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M/s Boursa Kuwait

السادة / شركة بورصة الكويت المحترمين،،،

Dear Sirs

تحية طيبة وبعد،،،

Sub: Burgan Bank K.P.S.C. Analyst Conference
Transcript for the 3rd Quarter 2022

الموضوع: محضر مؤتمر المحللين لبنك بروتان ش.م.ك.ع. للربع
الثالث من عام 2022

Reference is made to the above subject and in compliance with the provisions of clause (4) of article (8-4-2) of Boursa Rule Book; attached is the transcript of the Analyst conference that was held via phone at 01:00 pm, Tuesday, corresponding to 25/10/2022.

بالإشارة إلى الموضوع أعلاه، والتزاماً بأحكام البند (4) من المادة (2-4-8) من كتاب قواعد البورصة، مرفق لكم طيه محضر مؤتمر المحللين والذي تم عقده عبر الهاتف في تمام الساعة 01:00 ظهرا من يوم الثلاثاء، الموافق 2022/10/25.

Best regards,

وتفضلوا بقبول فائق الاحترام،،،



رائد عبدالله الهقيق

Raed A. Al-Haqhaq

نائب رئيس الجهاز التنفيذي للمجموعة

والرئيس التنفيذي- الكويت

Deputy GCEO & Chief Executive Officer-Kuwait





بنك بروٲان
BURGAN BANK

9M'22

Earnings Conference call Transcript

Tuesday, 25th October 2022

9M' 22 Burgan Bank Earnings Call

Tuesday, 25th October 2022

Transcript of Burgan Bank Earnings conference call that will take place on Tuesday, 25th October 2022 at 13:00 Kuwait time (UTC+03:00)

Burgan Bank Participants:

Mr. Raed Al Haqhaq	Deputy Group CEO & CEO-Kuwait
Mr. Khalid Al Zouman	Group Chief Financial Officer
Mr. Naveen Kumar Rajanala	Group Head of Strategy, Capital Management and Investor Relations

Operator (Elena Sanchez):

Good afternoon everyone and welcome to the Burgan Bank Group 9M 2022 Earnings Call. Thank you very much for taking your time to attend this conference call. Today's conference is being recorded. For today's call, we have Mr. Raed Al Haqhaq, Deputy Group CEO and CEO-Kuwait and Mr. Khalid Al Zouman, Chief Financial Officer and Mr. Naveen Rajanala, Group Head of Strategy, Capital Management and Investor Relations. At this time, I would like to handover the call to Mr. Raed.

Raed Al Haqhaq:

Thank you, Elena. Good afternoon everyone and welcome to the Burgan Bank Group 9M'22 earnings call. Thank you very much for taking the time to attend this call.

I would like to highlight that the first three slides show Burgan Bank Group's details including, its history, background of each franchise and an aerial view of the bank's strategy.

With that, let me start with Slide 8 and highlight some of the key business updates:

- BOB Sale:
 - BOB's sale process is moving on the right track, the buyer's offer letter has been signed and accepted
 - Regulatory approvals from Central Bank of Kuwait & Central Bank of Jordan have been obtained and we are expecting the approval from Central Bank of Iraq shortly.
 - As highlighted earlier, the benefits from BOB's sale are expected to be as follows:
 - Group's CET1 ratio up by +70bps
 - NPL ratio protection of up to 60bps
- Kuwait Retail banking:

- We started the retail transformation journey at the beginning of 2019.
- We started executing multiple initiatives within the business such as product reboots, building sales capacity etc. and we have started seeing the results.
- The franchise produced good results in 2021.
- 2022 so far has been one of the best years Kuwait retail banking business has been having for a long time.
- YTD Retail Loan growth: over 20% y-o-y
- The business is easily surpassing internal targets this year.
- Improvement in Turkish franchise:
 - After a difficult 2020 and difficult H1'21, we have started seeing a turnaround in BBT's performance.
 - We had instituted strong Group' oversight & control on risk back in Q2'18, where we have encouraged the franchise to focus on collateralized lending, more local currency assets, building a digital platform etc. and we see that these actions have started to yield results.
 - A couple of highlights of their 9M'22 performance:
 - Net Income excluding the IAS29 impact for 9M'22 is KD 21.4mn vs KD 3.8mn in the first nine months of 2021
 - NPL ratio of 5.2% in sept'22 vs 10.4% in sept.21

Moving on to slide 9, I want to share some performance updates on our Digital progress:

- Our Digital Banking user base continues to grow as seen in the first chart with the numbers of subscribers; this year we have added 16k+ customers on our digital platforms.
- These customers have been very active on the platform as can be witnessed in the growth of activities conducted through the digital channels. In Q3'22, the number of transactions surpassed 9.5mn and we expect this upward trend to continue.
- Clearly, our user base prefers mobile interface in line with regional and global trends. Our mobile app constitutes 93% of all digital channel activities.
- Lastly but very importantly, the bank's mobile app is consistently rated high over the last 18 months or so and is one of the leading banking apps in Kuwait with our In-App feedback rating standing at 4.7 stars as of Q3'22.

I want to highlight the kind of messaging and features that we share with our customer and this is one of the recent digital campaigns which allows Burgan's customers to apply for products online.

- Accounts and credit cards can be opened and submitted online
- Loans requests can also be submitted online at the comfort of the customer without the need to physically be at one of our branches

Moving to slide 11, I want to highlight some of the Group's performance highlights:

- Burgan maintained stable Revenue levels, reporting KD 166mn in Revenues for 9M'22; Q3'22 Revenues increased by 2% to KD 56mn
- Burgan's margins have been improving, an increase of +20bps y-o-y to 2.3% for 9M'22; while NIMs reached 2.6% in Q3'22, an increase of 50bps
- Credit Costs improved significantly to KD 13.3mn for 9M'22, down 72% y-o-y
- 9M'22 Net Income increased to reach KD 41mn

With that, I will hand over to Mr. Khalid who will cover the next few slides.

Khalid Al Zouman:

Thank you, Mr. Raed.

Good afternoon. Let me start the financial numbers deep dive with slide 13. The key messages of this slide are as follows:

- The Group's Revenues has been stable at KD 166mn for 9M'22. The revenue has been driven by the Net Interest Income growth of 12.8% year-on-year but this growth has been offset by drop in Non-interest income, primarily due to lower security gains given the fall in capital markets across the globe
- The Net Interest Income growth was a result of 20bps improvement in Net Interest Margins.
- The Group's Operating Profit for 9M'22 dropped slightly to KD 90mn; while staying stable at KD 29mn for Q3'22
- The Group's and Kuwait Cost-to-Income ratio for 9M'22 were 45.5% & 44% respectively; we expect to be around 45% for the full year 2022.

Moving on to slide 14, the key messages here are as follows:

- The first chart shows significant decline in provisions by 72% y-o-y to KD 13mn; the improvement is driven by a much-improved performance in our Turkish franchise and also the Kuwait franchise reverted back to its usual low credit costs.

- the Group Cost of Credit dropped to 0.4% in 9M'22
- The Group's Net Income for Q3'22 is KD 14mn
- The Group's Return on Average Equity (ROAE) is at 6.2% for 9M'22

Moving to slide 15, which reflects the Group's Asset Quality metrics:

- The Group and Kuwait's NPL ratios are at 2.6% and 2.2% respectively for 9M'22; there are no adverse movements in Q3'22. We expect the NPL ratio at Group and Kuwait to improve by year end.
- Another key point is that our Coverage ratio for the Group and Kuwait continue to be healthy. The cash coverage ratio is 189.2% for Kuwait and 152.6% for Group. Please also note that there are collaterals in addition to these provisions which provide more comfort.

Moving on to slide 16:

- Firstly, the Group's total Assets have been stable around 7 bn levels over the last 3 years.
- The Asset composition pie chart reflects that Loans account for 59% of the total Asset book with almost 19% of the book in liquid assets.
- The Group's loans declined to KD 4.1bn primarily due to deliberate encouragement of repayment of a few large corporate loans as they were not commercially viable. But this reduction is temporary and we expect the loan book to start growing in Q4'22 and beyond.
- Lastly, there is no major movement in the sector concentration as it remains mainly the same as in the previous quarters

I will now hand over to Mr. Naveen who will cover the next few slides.

Naveen Rajanala:

Thank you, Mr. Khalid.

Moving on to slide 17, a few key points to note here:

- Though the customer deposits fell in 9M'22, this is due to lower loan levels in 9M'22 and as result the bank did not need as much deposits' liquidity and also the bank did not want to carry excess liquidity especially in this high cost deposit rate environment.
- The bank is focused on maintaining and growing CASA balances; the CASA balances has grown to about 37% of total deposits

- The Group's Loan to Deposit ratio is stable at 84.8% for 9M'22, well within the regulatory requirement.
- Burgan's liquidity metrics remains well above the regulatory minimums, which will revert back to pre-Covid levels from Q1'23. The Group's Liquidity Coverage Ratio is reported at 127% and the Net Stable Funding Ratio at 110.2% for 9M'22.

Let's now go to slide 18:

- The Group's capital levels remain optimal
- The Group's CET 1 Ratio is at 11% for 9M'22, with
- CAR Ratio at 17.3%.
- All Capital metrics well above regulatory requirements
- The regulatory minimum capital requirements will be back to pre-Covid levels from Q1'23.

Moving on to slide 19, which provides an aerial view of the key metrics of our international operations:

- Some key common points:
 - The NIMs continue to be high in these markets
 - The international operations constitute about 24% of the Group's assets
 - The contribution of the international operations to the top line and bottom line of the Group has been very strong in 9M'22.
- Turkey:
 - 2022 so far has been a strong year for BBT.
 - The topline and bottom-line have grown tremendously while reducing operating costs and substantially lowering credit costs
 - As you can see all metrics trending positively.
 - We are seeing some tangible improvements with recoveries and debt-to-asset swaps generating positive uplift to their performance.
 - Asset quality improvement continues with NPL ratio & CoC reductions
- Algeria
 - Despite a marginally weak performance in 2022 so far, Algeria is still a very profitable business with high margins in an underpenetrated market.
- Tunisia
 - Small & profitable franchise
 - Continues to deliver stable profitability

I will now hand over to Mr. Raed who will conclude the presentation.

Raed Al Haqhaq:

Thank you, Naveen.

Let me summarize now:

- The key business metrics are moving in the right direction
- We aim to restore growth in the franchise
- Lastly, we have seen digital progress reflected in customer activity and ratings and we shall continue the pace of this digitalization going forward.

With that, I conclude the presentation and will now hand it back to Ms. Elena.

Elena Sanchez:

Thank you very much for the presentation. We can move now to the Q&A. If you have a question, you can write it in the Q&A designated area or you can also click on the Raise Hand option and I will unmute your microphone. We'll pause for a few minutes in order to receive some questions. There are a few questions that we received already. I will start reading them. One of them is, what is the outlook for the net interest margin in 2023?

Naveen Rajanala:

what we are seeing and given the recent rate hikes, obviously our margins have gone up, but as we've said in our previous call as well, the funding costs are also increasing especially in Kuwaiti Dinars. So, we expect the margins to go up slightly, but I think the pace of increase will slow down. We might expect a margin increase of another five basis points or so by the end of this year and maintain that level in 2023.

Elena Sanchez:

Thank you, Naveen. There is another question on cost of risk, asking if you can provide guidance for cost of risk for 2023 and 2022.

Naveen Rajanala:

As we've highlighted in the presentation, we've had a good year from a cost of risk perspective both in Kuwait and our international operations. We're down to about 40 basis points.

Our guidance earlier this year has been that it'll be below 1%. So, we expect it to not dramatically change. But as we have been saying in the past, what we don't know at this stage if there would be any precautionary provisions. We don't expect, but we cannot say with any certainty till the Q4 numbers are finalized. But as we see the portfolio now, we don't see any

major surprises as far as cost of risk goes. It's a little difficult to forecast cost of risk for next year. As far as 22 is concerned, it should be around these levels, barring any action from the regulator on precautionary provisions.

Elena Sanchez:

Another question. Do you plan, or what is your plan with regards to Islamic banking especially after the Gulf Bank-Al Ahli Bank of Kuwait cooperation? Don't you think that there will be a challenge for maintaining your market share?

Naveen Rajanala:

Again, I think these are early days. We still see opportunity and if we look at numbers both in the conventional space and Islamic space, yes, the pace of growth of the Islamic segment is higher. Having said that, even in the conventional space there's been growth, albeit a little lower. So, we still see opportunity in the conventional market, if we look at both individuals or retail banking and corporate banking.

And for example, in corporate banking there are clients who are 100% Islamic. There are a few who have a proportion where they do a certain proportion as conventional and a certain as Islamic. Then there are some who are agnostic to whether it's conventional or Islamic as long as the rates make commercial sense to them. So, we still think that there is space in this market for only-conventional banking, and I don't think it strategically changes anything for us.

Elena Sanchez:

Thank you, Naveen. There is another question about tax charges in 9M'22, reasons behind the increase?

Naveen Rajanala:

It's purely because this year so far, as we've highlighted in our presentation, Turkey has had a very good year. BBT's proportion of bottom-line contribution at a standalone level has been high, and given the tax rate being higher in Turkey, that's the reason why the tax charge is higher at a Group level.

Elena Sanchez:

Another question. Is the KIPCO-AlQurain merger positive or negative for Burgan Bank's loan book?

Raed Al Haqhaq:

As a holding company we don't lend KIPCO, we lend the operating entity. When it comes to AlQurain, they have settled all of their outstanding with Burgan. So, from a loan book, it will have no impact.

Elena Sanchez:

Another question. What is your ROE target for 2023 and the medium term?

Khalid Al Zouman:

ROE reflects our bottom line and going into 2023, we will be improving but its not going to be very significant.

Naveen Rajanala:

I agree, and I think obviously as a bank we target to be higher. It's difficult to say that in 2023 it's going to be this number, but as a bank, from a planning and strategy in the medium-term point of view we want to be as close to double digits as possible, and we are working on a path to those levels in the medium term.

Elena Sanchez:

What is the level of Stage Two loans that you have?

Naveen Rajanala:

At a group level, the Stage Two percentage is around the 16% mark. But again, as we've said this in the past these are Stage Two as per the CBK IFRS 9 rules, which are a little bit more stringent.

Also, as we've said in the past, any loan which moves positively, as in from Stage Two to Stage One has to go through a process of a 12-month curing and then, subject to CBK approval, is then moved to a Stage One or the prior stage.

Hence, I would say that if you look at this number, you have to contextualize it, that it is as per the CBK IFRS 9 provisions and rules.

Elena Sanchez:

A few questions on capital adequacy. First of all, what is the target date of completion for the Bank of Baghdad sale? And then, apart from the sale of Bank of Baghdad, what is the overall strategy to maintain capital buffers in 2023?

Raed Al Haqhaq:

We are hoping to complete the sale process by Q4 of this year, so it will not be part of the financials at year end.

In terms of capital buffers, we continue to be at 11%. This is our target, and we have maintained it to a large extent, even with Central Bank of Kuwait easing on the CET1.

Elena Sanchez:

A few questions on asset quality. Can you give some guidance on NPL ratios?

Naveen Rajanala:

At the beginning of the year in Q1, we said that there was this one large exposure which skewed the NPL ratio. Currently we are at a 2.6% level and we hope to take it further down in Q4, but again it's subject to certain internal processes.

So, we don't expect that number to spike up, we definitely expect that to go down. Unfortunately, not in a position to say with any degree of certainty what that number is going to be, but we don't expect that to deteriorate is what we can say at this stage.

Elena Sanchez:

Can you share some details about your new retail banking strategy, and some target ratios such as share of retail loans to total loans, etc.?

Naveen Rajanala:

Yes. I think as we've highlighted earlier this year as well, one of the areas where we are focusing our growth is retail. As we've said in the past, we're largely a corporate bank especially in Kuwait where the retail was around 9-10% of the Kuwait book.

If I were to contextualize that from a market point of view, our market share is about 3% or so. It's gone up a little since our execution of our strategy over the last 18 months or so and we expect our market share to be much higher. We aim to be around 6-7% in the long run and obviously, to reach that level we have to do a lot of things right over the next three to four years.

Our strategy has been that we have reactivated the front line and our sales capacity, and we relaunched some of the key products and have created that momentum within the whole retail infrastructure. As Mr. Raed pointed out early in the presentation, it has started paying dividends in terms of good results so far. But we are very careful in our growth, so we don't grow for the sake of growth.

Cost of credit is an important parameter, and risk parameters are important for us. So even on that front, the performance has been good. It's been calibrated, measured and good growth with very minimal to no impact on risk metrics. In fact, risk metrics have improved while the growth has been there.

Elena Sanchez:

Other than retail banking, what is the strategy to accelerate growth, going forward?

Naveen Rajanala:

In Kuwait as we have said, we have a good corporate franchise and they also have the mandate to tactically grow in areas where we have risk appetite. We also have a private banking franchise where we are also developing some wealth capabilities, which will also provide some opportunities for growth.

On the international front, I think Algeria is a franchise which typically grows about 6-7% and we also expect growth to come from Algeria. So overall, as per our earlier guidance, our Group growth should be around 5% or so.

Unfortunately, this year Kuwait numbers have fallen a little bit, purely because of a couple of large transactions where there have been repayments. But again, this is something that we are very conscious of in Kuwait, that transactions which make sense from a return on risk adjusted capital, the RORAC, we want to retain them. If there are transactions where the RORAC's are not optimal or do not meet our minimum requirements, we are happy to let go.

So, it's an impact of that, but we basically do not believe in getting into transactions where the asset pricing is too low. So that's why the number has fallen a little bit in 9M'21, but we see this as a one-off.

Elena Sanchez:

Thank you, Naveen. We'll take a question now from Rakesh Tripathi. Please go ahead.

Rakesh Tripathi:

Thank you very much for the presentation. I had a couple of questions. I'll start with the first one on the loan and deposit trend. I understand you talked earlier about deposit decline being part of a deliberate strategy in tandem with the trends you've seen in the loan book.

So, in terms of loan book, we have seen for other Kuwaiti banks and some of the other large Kuwaiti banks a solid loan growth. I'm talking about varied sizes, large banks and small banks. But you have mentioned the repayments here in particular, So can you talk a little bit more about what are you seeing? And how do you expect to return to actual loan growth? Which segments do you see driving that? I understand that retail would be a part of it, but it will

probably be a smaller part of it. So which segments within the corporate book will drive growth?

Secondly, since you have cut back sharply on deposits in this quarter in particular, if you have expectations of returning to loan growth again in Q4 or say Q1 of next year, then you will have to, I suppose, mobilize deposits again. So how convenient do you think this kind of an exercise will be? And should we expect these kinds of trends from the bank going forward, that there will be random shifts in deposits, depending on the kind of loan growth that we see? Or should we expect a smoother management of how you are looking at your deposits?

Naveen Rajanala:

Tactically, if you look at Kuwait as a market it has access to some of these large deposits from the quasi-government institutions, where you can get large pieces of deposits at fairly competitive rates. So, I don't think that's a challenge and it's not just Burgan, the entire market has access to it.

As we've said in the past, we have consciously moved away from heavy dependence on these kinds of deposits. Term deposits specifically are getting more and more expensive and sort of to enter that game of pricing higher deposits to get deposits, so we have not done that. But to get those term deposits, it's not too difficult in this market. If we pay up, we should get it and I think that's not a risk as we see at the moment.

In terms of the loan book, yes, going forward as we've said earlier and as Mr. Khalid also mentioned that going forward we look at this as a one-off, where two to three large clients have repaid. But we don't expect that to be a trend, and we expect the loan book to consistently grow over the next three to five years.

Now the growth will come and obviously as we've talked about, retail is one opportunity in Kuwait and definitely will see growth there. We also expect Algeria to contribute.

Now if I look at what other segments within Kuwait, it'll be the corporate book. If I were to answer where specifically in the corporate sector, these are largely going to be the government contracting companies where a lot of these suppliers and contractors to these large projects within Kuwait and we are seeing a lot of traction. We see opportunities where these companies don't just give us the asset side of the business, they also give us the unfunded business as well. So, we are also, as an organization, becoming very conscious of not being an asset-led business, where we want relationships to be a lot more wholesome. That's a part of our strategy, and in order to have more sticky business on the client relationship side also.

Rakesh Tripathi:

In that context, how sustainable do you see your margins if suppose you were to see good, solid growth that demands that you take on more of these term deposits? So where do you see the

Net Interest Margins then stabilizing? The five to seven bps of improvement from here on, do you see that as something that is sustainable, based on the kind of liquidity that you are seeing in the market, or do you expect to see that come under pressure?

Naveen Rajanala:

We are at 2.3% at the moment so sub-2.5% is maintainable. If you look at it historically, for example, the Algerian business has given us margins of about 7%. So, at Group level, they are slightly down this year so far at about slightly below 6%. In Turkey, the margins are going up. In Kuwait specifically, the pace of yield increase has outpaced the increase in funding cost.

We are fairly confident. In Kuwait, our funding strategy is a mix of both local funding as well as we've done some tactical transactions specifically in the syndicated loan space where we just kept our cost of funding lower. So, if there's a need, we can tap that as well. But based on our planning and modelling, we expect that positive jaw between the yield increase and funding cost increase to be there. So, we are fairly confident that we would be at the 2.3% to 2.4% sort of level at a Group level in terms of margins.

Rakesh Tripathi:

Makes sense, Thank you very much.

On the NPLs, I'm talking about Kuwait in particular, and this is something we saw last year as well where a couple of exposures were reported as NPLs, and your NPL ratio was high. I guess in the first nine months or so and in the last quarter, perhaps you had some recovery or some write-offs, and the NPL ratio came down again. This year again, we saw one large exposure, like you mentioned. Should we expect a similar kind of trend in Q4 this year, of course, CBK permitting?

And secondly, do you see this as some kind of a pattern, some kind of a challenge emerging, especially in the Kuwait book? Or these are purely one-offs that we should not really consider when we forecast the business and when we look at the credit side?

Naveen Rajanala:

These are purely one-offs and even last year this particular transaction though it's in Kuwait book, it's not a Kuwait exposure and It's not a Kuwaiti client. But having said that, even though it led to a formation of a large NPL, the exposure was very well collateralized. So, in terms of translation to cost of risk, it was marginal because we had solid, good collateral and we are fairly confident of a recovery in the course of the next few months or so.

Now, in terms of the NPL trend, as I said earlier, we don't expect it to deteriorate. But will we be writing off, etc.? Those are subject to internal approvals and regulatory discussions. So, it's a little difficult for us to give an answer one way or the other, because the frank answer is, at the moment, it's not yet firmed up.

Rakesh Tripathi:

That is understandable. I have just one last question and that was on the impact of the rising rates. So, with the interest rates going up, what kind of an impact in general do you see on the market, as well as within your book as well, retail and corporate and the ability of the customers to pay back? Do you foresee any kind of credit stress emerging? How do you think the corporates in general in Kuwait are placed? And how do you think your loan book is placed to handle these kinds of rate hikes?

Naveen Rajanala:

On the retail side the key loan which is given across this banking system are all fixed in nature and they are fixed for five years. So, if we look at pre-COVID, the CBK discount rate used to be very close to 3%, so the loans that were priced back then were priced at a very similar level now. Given that there's a price cap, we're talking about a 6% all-inclusive interest rate for individual borrowers on secured loans, which does not tax them too much in terms of repayment capacity. So, it's marginal.

When we looked at our risk parameters, we haven't seen any of the new loan book behaving any worse, and in fact, the book has performed better. As I said, two factors leading to that, one is though there is an increase in price, it's still much lower than if you compared to regional or global benchmarks. On the corporate side as you're aware, CBK has not followed suit to all the Dollar rate hikes, so the quantum of the KD rate hike has not been as high as it's been in the other currencies. So again, we are not seeing any particular stress on debt servicing or interest servicing capability of the borrowers and we don't see that as a challenge at the moment.

Elena Sanchez:

Thank you, Naveen. We'll take our next question from Essa Buheji. Please go ahead.

Essa Buheji:

Good afternoon. A follow-up question on the top line and margins as well. When you look at q-o-q, there's a big improvement in terms of Net Interest Income. However, when you look at geographically the Kuwait operation, it was flat q-o-q. So, it seems it's all coming from international operations. I just want to understand how come we're not seeing this margin improvement in Kuwait, if you can just clarify that.

Naveen Rajanala:

I think the Margin improvement as far as q-o-q goes, a lot of that also has to do with Kuwait. So, if we look at slide number 13, Kuwait margins also went up, which largely contributed to the increase in the Group margins in Q3.

Essa Buheji:

Another question if you don't mind on the monetary loss that you took for the hyperinflation accounting. Last time when we met, you mentioned that the impact should be less, going forward, given that the one that was booked earlier was accumulative prospectively and this quarter also we saw another five million loss.

Khalid Al Zouman:

In our last call, we said that it was the first time that the hyperinflation accounting is implemented and that's why the impact was large, because the accounting treatment specifies to go back to the date of inception, and we said at that time that we have a couple of solutions.

One of the solutions, upon the discussion with the management was the CPI linked bonds and we didn't recommend to go into that solution. We have another solution we are looking at again, but maybe it will not materialize.

But going forward, yes, as you rightly said, if the inflation rate does not go up highly, the impact will be lower. So even when we discuss with our senior management, we think that this will continue even to next year, but we expect it to not be at the same levels as 2022.

Essa Buheji:

All right, thank you. Just one last question on the provisioning. We see a big drop in cost of risk. Is it fair to assume that this is not sustainable? And what is your guidance in terms of cost of risk for the rest of the year and next year?

Naveen Rajanala:

Currently we are at 40 basis points. As I answered one of the questions earlier, we probably hope to be around this level for the end of the year, as we do not see any major surprises in the last quarter. But having said that, there could be precautionary provisions which could skew this number higher, which we don't know. So, barring that, we should be around the 50-basis-points level or slightly south. But if there is precautionary provision, that number could be slightly bigger.

Essa Buheji:

Thank you very much.

Elena Sanchez:

We will take a question now from Dmitry Ivanov. Please go ahead.

Dmitry Ivanov:

Thank you very much for the presentation. I have three quick questions, the first one on your dividend policy. Is it possible just to provide more color on criteria you use when you decide

whether to pay dividends and in what amount? So, for instance, you mentioned a 100-basis-point buffer over minimal capital ratios. But do you have any other criteria when it comes to paying dividends and deciding on the amount of these dividends? That's my first question.

And my second question would be, any kind of guidance on your CET1 ratio by the end of the year? Because as we discussed now, you project some acceleration in loan growth rates. So, would it be possible just to provide any expectations on CET ratio, excluding this coming sale of Bank of Bagdad by the end of the year? what is the organic CET ratio?

And my last question on your investment portfolio. Is it possible just to remind us on the composition of the investment portfolio, like equity, debt? And are you concerned about market volatility and impact of regulation on the investment portfolio and the impact on your capital ratios? Thank you very much.

Naveen Rajanala:

I'll start with your third question. Our investment portfolio is largely comprising of bonds and a lot of these bonds are for our HQLA portfolio, which is acquired for LCR and SFR portion, liquidity ratio compliance and a lot of these bonds are classified as FVOCI. So, they would impact capital a bit. But again, when we do our capital planning, we make sure that we project the expected revaluation loss on some of these investments.

Using that, when we project capital, so just moving on to your second question, we expect the year end CET1 to be slightly north of 11.5%, as we see now and that's a number which is net of any dividends that's paid. Though we say that we typically maintain or aim to maintain about a 100-basis-point buffer over the minimum required, the minimum required for this year is 9%. But we usually benchmark ourselves against 10.5%. So, we aim to be above 11.5%, as we see things now.

In terms of dividend policy, we don't have a set policy as such. But as you rightly said, we look at two or three factors, one of the factors being CET1 and capital levels, the other being what is the expected business growth in the coming fiscal year, and then balance that out. Obviously, one of the key factors here is the regulator's involvement in terms of what the level of dividend is going to be.

The third factor that we put in when we do the dividend decisioning is market practice. We have a market where investors expect dividends, including retail investors, and we have to be in line with the market practice. So, these three factors put in then drives our dividend decisioning.

Dmitry Ivanov:

Thank you very much. Just a small clarification. This expectation of north of 11.5% in terms of CET ratio, does it include the potential sale of the Bank of Bagdad, or its just organic growth

expected based on the current dynamic of the loan portfolio and the P&L you generate from this loan portfolio, just to clarify?

Naveen Rajanala:

As we see it now, it includes the Bank of Bagdad sale. As we said, we have come a long way in that process and we are almost at the verge of conclusion, barring one regulatory approval.

Dmitry Ivanov:

So, excluding Bank of Bagdad, you expect some decrease in CET ratio organically?

Naveen Rajanala:

No. relative to Q3, it would still be up because all our earnings for the year, including Q4 earnings, would be added back to the capital. So, we would still be plus 30 basis points or so net of any other negative movement in our OCI.

Dmitry Ivanov:

Understood, thank you very much for the clarification.

Elena Sanchez:

We will take a last question from Konstantin Rozantsev in the Q&A designated area. Central Bank of Kuwait has increased rates much less than the Fed this year. Can this lead to outflows of deposits from the banking system in Kuwait as residents find it more attractive to place their proceeds abroad?

Naveen Rajanala:

We haven't seen that sort of run-off on bank deposits. As we've said earlier, the KD deposit cost has gone up in spite of central bank discount rate being not as high as the other benchmarks across the region have been. So, we haven't seen any outflow of liquidity because of that, not so far.

Elena Sanchez:

All right. I can see no other questions in the queue, therefore, we can conclude today's call. I would like to thank Burgan Bank's management for their time today and for all the answers they provided. And I will hand it over to you, Mr. Raed, for any closing remarks. Thank you.

Raed Al Haqhaq:

Thank you, Elena. As always, we are available. If you have any questions, please call us, send us an email, and we'll be glad to answer.

Elena Sanchez:

Thank you. Have a good day. Bye.