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رأس المال المصرح به ٤٠٠,٠٠٠,٠٠٠ د.ك
رأس المال المصدر والمدفوع ٢٦٢,٥٠٠,٠٠٠ د.ك
سجل تجاري رقم ٢٤٠٦٧

بنك برقان
BURGAN BANK
K.P.S.C. | ش.م.ك.ع

Date: 11/11/2021
Ref: 756/2021

الكويت في: 2021/11/11
إشارتنا : 2021/756

M/s Boursa Kuwait

السادة / شركة بورصة الكويت المحترمين،،،

Dear Sirs

تحية طيبة وبعد،،

Sub: Transcript of Burgan Bank K.P.S.C. Analyst Conference for the 3rd Quarter 2021

الموضوع: محضر مؤتمر المحللين لبنك برقان ش.م.ك.ع. للربع الثالث من عام 2021

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 02:00 pm, Monday, corresponding to 08/11/2021.

بالإشارة إلى الموضوع أعلاه، والتزاماً بأحكام البند (4) من المادة (8-4-2) من كتاب قواعد البورصة، مرفق لكم طيه محضر مؤتمر المحللين والذي تم عقده عبر الهاتف في تمام الساعة 02:00 ظهرا من يوم الإثنين، الموافق 2021/11/08.

Best regards,

وتفضلوا بقبول فائق الاحترام،،،

خالد فهد الزومان
Khalid Fahad Al-Zouman
رئيس مدراء التخطيط المالي والاستراتيجي للمجموعة
Group Chief Strategic Financial Planning & Control Officer

بنك برقان 011 Burgan Bank

BB/005-06/2021

بنك برقان
BURGAN BANK

9M'21

Earnings Conference call Transcript

Monday, 8th November 2021

9M' 21 Burgan Bank Earnings Call

Monday, 8th November 2021

Pre-Transcript of Burgan Bank Earnings conference call that took place on Monday, 8th November 2021 at 14:00 Kuwait time (UTC+03:00)

Burgan Bank Participants:

Mr. Khalid Al Zouman	**Group Chief Financial Officer**
Mr. Naveen Kumar Rajanala	**Group Head of Group Strategy, Capital Management and Investor Relations**

Operator:

Good afternoon everyone and welcome to the Burgan Bank Group 3rd Quarter 2021 Earnings Call. Thank you very much for taking your time to attend this conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Elena Sanchez. Please go ahead.

Elena Sanchez:

Good afternoon, everyone. Thank you very much for waiting to start the call today. This is Elena Sanchez from EFG Hermes and I welcome you all to Burgan Bank's nine-month 2021 earnings call. It is a pleasure to have with us on the call the following speakers from Burgan Bank. Mr. Khalid Al Zouman, Group Chief Financial Officer, and Mr. Naveen Rajanala, Group Head of Strategy, Capital Management, and Investor Relations. I will hand over the call now to Mr. Khalid and Mr. Naveen to start with the presentation Thank you.

Khalid Al Zouman:

Good afternoon everyone and welcome to the Burgan Bank Group 9M'21 Earnings Call. Thank you very much for taking your time to attend this conference call.

Let me start with Slide 3 which reflects the performance highlights of both Q3 '21 and 9M'21

- Revenues: Burgan Bank Group's Revenues increased by KD 2mn YOY to reach KD 167mn for 9M'21; Q3'21 Revenues of KD 55mn slightly decreasing by KD 2mn;
- Margins: In terms of Margins, it was stable at 2.1% for Q3'21 & 9M'21
- Credit Costs: Significant reduction in credit costs which improved by 61.8% to KD 9mn in Q3'21 and a reduction of 11.6% to reach KD 48mn for 9M'21

- Net income: Burgan Bank generated healthy bottom-line with Net income increasing by 65.3% to reach KD 16mn for Q3'21 and Net Income increased by 23.6% to reach KD 40mn for 9M'21

Moving on to Slide 4, highlighting performance on Revenue and Operating Margins:

- Burgan Bank Group's Revenues grew due to Kuwait's strong performance; Kuwait's revenues grew by 10% from same period last year to reach KD 98mn
- We are seeing signs of stabilizing Margins in Kuwait; we don't expect any further reduction in funding costs and hence we expect Margins to be around 2% - 2.1%
- The Group's Operating Profit is stable at KD 96mn for 9M'21, largely due to Kuwait's operating profit growing at 14%
- Kuwait entity continues to be efficient with 9M'21 Cost-to-Income ratio of 33.1%; Group's Cost-to-Income ratio is stable at 42%

Moving to slide number 5, which highlights Burgan's Credit Costs and Net Income:

- Group's Provisions for 9M'21 decreased by 11.6% while Q3'21 Provisions significantly reduced by 61.8%. Q3'21 Cost of Credit for the Group decreased from 1.9% to 0.8% while the cost of credit for Kuwait decreased from 0.9% to reach 0.7%
- As a result, Net Income for 9M'21 was extremely strong at KD40mn, growing by 23.6%. Net Income for Q3'21 grew strongly by 65.3% to KD 16mn
- RoE for 9M'21 improved to 6.6% with Q3'21 RoE improving to 8.4%
- EPS for 9-month period increased by 38.1% to reach 13 Fils (compared to 10 Fils in 9M'20)

Moving on to slide 6. This slide captures the continued trend in improvement in Asset quality in Q3'21:

- The first chart shows a declining trend for NPLs over the last two quarters
- In Q3'21, the NPL ratios for the Group and Kuwait dropped to 4.3% and 3.4% respectively
- The bottom chart shows the strong Coverage that Burgan has at Group and Kuwait, both in terms of provisions and collaterals. The NPLs have decreased at Group level to KD 210mn over the course of the last two quarters
- The NPL Coverage ratios for Group and Kuwait are extremely healthy at 198.5% and 249.9% respectively

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

Naveen Rajanala:

Thank you, Mr. Khalid. Good afternoon everyone.
Let's move to slide 7 which shows the customer loans details:

- As reiterated in the past, the loan growth focus is in Kuwait with lower/no growth in the international loan book. As a result, Kuwait grew by 2% this year so far while international book reduced by 5.5%
- The loan composition continues to be similar to the previous quarters with no major change

Moving on to Slide 8 on Customer deposits. The key messages here are:

- Access to liquidity via customer deposits and international markets remains solid for Burgan.
- Customer deposits in Kuwait grew by 6.8% to KD 3,180mn in Q3'21 with international operations maintaining stable levels of deposits
- Also, CASA balances remained stable around 31% of total deposits

Moving on to slide 9 that captures Burgan's Capital and Liquidity Levels:

- The CET 1 Ratio and CAR Ratio for the quarter stood at 10.2% and 16.3% respectively, both well above the revised regulatory requirements under the CBK forbearance measures. There is guidance from the regulator on how the forbearance measures will be rolled back over the next two years.
- The minimum capital requirements will go up by 100 bps from 1st Jan 2022, i.e., minimum CET1 requirement for Burgan will increase to 9% and similarly Tier 1 and total capital requirements will increase by 1% to 10.5% and 12.5% respectively. Then increasing by a further 150 bps from 1st Jan 2023.
- The Net Stable Funding ratio of 106.5% and Liquidity Coverage Ratio of 129.4% indicates the healthy levels of liquidity within the Group and remains well above the regulatory minimums.
- Similar to revised capital requirements, the minimum NSFR and LCR requirements will increase by 10 bps, i.e., minimum requirements will be 90% from 1st Jan 2022. Then increasing by further 10 bps from 1st Jan 2023.

Slide 10 provides details of the planed upcoming Rights issue:

- Number of shares offered are 375mn shares at 190 fils per share
- Market price in around 230- 240 levels

- The size of the offering is KD 71.3mn
- The offering period starts on 15th Nov'21 and is expected to conclude by the 12th Dec'21. Offering period is broken into:
  - Rights period: 14th Nov – 28th Nov
  - Public offering period: 5th Dec – 12th Dec
  - public offering period will be opened only if there are unsubscribed shares available after the rights period
- The rights issue impact on capital will be a boost of 120 bps + across capital ratios

Slide 11 provides details of performance by entity and the key messages here are as follows:

- Kuwait franchise contributes 76% of Group's assets and around 90% of Net income
- We have covered all these metrics for Kuwait in earlier slides.

International Operations:

- Despite the challenges, the international operations performed well and metrics continue to improve.
- The NIMs continue to be very healthy in these markets
- Turkey: we continue to reduce balance sheet size in this market as per our strategy
- Now only contributes 13% of Group's assets
- Continued improvement in the NPL levels of Turkey and the expectation is positive going forward
- Algeria & Tunisia: continue to deliver good numbers across metrics

I will now hand over to Mr. Khalid who will cover the next slide and conclude the presentation.

Khalid Al Zouman:

Thank you, Mr. Naveen
In Conclusion:

- By all measures, this was a very strong quarter
- Improvement in Asset quality expected to continue
- Rights issue will enable stronger growth especially in Kuwait

Elena Sanchez:

Thank you, Mr. Naveen and Mr. Khalid for the presentation. We will open up the floor for Q&A. There are two options to ask a question. You can write your question in the designated Q&A area or you can also raise your hand and I will unmute your microphone. We will just pause for a minute to receive some questions. We have a question from Denis Grigoriev. Please go ahead.

Denis Grigoriev:

Hello, colleagues. Thank you very much for a great presentation. Just a couple of questions on the results. The first question is about the reduction of cost of credit. Could you please explain why? Was it because of the high rates in 2020? Or were there some good loans that you issued in 2021? So, this was a significant reduction of cost of credit. Secondly, could you please repeat your guidance from the Central Bank of Kuwait? Is it 100 basis points up starting from 1st of January 2022? And additional 100 to 150 basis points from the 1st of January 2023? And my last question is about your plans to pay out dividends. Does your dividend policy remain or you prefer to reserve some capital? Thank you very much.

Naveen Rajanala:

Let me start with credit costs. The improvement in credit costs, obviously, relative to last year. Last year, our credit costs were higher given that we were in the midst of a full-blown pandemic. And Turkey was also facing a lot of headwinds. So, we had a prudence measure of booking some additional provisions. Now, given how the outlook has improved, both in international markets and also in Kuwait, credit costs have accordingly come down in this quarter in this year so far.

Hopefully that answers your question on credit costs. On the forbearance measures, what Central Bank has communicated is they had suspended the capital conservation buffer of 2.5% in Q1'20. From 1st of January 2022, across the banks, out of the 2.5%, 1% of the buffer will be reinstated back.

So, effectively, for example, for Burgan, the minimum CET1 was 8% which will jump to 9% from the first quarter 2022 onwards. And then the remaining 1.5% will be reinstated back from the 1st of January 2023. So, effectively, going back to the previous capital regime from Q1 23 onwards. And similarly, on liquidity, the minimum requirement is 80% for LCR and NSFR. From Q1 22, the new minimum requirement will be 90%. And from Q1 23, the minimum requirement will increase to 100%.

At this point, I don't think we're allowed to give any guidance on dividends, but I think it is dependent on the bank's discussion with regulators and also dependent om if the bank has enough retained earnings. And I think from a capital point of view, we are very self-sufficient, especially after the rights issue. So, we don't expect that to be an issue for dividend payment. I think we are also guided by the market in terms of what the expectation for dividends is.

So, in short, I know I am not giving a clear answer on dividend, but unfortunately, we don't have a policy where we stick to a certain number, but we are guided by performance, regulatory discussions, and market expectations.

Khalid Al Zouman:

I totally agree.

Denis Grigoriev:

Thank you very much. I asked about the dividends because what happens if the rights issue isn't successful and thus, your capital remains at 10.4%, if I'm not mistaken, which you have now. So, assuming from 8% CET1 and an additional 2.5%, you can basically stay at this level. There is no rights issue required based on the net income.
And if you pay out part of the dividends, it might be very near to the threshold, that's why I asked about this. Thank you very much. I wish you a successful rights issue.

Naveen Rajanala:

Thank you.

Elena Sanchez:

Thank you, Naveen. We have a question now from Rakesh Tripathi. Please go ahead.

Rakesh Tripathi:

Hi. Thank you very much for the presentation. A few questions from my end. One, if you could just talk a little bit about the decline in the international net interest margins in this quarter. And also, the non-interest income, the decline that we've seen in Q3 and what is your outlook, your expectations on that? And lastly, if you could talk a little bit about any plans to issue debt.
I think there was a plan in September, but that one did not go through. So, I just wanted to understand if you have any plans going forward to approach the markets again for senior issuance.

Naveen Rajanala:

Let me start with the margins. On the international operations, the margins reduction is largely driven by reduced margins in our Turkish franchise. As we are all aware, the markets there have been quite volatile, especially in the interest rate environment, given the decisions by the central bank in Turkey. So, we have seen the margins being squeezed there a bit. There is a little bit of lag with the repricing of deposits, but we expect that to recover a little bit more.

But having said that, if you look at our Algerian franchise, it is holding its margins and we expect their margins to continue to be healthy. But largely, the fall in margins is driven by our Turkish franchise. Sorry, what was your second question?

Rakesh Tripathi:

My second question was on non-interest income, but before we move to that, in Kuwait, can you talk about what you see as drivers? I think there is something we have seen with the other banks as well, the Kuwait NIMs have contracted a bit. Is it the funding costs that have been affected or the yields that you see on the loans?

Naveen Rajanala:

Yes. In terms of Kuwait, if you look at our funding cost, it's improved over the last few quarters, but we reached a point by the end of the second quarter beyond which there is no more space left to optimize the funding cost anymore. Obviously, yields are a little challenged, but as Mr. Khalid said, I think we have reached a point where we expect the NIMs to stabilize at these levels.
We don't expect any further contraction, maybe five basis points here or there. But we expect NIMs to stabilize at these levels for Kuwait.

Rakesh Tripathi:

Great. The other thing I wanted to check was on the non-interest income as well. I think, on a quarterly basis, there has been contraction.

Naveen Rajanala:

Yes. You are talking about non-interest income at Group level for the third quarter, right?

Rakesh Tripathi:

Yes.

Naveen Rajanala:

In the third quarter of 2020, obviously, we had some one-offs, especially the performance of our investment portfolio was exceptionally strong in the third quarter last year. But if you look at it, the performance of that portfolio has been consistently strong over the last few quarters, including third quarter this year. But from a magnitude point of view, it's slightly lower than what it was in Q3 20.

Rakesh Tripathi:

Okay. The last two things, one is on the senior secured issuance. If there are any plans to approach the market again, maybe at the end of this quarter or sometime early next year. And lastly, if you could guide us on your ESG releases as well. I think there were a couple of reports that were due to be released this year, so I just wanted to understand where we are in terms of those.

Naveen Rajanala:

On the ETMN obviously, we remain open to the option at the right time when that the market conditions are right are and if the pricing is optimal. I don't think we have a set date that we want to issue, because it was more a funding diversification move, rather than a liquidity requirement move. But it is a commercial decision at the end of the day. If we have availability of a window at the right price, then we would look at it.
And your second question on ESG, we plan to release the last two years' reports over the next 60 to 90 days. And starting 2022, we expect, for example, 2021 reports to be released immediately in the second quarter of the following year. So, for example, for 2021, we expect the report to be on track to be delivered in the second quarter of 2022.
Similarly, we are also working on getting the Burgan Bank rating on MSCI and a couple of other indices. We have already put the process in motion to have all of these ready. So, you will see a lot more disclosures from Burgan from Q1 of 22 onwards on the ESG front.

Rakesh Tripathi:

Right, but please correct me if I'm wrong, but I think Burgan has a rating already from MSCI. An ESG rating, that is.

Naveen Rajanala:

The MSCI ratings process and the way it works is, they have an automatic rating, where if an entity does not report, they base their rating on whatever is publicly available. But we will be engaging more actively with MSCI from '22 onwards. So, for the financial year '21, you will see a rating that it is truly reflective of the actual ESG rating of Burgan.

Rakesh Tripathi:

Okay, that will be great. Yes, I think they are publishing right now. It is unsolicited, but, yes, I think once you liaise, that should help it improve. Thank you very much.

Elena Sanchez:

Thank you. Naveen will take a couple of questions from the chat now. Can you please give us an update on the sale of your Iraqi subsidiary?

Naveen Rajanala:

Well, I think it's similar to what we've said last quarter. As I've said in the past, unfortunately, with the first set of buyers, we had progressed to a great extent but then the Central Bank of Iraq, declined that set of buyers.
Now there's negotiations going on with two other serious contenders. We've not reached an agreement on the price. So, that's where we are and once that is done and if we reach that agreement, then the second step of approaching Central Bank of Iraq will start.
We also agreed with the buyer that once we agree with price, we will go informally to Central Bank of Iraq to ensure that they are comfortable with the buyer., So, unfortunately, not much of an update since last quarter. But we still have interested parties on the table.

Elena Sanchez:

Thank you. Naveen will take a question now from Dimitri Ivanov. Please go ahead.

Dmitry Ivanov:

Hi, everyone. Do you hear me?

Naveen Rajanala:

Yes, thank you.

Dmitry Ivanov:

Thank you for your presentation. So, I have a couple of questions. Maybe first on your Turkish business. Could you give us more colour on your strategy with Burgan Bank Turkey? Correct me if I'm wrong, but I think first of all Burgan Bank Turkey relies on intergroup financing. Do you expect that your bank in Turkey will require more funding more equity injection going forward? What is your expectation with respect to dividends from Turkey? Maybe just some colour and strategy etc on the operations in Turkey.
The second question on your rights issue. So, maybe a very basic question, but could you remind us if you have commitments for this rights issue from your shareholder, KIPCO. So, how much will they commit to the rights issue? What is the minimum from them that you expect?

Maybe the third question, just more technical. When you talk about NPLs in your presentation, how do you define NPLs? Is this just one with 90 days overdue, or is this just stage 3 loans? So, these are my three questions. Thank you very much.

Khalid Al Zouman:

Thank you for your questions. You have a couple of questions. I will take the first one about Turkey. I will give some highlights, then I will keep it for my colleague, Mr Naveen, to do the rest.

I think before a couple of quarters, during our conference call, we said that two years ago we have put guidelines for Turkey. Where, for example, we have restricted them in terms of risk weighted assets. We are giving them guidelines in terms of improvement and NPL recoveries.

We are investing in terms of digital banking. We are not stopping there. We are keeping the best of our, the cream of our staff. So, we are continuing the same thing. Unless we see things are improving, then we can change the instructions and our approach there.

Now, our risk management involved in their weekly colleagues committee. I have my colleagues in corporate banking Kuwait invited there, I'm sitting in the board of Burgan Bank Turkey, so we can have integration in terms of monitoring them. We are giving them room where they can lend with certain guidelines. So, the focus is recoverability, improvement in non-performing loans, non-interest income and digital banking., So we are behind them to go with their strategy, so they can be within the market.

Naveen Rajanala:

Yes, and then if I were to answer your next question on the right. So, we expect KIPCO to have at least cover their ownership and potentially more. But our expectation is they would cover their ownership, which is about 64.5% or so.

The last question you had was on NPLs. So, we define NPLs if accounts are due 90 days or above. So, there is no dispensation from the regulator, even during the COVID, to dilute that definition to beyond 180 days etc. for reporting NPLs. If they are overdue 90 days or above, it's an NPL.

You might see a slight disconnect between stage 3 and NPLs. It's because, as per the CBK guidelines, if we define the loan at stage 3 before we move the staging to stage 2 or stage 1, any reclassification we have to wait for a 12-month curing period and additionally we need regulator's approval before we do any improvement in the staging t from one stage to the other.

Dmitry Ivanov:

Understood. Thank you for your answers. Just a quick clarification on this rights issue. So, if I understood correctly, this rights issue was matured because you expected that the pre-COVID requirements, including this buffer, will be reinstated in full. But now I guess you just received this clarification from the Central Bank that it will be in stages. Like 100 basis points, plus 150 from 2023.
You still kind of stick to the original plan of the equity of 71 million KD. So, the fact that the new reinstated ratios will be not reinstated in full, you still stick to the original plan. So, there are no changes to the equity in terms of absolute amount of equity to be injected.

Naveen Rajanala:

I don't think our plan was to just meet the minimum requirements. I think the capital increase in largely to drive and support our growth over the next four to five years. In spite of the phased approach, there was an expectation that maybe it will not be a complete revert back to the previous regime. It will be over time. But in spite of that, our decision was that we want to do the capital increase one time and make sure that it is sufficient for our franchise growth over the next five years or so.

Dmitry Ivanov:

Understood. Thank you very much.

Elena Sanchez:

We'll take a question now from Konstantin Rozantsev. Please go ahead.

Konstantin Rozantsev:

Thank you very much for the presentation. I had three questions that I wanted to ask. The first one is on the cost of risk or cost of credit. Could you please confirm what should be the outlook for this metric? For the fourth quarter of this year and also for the full year 2022, for the next year, what should we expect in this regard?
The second question that I wanted to ask, there has been some decline in these types of loans classified as stage 2 during the third quarter. I'm estimating the stage 2 loans ratio declined by about 60 basis points during this quarter, so if you could give any colour on this decline, that would be hugely appreciated.
The last one, would you please give some details about your exposures to related parties? I appreciate you might've been disclosing this sometime previously, but still, the exposure to related parties, based on the financial statements, would be about 20% of the cross lends of the bank. Any colour on the borrowers, if you could please provide where they operate, the

industries, any high-level colour or specific colour on these exposures would be greatly appreciated. Thank you.

Naveen Rajanala:

Let me start with the outlook on credit cost. Unfortunately, it's difficult to give you a year-end number and where 2022 will be. We expect it to improve and be lower in next year, with a fair degree of confidence. This is assuming that the pandemic is behind us and that there are no further negative fallouts.

Obviously, it'll also depend on the fact that there is no more increased volatility in the Turkish market. But in general, from our internal planning point of view, we expect credit costs to improve. It's a bit difficult to give a number also, because we don't know what kind of precautionary provisions etc we might be asked to take. So, it's a bit difficult to hazard a guess on the exact number. But in '22, we expect improvement in credit costs.

The second question you had was on our stage 2. I think the question was, how much percentage of the portfolio in stage 2. Is that correct?

Konstantin Rozantsev:

I've seen that this year, stage 2 loans declined during the third quarter by about 60 bps. So, stage 2, I think accounts for about 15% or so. But there was a decline incrementally quarter on quarter during the third quarter. So, just any colour on that specific decline.

Naveen Rajanala:

Yes, I think we've seen a lot of improvement in Turkey. As we said earlier, obviously last year around the same period, we had a few more clients in stage 2 who potentially moved to stage 3. Then we cleaned the books through debt asset swaps and write-offs.

We expect internally also to see some more improvement in stage 2 and 3 but again, just to reiterate, the staging that we classify here in Kuwait is as per the CBK guidelines. But you might not see any improvement being reflected immediately, because as I highlighted earlier, the curing period of 12 months and CBK approval are required before any movements can happen.

So, there might be a little bit of a lag before you see the improved numbers being reflected in stage 1, 2 and 3 while in reality, there might have been an improvement, so it's just a process-related thing which might delay that movement. But the short answer to your question is that we expect that stage 2 loans proportion to continue to improve as we see things at the moment.

Konstantin Rozantsev:

Thanks a lot. The final question that I had was on the related party exposures. So, the financial statements classify about 20% of the portfolio are those related party exposures, in loans specifically. If you could just give some high-level colour in what those exposures comprise.

Naveen Rajanala:

Again, given the size of KIPCO, especially in the domestic market, it's a large entity in Kuwait which is diversified across industries. One of the first things is that the bank does not lend to the parent. We only lend to the subsidiaries of KIPCO. All these transactions are done at arm's length.

Most of the exposure or a large portion of this exposure are to entities in Kuwait. The other thing to note is that most exposures are collateralised and these are strong collaterals. Some of these exposures have coverages well in excess of 130% or 140%. Also, from a trend point of view, if you see the exposure levels are declining over time

If you look at our balance sheet over the last three to four years, we've not really grown that much. The Kuwait franchise has grown, but at a group level, and once, as we said, post the capital increase, we expect growth over the next few years. So, we expect the proportion of related party exposure, as a percentage of our total assets, to also fall over the next three to five years.

Konstantin Rozantsev:

Understood. But you cannot give any specific colour on the borrowers? What are the biggest borrowers comprising this related party balance?

Naveen Rajanala:

Unfortunately, it's a bit difficult to give names of entities. Because, it's not public information.

Konstantin Rozantsev:

Okay, thanks a lot. Thank you very much.

Elena Sanchez:

Thank you. Naveen will take a few questions from the chat now. One on NPLs. Have all the accounts that were migrated to a stage 3 in Q1 2021 been resolved now? Or should we expect further reduction in NPLs or in the NPL ratio in Q4 2021?

Naveen Rajanala:

So, the temporary problem of Q1 was resolved in Q2. But we expect going forward, in the last quarter, we expect further improvement in NPLs by the year end.

Elena Sanchez:

Okay, thank you. There are a few questions on capital and equity. Specifically, on the capital buffer that you expect to maintain towards the minimum requirements, starting in 2022 and starting in 2023.

Naveen Rajanala:

As we've communicated in the past, in terms of capital buffers, as an entity, we typically plan to have at least 200 basis points of buffer at total capital level. So, as and when the minimum capital requirement CAR level goes back up to 14%, we would maintain CAR of at least 16% or thereabouts. That's what we've done over the last many years.

As far as CET1 is concerned, our aim is to maintain a buffer of around 100 basis points. During the year, this buffer contracts a bit because of the natural growth of our franchise while interim profits are excluded from capital. But by the end of the year, the 100 basis points buffer is restored.

So, we tend to target to operate around the 11.5% mark in CET1 under the pre-COVID capital regime. Over the last few quarters, because the minimum requirement of CET1, has gone down since Q1 '20, our CET1 has fallen a bit lower. But when we do our capital planning, we make sure we are planning to ensure that 100 basis points buffer is maintained at the end of the financial year.

Elena Sanchez:

Thank you, Naveen. A question on margins. If you could provide any outlook on margins for Q4 2021 and for 2022?

Khalid Al Zouman:

In my presentation, I said that our model will be stable and we expect it to continue. But we expect also in '22 to improve a little bit. Actually, I am talking about Kuwait. We are introducing a new project. We're doing some sales initiatives, to improve our demand deposits and current accounts. So, that's something we have been working lately on. Someone has been recruited lately to handle retail banking and initiatives, salesforce. So, we expect some improvement coming from retail, whether on interest income or in terms of cost of funds.

Elena Sanchez:

Thank you. There is a question, the last question that I can see on the chat, is about the political backdrop. What is your take? What are your thoughts on the resignation of the cabinet?

Khalid Al Zouman:

I think that's something we always expect as normal Everybody is saying there is a new era and something is going to improve. The cabinet change has happened many a times in the past and this does not have much impact on the banking sector.

Elena Sanchez:

Thank you, Mr Khalid. We have no further questions in the chat and I'll just hand it over to you and to Naveen for any closing remarks.

Khalid Al Zouman:

I'd like to thank you personally and I would like to thank all of our colleagues who attended the call. I hope to see you for year end next quarter. I leave it to Mr Naveen, my colleague, if he wants to say anything.

Naveen Rajanala:

No, that's it. Thank you again and apologies for the delay in joining. We had some technical issues, so we dialled in a little late. Apologies for that.

Elena Sanchez:

Thank you, Mr Naveen and Mr Khalid. Thank you, everyone, for joining the call today.

Naveen Kumar Rajanala:

Thank you very much.