Results for the quarter ended 30 September 2024

Earnings Call held on Thursday 21 November 2024

Transcript

CONFERENCE CALL PARTICIPANTS

Jean Michel Ng Tseung

MCB Group Ltd – Chief Executive

Thierry Hebraud

MCB Ltd – Chief Executive Officer

Dipak Chummun

MCB Group Ltd – Chief Finance Officer

Vicky Hurynag

MCB Ltd – Head of Strategy, Research and Development

Kersley Gaspard

IR Officer

Speaker Key:

OP	Operator
JM	Jean Michel Ng Tseung
TH	Thierry Hebraud
TW	Timothy Wambu
KM	Kato Mukuru

00:00:00

OP Good day, ladies and gentlemen, and welcome to the MCB Group Earnings Call, Results for the first quarter to 30th September 2024. All participants will be in listen-only mode. Presentation slides are available for download via the download tab on the webcast link. There will be an opportunity to ask questions later during this event.

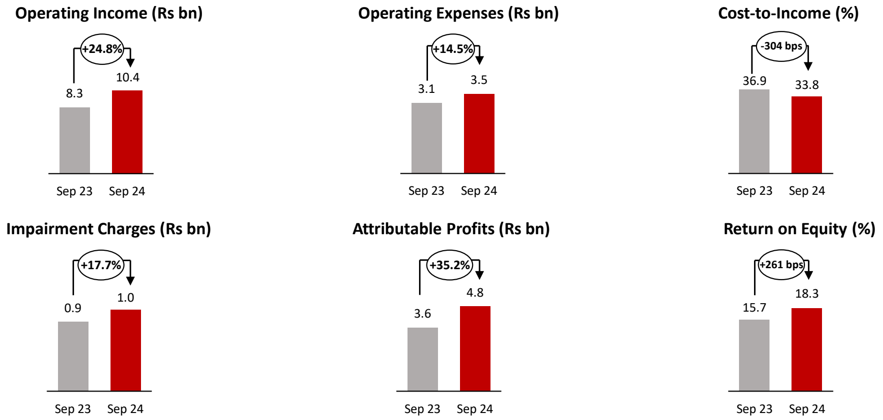
Participants on the webcast who wish to ask a question may do so at any time, by clicking on the Connect with HD audio button, which appears below the presentation, and follow the instructions. Once connected, you may press the Join the Question Queue button to register your intent to ask a question. I will now hand over to your host, Jean Michel Ng Tseung, who will introduce the panel members. Please go ahead.

00:00:52

JM Thank you, and a very good afternoon to all. And also, a very warm welcome to our earnings call, where I will present to you our first quarter results. Around the table with me, we have Thierry Hebraud, the Chief Executive of the bank, Deepak Chummun, our Group Chief Finance Officer, Vicky Hurynag, our Head of Strategy, Research and Development. And Kersley Gaspard, our Investor Relations Officer.

Overview of results

MCB Group delivered solid results for the first quarter with a 35.2% increase in earnings and a ROE of 18.3% (last year 15.7%)



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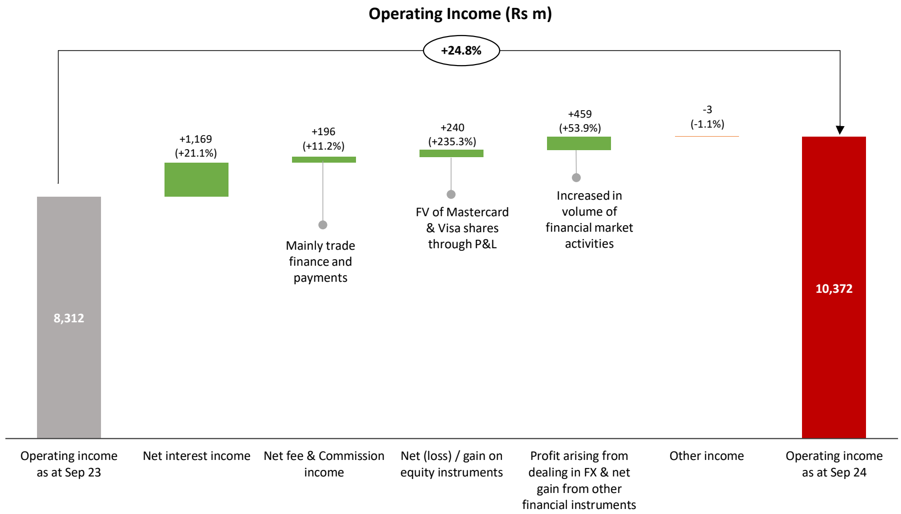
As you can see on this first slide, the MCB group posted quite a remarkable set of results for this first quarter. It's been a pretty good start for us with a 35.2% increase in our earnings, that gave rise to a return on equity of 18.3%, compared to 15.7% last year.

As you can see, our operating income grew by 24.8%. Our operating expenses increased at a slower pace, at 14.5%, which therefore gives rise to an improvement of our cost-to-income ratio from 36.9% for Q1 of last year to 33.8% this year.

Impairment charges increased by 17.7%, from Rs 0.9 billion to Rs 1 billion. And all of that gives us to an increase in attributable profits of 35.2%, from Rs 3.6 billion in Q1 of last year to Rs 4.8 billion this year, and a return on equity, up from 15.7% to 18.3%.

Operating income



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What I would do now is I'll focus for a few minutes on the operating income. And on that front, the 24.8% increase in our operating income has been achieved, first of all, by a pretty significant increase in our net interest income, up by 21.1%.

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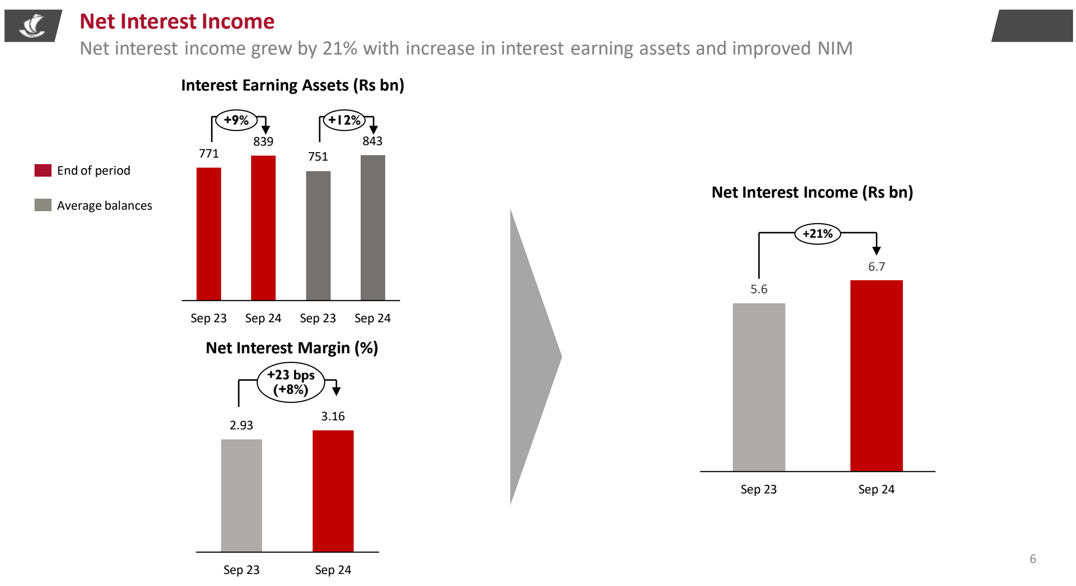
Our net fee and commission income grew by 11.2%, up by Rs 196 million, mainly due to an increase in our trade finance and payment activities. The net loss or gain on equity instrument, we have seen a positive movement here. In the first quarter of last year, we had actually posted a loss, compared to profit this year, which gives rise, therefore, to an increase of Rs 240 million in relation to this caption.

And finally, in terms of the profit arising from dealing in foreign currency and net gain from other financial instruments, we've seen quite a significant growth on that front, up 53.9%, mainly on the back of an increase in the volume of our financial market activities.



If I were to say a few words on our net interest income, you will see here that the net interest income grew by 21%, up from Rs 5.6 billion to Rs 6.7 billion. And on the left-hand side, you will see the movement in our interest-earning assets, but we have presented this time, two sets of figures.

The red bars relate to end of period balances. And therefore, you will see here that our end of quarter balances increased by 9%, so our interest-earning assets, which comprise mainly of our loans and advances, and investment in securities, increased from Rs 771 billion to Rs 839 billion. That's a 9% increase.

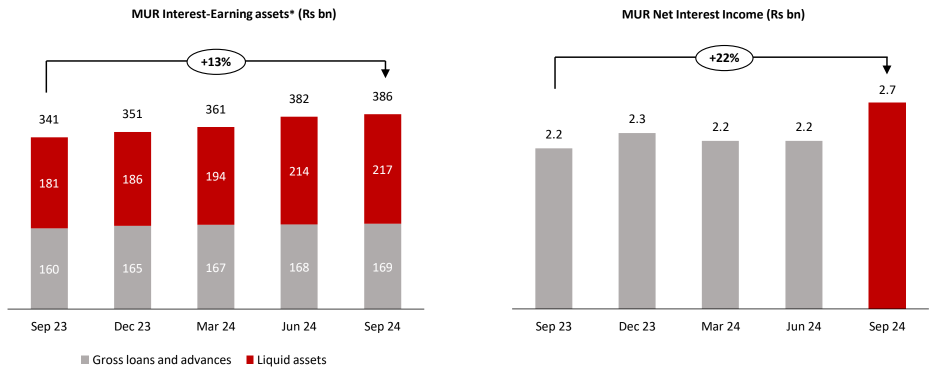
00:05:46

However, if you look at the average balances during these two periods, it actually grew by more than 9%. It actually grew by 12%, up from Rs 751 billion to Rs 843 billion. On the other side, if you look at our net interest margin during these two quarters, year-on-year, it actually grew from 2.93% to 3.16%. That's an increase of 23 basis points or an increase of 8% in our NIM, compared to the quarter of last year.

The reason why we are presenting it this way is that the 21% increase in our net interest income can actually be explained first by an increase in our average interest-earning assets by 12%. Plus, the net interest margin increasing by 8%. If you take 12% plus 8%, this is what actually gives rise to a net interest income increase of 21%.

Net Interest Income – MUR trend analysis

Higher assets and NIMs drove higher NII for the first quarter vs last year



** Interest earning assets reported as end of period balances*

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We go a little bit more in detail now and look at the rupee side of our balance sheet. This is how our rupee interest-earning assets has been progressing. Between September 2023 to September 2024, the rupee interest-earning assets increased by 13%, up from Rs 341 billion to Rs 386 billion. You will see that on the on the loans and advances portfolio, it was relatively flat. It increased slightly from Rs 160 to Rs 169 billion year-on-year. But there has been quite a marked increase in our liquid assets, which are mainly in the form of investment in securities, up from Rs 181 billion to Rs 217 billion. So that's a 13% increase.

And when you look at the net interest margin, which is not on this slide, on our rupee interest-earning assets, it actually increased from 2.67% to 2.90%. That's an increase of 23 basis points, or 9% increase, in relation to the margin in the quarter of last year.

As I did earlier on, if you take the 13% increase in our rupee-interest-earning assets, plus the 9% increase in our net interest margin, this is what gives rise to a 22% increase in our rupee net interest income, which increased from Rs 2.2 billion to Rs 2.7 billion. It has been quite a significant increase in our net interest income in rupees this quarter, compared to the same quarter of last year.

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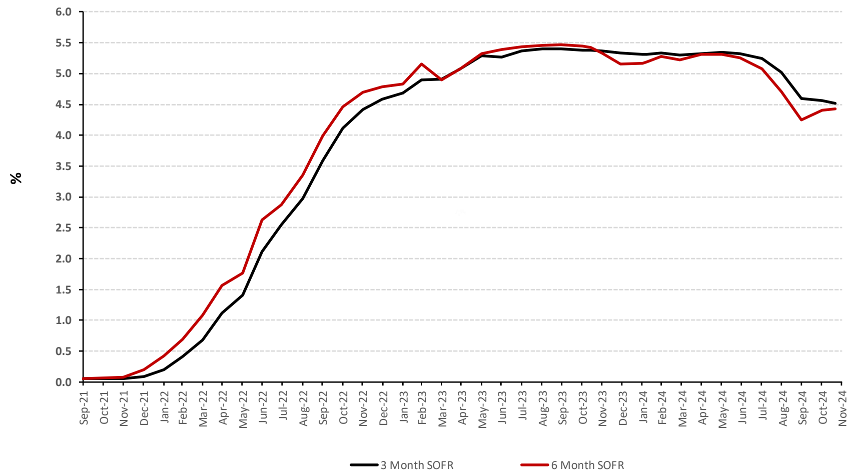
Net Interest Income – FCY trend analysis

Still high interest rates but declining



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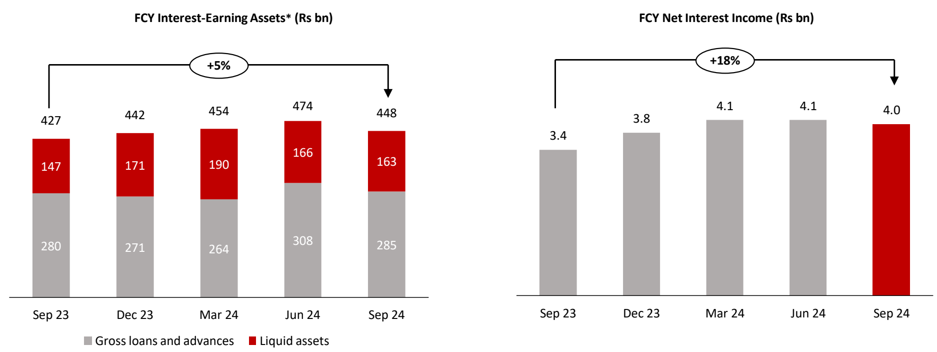
On the foreign currency side, you can see on the slide how our interest rate has been evolving. And if you look at this graph, you will see that between July 2023 and September 2024, interest rates have been relatively flat at 5.5%. However, maybe one thing which I would like to mention here is that the interest rates we are referring to are the 3-month and 6-month SOFR. But when look at the impact of the changes in interest rates on our loans and advances portfolio, or our investment securities portfolio, it actually takes a little bit of time for these repricing to happen.

Net Interest Income – FCY trend analysis

Higher asset base and improved NIM on the loan portfolio drove NII vs last year



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** Interest earning assets reported as end of period balances*

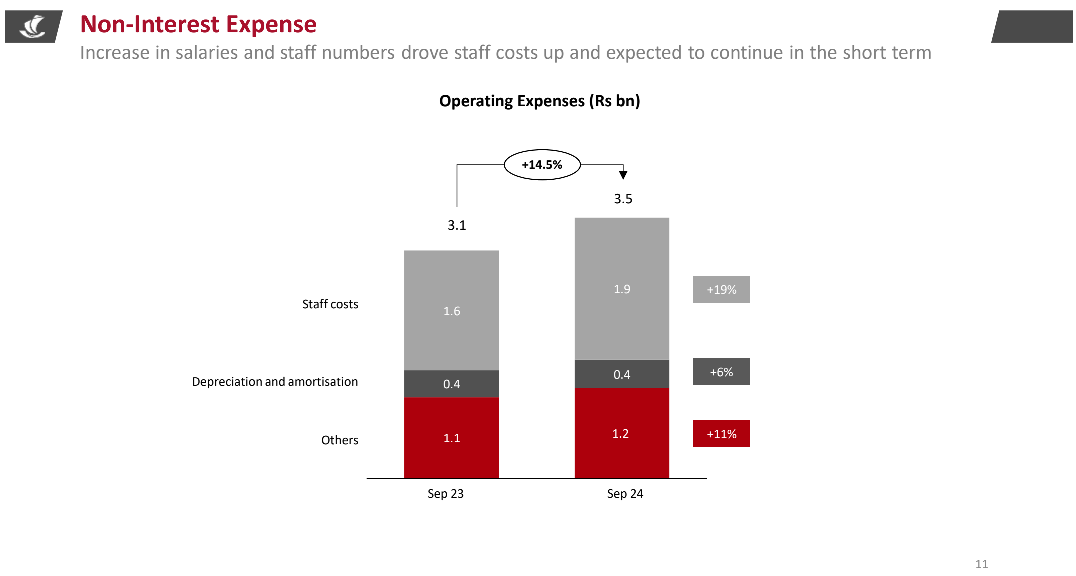
I just want to say this, at this point in time, because I will come back to that when I will explain in a few minutes how our NIM in foreign currency has evolved on a year-on-year basis. When you look now at how our interest-earning assets in foreign currency have been evolving over that period, they have increased from Rs 427 billion to Rs 448 billion, so that's an increase of 5%.

However, if we look at the average interest-earning assets over the quarter, on a year-on-year basis, it's actually increased from Rs 389 to Rs 427 billion. That is an increase of 10%. That's an increase of 10%, as opposed to an end of period increase of 5%.

00:11:30

And when you look at the margin, the margin actually increased from 3.04% to 3.22% year-on-year. That's an 18-basis point increase or a 6% increase in our NIM from the quarter of last year to the quarter of this year.

Once again, just to explain how we get to an increase of 18% in our foreign currency net interest income. It is, in fact, the result of an increase in our average interest-earning assets in foreign currency of 10%, plus another increase of 6% in our net interest margin on the foreign currency side. I hope I have been able to explain to you just now how our net interest income increased between these two quarters.



Now I'll explain to you how our operating expenses evolved on a year-on-year basis for these two quarters. There was an increase from Rs 3.1 billion to Rs 3.5 billion, up by 14.5%. And the main explanation for this increase has been at the level of our staff cost, where we've seen a 19% increase in our staff cost, comprising of two main components.

The first one is that we have adjusted basic salaries by some 14% to 15% at the beginning of October 2023. And that is what actually explains this increase of 19%, in addition to some recruitments that we did also in the course of the year.

And when you look at the 'other expenses', which increased from Rs 1.1 billion to

Rs 1.2 billion, that's an 11% increase. That actually relates to the deposit insurance scheme, which wasn't accrued in the first quarter of last year, but we have accrued here some Rs 60 million for our share of the deposit insurance scheme in the first quarter of this year. And there has also been some increases on the technology expenses, with licenses and 'cloudification' costs, which has increased by some 45%.

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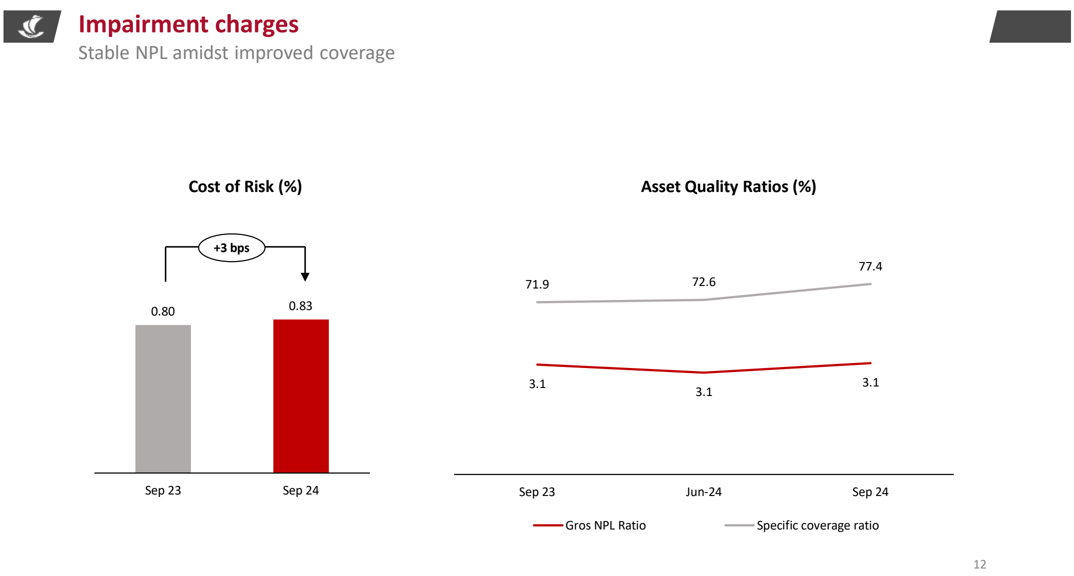
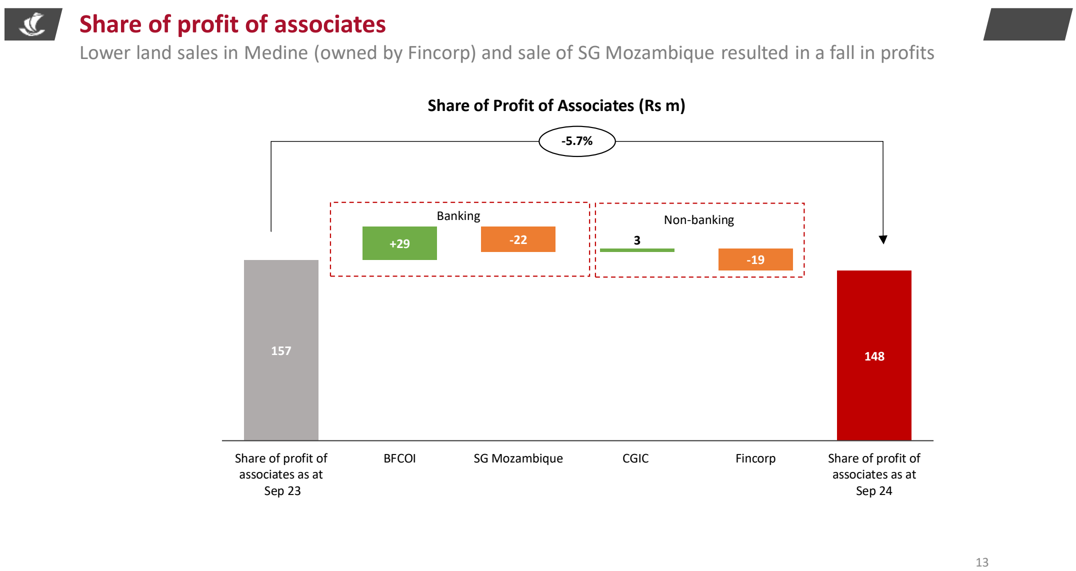
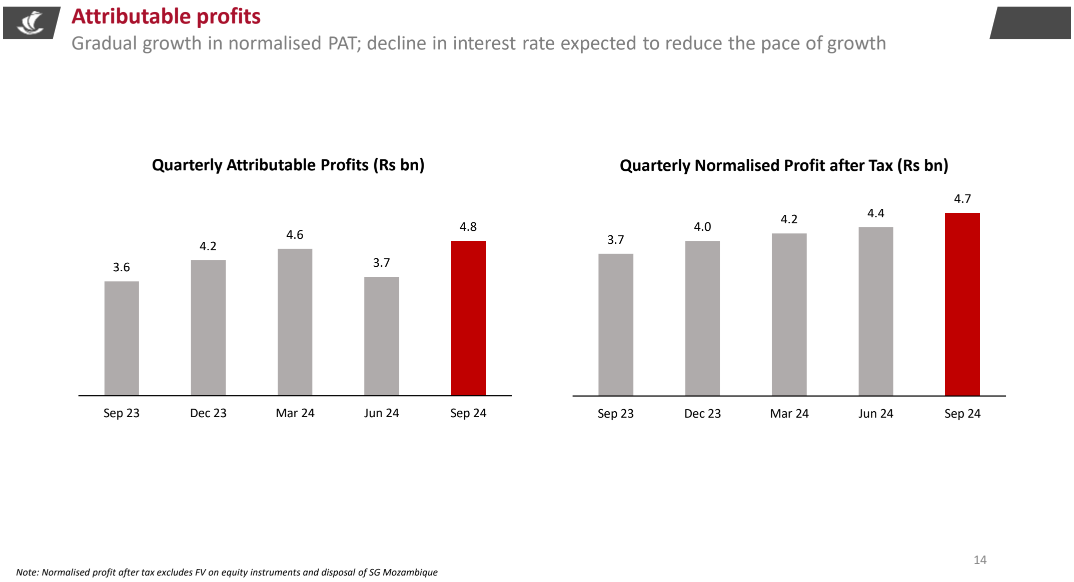


The cost of risk increased from 80 basis points to 83 basis points, mainly on the back of an increase in the coverage ratio. You will see that the specific coverage ratio increased from 71.9% to 77.4%, basically, due to higher provisioning at the level of the Bank, MCB Ltd, and also at the level of MCB Seychelles. And regarding our NPL ratio, it has been been pretty stable at 3.1%.



Share or profit of associates dropped by 5.7%, from Rs 156 to Rs 148 million year-on-year. There has been slight improvement at the level of BFCOI, up by Rs 29 million. SG Mozambique, as we explained last time, has been sold. There was a profit in the first quarter of last year but this year, we have not recorded any profit from SG Mozambique. And at the level of Fincorp, there has been also a slight drop in the profits at the level of Caudan, and Medine, which explained the Rs 19 million drop in the profit of Fincorp.



Putting all of these together, our attributable profit increased from Rs 3.6 billion to Rs 4.8 billion year-on-year. But what we have done this time, here, is to also provide you with some insights about our normalised profit after tax on a quarterly basis, by removing what we call a fluctuation in market rates; such adjustments include for instance, fluctuation in the fair value increases or decreases in MasterCard and Visa.

00:16:54

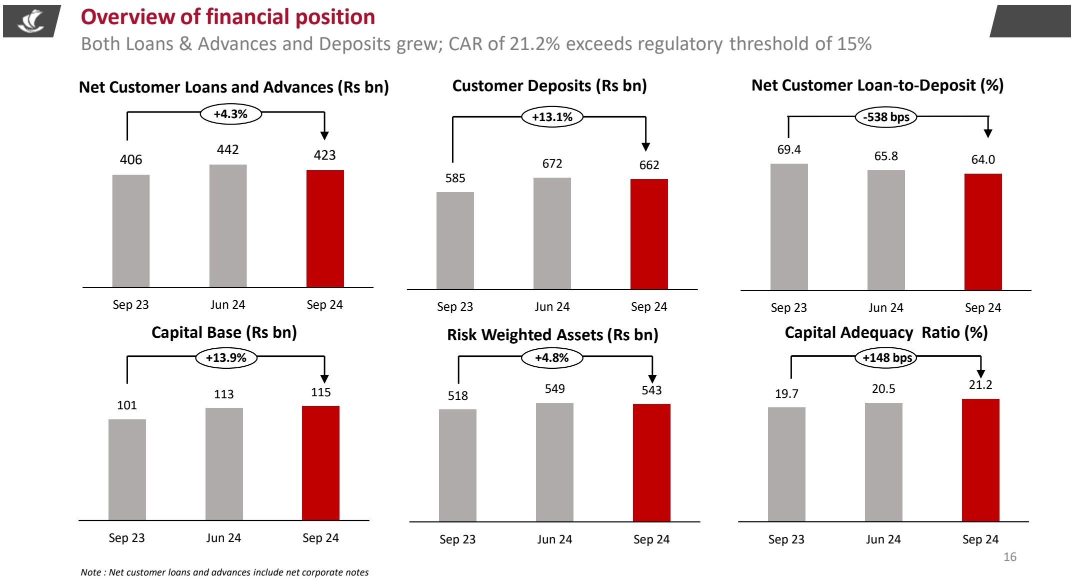
And we have also made adjustments for the profits and losses of SG Mozambique, because in the quarter to June 2024, you will see that normalised profit is higher than the reported quarterly profit of Rs 3.7 billion. This difference is explained mainly by the adjustments related to the disposal of SG Mozambique.

Factoring in the adjustments made for these one-offs or market-related fluctuation, the profit has been increasing quite smoothly quarter-on-quarter.

And we also have to mention that when you look at net interest income, we do expect a slowdown in the growth rate of net interest income in the second quarter of this coming year. We do not see that increase that we saw in Q1 of FY 2024/25, and that I explained earlier on, there was a 21% increase in net interest income for the first quarter of FY 2024/25.

We will see a slowdown on that front, when interest rates were falling, we did not necessarily see the impact of the falling rates in this first quarter because there is a repricing delay.

But as mentioned with falling interest rates, the pace of growth of our net interest income in foreign currency should be slowing down in the second quarter of this financial year.



This slide summarises our financial position. Net customer loans and advances increased by 4.3%, up from Rs 406 billion to Rs 423 billion. Customer deposits up by 13.1%. That gives rise to a net customer loan-to-deposit ratio, down from 69.4% to 64% year-on-year.

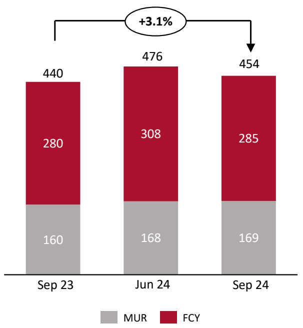
00:20:05

Regarding our capital base, there was an increase from Rs 101 billion to Rs 115 billion, up 13.9%. Risk-weighted assets up by 4.8%. And our capital-adequacy ratio increased, therefore, by 148 basis points, up from 19.7% to 21.2% this quarter.

Loans & Advances

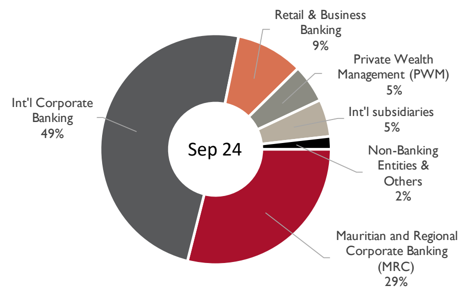
Year-on-year growth in loans and advances despite a drop in the last quarter; Expected to pick up in the next quarters

Gross Loans and Advances (Rs bn)



Note : Gross loans and advances include corporate notes

Gross Loans and Advances Breakdown



Note : Total figures may not add up due to rounding differences

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On the gross loans and advances, both on the rupee and on the foreign currency side, it was pretty flat between September 2023 to September 2024. But you will note that we had a drop in gross loans and advances, if we compare, especially on the foreign currency side, there was a drop from Rs 308 billion as at June 2024 to 285 billion as at September 2024.

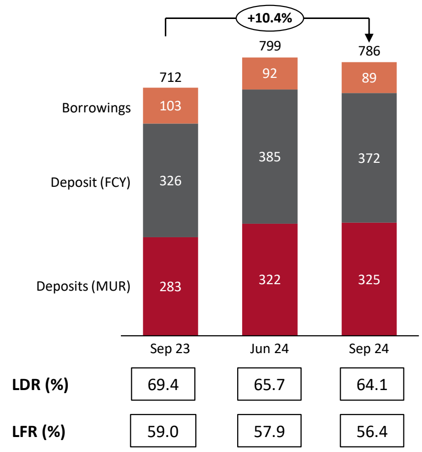
And this is very much to do with our commodity trade finance business, and we have explained movements in our gross loans and advances balance previously. This is a picture at a point in time, and when it came to September 2024, there were quite a few of our large commodity trade finance exposures that were repaid, and that gave rise, indeed, to this drop in our gross loans and advances.

So that's why this is an end-of-period picture. And that's why I introduced earlier on the notion of the average balances for the period, which gives a more precise view of how our interest-earning assets have been evolving quarter-on-quarter.

Funding base

Stable funding base; Higher overall mix of FCY term deposits

Funding Base (Rs bn)



Note : Total Figures may differ slightly with Statement of financial position due to rounding differences

MCB Bank Ltd – Deposit mix

	Sep 23	Jun 24	Sep 24	Variance vs Sep 23
MUR	**49%**	**47%**	**48%**	▼
Savings	35%	34%	**35%**	◄
Current	11%	11%	**10%**	▼
Term	3%	3%	**3%**	◄
FCY	**51%**	**53%**	**52%**	▲
Current	36%	34%	**33%**	▼
Term	15%	19%	**19%**	▲
TOTAL	**100%**	**100%**	**100%**	
Savings	35%	34%	**35%**	◄
Current	47%	45%	**43%**	▼
Term	18%	21%	**22%**	▲

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On the funding base, we have seen, as we have seen previously, a linear growth in our deposits, although it has slowed down a little bit in September 2024 on rupee side, Rs 283 billion in September 2023, Rs 322 billion in June 24, and now at Rs 325 billion as at September 2024.

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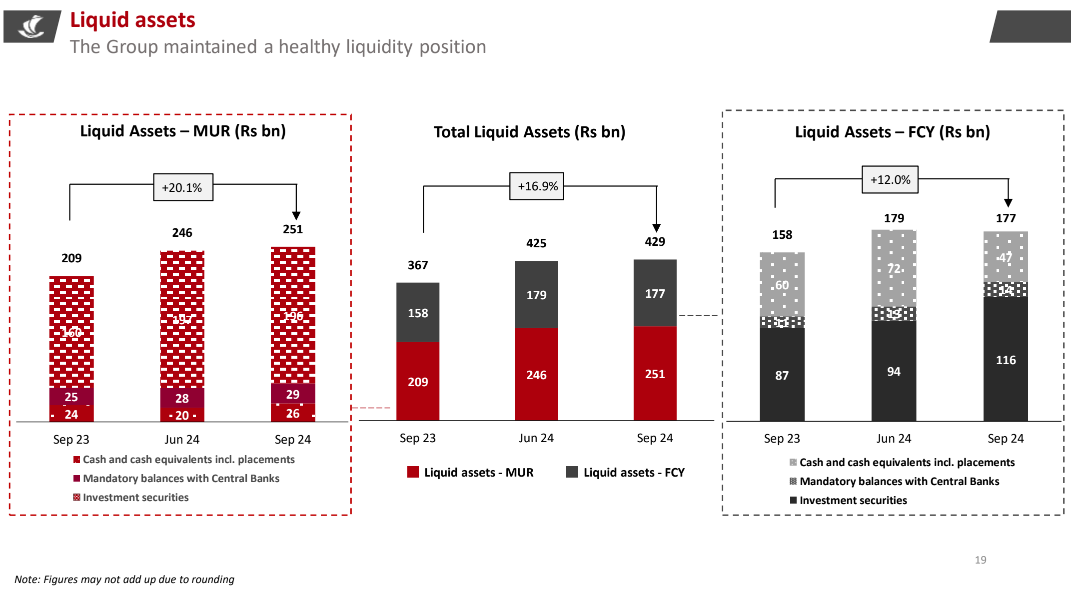
On the foreign currency side, we've seen quite some increases in our deposits, up from Rs 326 billion in September 2023 to Rs 372 billion in September 2024.



The increase in deposits explains why, and this is in the middle chart, you will see an increase of 16.9% in our liquid assets.

On the rupee side, due to the fact that our deposits in rupees have increased, whilst our loans and advances in rupees was relatively flat, we have, therefore, seen a 20% increase in our liquid assets in rupees, up from Rs 209 billion to Rs 251 billion.

And on the left-hand side, you will see that excess liquidity was invested mostly in government bonds, and you will see, therefore, the investment securities increasing from Rs 160 to Rs 196 billion year-on year.

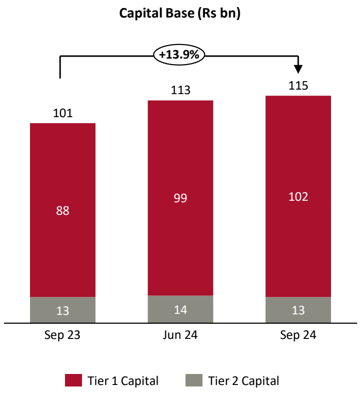
Likewise, in foreign currency, our liquid assets increased from Rs 158 to Rs 177 billion. Just like for the rupees, we have seen quite a significant increase in our foreign currency deposits year-on-year. Not necessarily at the same pace for our foreign currency loans and advances, which explains, therefore, this increase of 12% in our liquid assets from Rs 158 billion to Rs 177 billion.

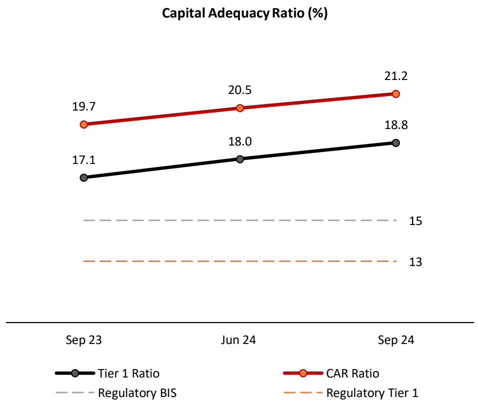
And on the right-hand side, you'll see how this excess liquidity was actually invested, with a predominant part invested in investment securities, mainly in the form of US Treasury Bills and US Government Bonds.

MCB GROUP SUCCESS BEYOND NUMBERS

Capital

The Group remains well capitalised





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On the capital side, therefore, as I mentioned earlier on, we have a capital-adequacy ratio, which is quite in excess of regulatory levels. Capital-adequacy ratio levels, 21.2% compared to the regulatory CAR of 15%, and Tier 1, 18.1% compared to the regulatory level of 13%.

00:24:47

Yes, this is providing you with some insights and some explanation on our performance this year, so I invite you now to ask any questions or clarifications that you may have on our first quarter results. Thank you.

OP Thank you. Participants on the webcast who wish to ask a question may do so by clicking on the Connect with HD audio button, which appears below the presentation, and follow the instructions. Once connected, you may press the Join the Question Queue button to register your intent to ask a question. You will hear a confirmation tone that you have joined the queue. You may click the Withdraw from Question Queue to remove yourself from the queue.

Participants on the conference call may press star and then one on their touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. You may press star and then two to remove yourself from the question queue. The first question that we have is from Timothy Wambu of Absa. Please go ahead.

TW Thank you. Good afternoon. Thank you, Jean Michel, Thierry, and Mr Gaspard. Just thanks for the presentation, and thanks for taking time to ask our questions. My first question is on the reduced lending. Rather, when you pinpoint the quarter-on-quarter reduction in your foreign currency lending. You do mention that this is due to commodity trade finance. How much of this is due to the completion of the Dangote Refinery? Or, in essence, is this like a Nigerian factor? That's what I want to understand.

00:26:46

My second question is, we note that you grew your investment securities in Mauritius at much higher rates than you did for your international investment securities. What's the motivating factor behind that? Maybe just an idea of how yields look like in Mauritius. And then my last question is, can you just remind us how you compute the deposit insurance. How it is computed. Is it purely on your rupee deposits? Thank you.

TH Hi, Timothy, Thierry speaking. If I can take the first question about Dangote, the apparent reduction of our lending at the end of the quarter, compared to the end of June 2024 is really a fluctuation of this business between funded and non-funded, as we have explained.

If you take it as an average balance, the overall lending is regularly increasing. Dangote is effectively impacting our CTF business, as far as Nigeria is concerned. But at the same time, we have an expansion of our business in other countries, so there is a compensation for the decline in volume in Nigeria, and it is not only us, but this is due to our clients who are looking at other markets.

To give you a little bit of flavour of that, there was the commodity week in Geneva two weeks ago, and it was very interesting to see our some of our clients who were focused on Nigeria diversifying their geographies. They have expanded that in other geographies, and so they are compensating for the reduced business in Nigeria. As we are following our clients, in the different countries where they are working, we can also easily compensate for the reduced business from Nigeria.

00:29:04

I will say as the variation from June to September 2024 is indeed a fluctuation, but on an average balance basis, the loan book is growing. Regarding Dangote, which has an impact on the CTF business in Nigeria is compensated by other geographies in which we are working. For the time being, this business is a growing business.

JM I'll explain on the investment securities. On the investment securities, as you can see on the slide, here, our deposits in rupees actually increased from Rs 283 billion to Rs 325 billion. Our loan portfolio in rupees did not increase at the same pace. In fact, it was almost flat.

The actual increase in our deposits created this excess liquidity of the order of roughly about Rs 40 billion, and that Rs 40 billion has been invested in these investment securities, because, as you can see on the left-hand side, investment securities increased from Rs 160 billion to 196 billion.

Now, in Mauritius, we are in a situation that has been like this for many years, where we have an excess liquidity situation. Banks have only one way of investing their excess liquidity. It's actually invested in these investment securities that are issued by the Bank of Mauritius. And depending on availability of such issues by the Bank of Mauritius, we invest through tender whatever is available in the market.

00:31:28

This is exactly what was done. The excess liquidity was invested in these investment securities, mainly in the form of Treasury Bills or Treasury Bonds by the Bank of Mauritius. And that has indeed helped to increase our net interest income in rupees this quarter, compared to the quarter of last year.

And maybe, finally, on the deposit insurance scheme, the Bank of Mauritius' intention is to raise a total of Rs 10 billion. The Bank of Mauritius wants to create a fund of Rs 10 billion. Our market share today in rupees is 50%, so our share of that 10 billion is 5 billion, which will be built over a period of ten years.

It is now clear, because it wasn't clear last year but now it is clear, and what it's going to cost us in financial year 2024/25 is an amount of 250 million. Next year it's going to cost us Rs 520 million. The year after, roughly about Rs 550 million. It's going to be like this for the next ten years. But just this year, 2024/25, it's going to cost us Rs 250 million. And for the first quarter, we have accrued an amount of Rs60 million for the first quarter.

TW Thank you. Yes, you provided the breakdown. Can you hear me?

OP Yes, please go ahead, Timothy.

TW Thank you so much for that breakdown as to how these figures evolve over the next couple of years. Maybe just a follow-up question on the investment securities. I think I missed this part, but just remind me there, the growth in NIM on your Mauritian Rupee book, as well as group in NIM for your foreign currency book. Thank you.

00:34:05

JM Everything combined in rupees, and when I say everything combined, it means if you take both loans and advances and investment in securities all together, our NIM actually increased from 267 to 290 between September 2023 to September 2024. And that's mainly to do with our investment securities. That increase is mainly to do with our NIM on investment securities.

On the foreign currency side, our NIM actually increased from 3.04% to 3.22%. And that's the combined NIM on both on our loan portfolio and on our liquidity, by virtue of the fact that there was that repricing timing difference, which has enabled us to pick up a little bit more of NIM on the foreign currency side.

As I mentioned earlier on, even if interest rate, the SOFR, had already stabilised as from June 2023, as you can see on the slide here, but in our books, it actually takes a bit of time, one month, two months, three months for loans to reprice, depending on when the loans were disbursed.

It actually takes a little bit of time, so that's why we still have got a bit of pickup in our NIM on the foreign currency side. But thereafter, when you get to the second quarter or third quarter, our loan book, and our investment security portfolio, we expect interest rates to be flat. We don't expect the pick-up in margins and NII experienced in this quarter.

00:36:20

OP Timothy, do you have any other questions?

TW I guess there are no questions on the queue. Just on loan growth, of course, it was not as strong, only 4% in the quarter, what's your outlook for the financial year? And also, bearing in mind that you did launch this medium-term programme note, it’s a five-year note, and you initially talked about 300 million, and I can see it's a five-year note. Do you feel you need to expand on your lending, so that you should see an acceleration in the lending book as you continue to tap on this medium-term note?

Second question is, maybe just a comment on the Mauritian political scene, they just concluded elections, and maybe just a comment, or view, on a Trump presidency, and maybe what that means for your business, maybe the reduction of interest rates, ETC. Thank you.

JM The loan growth, as you can see here, on a year-on-year, it was 3.1%. We expect on the foreign currency side... Because, once again, this is the picture as at end of September. It could well be at the end of December that we see quite an increase on the foreign currency side, depending on where we are in the value chain in the in the cycle of our CTF deals. Because what happens is that those letters of credit that we have issued could in December 2024 become a fund-based facility. Or that fund-based facility could have been paid and replaced by a non-fund based facility.

00:38:20

We do expect on the foreign currency side some pickup for the year. Whereas on the rupee side, well, it really depends on how the economy is doing. We believe it's going to progress as it has been in the past, at the same pace as the pace of growth of our economy. If our economy has been growing by 3%, 4% per annum, this is approximately the sort of range that we can see on the rupee side.

Your next question was about election. On the election side. What I think the new governor will be doing would be to try and stabilise the rupee. I think that has been mentioned by him publicly in the press. I think his priority, at least for the short term, is to stabilise the rupee.

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OP Thank you. The next question we have is from Kato Mukuru. Please go ahead.

KM Hello? Hello? Can you hear me?

00:39:50

OP Yes, thank you, please, go ahead.

KM Hello. Thank you, gentlemen. I really appreciate the disclosure of average balances. I thought that really, really value-add. What I'd like to understand, I'm still not quite sure about the growth I should be thinking about in the foreign currency book, in particular, with regards to the gross loan book, I know it's been very stable. What we should be thinking about is, is the correct way to thinking about this, it's a very stable book because you have dedicated capital to that book size, and the overall average book size won't change much.

And then the way the earnings develop is really based on interest rates and whatever excess liquidity you have. But primarily, it's just interest rates and a fairly stable book at this size, given the capital allocation, is that correct?

TH No, I think we cannot say that, really, when you when we look at the foreign currency book. Because first of all, we have a strategy of continuing the growth of our operations in several lines of business such as in the 'Global and International Corporates' segment; so this is a rather short- and medium-term loan portfolio in foreign currency, We also plan to grow in structured debt in oil and gas sector, and in Power and Infrastructure projects.

Actually, we have a deals pipeline, which is an active pipeline in these different streams of businesses, which makes us relatively comfortable with the growth of these portfolios of loans over the years.

But when you look at the global figure of the foreign currency loan, you have the impact of the funded part of our CTF business which causes some fluctuation in our end-of-period loan balance. And this is why, on the balance sheet day, end of quarters, you can have quite a substantial fluctuation, because the CTF portfolio is by far the biggest loan portfolio. But the valuation of one shipping is $100 million, and the cycle between the initial issuance of letters of credit and the funded exposure, you can have substantial fluctuation in several hundred of million dollars.

00:42:24

This is not comparable to the stable portfolio in project financing, which is effectively growing. But again, if you take the average balance of CTF business, and if you mix the funded and the unfunded activity, we have seen a growth in our business.

Depending on the where we are on CTF transactions, what we miss in net interest income due to a lower loans balance is actually compensated by higher fee income resulting from letters of credit. There is a balance in this business overall. So that's what we can say. On the loan portfolio, the average balance is growing, but the end-of-period balance sheet can be very fluctuating, up or down. Of course, it is important is to take the average balance of our loan book into consideration.

KM Along the lines of what you were mentioning was particularly with regards to fees. Is it possible to split out the fees between the foreign-currency versus local rupee fees? Just so we could see how much the total revenue is generated on the foreign currency side.

JM We can take it separately. We don't have the numbers offhand.

KM Thank you very much.

00:44:13

OP Kato, do you have any other questions?

KM No, no, that was my question, thank you very much.

OP Thank you very much. Ladies and gentlemen, just a final reminder, if you would like to ask a question, you may press star and then one. And if you are on the webcast, you may click on the Connect with HD audio button, and then press Join the Question Queue button to register your intent to ask a question.

We will pause for a moment to see if we have any other questions. It seems that we have no further questions at this time. And with that, that concludes today's event. Thank you for joining us. And you may now disconnect your lines.