Corporate participants:

Ms. Isam Al-Sager – Vice-Chairman and Group CEO, NBK

Mr. Sujit Ronghe – Group CFO, NBK

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

Chairperson:

Elena Sanchez – EFG Hermes

Elena Sanchez: Good afternoon everyone. This is Elena Sanchez and on behalf of EFG Hermes, I would like to welcome you all to the National Bank of Kuwait fourth quarter and the year 2022 earnings call. It is a pleasure to have with us in the call today Mr. Isam Al-Sager, NBK Vice Chairman and Group CEO, Mr. Sujit Ronghe, NBK Group CFO and Mr. Amir Hanna, Head of Investor Relations and Communications at NBK.

At this time, I would like to handover the call now to Mr. Amir Hanna.

Please go ahead Amir.

Amir Hanna: Thank you Elena.

Good afternoon everyone. Thank you for joined us today for our fourth quarter and full year 2022 earnings webcast.

As we always start our call with the disclaimer, 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. Please refer to the full disclaimer in our presentation for today's call.

We will start the call by some remarks from our Vice Chairman and Group CEO, Mr. Isam Al-Sager, followed by a detailed presentation on financials by Mr. Sujit Ronghe, our Group CFO. Following the management presentation, we will answer any questions received through the webcast platform. Also, feel free to send any follow-up questions or required clarifications to our Investor Relations email address. Today's presentation is already available on our Investor Relations website for ease of reference.

Now let me handover the call to Mr. Isam Al-Sager for his opening remarks.

Isam Al-Sager: Thank you Amir.

Good afternoon everyone. Thank you for joining us today for our fourth quarter and full year 2022 earnings webcast.

Let me start the call by updating you on the overall operating environment, globally, in the GCC and in Kuwait.

The world macroeconomic environment has taken a turn this year as the rise of global inflationary pressures led to further monetary policy tightening across all markets;

resulting in a slowdown in global growth and loss of momentum and leading to potentially a global recession scenario.

The GCC region including Kuwait fared better than most of the global markets; supported by high hydrocarbon prices along with some legislative and economic reforms. IMF estimates GCC’s GDP growth to reach 6.5% in 2022.

In Kuwait, economic activity continued at a decent pace confirming a very healthy rebound of post pandemic GDP growth. This was achieved as a result of higher oil prices, increased output levels and improved business sentiment. Oil sector output gains in 2022 coupled with consumer-led gains in the non-oil sector are expected to have pushed headline GDP growth to a more than ten year high of 7.8%.

Looking ahead to 2023, headline growth could slow, largely on the back of OPEC-mandated oil production cuts, which will push Kuwait’s oil sector GDP growth down, while non-oil activity is expected to grow.

Moving to NBK, in a milestone year marking our seventieth anniversary, we achieved the highest annual profits in the Bank's history; reflecting the soundness of our prudent strategy and solid financial position. The Group achieved year on year growth of 40.5% in net profits for 2022 reaching KD 509 million, driven by solid operational performance and improving cost of risk. This affirms NBK's success with its proactive approach over the years, the resilience of our business model and our ability to capture opportunities. Moreover, our board of directors has recommended a distribution of 25 fils per share for the second half of 2022, bringing total cash distribution for the year to 35 fils per share, in addition to 5% bonus shares.

On the strategy front, we continue to focus on balancing long-term investments with meeting current financial commitments to drive growth in today’s challenging economic environment. We strengthened the foundation of the Group through strategic investments in people, processes, technology, and products.

In Kuwait, we will build on our leading market position to benefit from the expected pickup in activity that will reflect positively on wholesale banking, the strong consumer sentiment and spending and our ability to deliver innovative products and services. Additionally, we will continue to benefit from our unique position as the only financial institution with access to both conventional and Islamic banking markets in Kuwait.

Moreover, we continue to grow across key growth markets and segments. In 2022, banking on NBK Group's strong reputation, our international operations maintained a solid pipeline of business activity while executing transactions in line with our strategic initiatives to maintain a diversified credit portfolio and funding base.

On the wealth management side, we continued to grow our market share in asset management by providing exceptional solution-driven relationship and advisory services. We aim to continue growing our share of wallet for our existing client base in Kuwait while also expanding further in regional markets with special focus on Saudi Arabia.

Furthermore, the year 2022 marks a turning point in our sustainability journey. During the year, we transformed our ESG strategy to re-envision our focus on embedding ESG across all our operations and business, and introduced our Sustainable Financing Framework. We also increased our transparency by becoming the only financial institution in Kuwait to disclose the environmental impact of our activities through CDP, receiving a “C” score, which is one of the highest scores among all financial institutions in the GCC. Moreover, we recently announced our commitment to become carbon neutral by 2060, in line with the Kuwait’s earlier announced carbon neutrality pledge; we have already set interim targets to reduce gross operational emissions by 25% by 2025.

Looking forward into 2023, we will continue to follow our long-term vision to deliver sustainable revenue growth, implement strategic investments, act as a catalyst in transition finance, introduce innovative products and services, and expand on our digital capabilities.

With that, I will conclude my comments and leave you with my colleague Sujit Ronghe, our Group CFO, to cover quarterly and full year results in more detail.

Please go ahead Sujit.

Sujit Ronghe: Thank you Mr. Isam.

Hello everyone and welcome.

I am very pleased to take you through the Group’s financial results.

We have announced a headline net profit of KD509.1m for 2022, which is the highest annual profit in the history of NBK. This is a 40.5% increase in the bottom line profit over 2021.

Before going into the details of our financial results, a few words regarding the overall operating environment during the current year.

Increased oil prices and improved business activity have benefited the overall operating environment in Kuwait. Increases in benchmark interest rates, although somewhat lagging in Kuwait, are benefitting the Bank in general. At the same time, ongoing geo-political turmoil, high levels of inflation in developed countries and the resulting steep interest rate hikes have increased the risk of a possible recession in 2023. We however remain cautiously optimistic of an overall stable operating environment.

Now turning to the financial results for 2022.

As profiled at the top left of this slide, the KD146.8m i.e. 40.5% year on year increase in net profit reflects a strong bottom-line performance by the Group, driven by robust business volumes, increased net operating income and significantly lower net credit provisions and impairment losses.

The top right chart reflects 2022 operating surplus i.e. pre-provision and pre-tax profit at KD623.6m, a growth of KD76.2m, 13.9% over 2021. Net operating income at KD1.0bn increased by KD109.9m i.e. 12.2%, while operating expenses grew by KD33.7m, 9.6% over 2021.

Net profit for quarter four of the year at KD134.8m was slightly below KD136.4m of previous quarter but 25.5% ahead of the corresponding quarter in 2021.

4Q22 operating surplus lagged that of the previous quarter by 9.3% despite a stronger net interest income due to lower Fx income and a higher cost growth.

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

The net operating income mix profiled at the bottom right hand continues to show a healthy mix with 25% 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 at top left reflects the net interest income of KD755.8m for the year, a growth of 12.9% over 2021 largely driven by higher volumes of loans and other interest earning assets across geographies while benefiting from higher interest rates. You would also note from the chart at the top right that Average earning assets grew by 8.4% during the year, to reach KD32.8bn.

We can see in the chart at the bottom left, average NIM for 2022 at 2.30% improved by 9bps over 2021, driven by a higher yield, despite the increase in funding cost. Fed Fund rates increased by 4.25% during the year, while the CBK discount rate increased by 2%. During the year, KD liabilities curve grew at a steeper pace than that of the discount rate in Kuwait.

The Group's average yield for 2022 was 3.76%, compared to 2.94% in 2021. Funding cost similarly grew to 1.64% during the current year compared to 0.83% in 2021. The higher funding cost primarily results from the repricing of deposits reflecting increased market rates and longer tenor deposits sourced by the Group. At the same time, a stable base of low cost deposits continues to benefit the Group.

4Q22 NIM at 2.46% is 6bps higher than the previous quarter benefiting from recent interest rate hikes. The Group's yield for the current quarter was 4.75% and funding cost was at 2.55%.

At the bottom right of this slide, we can see drivers behind the 9bp increase in NIM to 2.30% during 2022 from 2.21% last year. Loans, backed by a sound year on year growth and higher interest rates contributed a net increase of 49bps to the NIM, with other interest earning assets contributing 32bps. Higher funding cost however, negatively affected the NIM by 72bps.

Moving on now to the next slide.

Before going in to details of non-interest income, I would like to bring to your attention that certain reclassifications were made to fees and commissions, fx income and other administrative expenses lines in order to reflect a more meaningful measure of business performance and to be consistent across similarly grouped products and services. Comparatives for 2021 appearing in our financial statements have been restated to this effect. For ease of reference, we have included restated unaudited quarterly income statements for 2021 and 2022 as an appendix to this presentation.

As we can see at the top left of this slide, total non-interest income at KD253.9m for 2022 reflected a strong growth of KD23.4m i.e. 10.1% over 2021. Fees and commissions income contributed KD181.8m, foreign exchange activities KD55.4m, while other non-interest income sources (mainly net investment income) contributed KD16.7m.

Fees and commissions income was 7.7% higher than 2021 reflecting strong contributions across different lines of business. Fx income for 2022 was KD25.6m higher than previous year, benefitting from the impact of favourable currency movements as well as stronger underlying transaction volumes.

Other non-interest income was lower than that of 2021, mainly due to a lower net investment income, affected by the drop in market valuations. 2021 also included a one off gain on sale of assets, reflected as other net operating income in the income statement.

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.

4Q22 non-interest income at KD53.1m, was KD19.6m lower than the previous quarter which benefited from a stronger Fx income resulting from the favourable impact of currency movements.

Turning now to operating expenses reflected in the top right hand chart. Total operating expenses for 2022 at KD386.1m were 9.6% higher than the previous year. A part of the cost growth reflects increased activity levels across the Group's network and continued investments in key businesses, digital technologies, processes and human capital. This enables the Group to offer best in class service to its customers and optimize resources to improve operational efficiency.

Our digital channels and products continue to play a vital role in servicing customers with high levels of electronic transactions. We also press ahead with selective product offerings in certain geographies e.g. the Global Wealth Management business, expansion of Islamic banking operations through Boubyan Bank and our operations at NBK Egypt.

Cost income ratio for 2022 was at 38.2% compared to 39.2% in 2021.

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

Total provisions and impairments for the current year amounted to KD45.4m, a 65.8% decrease from KD132.5m in 2021. Net charge towards credit provisions was KD5.4m, whereas non-credit ECL and other impairment losses were KD40m. Specific provision was a net release of KD146.8m, resulting from recoveries of amounts provided towards credit losses during prior years. At the same time, the Group has taken provisions in ordinary course of business for retail and corporate customers in Kuwait and overseas locations. The Group remains committed to its conservative approach in managing credit exposures and has hence set aside precautionary provisions, which are included in the General provision charge of KD152.1m.

The cost of risk for 2022 was 3bps compared to 63bps for full year 2021, favorably affected by significantly lower credit provisions, which benefited from loan recoveries as explained earlier.

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.

As we see in charts on the left hand side, net operating income from the Group's international operations at KD266.6m, reflecting a yoy growth of 19.4%. Net profit at KD137.1m has increased by KD44.9m i.e. 48.7% benefiting from stronger operating results and lower credit provisions and ECL. International operations continue to contribute a healthy 26% and 27% to the Group's net operating income and net profit respectively.

The Group's Islamic banking subsidiary Boubyan Bank delivered a net profit of KD57.8m, up 19.2% on 2021 primarily due to lower provisions and a stable operating performance.

Finally, on the chart at the bottom right corner, you will note that International operations and Boubyan Bank contributed 43% 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 KD36.3bn at December 2022, a 9.3% yoy increase.

Group loans and advances at KD21.0bn, reflected a yoy growth of 6.5%. Loan growth was achieved in both conventional and Islamic customer segments, in Kuwait and overseas. EGP devaluation and weakening of major currencies against the US$ have adversely affected the KD value of loan growth during 2022. The Group's loan pipeline remains healthy across customer segments and geographies.

Customer Deposits i.e. non-bank and non-FI deposits at KD20.2bn reflected a yoy growth of 10.4%. Non-bank FI deposits increased by 19.3% during the 2022 to reach KD3.7bn. The Group has continued to experience growth in its core franchise retail deposits- both conventional and Islamic. As can be expected in a rising interest rate scenario, we noted a limited migration from lower cost deposits to time deposits. However, the overall funding mix remains stable and favorable to the Group.

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 65% of total funding mix of the Group.

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 2022 financial results had on certain key performance metrics.

The Return on Average Equity has improved to 14.3% from 10.2% for 2021. Similarly, Return on Average Assets now stands at 1.48% compared to 1.15% for last year.

At 17.4%, total Capital Adequacy Ratio remained strong and stable, well above the regulatory minimum. CET1 and Tier1 ratios were 12.9% and 15.0% respectively.

As regards asset quality, NPL ratio stands at 1.42% compared to 1.04% as at December 2021. Loan loss coverage ratio is at 267%, reflecting the conservative provisioning policy of the Group.

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 key chart on this slide at the bottom right reflects that ECL requirement as at December 2022 has increased to KD577m from KD462m at December 2021. Changes to macro-economic factors forming inputs to the ECL model have resulted in an increase in the required amount compared to the previous year.

Although IFRS 9 ECL and CBK provisions are different regimes and the two should not be compared, as at December 2022 the balance sheet provision as per CBK instructions exceeds the ECL by KD291m. 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 2022.

NBK's 2022 results reflected improved underlying operating drivers, strong asset growth, lower provisions and impairments, a healthy balance sheet, sound liquidity levels and a solid capital base.

Now turning to the guidance for 2023.

We remain cautiously optimistic of a stable operating environment and the Bank is well positioned to overcome any possible challenges posed by the developing global macro-economic scenario and ongoing geo-politics.

As regards loan growth, the Group reported a net loan growth of 6.5% during 2022, adversely affected to an extent because of currency movements. Although the Group has a strong pipeline of loans, given prevailing global dynamics and the resulting uncertainty in timing of actual drawdowns, we are expecting loan growth in 2023 to be in the mid to high single digit range.

Now turning to the NIM. As mentioned earlier, quarterly NIM has reflected an upward trend, benefiting from increasing interest rates and stronger volumes.

Although International benchmark interest rate increases are expected to be moderate, and the timing and extent of local interest rate hikes remains uncertain. While full year impact of the higher interest rates will improve the NIM, we should expect increasing competition and higher funding cost. In light of these considerations, we expect an expansion in margins compared to 2022, with the full year 2023 NIM averaging at a level slightly ahead of 4Q22.

The 2022 cost to income ratio is currently at 38.2%. In continuation of our investment program in support of various Group initiatives, we expect the cost to income for 2023 to remain largely stable and below 40%.

Given the prevailing uncertainties of the global economics and ongoing geo-politics, it would not be prudent to give a specific guidance on cost of risk and consequently on earnings / capital adequacy. Cost of risk was 63bps in 2021. Strong credit recoveries resulted in a significantly lower cost of risk at 3bps for 2022, which is not representative on an ongoing basis. We remain optimistic of a favourable overall cost of risk for 2023 at levels materially lower than 2021. We are also hopeful of maintaining the capital adequacy ratio in line with our internal target above the regulatory minimum.

That ends my presentation. Thank you very much for your time.

Back to Amir.

Amir Hanna: Thank you every one for listening.

We will pause for a sometime to group the questions then will start answering them one by one.

Hello everyone we will start will a few questions that we have received from people. First question, can we talk briefly about the capital buffers and how these might factor in growth strategy particularly at CET1 level. If I understand correctly the bank's minimum CET requirements starting 2023 will be 11.5% that's correct which leaves around 140 bsp buffer over the current CET 1 level, does the reported CET1 adjust for dividends?

Sujit.

Sujit Ronghe: To start with the second question, the reported CET1 does adjust for the proposed dividends at the end of 2022, so when we calculate the ratio the proposed dividends is removed from the available capital.

As regards, the buffer on the Capital Adequacy Ratio, we typically look at a buffer of over 1.5% of the CAR level. We could apply some flexibility in between the bands but the overall target is around 1.5% and above.

Amir Hanna: Another question about the sectors that will be driving growth in 2023.

Sujit Ronghe: In 2022, we saw a mix of loan growth coming from different sectors retail, corporate, conventional, Islamic across the network as well. We expect this to continue in the year 2023, which is going to be a mix of retail and corporate in Kuwait and outside Kuwait. We have a strong pipeline of approved credits, which can be expected to materialize in 2023.

Amir Hanna: There's a question about the contribution of Egypt to our balance sheet and earnings.

Isam Al-Sager: Well I have to say that NBK Egypt represents as a total less than 5% of our balance sheet so its not that significant. But in the meantime the impact of the Egyptian devaluation with Egypt going through a challenging time considering the recent devaluation of the currency. Our operations in Egypt remain very lucrative and the profitability trends are still convincing and supportive of a better outlook. That said, I would say the conversion of local profit into our consolidated USD based financial has taken a hit and Egypt's contribution has gone down and that has been the main impact on our financials from the devaluation.

Amir Hanna: And specifically on the balance sheet, what would loan growth have been excluding the depreciation of Egypt during 2022.

Sujit.

Sujit Ronghe: We reported a loan growth of 6.5% over 2021 which could have been in the high single digit range had the Egyptian devaluation not happened. There was also a factor of other currencies, which weakened against the dollar during the year. So all put together we would have had a high single digit growth, if these currency movements had not taken place.

Isam Al-Sager: I have to mention also that we are looking forward for some stability in the currency as the Egyptian market has a huge potential and there are several untapped opportunities in Egypt's banking sector that we are looking forward to seize in the coming years.

Amir Hanna: On cost of risk, how should we look at cost of risk going into 2023 after exceptional recoveries in 2022.

Sujit Ronghe: As I mentioned earlier, 2022 benefitted from a significant drop in provisions stemming from recoveries of provisions made during earlier years. The 3 bps cost of risk is not representative of what we expect for the future. While being cognizant of global uncertainties that lie ahead, we expect our baseline cost of risk at a level materially lower than the 60s bps that we saw in 2021. The loan book continues to exhibit a sound credit quality that would reflect on the cost of risk going forward.

Amir Hanna: Could you throw some color on the assumptions behind the expanding NIMs in 2023.

Sujit Ronghe: Yes, if we look at the interest rate hikes and the difference in the way interest rates increased internationally and in Kuwait, the CBK discount rate has increased by 2% during 2022 whereas the FED rate has increased by 4.25%. We saw the CBK discount rate increase by 50 bps last week, which has taken us to the 4% mark.

The fourth quarter NIM was at 2.46%, an improvement from 2.40% in the third quarter, which was due to the benefit of interest rate hikes. With the possibility of two more interest rate hikes, we can see an increase in overall yields in coming quarters. Of course, we also expect the funding cost to increase due to new acceptances and renewal of some longer tenure deposits at higher rates. That said, the Group continues to benefit from a stable portion of low cost funding in form of CASA deposits, which will help us manage the funding cost better. All things put together, we see an expansion in the NIM in year 2023.

Amir Hanna: Question on project awards market, Kuwait saw an increase in project awards in fourth quarter 2022 compared to previous quarters in 2022, what are your expectations for corporate loan growth and there was another question on project outlook going forward from that recent pick up.

Isam Al-Sager: Firstly, I have to mention that the political seen will remain the main driver for projects awarding. On the projects side, awards for the year were 32.5% lower compared to the year before, which was already at the low end. Both years saw several legislative delays, supply-chain disruptions and higher costs attributable to materials and labor.

Total awards for the year reached to KD 832 million but what's promising was the fourth quarter projects activity which picked up in pace recording more than 380 million of the total 2022 awards.

Looking ahead, the high oil prices, solid economic growth, the expected stability in interest rates, are all factors that would help lift project awards in 2023.

Amir Hanna: A question on CASA movements and its contribution to total deposits between 2021 and 2022.

Sujit Ronghe: The Group continues to benefit from a favorable funding mix aided by a strong and sticky base of core deposits. As can be expected in the rising interest rate scenario, we have witnessed a limited migration of low cost deposits to time deposits in the last year. At the same time, the Group CASA deposits are at a very healthy level, in low 40s, as a percentage of total non-bank deposits. The Group will continue to benefit from CASA deposits; we don't expect a lot of attrition on this front.

Amir Hanna: There are many questions on the cost of risk outlook and I think we have covered that already, but there is a specific question on impairment charges and if they would remain similar to 2022 levels and what to expect for next year.

Sujit Ronghe: In 2022, we saw that the impairment charges were mainly non-credit related and we are not expecting the same levels of impairment for the coming year.

Of course, given the possibility of a challenging year ahead in macroeconomic terms, it remains to be seen how things will evolve over a period of time; but at this stage we do not expect a material risk of impairment in 2023.

Amir Hanna: A question on dividends; why dividends have not grown similar to bottom line?

Isam Al-Sager: Well, our 35 fils distribution remains within our target payout ratio; ranging between 50-60%. The dividend policy is determined after considering total capital requirement to maintain a healthy capital buffer.

Amir Hanna: A few questions on CASA which I think we answered.

A couple of questions on NPLs movement and what led to its increase between 2021 and 2022.

Sujit Ronghe: The increase in NPL to KD 310 million in 2022 from KD 211 as of end-2021 was in normal course of business and across customer segments and geographies. Also the 6-month consumer loan installment deferral until late 2021, when no installments were due and hence not collected resulted in a lower NPL formation until the end of 2021. In 2022, this factor was largely normalized. Although that the NPL ratio of 1.42% is slightly elevated compared to last year's level, it is still considerably very low. We expect the NPL ratio remain stable during 2023.

Amir Hanna: Few questions on the mortgage law and if there are any updates there.

Isam Al-Sager: Whether speaking on the mortgage law or the debt law, both are of importance for the Kuwaiti economy. Passing both laws is dependent on the improvement in the political scene.

We have not changed our view on the importance of both laws and the opportunities embedded in both. As for the mortgage law, it is vital as a financing tool for the housing market in Kuwait, which is currently going through a financing bottleneck, especially the residential side.

The challenges for approving the law will continue to reside until we witness an improvement in the political scene and this will happen sooner or later.

Amir Hanna: Assuming double digit revenue growth expectation in 2023, do you also expect a double digit cost growth in 2023.

Sujit Ronghe: The Group has been investing considerably in technologies and processes in order to improve customer experience and managing its resources for the same purpose. This has resulted in a near double digit cost growth that we witnessed during in the last year. We do not expect this trend to decrease in the short term. However, we do expect an increase in the top line, which would contribute in maintaining a stable cost to income ratio.

Amir Hanna: A question on the state of retail and potential for the government of Kuwait to buy the retail loans from the bank

Isam Al Sager: Well I would say this topic is political, as there certain number of parliament members asking for this retail loan to be dropped but I don't think this will happen. The government has taken a firm position against it. Anyone following the political scene in Kuwait will know that the government has resigned last week and one of the reasons was not approving the drop of these consumer loans. There is apolitical tension between the government and the parliament and my expectations is that the government will stand firm against it. Therefore, it will not pass.

Amir Hanna: How much of the loan book is in USD and how does the pricing of these loans work, on which rates?

Sujit Ronghe: Typically the mix of loans between KD and FCY tends to be around 70 - 30. Most of the USD loans are Libor linked which would become SOFR linked loans during next year and are on a floating rate basis.

Amir Hanna: Do we expect to see some activity in dollar bond markets to ESG tagged issuances this year.

Generally speaking, we have launched sustainable financing framework earlier this year with the intension to become more active in the ESG labeled market. Otherwise, we remain opportunistic considering the framework is there and we got an SPO on it so other than that it will depend on how the market will evolve from where we stand today.

Amir Hanna: Did you write off the entire goodwill from Egypt or there could be more impairments in 2023?

Sujit Ronghe: We conducted our annual valuation exercise for the goodwill in Egypt. As a result, we wrote off KD20.2 million of the carrying value and still have around KD25 million of goodwill on our books. We are not expecting any such impairment in the coming year.

Amir Hanna: Question on the movement of impaired loans from KD211 million in 2021 to KD 310 million in 2022. Are there any specific segments or concentrations that led to these movements.

Sujit Ronghe: As mentioned earlier, the increase in NPLs of roughly KD 99 million is not specific to any particular sector or customer. It is a mix of consumer, corporate between Kuwait and international markets and also includes our Islamic subsidiary Boubyan as well.

Amir Hanna: We are getting repeated question on the same topics; cost of risk, NPLs and NIM outlook and these are all covered. With that, I will conclude the call. Thank you all for attending and if there are any follow-ups or questions that we missed answering, please share them with us on the investor relations email address and we will respond to them right away.

Thank you all and thank you Elena for joining us today.

National Bank of Kuwait

Investor Presentation

FY 2022 Earnings Call

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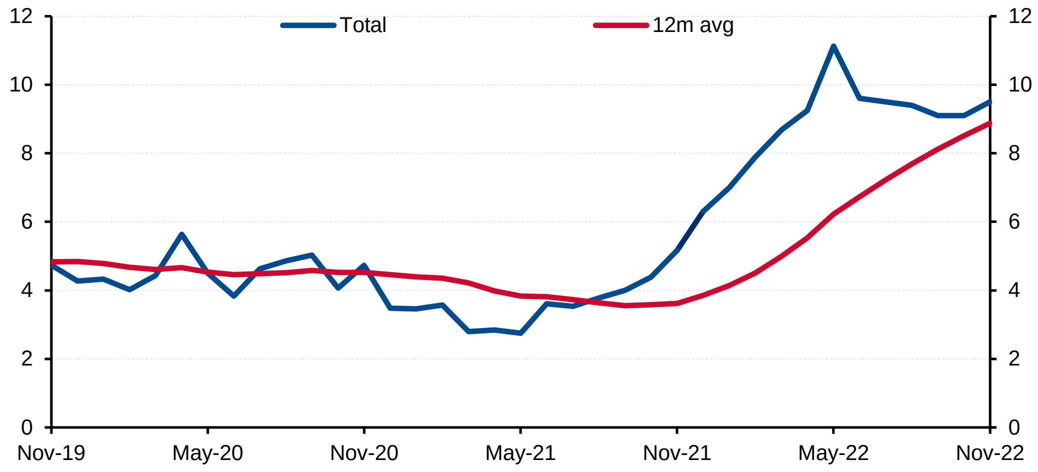
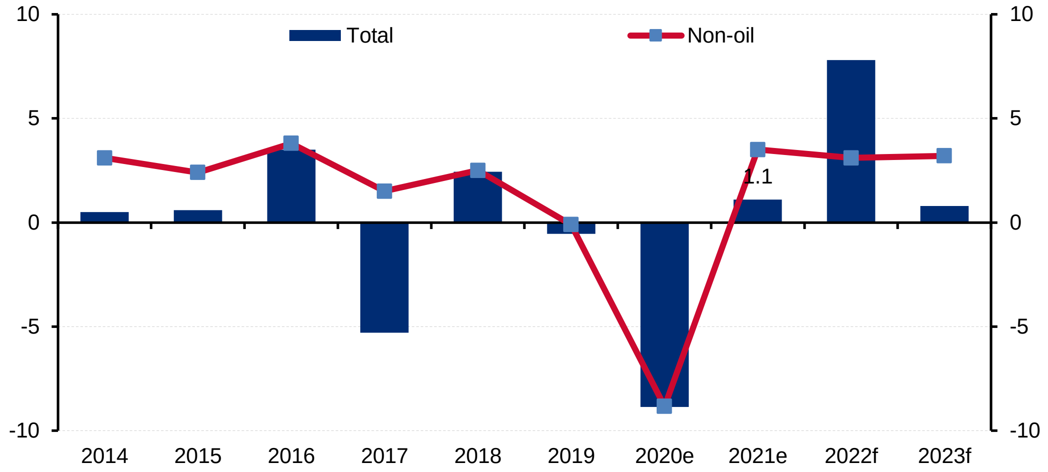
Key Economic Highlights

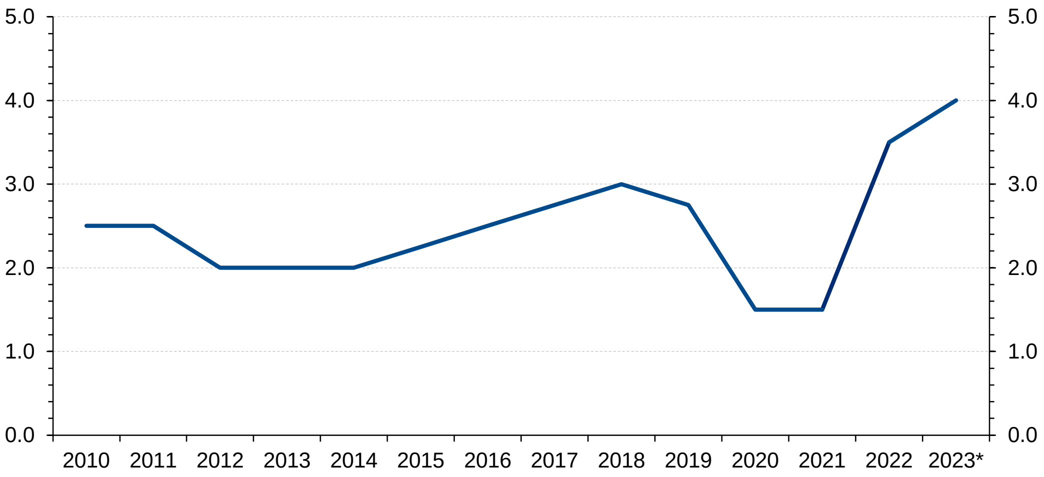
Kuwait Private credit (change, % y/y)



Real GDP (% y/y)

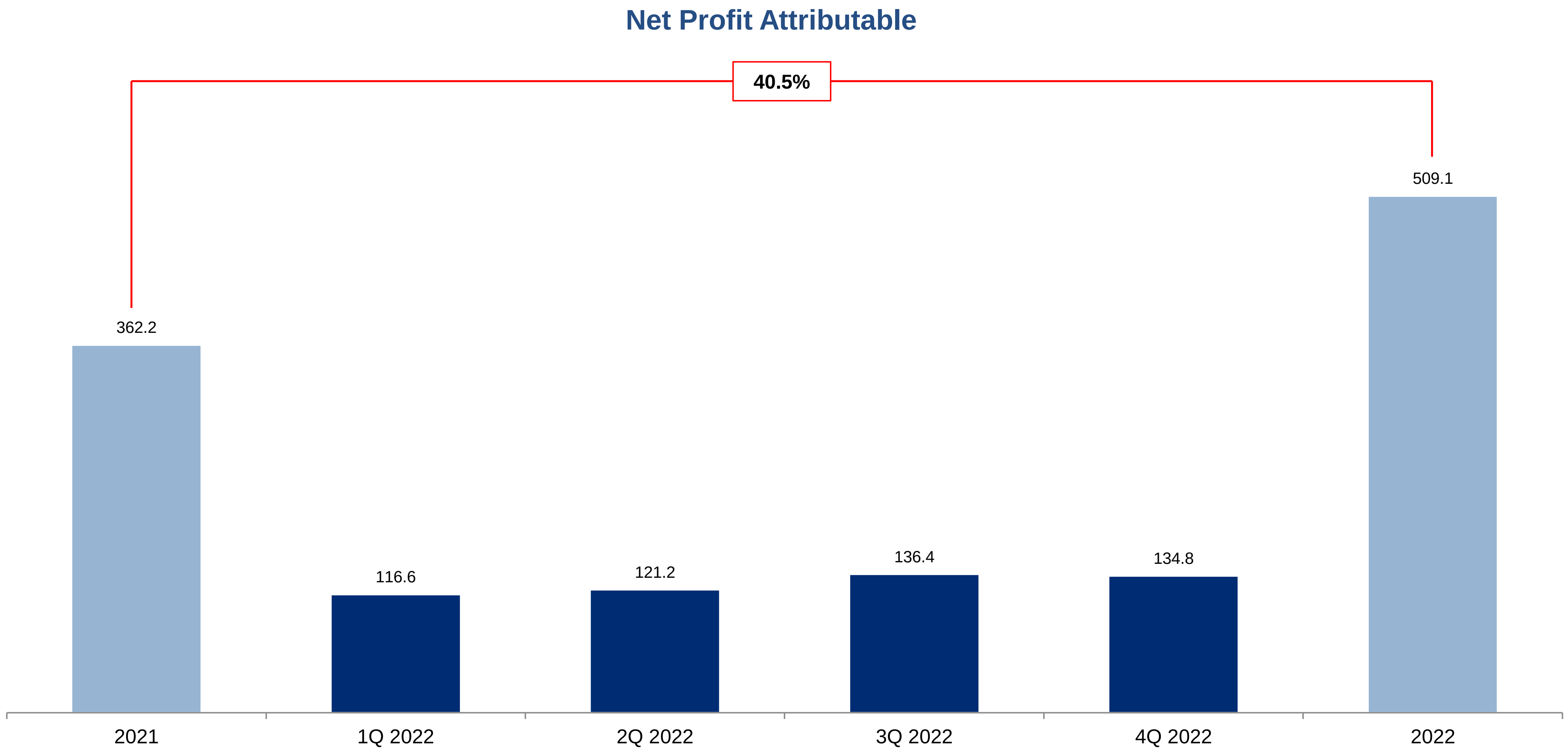


Development of the Discount Rate (%)



Daily ICE Brent Crude Oil Prices ($/bbl)

NBK Profitability (KDm)



NBK's Strategy

The Group's strategy, which is based on two main pillars, focuses on defending and growing its leadership position in Kuwait whilst also diversifying its business

Digital transformation of the core

Defend and Grow Leadership Position in Kuwait

Maintain excellence and market leadership position, to expand market shares and to maintain discipline in managing both risks and costs

✓ Corporate Banking

- The Bank aims to (i) remain the primary banker for the leading local companies whilst continuing to be active in the mid-market sector;(ii) remain the bank of choice for foreign companies and continuing to serve at least 75% of those companies and (iii) maintain its current market share in trade finance (over 30%). To achieve the above, NBK will leverage off its different services, expand its coverage and broaden the range of products and services offered.

✓ Consumer Banking

- NBK intends to expand its consumer customer base by focusing on profitable consumer segments (such as the affluent and mass affluent segments) and by attracting new clients such as the SMEs.
- Through the above, the Bank aims to maintain its leadership position, maintain its focus on delivery of superior customer service experience and achieve the lowest cost of funds among Kuwaiti conventional banks.

✓ Private Banking

- Within the private banking sector, NBK aims to continue to provide a unique proposition to high net worth clients in collaboration with its investment arm. NBK also aims to provide superior customer service through its highly experienced bankers. The Bank also aims to leverage off its existing brand and experience (particularly in Switzerland) to provide access to leading funds and broaden its product portfolio.

Business diversification leveraging digital disruption

Geographical, and product and service diversification

Includes expanding regional presence, establishing an Islamic banking franchise and building a leading regional investment bank.

✓ Expand Regional Presence

- The Bank's geographic diversification strategy is to leverage its fundamental strengths and capabilities, including its international reach and strong regional relationships, to build a regional platform and support growth in key markets.
- NBK focuses on markets with long-term potential through a combination of high growth economies, sound demographic trends and opportunities aligned with the Bank's competitive advantages.

✓ Establish an Islamic Franchise

- The Bank's strategy, in relation to its Islamic subsidiary, is to differentiate it from other domestic Islamic banks through a clear focus on high net worth and affluent clients and large and mid-market corporate customers.

✓ Build Regional powerhouse in Wealth Management

- NBK looks to establish its business as a leading regional investment banking, asset management, brokerage and research operation and to leverage the Group's strong regional position to cross sell these products across the MENA region.

NBK Group ESG Strategy Framework

Strategy Pillars	Responsible Banking	Capitalizing on our Capabilities	Investing in our Communities	Governance for Resilience
Ambition	*To support the transition to a sustainable economy and become a role model in our own transformation.*	*To drive sustainable business growth achieved through organizational resilience.*	*To deliver a positive impact on the communities we serve.*	*To commit to the highest standards of governance by embedding ESG across the Group.*
Strategic Initiatives	▪ Support the **transition** to a low carbon economy by delivering on **our net zero ambitions**. ▪ Capitalize on **sustainable business opportunities** and develop a best-in-class **Sustainable Finance proposition**. ▪ **Engage with our clients** to accelerate their transition plans and support them in achieving their net zero ambitions. ▪ Embed **ESG across our supply chain**.	▪ Promote **diversity, equity and inclusion** in the workplace. ▪ Promote group-wide **ESG transformation** through enhanced **employee engagement and development programs**. ▪ Cultivate and retain **local talent** by providing rewarding career development opportunities. ▪ Establish a **digital** and **agile work environment**.	▪ Empower communities to achieve **financial independence, confidence and security**. ▪ Continued and enhanced focus to providing **optimal customer experience and service excellence**. ▪ Support national development plans to **promote and nurture local talent**. ▪ Expand our **community investment** efforts for optimal impact. ▪ Support equitable **community and economic development**.	▪ Build and implement the highest standards of **ESG governance** and accountability. ▪ Enhance **stakeholder engagement,** emphasizing our **ESG narrative and commitments**. ▪ Develop economic, environmental, and social **risk resilience**.
SDGs	6, 7, 9, 11, 12, 13, 14, 15, 17	3, 4, 5, 8, 9, 10, 16	3, 4, 5, 6, 8, 9, 10, 11, 17	16, 17

Enablers: Digitalization & Innovation · Governance · Risk Management · Collaboration · Transparency & Communication · Capacity Building · Monitoring & Reporting

Building A Leading Journey In ESG

ESG Awards and Ratings

SUSTAINALYTICS

REFINITIV

FTSE4Good

MSCI ESG RATINGS BB

MEED Middle East business intelligence

GLOBAL FINANCE

C

Carbon Disclosure Project (CDP) Score 2022

LEED GOLD

EUROMONEY

Aligned with National and Global Frameworks

GRI

SUSTAINABLE DEVELOPMENT GOALS

SASB

بورصة الكويت BOURSA KUWAIT

كويت جديدة NEWKUWAIT

2022 Key ESG Achievements

We measure our progress against well-defined metrics and targets to achieve the greatest impact.

Strategy Pillars	Key Highlights
Responsible Banking	▪ Launched **NBK Sustainable Financing Framework** and received **SPO by S&P Global**. ▪ Developed a **roll-out plan for sustainable products** for 2023. ▪ Achieved the **LEED Gold Certification** for NBK Kuwait new Headquarters. ▪ **Committed to become carbon neutral by 2060** in line with the State of Kuwait's pledge to achieve carbon neutrality by 2060. ▪ **Established interim goals to reduce its gross operational emissions by 25% by 2025** through increasing dependency on renewable and clean energy solutions**.** ▪ Installed **12 EV charging stations** at different levels of the multi-story car park attached to NBK's green Headquarters**.**
Governance for Resilience	▪ Approved the **new Group ESG Strategy**. ▪ Elected **eleven board members** for a three year term; including two additional Independent members – totaling **four independent members**, one **with extensive ESG experience.** ▪ Elected **first female Board Member.** ▪ Integrated **ESG metrics** into the **Board of Directors**' and **Executive Management responsibilities, charters, oversight, and affairs**. ▪ Received our **first CDP Score of 'C'** for both the Climate Change and Forest categories for the Financial Services sector. ▪ Aligned our operational environmental footprint with **GHG Protocol** global framework**.** ▪ Constituent in **Refinitiv AFE Low Carbon Select Index MENA.**
Investing in our Communities	▪ Launched **new designs for all our cards** with **customer-tailored features**, including design themes **especially for the visually impaired**. ▪ Launched the **"Bankee" financial literacy program** in public and private schools. ▪ **NBK Academy** named **"Best Youth Programme Initiative" by MEED** (MENA Banking Excellence Awards) international magazine. ▪ Received the **"Job Replacement and Nationalization Award"** on the GCC level. **Nationalization** rate currently stands at **75.1%**. ▪ Committed **KD 13 million** for the expansion of **NBK Children's Hospital** specialized in stem cell transplant, project to start 2023. ▪ **Community Investments** totaled **KD 23 million in 2022, a 45% increase from 2021**.
Capitalizing on our Capabilities	▪ Awarded **"Best Bank for Diversity and Inclusion in Kuwait" from Euromoney**. ▪ **Women** in **workforce 43.6%**, women in **management 29.2%.** ▪ Launched **NBK RISE**, a global leadership initiative designed to **elevate women** to more significant leadership roles. ▪ Launched a new **training and development** approach titled **"Ready for the Future"** aimed at accelerating the Group's digital strategy. ▪ In 2022, **each employee** received an average of **5.7 hours of training**. ▪ Named **"Best Financial Innovation Lab in Kuwait 2022" by Global Finance** for pioneering innovation in the country and the region. ▪ Fostering **employee well-being**, NBK partnered with Wara Hospital to provide specialized on-site medical advice to staff.

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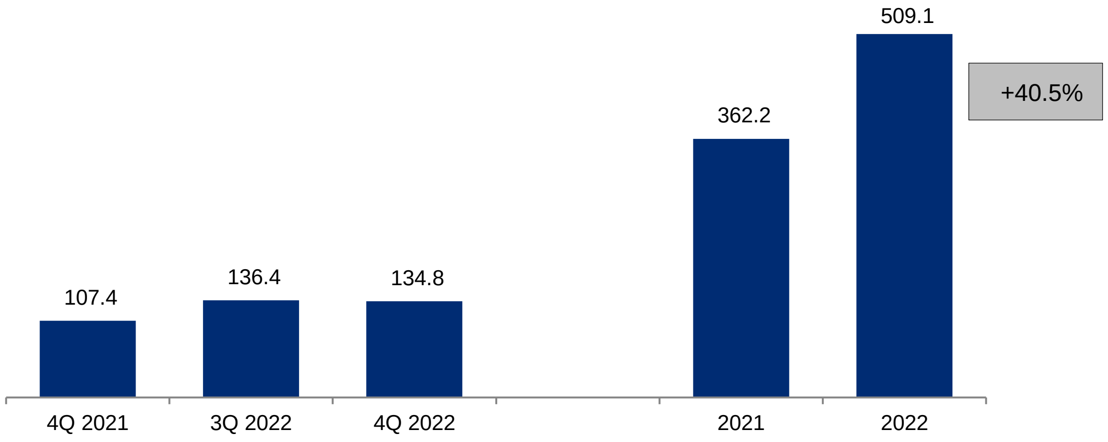
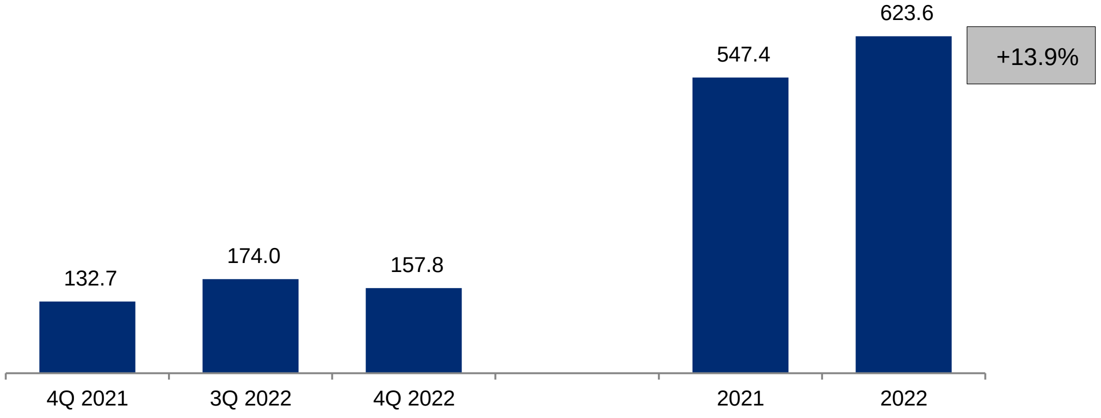
Operating Performance 2022

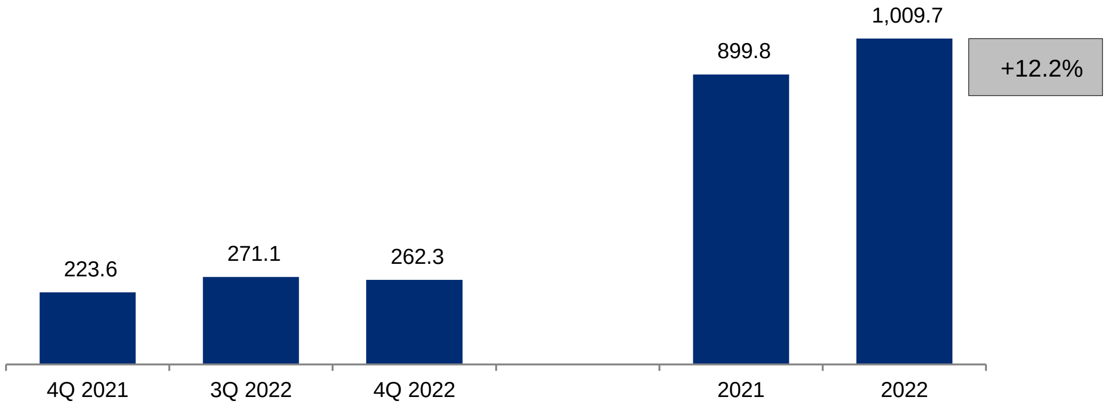
Net Profit (KDm)



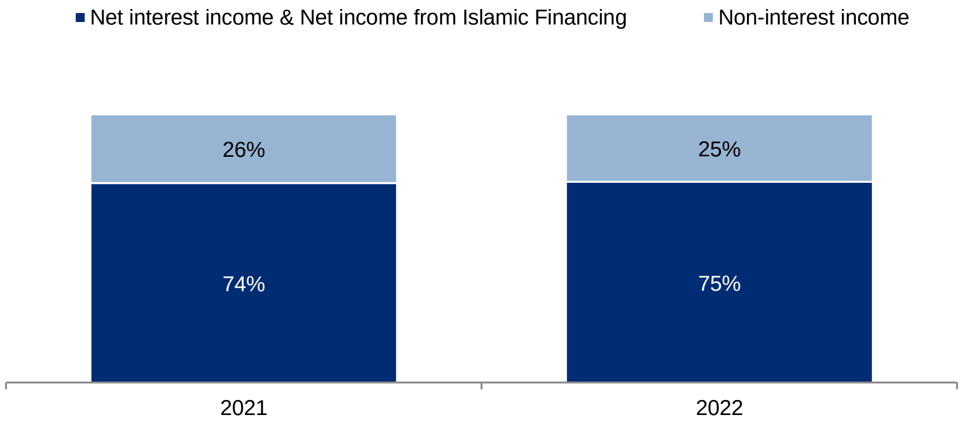
Operating Surplus (KDm)



Operating Income (KDm)



Operating Income



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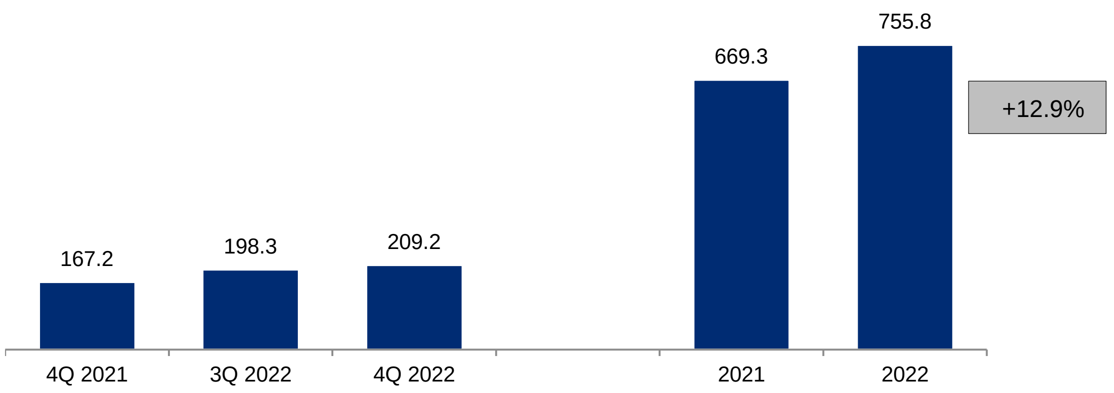
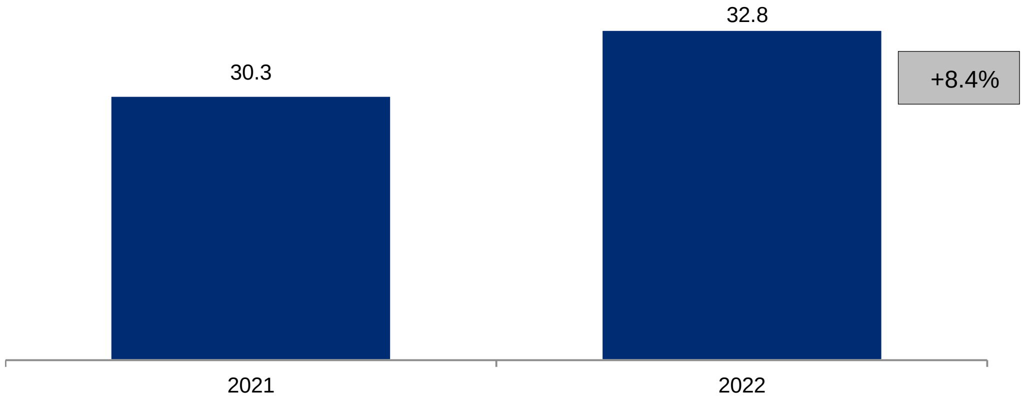
Operating Performance 2022

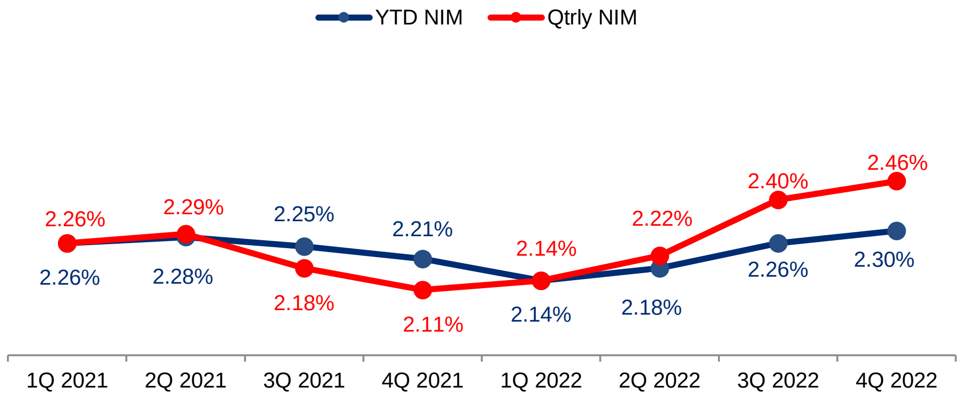
Net Interest Income* (KDm)



Average Interest Earning Assets (KDbn)

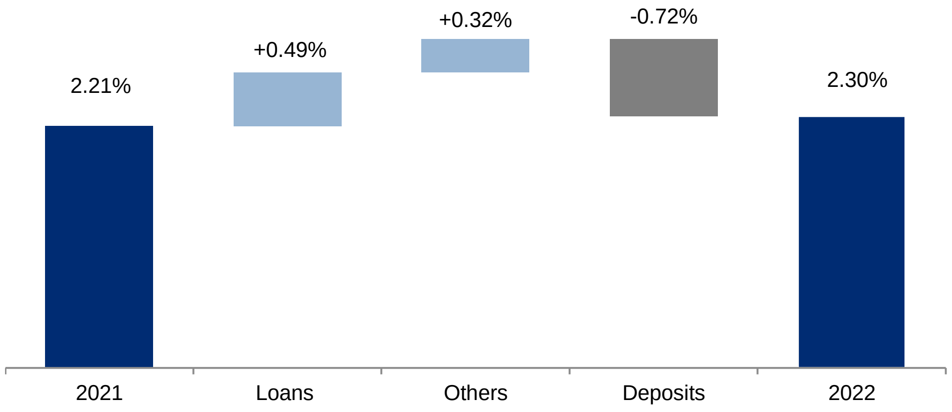


Net Interest Margin*



**Includes net interest income and net income from Islamic Financing*

Net Interest Margin drivers



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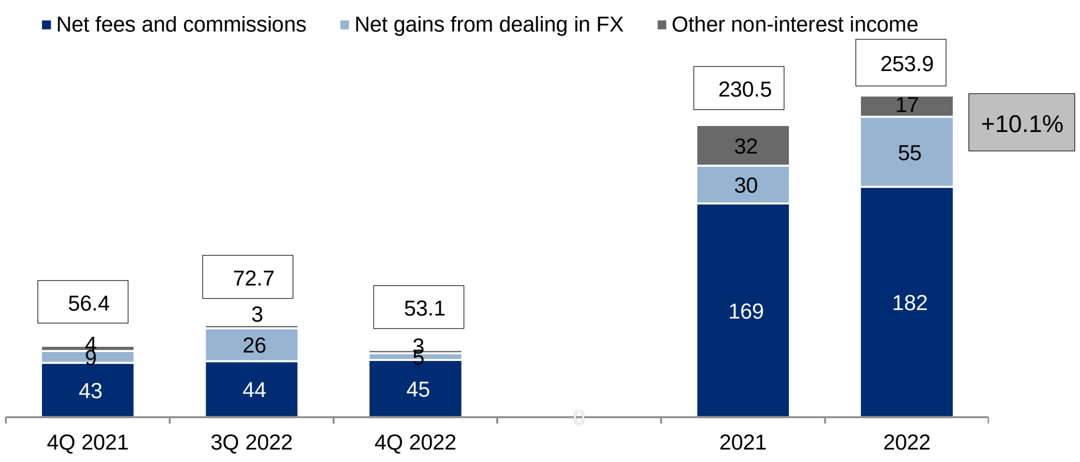
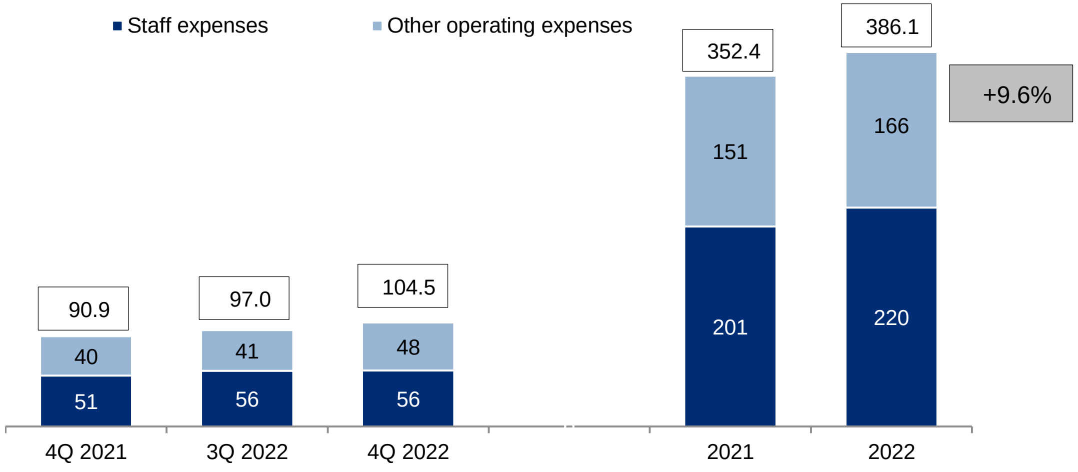
Operating Performance 2022

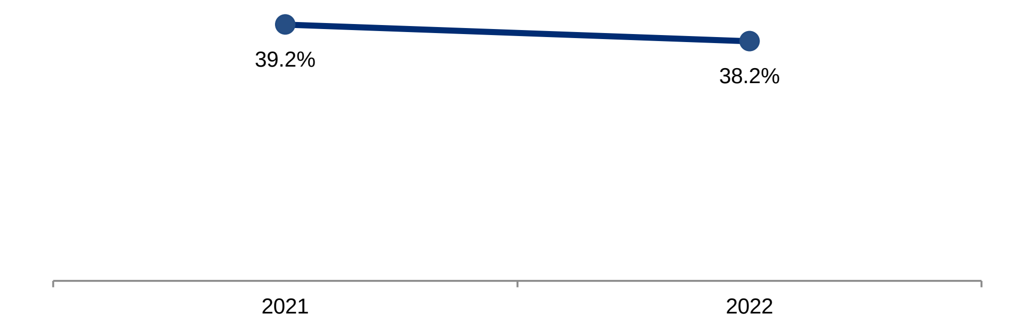
Non-interest income (KDm)



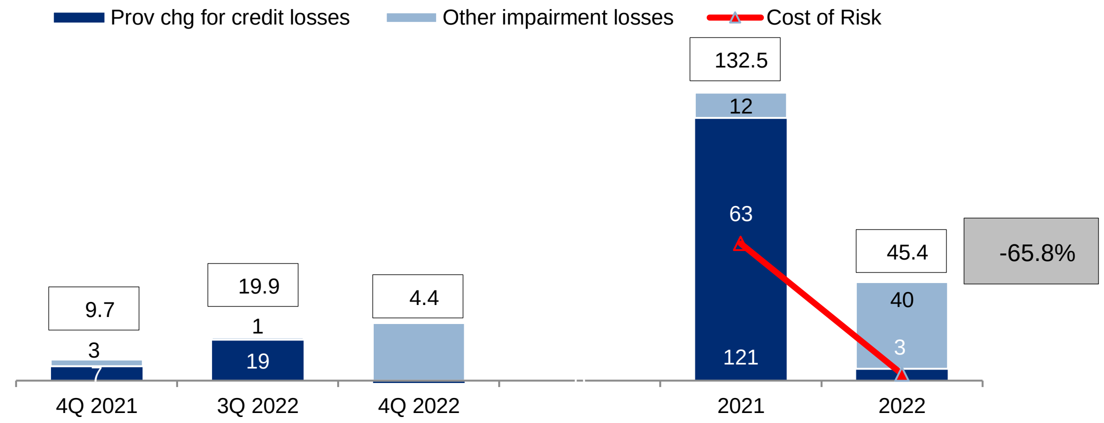
Operating Expenses (KDm)



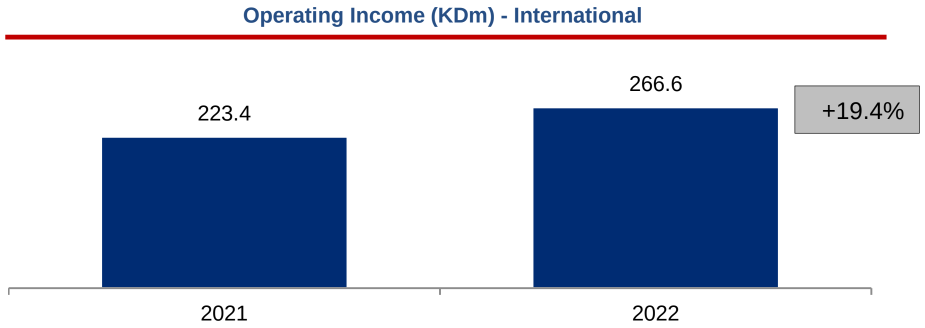
Cost to Income ratio

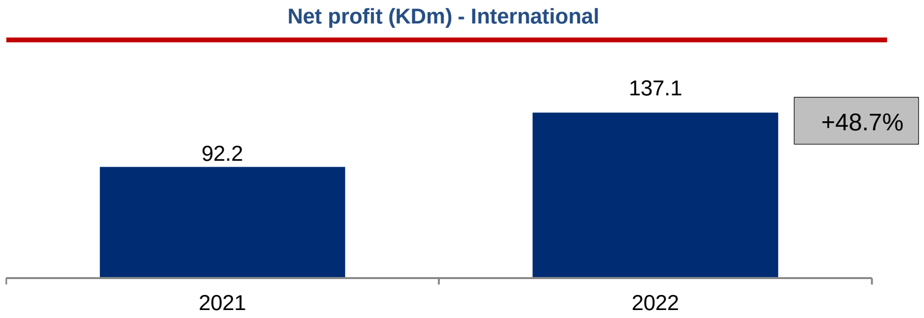


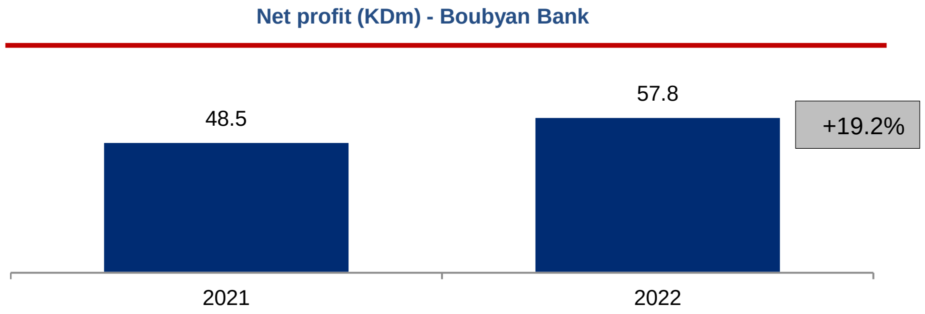
Provisions and Impairments (KDm)

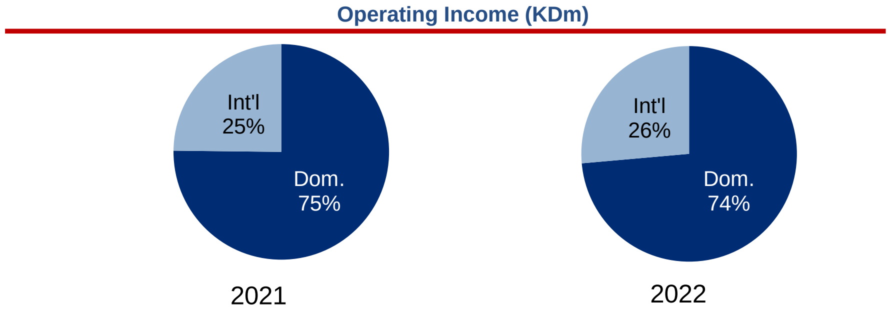


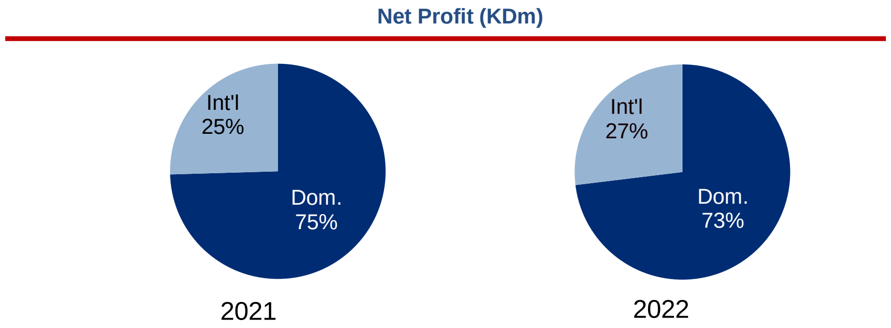
Operating Performance 2022

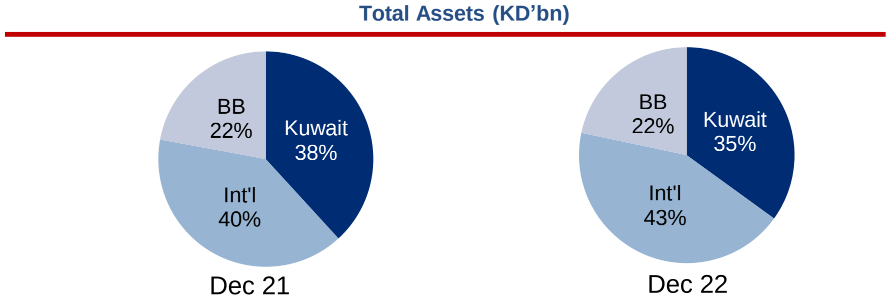












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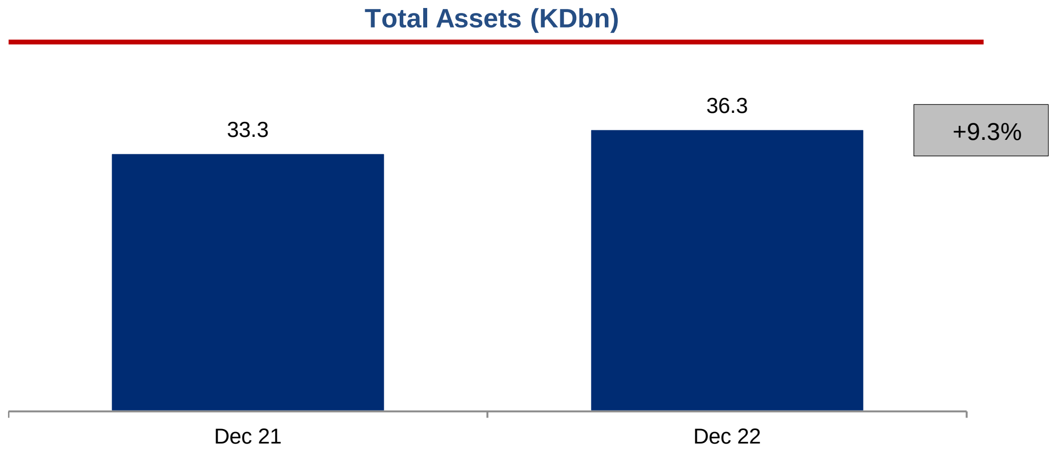
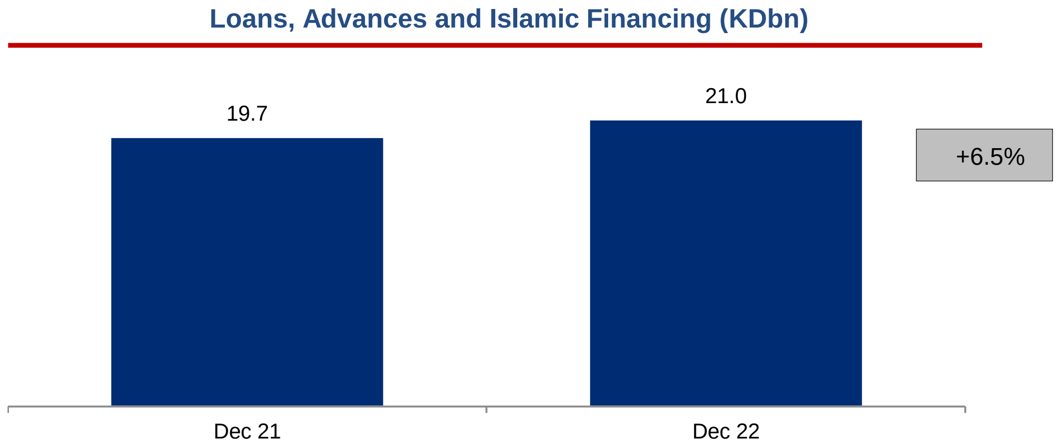
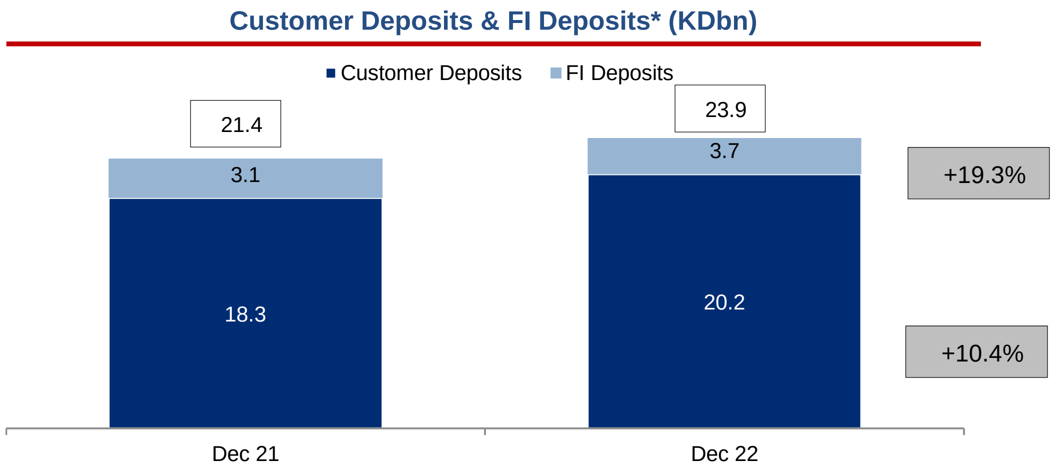
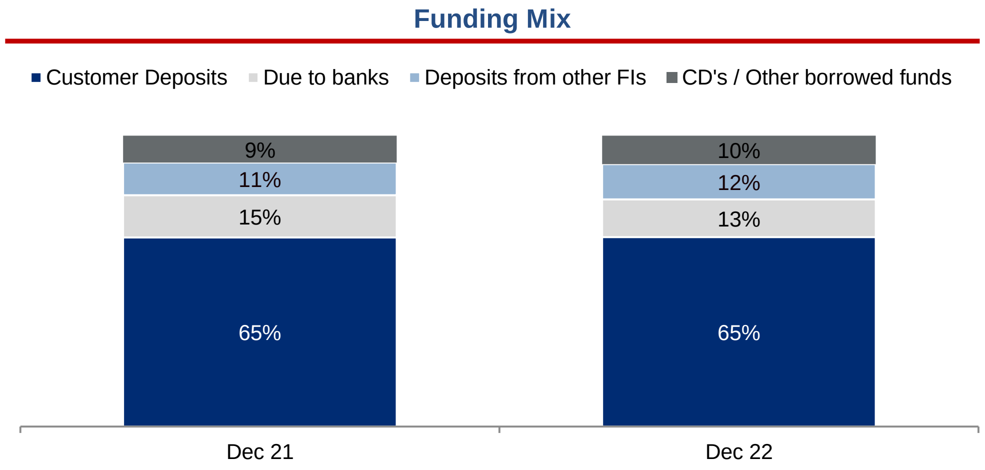
Operating Performance 2022





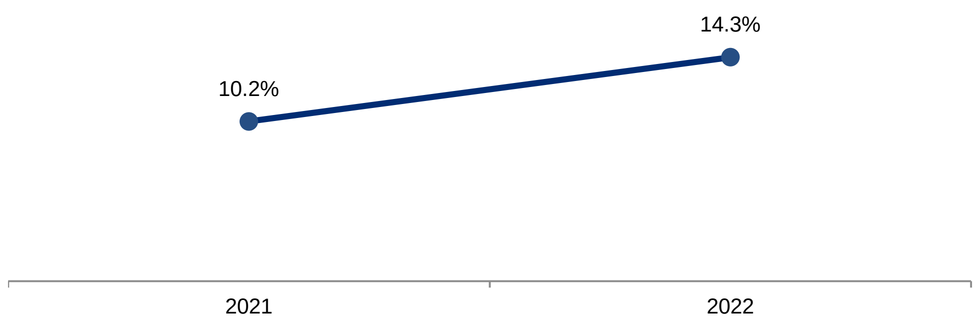




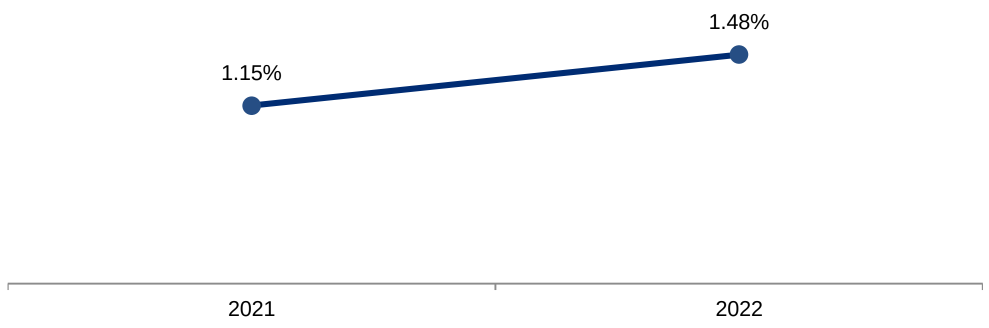
*excludes due to banks

Performance and Asset Quality Ratios 2022

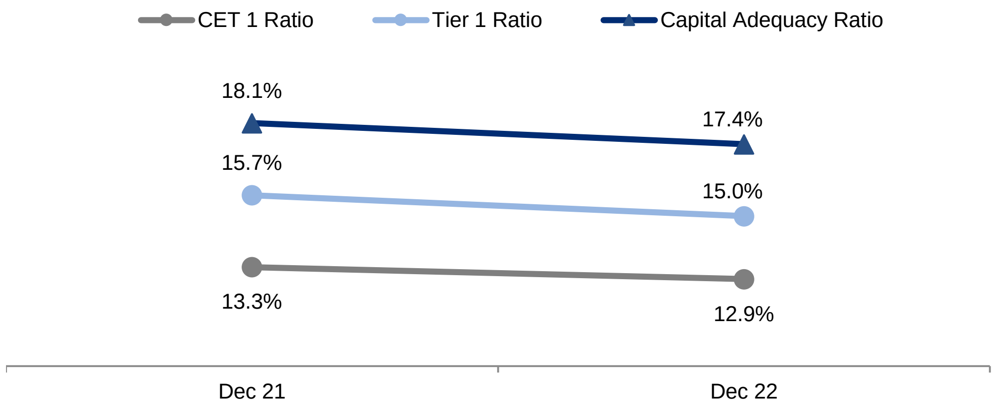
Return on Average Equity



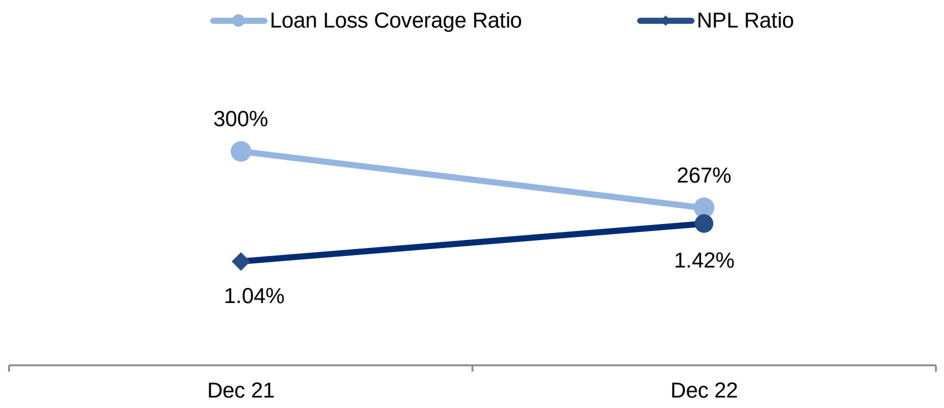
Return on Average Assets



Capital Adequacy Ratios



Asset Quality Ratios

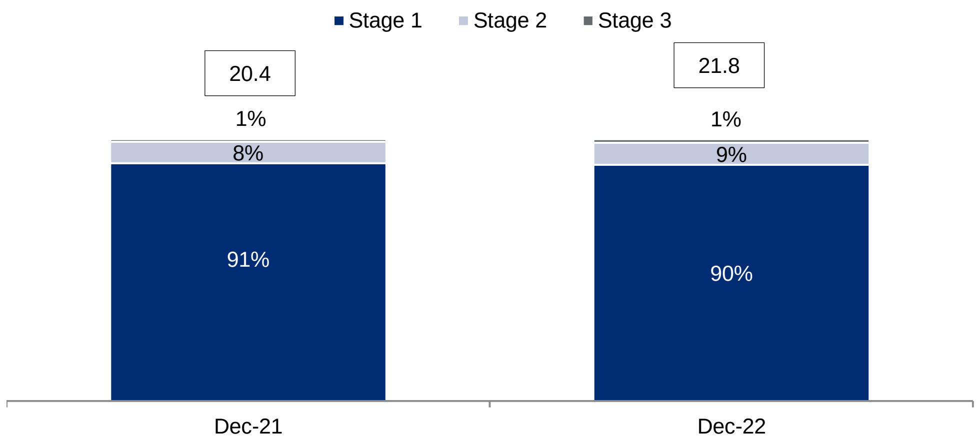


Expected Credit Losses (ECL) 2022

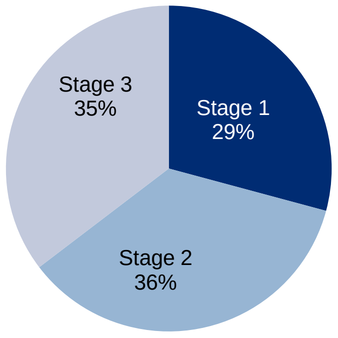
Financial Statements ECL Disclosure (KDm)

31 December 2022	Stage1	Stage 2	Stage 3	Total
Loans, advances and Islamic financing to customers	19,696	1,820	310	21,826
Contingent liabilities	3,800	655	12	4,467
Commitments (revocable and irrevocable) to extend credit	7,506	1,165	0	8,671
ECL allowance for credit facilities	169	169	239	577

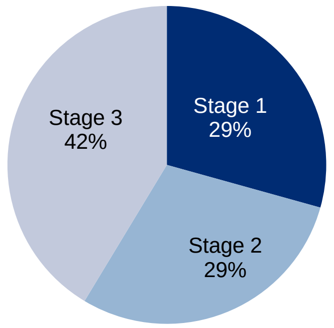
Total Gross Loans (KDbn)



ECL Allowance for Credit Facilities

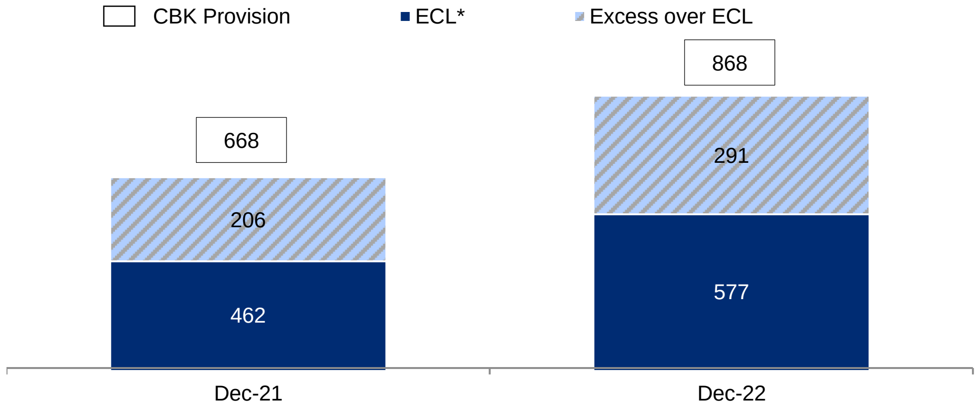


Dec-21 (KD 462m)



Dec-22 (KD 577m)

CBK Credit Provisions vs IFRS 9 ECL (KDm)



* ECLs as per CBK guidelines

2023 Guidance

	2022	2023 Guidance
Loan Growth	+6.5%	Mid to High Single Digit
NIM	2.30%	Expanding
Cost to Income ratio	38.2%	Broadly Stable
Cost of Risk	*3bps*	
Earnings	+40.5%	
Capital Adequacy	17.4%	

Contents

Consolidated Statement Of Income *(KDm)*

KDm	2021	2022	YoY Growth (%)
Interest Income	661	948	43%
Interest Expense	155	364	NM
Net Interest Income	**506**	**584**	**15%**
Murabaha and other Islamic financing income	228	288	26%
Finance cost and Distribution to depositors	65	115	78%
Net Income from Islamic financing	**163**	**172**	**6%**
Net interest income and net income from Islamic financing	**669**	**756**	**13%**
Net fees and commissions	169	182	8%
Net investment income	28	16	(44%)
Net gains from dealing in foreign currencies	30	55	86%
Other operating income	4	1	(75%)
Non-interest income	**231**	**254**	**10%**
Net Operating Income	**900**	**1,010**	**12%**
Staff expenses	201	220	9%
Other administrative expenses	116	125	8%
Depreciation of premises and equipment	34	39	14%
Amortisation of intangible assets	2	2	0%
Operating Expenses	**352**	**386**	**10%**
Op. profit before provision for credit losses and impairment losses	**547**	**624**	**14%**
Provision charge for credit losses	121	5	NM
Impairment losses	12	40	NM
Operating profit before taxation and directors' remuneration	**415**	**578**	**39%**
Taxation	34	47	39%
Directors' remuneration	0	1	NM
Non-controlling interests	18	21	14%
Profit attributable to shareholders of the Bank	**362**	**509**	**41%**

Restated Unaudited Consolidated Statement Of Income 2021* *(KDm)*

KDm	Q1'21	Q2'21	Q3'21	Q4'21
Interest Income	160	166	166	169
Interest Expense	38	37	39	42
Net Interest Income	**122**	**129**	**127**	**128**
Murabaha and other Islamic financing income	56	57	58	57
Finance cost and Distribution to depositors	16	15	16	18
Net Income from Islamic financing	**40**	**42**	**42**	**39**
Net interest income and net income from Islamic financing	**162**	**171**	**168**	**167**
Net fees and commissions	40	43	44	43
Net investment income	8	10	6	4
Net gains from dealing in foreign currencies	7	6	9	9
Other operating income	3	0	0	0
Non-interest income	**58**	**58**	**58**	**56**
Net Operating Income	**220**	**230**	**227**	**224**
Staff expenses	46	49	55	51
Other administrative expenses	26	29	30	31
Depreciation of premises and equipment	8	9	9	8
Amortisation of intangible assets	0	0	0	0
Operating Expenses	**81**	**87**	**94**	**90**
Op. profit before provision for credit losses and impairment losses	**139**	**143**	**132**	**133**
Provision charge for credit losses	43	52	20	7
Impairment losses	(0)	3	6	3
Operating profit before taxation and directors' remuneration	**97**	**88**	**107**	**123**
Taxation	8	9	9	9
Directors' remuneration	-	-	-	0
Non-controlling interests	5	3	4	7
Profit attributable to shareholders of the Bank	**84**	**76**	**94**	**107**

**Restated unaudited income statements for ease of reference only.*

Restated Unaudited Consolidated Statement Of Income 2022* (*KDm*)

KDm	Q1'22	Q2'22	Q3'22	Q4'22
Interest Income	172	201	256	319
Interest Expense	47	66	100	151
Net Interest Income	**125**	**134**	**156**	**168**
Murabaha and other Islamic financing income	61	68	74	85
Finance cost and Distribution to depositors	18	22	32	44
Net Income from Islamic financing	**43**	**45**	**42**	**41**
Net interest income and net income from Islamic financing	**169**	**180**	**198**	**209**
Net fees and commissions	43	49	44	45
Net investment income	12	(2)	2	3
Net gains from dealing in foreign currencies	10	14	26	5
Other operating income	0	0	0	(0)
Non-interest income	**66**	**62**	**73**	**53**
Net Operating Income	**235**	**242**	**271**	**262**
Staff expenses	52	56	56	56
Other administrative expenses	29	28	31	38
Depreciation of premises and equipment	9	10	10	10
Amortisation of intangible assets	0	0	0	0
Operating Expenses	**90**	**94**	**97**	**105**
Op. profit before provision for credit losses and impairment losses	**145**	**147**	**174**	**158**
Provision charge for credit losses	12	(4)	19	(22)
Impairment losses	0	12	1	26
Operating profit before taxation and directors' remuneration	**132**	**139**	**154**	**153**
Taxation	9	13	13	13
Directors' remuneration	-	-	-	1
Non-controlling interests	7	4	5	5
Profit attributable to shareholders of the Bank	**117**	**121**	**136**	**135**

**Restated unaudited income statements for ease of reference only.*

Consolidated Statement Of Financial Position *(KDm)*

KDm	December-2021	December-2022	YoY Growth %
Cash and short term funds	5,082	5,323	5%
Central Bank of Kuwait bonds	830	881	6%
Kuwait Government treasury bonds	417	212	(49%)
Deposits with banks	885	1,490	68%
Loans, advances and Islamic financing to customers	19,722	20,998	6%
Investment securities	4,911	5,635	15%
Investment in associates	4	3	(17%)
Land, premises and equipment	456	475	4%
Goodwill and other intangible assets	581	535	(8%)
Other assets	368	786	NM
Total Assets	**33,257**	**36,338**	**9%**
Due to banks	4,099	4,018	(2%)
Deposits from other financial institutions	3,136	3,741	19%
Customer deposits	18,281	20,178	10%
Certificates of deposit issued	1,339	1,802	35%
Other borrowed funds	1,267	1,244	(2%)
Other liabilities	668	721	8%
Total Liabilities	**28,789**	**31,703**	**10%**
Share capital	719	755	5%
Proposed bonus shares	36	38	5%
Statutory reserve	360	378	5%
Share premium account	803	803	0%
Treasury share reserve	35	35	0%
Other reserves	1,587	1,614	2%
Equity attributable to shareholders of the bank	**3,540**	**3,623**	**2%**
Perpetual Tier 1 Capital Securities	439	439	0%
Non-controlling interests	489	573	17%
Total equity	**4,467**	**4,635**	**4%**
Total liabilities and equity	**33,257**	**36,338**	**9%**

Performance Measures 2022

	December-2021	December-2022
Return on average assets	1.15%	1.48%
Return on average equity	10.2%	14.3%
Net interest margin	2.21%	2.30%
Cost to income	39.2%	38.2%
NPLs to gross loans	1.04%	1.42%
Loan loss reserves to NPLs	300%	267%
Tier 1 capital	15.7%	15.0%
Tier 2 capital	2.4%	2.4%
Capital adequacy ratio	18.1%	17.4%

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Questions?

Thank You

National Bank of Kuwait

Investor Presentation

FY 2022 Earnings Call