National Bank of Kuwait
3 April 2024

Banking

HOLD : 12M TP @ 1.045

Upside +9%

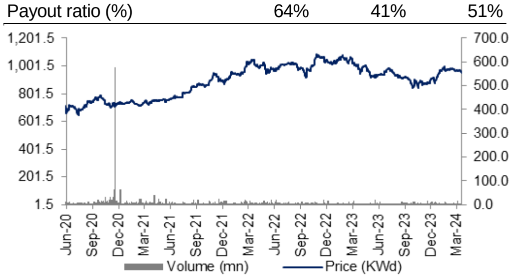
Valuation Summary (TTM)			
Price (KWD)			0.96
PER TTM (x)			14.2
P/Book (x)			1.9
Dividend Yield (%)			5.3
Free Float (%)			88%
Shares O/S (mn)			7,930
YTD Return (%)			6%
Beta			0.9
(mn)		**KWd**	**USD**
Market Cap		7,533	24,479
Total Assets		37,665	122,428
Price performance (%)	**1M**	**3M**	**12M**
National Bank of Kuwait S/	-3%	6%	-6%
Boursa Kuwait All Share P	-2%	7%	4%
Trading liquidity (,000)	**1M**	**3M**	**6M**
Avg daily turnover (KWD)	3,574	3,843	4,121
Avg Daily Volume (,000)	3,672	3,970	4,482

52 week	High	Low	CTL*
Price (KWD)	1.03	0.84	13.4

* CTL is % change in CMP to 52wk low

Major shareholders	
State of Kuwait	5.6%
Vanguard Group Inc/T	3.9%
BlackRock Inc	2.5%
Others	88.0%

Other details			
Exchange			Kuwait
Sector			Banks
Index weight (%)			17.2%
Key ratios	**2021**	**2022**	**2023**
EPS (KWD)	0.04	0.06	0.07
BVPS (KWD)	0.45	0.46	0.49
DPS (KWD)	0.03	0.02	0.04
Payout ratio (%)	64%	41%	51%



National Bank of Kuwait – Price factors growth

National Bank of Kuwait (NBK) is the second largest bank in Kuwait and the only bank in Kuwait to offer both conventional and Islamic products. It is a well-diversified bank with operations across 13 countries. While NBK is the second largest bank in terms of assets and deposit size, it is ahead of its largest peer bank Kuwait Finance House (KFH) in terms of loans and advances and profits. The bank's loan book grew by 6.1% YoY in 2023, (vs. 6.5% in 2022) and for 2024e, the bank has guided for a growth in mid-single digit. NBK maintained its NPL ratio below 1.5% in the last three years, which is commendable in the context of growth and size of the loan book. For 2023, despite increase in impairment charge by 127% YoY, the bank's net profit increased by 10.9% YoY, on the back of improvement in operating income by 15.5% and reduction in cost to income ratio by 160 bps YoY.

While the bank has guided for stable NIM and cost to income ratio for 2024e, the likelihood of additional income tax from 2025e to comply with the OECD norms, will increase the effective tax rate and consequently reduce profits. This besides, the risk of erosion of profitability in Egypt due to hyperinflation is the key overhang for the stock. We are of the view, despite a positive guidance, the growth is adequately factored in the current market price. The stock is trading at 2024e PB of 1.8x and a dividend yield of 3.6%. We initiate coverage with a HOLD recommendation and a price target of KD 1.045/share.

Investment highlights

- 2nd largest bank in Kuwait and only bank to cater to both conventional and Islamic products.
- 2024e loan growth at 5% will be driven by increased credit demand from corporates arising from spends on Mega projects. In 2023, the project spends in Kuwait were 3x of 2022, we expect the momentum on spends to continue. The retail loan growth will be driven by increase in mortgage loans due to likely implementation of possible interest subvention by government.
- The bank has 21% of its assets in the form of investments, which helps the bank maintain yields. The investments are primarily into low-risk government debt securities and bonds.
- Well diversified income streams across segments and geography (29% from consumer and private banking, 25% from corporate banking and 23% from international operations). The relatively high share of international operations provides cushion to profitability and helps reduce risk from domestic macro events in the form of decline in oil prices.

At current price of 963 fils/share, the stock is trading at a price to book value of 1.8x, 13.4x of 2024E earnings, which we feel factors the growth prospects. We have arrived at a blended DDM-Relative valuation target price of 1045 fils/share, which offers upside potential of 9%, besides dividend yield of 3.6%, based on which we recommend a HOLD on the stock.

Valuations snapshot

Amt in KD bn	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Loan Book	17.5	19.7	21.0	22.3	23.4	24.5	25.5	26.5
Gross NPL (%)	1.7%	1.0%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%
Deposits	18.0	19.6	22.0	22.8	23.9	24.9	25.9	26.9
NII	0.6	0.7	0.8	0.9	0.9	1.0	1.0	1.0
PAT	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.7
P/E	24.4	19.9	16.2	14.4	13.4	14.5	14.1	12.6
P/B	1.6	1.9	2.2	2.0	1.8	1.7	1.6	1.4
Dividend Yield	4.6%	2.1%	3.4%	3.6%	3.6%	3.6%	3.6%	3.6%

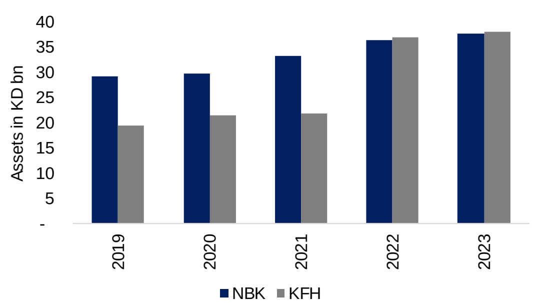
Solid franchisee with international presence…

Kuwaiti Banking sector – concentrated, drifting towards oligopoly

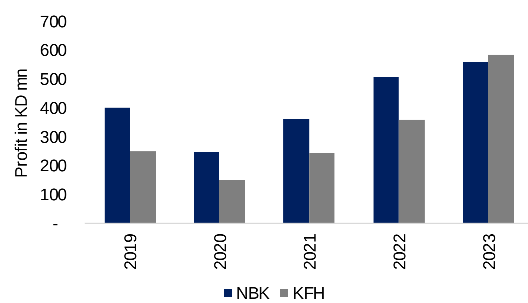
Kuwaiti domestic banking sector comprises 11 banks, with 5 conventional, 5 Islamic banks and 1 specialized bank, besides 11 foreign banks. The banking sector is fairly concentrated with NBK and KFH together holding 60% market share in terms of assets as of 2022. NBK, with an asset base of KD 37.6bn and PAT of KD 561mn as of 2023, is the second largest bank in Kuwait. However, in terms of loans and deposits NBK continues to be the market leader. NBK was the largest bank in Kuwait for a long period of time till Oct 2022, when KFH scaled through inorganic acquisition by buying Ahli United Bank in Bahrain. The acquisition by KFH relegated NBK as a second player and intensified the competition between the top players.

NBK also owns, 60.4% in Boubyan Bank, which is the third largest player in Kuwait. This makes NBK the only player to offer both conventional and Islamic banking. NBK with its presence in 13 countries, has 43% of its assets outside Kuwait, insulating itself from risks arising domestically. The difference in the market share between the top players in Kuwait is very narrow and with limited organic growth domestically, both the banks have considerable presence outside Kuwait.

KFH edged past NBK due to acqusition in 2022…

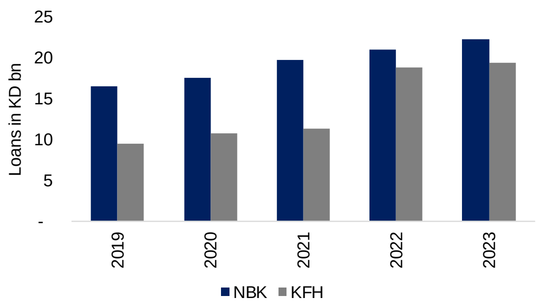


… profitability of NBK is just below KFH in 2023

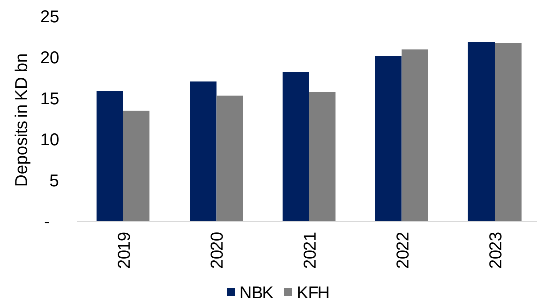


Source: Company reports, US Research

Loans- NBK's leadership position continues...



…deposits base- small variance between banks



Source: Company reports, US Research

Diversified asset mix helps manage cycles better

Stable asset mix over the years…

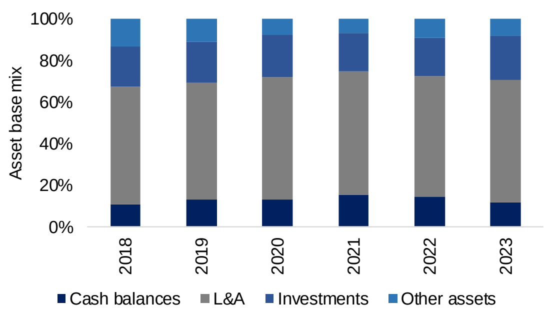
NBK's balance sheet is characterized by diversified yet stable asset mix, both geographically as well as segmentally. In terms of various components of the balance sheet, 80.2% is allocated towards relative high yielding assets in the form of 59.2% towards loans and advances and 21% towards investments. The bank's share of investments in the asset mix rose from 18.5% in 2022 to 21% in 2023 as more allocation were made towards higher yielding investments due to high interest rate environment. The bank's cash component and short-term funds fell to 11.6% in 2023 from 14.6% as the bank aggressively increased its investment book.

The share of assets from international operations stood at 43% in 2023, much higher than 36% in 2018 as the bank continuously focused on de-risking itself from domestic operations. The bank's international expansion strategy is driven by improving transaction banking and expanding footprint in key regional markets in Saudi Arabia and UAE with a continued focus on enhancing relationship specifically with Government and GREs and top tier corporates. The European operations are driven by increase in lending to corporates, trade finance, commercial real estate and residential mortgages. We expect this share to remain stable going forward.

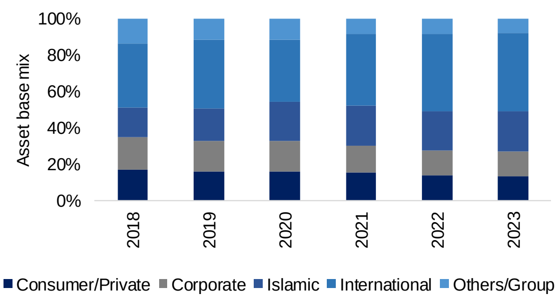
The share of Islamic assets in the balance sheet stood at 22%, which has been stable over last 4 years as the bank increased its shareholding in Boubyan Bank, over the years from 59.15% in 2018 to 60.4% in 2023. The Islamic subsidiary's growth has been driven by digital offerings mainly in consumer corporate banking besides expansion of footprint outside Kuwait. The domestic corporate banking, consumer/private banking comprised of

27% of the asset mix. We do not expect any major change in the mix in the next couple of years given the bank's stated strategy across segments.

Fairly stable asset mix over the years…



…on segment basis the mix has higher churn



Source: Company reports, US Research

Loan book largely concentrated in MENA region

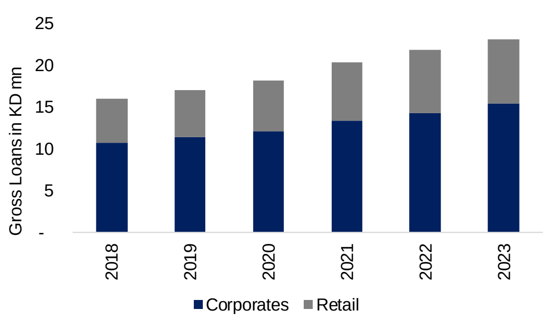
2024e Loan book growth to be at 5% in line with guidance…

The bank's gross loan book for 2023 stood at KD 23.1bn, (+6% YoY), domestically the growth was mainly driven by increase in project awards in 2023, which increased substantially to KD 2.5bn, a 3x increase over previous years. The bank was able to capitalize on the increased credit demand arising out of the higher spends, as NBK could cater to big ticket loans, due to its large asset base and ability to raise funds. In Kuwait, during the first three quarters of 2023, the project awards increased in every quarter, indicating strong capex and consequently higher credit demand. Capex increased in power and water, transport and O&G segments. We expect the momentum on project awards to continue and the bank would be able to capture major part of the credit demand, given the focus on the corporate lending. Lending to corporates was at 65% in 2023, little changed from 2018.

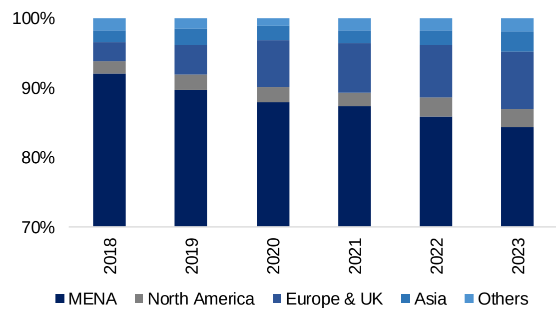
On the retail side, the credit demand will be driven by increase in mortgages, in view of possible policy action of Kuwaiti government to bear interest costs up to a certain level. Under the proposed scheme, while banks can lend up to KD 140,000, interest cost on these loans up to KD 70,000 would be borne by government. The implantation of this change in policy is a key monitorable, which will increase the growth rate on the retail side. In our model, we have factored an overall loan growth of 5% in line with the guidance of mid-single digit.

Geographically, the share of loan book from MENA region stood at 84% in 2023, a 600bps decline since 2018 as the bank focused on non-MENA markets for expansion. Over a five-year period, the MENA gross loan book grew by 6.3% (CAGR 2019-2023), while in the geographies outside MENA the growth was at 19.8% in CAGR terms during similar period. The bank had a market share of 30% in trade finance, which helped increase exposure in non-MENA countries. We expect the bank to continue to retain this market share going forward and the growth in loan book will be driven not just by domestic credit demand, but increased opportunistic lending outside MENA.

Loans - Loans to corporates steady at 65%...



…while share from MENA down over the years



Source: Company reports, US Research

Low NPL and high coverage ratio…

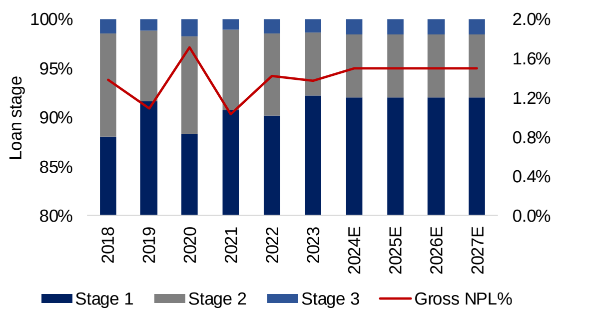
High coverage ratio - adequate cushion against any future surprises

The bank's NPL ratio stood at 1.38% in 2023, the NPL ratio has been below 1.5% since 2018, except for 2020, when there was a pandemic driven stress to the loan book. The low NPL on a growing loan book indicates that the bank has been able to manage the stress well across several economic cycles. The movement between stage 1 and stage 2 also has been minimal indicating the strength of the lending process. The high oil prices coupled with increasing contribution from non-oil sector, has resulted in higher liquidity in the economy as reflected in the healthy corporate balance sheet which has kept the NPL levels low. The low NPL in high interest rate environment validates credit demand and low stress. The possibility of interest rate cuts in 2024, will not only stimulate credit demand, but also help NPL levels decline further. We expect the NPL ratio to be below 1.5% over the next couple of years in line with the historical trend.

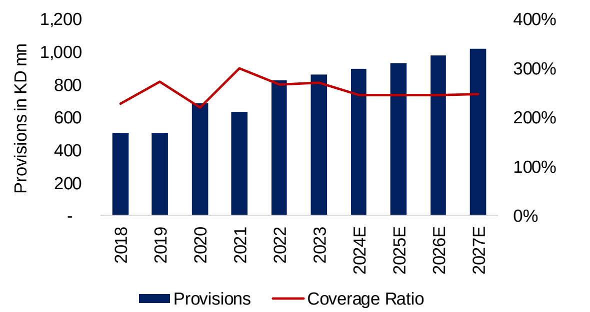
The total provisions stood at KD 862.8mn as of 2023, 80% of which was general provision, while KD 165.3mn was for specific provision. The specific provision was largely related to retail which stood at KD 102.2mn for 2023, while corporate specific provision stood at KD 65.1mn. The low specific provisions on a large corporate book indicates the robust asset quality of the bank catering to this segment.

The low NPL coupled with consistent high provision coverage ratio of more than 220% in the last five years, augurs well as any scope for negative surprises arising out drop in oil prices is factored. The pace of provisions has nearly doubled in 5-year CAGR terms at 14.1% vs. loan book growth of 7.9%, indicating conservative approach of the management. We expect the bank to continue to maintain this conversative approach on provisions as well as high coverage ratio going forward.

NPL% to remain in line with historical trends...



…with high provision coverage ratio



Source: Company reports, US Research

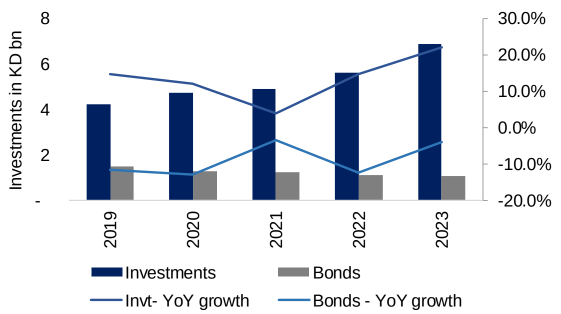
Shift to investments in 2023…

Higher allocation towards investments in 2023

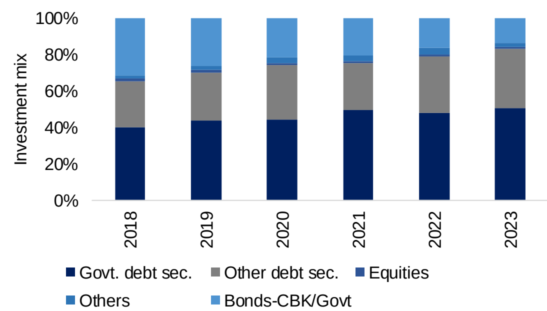
Besides, extending interest yielding loans, NBK also has a fair share of assets in the form of financial investments. These investments are primarily in debt securities and high-quality bonds from the Central bank of Kuwait and other Kuwait government bonds. The bank has shown a tactical shift towards investments given the high interest rate environment in the recent past. The 2023 investment securities (excluding bonds) stood at KD 6.8bn (+22.2% YoY growth in 2023, compared to +14.7% YoY growth in 2022). The growth has been in double digits since 2019, except for 2021, when the growth dipped momentarily to 3.8%. The growth in investments securities (excluding bonds) was in contrast to the de-growth in bonds over the years. The investment in low yielding, safer bonds has been declining as the bank moves its investments towards debt securities.

The investment book has shown a change in mix, with share of bonds reducing from 31% in 2018 to 13% in 2023. 51% of investments were in sovereign , while 32% of investments were in other debt securities. Over a six-year period, the share of debt securities in the total investment book improved from 66% in 2018 to 83% in 2023. Within the debt securities, 70% of the investments are carried at fair value through other comprehensive income indicating that these are non-speculative, providing stable returns with a pre-determined cash flow. The low exposure to equity reflects the conservativeness of the bank. We expect the bank to continue to maintain high share of investments in the asset mix, given the current high interest rate environment.

Investment book increased, bonds declined…



…with debt being primary mode of investments



Source: Company reports, US Research

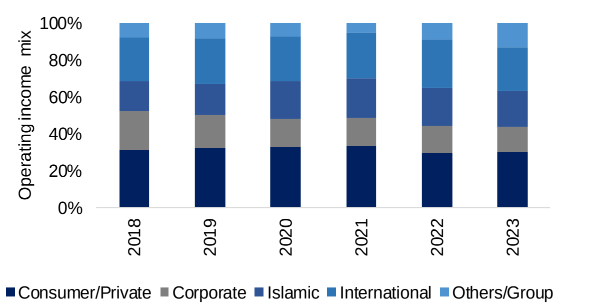
Diversified operating Income

Diversified revenue streams, help better navigation and stability

NBK has become a financial super power with diversified operating income mix over the years. At the operating level, the segmental mix ensures that the bank is able to navigate any down cycle effectively. The bank's operating income for 2023 stood at KD 1.2bn, (+15.6% YoY), with consumer and private banking increasing by 15.8% YoY, driven by transaction banking, mobile banking, loans, cards and liabilities products. The growth in NII from this segment was 4.4% YoY, while the net operating income growth stood at 15.8%, indicating that non-interest income was a major factor for growth. The bank continues to maintain high share of 30% in many of the retail product categories.

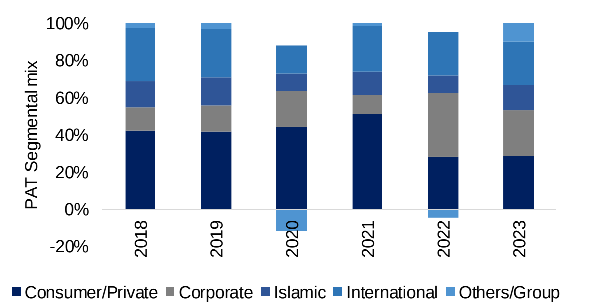
During 2023 segmental corporate banking operating income grew by 12% YoY (vs. NII income growth of 17.6% YoY), driven by bank's ability to serve large local companies as well as focus on mid-market segment. The company is a banker to 75% of the foreign companies in Kuwait. In contrast to high contribution of non-interest income in consumer banking segment, the contribution of non-interest income was lower in corporate segment. The focus segment in the Islamic segment is high net-worth individuals, large mid-market corporate customers. Collectively the consumer/private banking and international segment contributes 53.8% of total operating income, followed by Islamic bank segment which has a share of 19.2% in the operating income. We do not expect major shift in the segmental contribution going forward, the bank continues to focus on NBK wealth and we expect increase in fee income from this segment.

OI - Retail and International share at 53.8%…



**OI- Operating Income*

…whereas PAT level mix is equally diversified



Source: Company reports, US Research

Near equal share of PAT from three key segments…

In 2023, the contribution of profit after tax from various segments is well diversified than the operating income, with Consumer/private banking contributing 28.7%, corporate banking contributing 24.8%, followed by international banking at 23.3%. While the consumer/private banking growth is driven by fee income, the corporate banking's contribution is in the form of interest income, given that the corporate loan book is 66% of the total loan book. The share of profit from international banking at 23.3% is relatively lower, when looked in the context of share of assets from this segment, which was 43%, indicating that the RoA from international segment is low. The 2023 Islamic banking PAT increased by 44.1% YoY, on a small base, whereas the 2023 corporate banking PAT de-grew by 26.9% due to high base in 2022. PAT from international operations was flattish in 2023. We expect the PAT growth to be at 5.4% in 2024e on an increased base as the bank has witnessed high double-digit growth in the last three years. In our model, we have factored a tax rate of 15% from 2025e, due to the possibility of introduction of revised tax regulations.

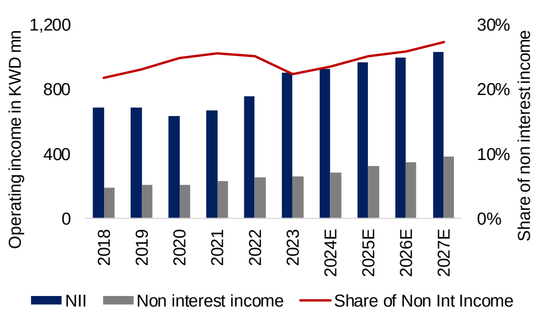
75% of non-interest income from net fee and commission income

Share of non-interest income at 22%…

During 2023, the non-interest income stood at KD 262mn, primarily on account of increase in fee and commission income and higher net investment income. The net fees and commission income stood at KD 197mn, a YoY growth of 8%, driven by increase in transaction volumes across all segments and locations. The net investment income stood at KD 27mn, a YoY growth of 75% mainly driven by increase in net gains from investments and dividend income. The bank's income form forex activities declined by 35% YoY. The bank expects to maintain the share of non-interest income at 22% in the near term given the high interest rate environment and focus on transaction banking.

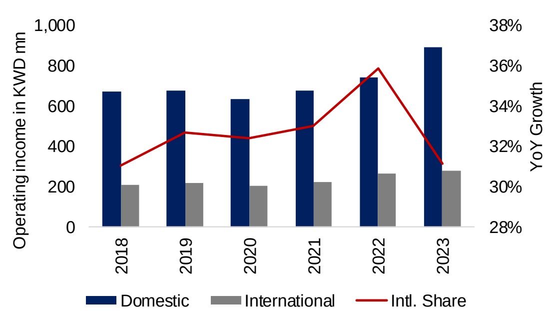
The share of operating income from international operations has remained above 30% in the last six years. In 2023, the share of operating income from international operations declined to 31.1% from 35.9% in 2022. The decline was on account of slower pace of increase in non-interest income, even as the net interest income grew at a faster pace of 10.8% YoY.

OI - Share of non interest income to increase…



**OI- Operating Income*

… share of international OI declined in 2023



**OI- Operating Income*

Source: Company reports, US Research

Focused improvement in cost to income ratio

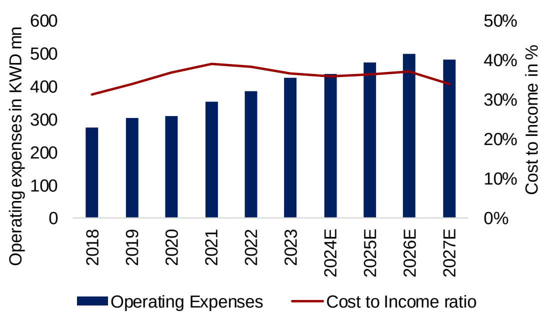
Cost to income ratio improve…

The cost to income ratio for 2023 stood at 36.6%, an improvement of 160bps over 2022. The improvements were largely driven by increase in pace of growth in operating income at 15.6% YoY vs. growth in costs at 10.4% YoY. The bank did well to contain staff costs, which stood at 20% of the operating income in 2023 as compared to 21.8% in 2022. The bank continues to drive operating efficiency to reduce costs, mainly in its international operations. The guidance of cost to income ratio for 2024e is in high 30s. In our model, we have factored in a cost to income ratio of 36% in 2024e which will decline to 34% in 2027e.

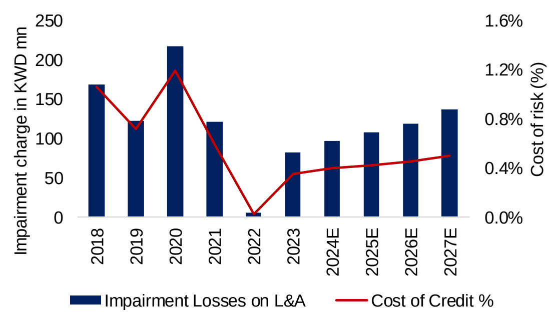
Besides the operating costs, the company has taken a charge on impairment of goodwill of ~KD 20mn each in 2022 and 2023, the specific goodwill write-off is on account of acquisition of Egyptian subsidiary. The bank has indicated that there will not be any further write off on account of goodwill going forward.

The impairment charge for 2023 stood at KD 82mn, which translates into a cost of risk of 0.35%. The impairment charge to the P&L peaked in 2020 at 0.59% and has declined since then. The low NPL coupled with high provision coverage ratio indicates that there will not be any negative surprises on this front going forward. While the management has guided for a cost of risk in the range of 40-50bps, in our model, we have assumed for a cost of risk of 40bps in 2024e, which increases to 50bps by 2027e.

Cost to Income - range bound over the years…



…while cost of risk bottomed out in 2022



Source: Company reports, US Research

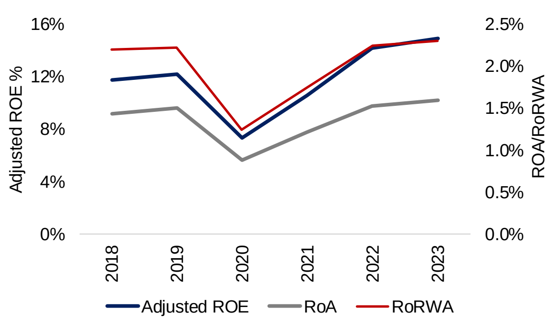
Return ratios set to improve due to higher profitability…

All the three key return ratios improved in tandem post 2020, when it bottomed out due to pandemic driven decline in profits. NBK has one among the best return ratios in the MENA region, with adjusted ROE at 15% for 2023. The RoRWA too mirrored the ROE trend, mainly on account of range bound RWA on a growing asset base. The ROA on the international segment is 0.8% vs. the group level ROA of 1.6%. Both the corporate banking and consumer banking segments have ROA of ~3% for 2023, while the Islamic segment's ROA is 0.9% Going forward, any improvement in ROA will be mainly driven by increase in returns from the international operations and Islamic segment. We have modeled for a ROA of 1.6% (2024e) for the group in line with the historical trend.

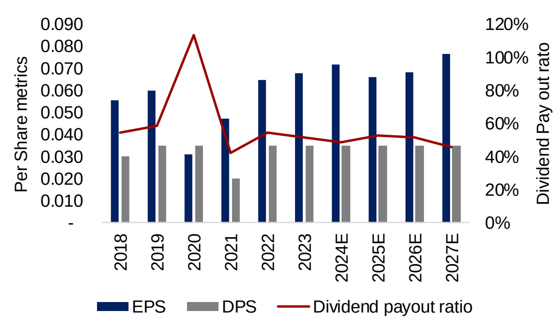
The bank's capital structure comprises of equity, which has risen due to issuance of bonus shares over the years and the bank has not tapped the capital market for fresh issuance of shares in the last five years. The bank's AT1 bond is steady at KD 439mn, and is denominated in USD. These are in two tranches of USD 700mn and USD 750mn and carry interest rate of 3.625% and 4.5% payable on a semiannual basis.

The bank has been paying out steady dividends over the years and we expect the bank to continue to pay dividends of at least 0.035 fils in the next few years, given the stability of the franchise and its ability to maintain earnings per share. At the current price, the 2024e dividend yield is at 3.6%.

Return ratios above pre-pandemic levels



Steady dividend pay out ratio since 2021



Source: Company reports, US Research

Valuation

We have valued NBK based on blended DDM-Relative valuation method. NBK is the second largest bank in Kuwait, with significant international operations, the share of international assets stood at 43% of total assets, while the profits stood at 23% of total profits. The significant international operations, provides cushion to any adverse macro event domestically. The bank has one of the lowest NPLs in the region. The investments are largely in debt securities (97% of the investment book) and 64% of the investments are backed by government securities/bonds. For the forecasted period (2023-2027e), we expect the profits to increase by the 1.14x, driven by increase in non-operating income as well as reduction in cost to income ratio (260bps over five years). The bank is trading at a 2024e P/B of 1.8x, which is in line with average of last six years. We have valued National Bank of Kuwait using the blended valuation approach, with 50% weight to intrinsic valuation based on DDM, 25% weight to relative valuation using P/E, and 25% weight to relative valuation using P/B to arrive at a target price of KD 1.045/share as against the current market price of KD 0.963/share, the share is trading at 2024E dividend yield of 3.6%.

Valuation parameters	
Risk free rate	3.75%
Equity risk premium	5.10%
Beta	0.80
Cost of equity	**7.8%**
Terminal growth rate	4.0%

Residual valuation of NBK	2023	2024E	2025E	2026E	2027E
Equity at beginning of year	4,196	4,468	4,810	5,130	5,465
Equity at end of year	4,468	4,810	5,130	5,465	5,856
Net income attributable to shareholders	561	590	547	562	629
Cost of equity	350	377	402	428	459
Residual income	211	214	145	135	171
PV of residual income	207	202	127	109	129
PV of Terminal value residual income					4,268
Current equity value					4,196
Fair value of equity					8,464
Shares outstanding					7,930
Fair value per share (Fils)					**1,067**
CMP (Fils)					963
Upside/downside (%)					10.8%

Valuation parameters	
5 Year earnings CAGR	3.27%
Risk free rate	3.75%
Equity risk premium	5.10%
Beta	0.80
Cost of equity	**7.8%**
Terminal growth	4.0%
Terminal year ROE (%)	11.0%
Justified P/B	**1.82x**

Relative Valuation - National Bank of Kuwait	
EPS 2024e (KD)	0.07
BVPS 2024e (KD)	0.53
Target Price/Earnings Multiple for 2024E (x)	**15.0x**
Target Price/Book multiple for 2024E (x)	**1.82x**
Fair value per share (Fils) - P/E Multiple	**1075**
Fair value per share (Fils) - P/B Multiple	**970**

Blended Weighted Average Fair Value

Valuation Method	Fair Value per share (KD)	Weight	Upside/downside
Relative Valuation - P/E	1075	25.0%	11.6%
Relative Valuation - P/B	970	25.0%	0.7%
Intrinsic valuation - Excess ROE	1067	50.0%	10.8%
Target Price (Fils)		**1045**	**8.5%**
CMP (Fils)		963	0.0%
Forward Dividend Yield 2024E			3.6%
Total return Including dividend			**12.2%**

Key risks to our investment thesis:

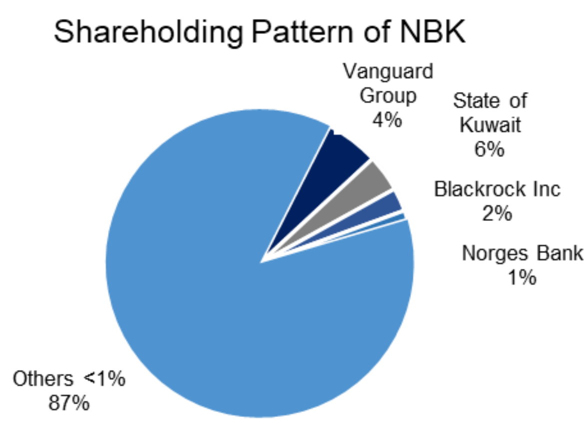
- Kuwaiti economy is largely dependent on hydrocarbon activities, with limited diversification, any adverse movement in the prices can lead to slowdown in economic activity and consequently lower growth for NBK.
- The international assets are at 43% of total assets as of 2023, however, Egypt assets are at 3.5% of total assets as of 2023, the current hyper-inflationary environment can adversely affect the performance.
- Any change in proposed tax rates arising out of Base Erosion and Profit Shifting regulations starting 2025, can potentially reduce post tax profits.
- Any significant change in the interest rate scenario resulting in lower investment yields (21% of the balance sheet) and consequently lower operating profits.

About National Bank of Kuwait and NBK Group

National Bank of Kuwait was incorporated in 1952 and is Kuwait's first indigenous bank. The bank was listed in 1984. It is Kuwait's second largest bank with a ~34% market share in trade finance and is present in 13 countries including 7 countries in Middle East. NBK offers products and services through 138 branch network both domestically and outside Kuwait. NBK's international network includes branches, subsidiaries and representative offices in countries such as London, New York, Paris, Geneva and Singapore, as well as China (Shanghai). Within MENA it has presence in Bahrain, Egypt, Iraq, Lebanon, Saudi Arabia and the UAE. The bank's major business segments include consumer banking, corporate banking, NBK wealth and Islamic Banking (operating through Boubyan Bank).

NBK is the only Kuwaiti bank which offers both conventional and Islamic banking products. NBK has one of the lowest NPL and has one of the highest provision coverage ratios. During 2023, the bank derived 23.7% of its net operating income from international operations, while the bank has a well-diversified source of profit from consumer banking (28%), corporate banking (25%) and international banking (24%)

The bank is rated as A/A- (stable) by S&P Global Ratings, A+/a- (stable) by Fitch ratings and A1/a3 (stable) by Moody's. The shareholding is widely held with over 87% of the shares held by individuals/institutions holding less than 1%. The largest shareholder is Public Institution for Social Security – Kuwait with 5.77% stake.



Source: Company reports, Bloomberg®, US Research

BOARD OF DIRECTORS

S.NO	NAME	POSITION
1	Hamad Mohamed A. Al-Bahar	Chairman
2	Isam J. A. Al-Sager	Vice Chairman
3	Yaqoub Yousef A. Al-Fulaij	Director
4	Muthana Mohamed A. Al-Hamad	Director
5	Haitham Sulaiman H. Al-Khaled	Director
6	Emad Mohammad A. Al-Bahar	Director
7	Huda Mohammad S. Al-Refaei	Director
8	Robert Maroun Eid	Director
9	Nasser Amin H. Saidi	Director
10	Abdulwahab Ahmad H. Al-Bader	Director
11	Farouq Ali Akbar A. Bastaki	Director

MANAGEMENT TEAM

S.NO	NAME	POSITION
1	Isam J. A. Al-Sager	Board Vice-Chairman and Group Chief Executive Officer
2	Shaikha K. Al-Bahar	Deputy Group Chief Executive Officer
3	Salah Y. Al-Fulaij	CEO - Kuwait
4	Sulaiman Barrak Al-Marzouq	Deputy CEO - Kuwait
5	Faisal Abdulatif Al-Hamad	Head of Wealth Management at NBK Group
6	Omar Bouhadiba	CEO of International Banking Group
7	Malek Khalife	Head of Private Banking Group
8	Mohammad Khaled M. Al-Othman	CEO of Consumer & Digital Banking for NBK Group
9	Mohammad Bader Y. Al-Kharafi	COO - Head of Operations & Information Technology for NBK Group
10	Mohammad Nidal Tebawi	Group Chief Internal Auditor
11	Ronghe Sujit Anil	Group Chief Financial Officer
12	Pradeep Handa	General Manager - Foreign Corporate, Oil and Trade Finance Group
13	Jad Zakhour	Head of Treasury Group
14	Ahmad Boresli	Head of Domestic Corporate Banking Group
15	Dalal Jaafar I. Behbehani	Head of Strategy Unit

Source: Company reports, US Research

Income Statement (KD Mn)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Interest Income	982	889	1,235	2,035	2,095	2,160	2,184	2,224
Interest Expense	-349	-220	-479	-1,130	-1,166	-1,194	-1,186	-1,194
Net Interest Income	**633**	**669**	**756**	**905**	**929**	**966**	**999**	**1,030**
Non Interest Income	209	231	254	262	286	326	350	386
Operating Income	**843**	**900**	**1,010**	**1,167**	**1,215**	**1,292**	**1,349**	**1,417**
Operating Expenses	-312	-352	-386	-426	-437	-472	-499	-482
Impairment charge	-246	-132	-45	-103	-107	-118	-129	-148
Profit Before Taxation	**285**	**415**	**578**	**637**	**671**	**702**	**721**	**787**
Tax expense	-26	-34	-47	-47	-50	-105	-108	-118
Profit for the year	**259**	**381**	**532**	**590**	**620**	**597**	**612**	**669**

Balance sheet (KD Mn)	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Cash and short term funds	3,903	5,082	5,323	4,385	4,665	4,819	5,042	5,370
Bonds - Central bank & Kuwait Government	1,293	1,247	1,093	1,051	1,103	1,148	1,194	1,241
Depsoits with Banks	1,027	885	1,490	1,318	1,384	1,439	1,497	1,557
Loans & advances to customers	17,504	19,722	20,998	22,281	23,404	24,460	25,497	26,509
Investment securities	4,734	4,915	5,635	6,885	7,229	7,518	7,819	8,132
Property and Equipment/Intangibles	1,009	1,037	1,010	1,015	1,027	1,040	1,054	1,082
Other Assets	246	368	789	730	767	805	845	888
Total Assets	**29,717**	**33,257**	**36,338**	**37,665**	**39,579**	**41,229**	**42,947**	**44,779**
LIABILITIES AND SHAREHOLDER'S EQUITY								
Due to banks	3,052	4,099	4,018	3,964	4,162	4,328	4,502	4,682
Deposits from Fis	2,929	3,136	3,741	3,726	3,912	4,068	4,231	4,400
Customers' deposits	18,023	19,620	21,980	22,772	23,910	24,867	25,862	26,896
Other borrowings	809	1,267	1,244	1,331	1,331	1,331	1,331	1,331
Other Liabilities	763	668	721	966	1,014	1,065	1,118	1,174
Total Liabilities	**25,576**	**28,789**	**31,703**	**32,758**	**34,330**	**35,660**	**37,044**	**38,483**
Paid-up Capital	685	719	755	793	793	793	793	793
Other Reserves	1,215	1,234	1,253	1,274	1,274	1,274	1,274	1,274
Retained earnings	1,410	1,587	1,614	1,817	2,159	2,479	2,814	3,206
Shareholder's Equity	**3,310**	**3,540**	**3,623**	**3,884**	**4,226**	**4,546**	**4,881**	**5,273**
Non - Controlling Interests	393	489	573	584	584	584	584	584
Perpetual Tier 1 Capital Securities	438	439	439	439	439	439	439	439
Total Equity	**4,141**	**4,467**	**4,635**	**4,907**	**5,249**	**5,569**	**5,904**	**6,295**
Total Liabilities and Equity	**29,717**	**33,257**	**36,338**	**37,665**	**39,579**	**41,229**	**42,947**	**44,779**

Cash Flow Statement (KD Mn)	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Cash flow from operating activities	318	1,025	1,822	531	963	785	869	989
Cash flow from investing activities	-407	-227	-1,309	-1,254	-405	-354	-368	-384
Cash flow from financing activities	205	381	-272	-216	-278	-278	-278	-278
Net change in cash	116	1,179	241	-939	280	154	224	328
Cash at the end of period	**3,903**	**5,082**	**5,323**	**4,385**	**4,665**	**4,819**	**5,042**	**5,370**

Key ratios	2020	2021	2022	2023	2024E	2025E	2026E	2027E
Operating performance								
Yield on average earning assets	3.5%	2.8%	3.6%	5.7%	5.8%	5.8%	5.6%	5.5%
Cost of funds	1.4%	0.8%	1.6%	3.6%	3.6%	3.5%	3.4%	3.3%
Interest spread	2.0%	2.0%	2.0%	2.1%	2.2%	2.2%	2.2%	2.2%
NIM	2.2%	2.2%	2.3%	2.6%	2.6%	2.6%	2.6%	2.6%
Interest income/operating income	116.6%	98.8%	122.3%	174.4%	172.4%	167.2%	162.0%	157.0%
Net interest income/operating income	75.2%	74.4%	74.9%	77.6%	76.4%	74.8%	74.1%	72.7%
Non interest income/operating income	24.8%	25.6%	25.1%	22.4%	23.6%	25.2%	25.9%	27.3%
Cost to income ratio	37.0%	39.2%	38.2%	36.6%	36.0%	36.5%	37.0%	34.0%
Liquidity								
Net Loan to Deposit Ratio	97.1%	100.5%	95.5%	97.8%	97.9%	98.4%	98.6%	98.6%
Customer deposits/total deposits	86.0%	86.2%	85.5%	85.9%	85.9%	85.9%	85.9%	85.9%
Net loans to customer deposits	97.1%	100.5%	95.5%	97.8%	97.9%	98.4%	98.6%	98.6%
Investments/total assets	20.3%	18.5%	18.5%	21.1%	21.1%	21.0%	21.0%	20.9%
Asset quality								
NPL ratio	1.7%	1.0%	1.4%	1.4%	1.5%	1.5%	1.5%	1.5%
Provision as a % of gross loans	3.8%	3.1%	3.8%	3.7%	3.7%	3.7%	3.7%	3.7%
NPL Coverage	220.0%	300.0%	267.0%	271.0%	246.2%	245.5%	246.1%	247.8%
Cost of credit	1.2%	0.6%	0.0%	0.4%	0.4%	0.4%	0.5%	0.5%
Capital adequacy								
Tier I ratio	86.7%	86.7%	86.6%	86.9%	87.8%	88.6%	89.3%	90.0%
Tier II ratio	13.3%	13.3%	13.4%	13.1%	12.2%	11.4%	10.7%	10.0%
CAR	18.4%	18.1%	17.4%	17.3%	17.7%	18.1%	18.5%	19.0%
Net Equity to Gross Loans	18.2%	17.4%	16.6%	16.8%	17.4%	17.9%	18.4%	19.2%
Net Equity to Total Assets	11.1%	10.6%	10.0%	10.3%	10.7%	11.0%	11.4%	11.8%
Return ratios								
Reported ROE	6.2%	8.8%	11.6%	12.3%	12.2%	11.0%	10.7%	11.0%
Adjusted ROE	7.3%	10.6%	14.2%	14.9%	14.6%	12.5%	11.9%	12.4%
ROA	0.9%	1.2%	1.5%	1.6%	1.6%	1.5%	1.5%	1.5%
RoRWA	1.2%	1.7%	2.2%	2.3%	2.3%	2.1%	2.1%	2.2%
Per share ratios								
EPS	0.03	0.05	0.06	0.07	0.07	0.07	0.07	0.08
BVPS	0.46	0.49	0.48	0.49	0.53	0.57	0.62	0.66
DPS	0.04	0.02	0.04	0.04	0.04	0.04	0.04	0.04
Valuation								
Price	754	940	1,045	980	963	963	963	963
P/E	24.4	19.9	16.2	14.4	13.4	14.5	14.1	12.6
P/B	1.6	1.9	2.2	2.0	1.8	1.7	1.6	1.4
Dividend Yield	4.6%	2.1%	3.4%	3.6%	3.6%	3.6%	3.6%	3.6%

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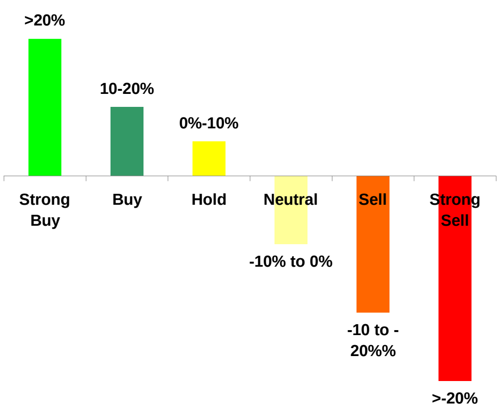
Rating Criteria and Definitions

Rating



Rating Definitions

Strong Buy	This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
Buy	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
Hold	This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
Neutral	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
Strong Sell	This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	This recommendation used for stocks which does not form part of Coverage Universe

Disclaimer