Earnings Conference Call

Year End 2024

Edited Script

13 February 2025

Corporate Participants:

Mr. Waleed Mandani – Acting CEO

Mr. David Challinor – CFO

Ms. Dalal AlDousari – Head of Investor Relations

Host:

Ms. Elena Sanchez – EFG Hermes

[GBK Classification: PUBLIC]

Elena: Good morning and good afternoon, everyone. This is Elena Sanchez, on behalf of EFG Hermes; I would like to welcome you all to the Gulf Bank the year-end 2024 earnings conference call. It is a great pleasure to have with us on the call Mr. Waleed Mandani, Gulf Bank Acting CEO, Mr. David Challinor, Gulf Bank CFO and Ms. Dalal AlDousari, Head of Investor Relations at Gulf Bank.

At this point I would like to hand over the call to Ms. Dalal AlDousari, please go ahead.

Dalal: Thank you, Elena. Good afternoon and welcome to Gulf Bank's year-end 2024 earnings call. We will start our call today with key highlights and updates on the operating environment of Gulf Bank during the year 2024 presented by the Acting Chief Executive Officer, Mr. Waleed Mandani followed by a detailed presentation of our financial results by the Chief Financial Officer, Mr. David Challinor.

All amounts in the presentation are in millions of Kuwaiti Dinars and have been rounded to simplify the charts. During our presentation, we will try not to repeat the currency when discussing specific amounts unless that amount is in another currency other than Kuwaiti Dinars.

After the presentation, we will open the floor for Q and A received through the webcast platform. Feel free to type in your questions at any time during the call. The presentation will be available at our corporate website and will be disclosed to Boursa Kuwait.

Please note that we can only comment on inquiries and information that are publicly disclosed. I would also like to draw your attention to the disclosure on **page 12** of the presentation, with respect to forward looking statements and confidential information. Please feel free to reach out to our Investor Relations team if you have any questions.

Now, I would like to handover the call to Mr. Waleed Mandani. Waleed?

Waleed: Thank you, Dalal. Good morning and good afternoon, everybody.

As we look back on 2024, I am proud to highlight Gulf Bank's notable milestones and the strides we have made in advancing our vision. However, before delving into our achievements, let us first consider the broader economic context that has shaped our journey this year.

The global economic landscape in 2024 experienced considerable fluctuations. Central banks worldwide started to recalibrate monetary policies to address shifting financial conditions. Here in Kuwait, the Central Bank of Kuwait took a measured approach, following the U.S. Federal Reserve's first interest rate cut with a 25-basis-point reduction in the discount rate in September versus the US FED cute of 50 basis points. This deliberate step was aimed at fostering economic growth and fortifying financial stability. Kuwait's financial system continues to demonstrate resilience, supported by stable oil prices, ambitious government initiatives toward economic diversification, and a commitment to fiscal reform.

Against this backdrop, Gulf Bank has played a key role in supporting Kuwait's economic development and Vision 2035 aspirations. We have actively participated in financing major infrastructure, oil, and construction projects critical to the nation's growth. Yet, our contribution extends well beyond traditional banking. Gulf Bank is deeply committed to fostering social and economic progress, demonstrated by our support for small and medium-sized enterprises (SMEs) and our efforts to promote financial inclusion across the community.

Operationally, we have achieved remarkable progress in enhancing efficiency and elevating customer experiences. A key milestone was the successful completion of Phase II of our core banking system, a cornerstone of our digital transformation journey. This upgrade has empowered us to deliver seamless and personalized banking experiences to our customer while redefining our branches as a customer-centric relationship hub.

Our digital transformation efforts have been further reinforced by the launch of a new mobile banking application, designed to provide a secure and intuitive platform that caters to the diverse needs of our clients. Additionally, we made strategic partnership which helped us introduce an array of innovative digital products and services, all aimed at delivering convenience and accessibility in an increasingly dynamic banking environment.

Additionally, Invest GB, our fully owned investment arm, started its operations this year, with a capital of KD 10 million, managing assets exceeding USD 3.2 billion. This strategic move aims to leverage Invest GB expertise's and resources to provide clients with streamlined and sophisticated solutions that address their unique financial goals and aspiration.

In parallel, we have made meaningful progress in improving operational efficiency. By embedding a culture of continuous improvement across the organization, we have streamlined processes and achieved sustainable results, which will remain integral to our strategic approach.

In 2024, we launched our 2030 Sustainability Strategy, which outlines our commitment to achieving a resilient future. This strategy includes initiatives aimed at reducing our environmental footprint, enhancing social responsibility, and ensuring robust governance practices. In line with this strategy, we have recently unveiled our newly opened and redesigned branches across Kuwait, thoughtfully designed with sustainability in mind. These eco-friendly branches incorporate energy-efficient technologies and sustainable materials, reflecting our commitment to environmental responsibility.

For our private banking clients, we introduced a new identity that redefines the concept of wealth management, focusing on three core pillars: long-term wealth growth, asset protection to ensure financial security, and facilitating the smooth transfer of wealth in line with clients' personal aspirations. This comprehensive approach reflects our dedication to delivering exceptional, bespoke experiences for our valued private banking clientele.

At Gulf Bank, we recognize that our success is driven by our people. Investing in our workforce remains a top priority, as we strive to foster a culture of continuous learning, professional growth, and support career growth including promoting talent from within the organization. Throughout the year, we implemented a range of initiatives to support the development and well-being of our employees, ensuring they are equipped to thrive in an ever-evolving landscape.

Looking ahead to 2025, we remain steadfast in pursuing our strategic goals. A key focus will be the continued exploration of the feasibility of transforming Gulf Bank into a Sharia-compliant institution. Simultaneously, we will work to expand our product offerings, enhance our competitive position, and maintain our robust financial performance. With a clear vision and unwavering determination, we are confident in our ability to achieve sustainable growth and deliver long-term value to our stakeholders.

Now turning to Page 3, I would like to summarize our financial results with six key messages:

First, our net profit declined by 15.5% for the full year 2024, to reach KD 60.2 million in comparison to KD 71.2 million reported in 2023.

Second, our earnings per share reached 16 fils for the year ending 31 December 2024. Accordingly, the Board of Directors is recommending a distribution of cash dividend of 10 fils per share, representing a 63% cash payout, in addition to 5% bonus shares. These recommendations are subject to shareholders' approval at the Annual General Meeting to be held in March 2025.

Third, our gross loans and advances reached KD 5.7 billion, an increase of KD 215 million or 3.9% compared to 31 December 2023. This growth came from our corporate banking segment.

Fourth, the portfolio continued to be resilient as our non-performing loan ratio (NPL Ratio) as of 31 December 2024 stood at 1.3%, together with a strong NPL coverage ratio of 340% including total provisions and collaterals.

Fifth, as of 31 December 2024, our Tier 1 Ratio was 15.2% achieving a buffer of 323 basis points above regulatory minimums of 12%, and our Capital Adequacy Ratio was 17.3% achieving a buffer of 335 basis points above regulatory minimums of 14%.

And sixth, the Bank remains an ‘A’ rated bank by major credit rating agencies. Our current position stands as follows:

- Moody’s Investors Service has affirmed the ‘A3’ long-term deposit ratings of Gulf Bank with a “Positive” outlook.
- Fitch Ratings has affirmed the Bank’s Long-Term Issuer Default Rating at “A” with a “Stable” outlook and a Viability Rating of “bbb-”.
- Capital Intelligence affirmed the Bank’s Long-Term Foreign Currency Rating of “A+” with a “Stable” outlook.

So, our performance during the year has further strengthened the Bank’s fundamentals. Looking forward, Gulf Bank is very well positioned to deliver superior shareholder returns and will continue to grow in a sustainable way into the future.

With that, I’ll turn it over to our CFO, David Challinor, who will cover the financials of the year 2024 in more depth, thank you. David, over to you.

David: Thanks Waleed.

David: **Turning to page 4,** we can see the movement in net profit from 71.2 to 60.2 which is a decline of 11 million or 15%. It’s worth noting that the decline for year-to-date Q3 was 25%, so we have increased profitability in the last quarter.

Looking across at the components, we can see the biggest driver of the decline is a 13.3 increase in credit costs followed by a 5.7 increase in operating expenses, which was mainly driven by the other expense category. In addition, there was an increase of 1.6 relating to the general provision, which was driven by higher loan growth than last year.

On the positive side, we saw an increase in net interest income of 5.8 primarily due to asset growth and an increase in non-interest income of 3.3.

Turning to page 5, we have a detailed breakdown of our income statement.

On line 1, interest income was up 33.5 or 9% for the year compared to the same period last year. This was primarily due to a combination of 4% asset growth and yield expansion in our retail business.

On line 2, interest expense increased by 27.7 or 13%. It’s worth noting that the growth in interest expense has slowed down from year-to-date Q3, where the growth was 17%.

On line 3, net interest income grew 4% year on year to reach 156.2.

On line 4, non-interest income increased by 3.3 or 8%. You can see that there was a significant increase in Q4, which was driven by profit on sale of repossessed collateral which amounted to 3.6. However, excluding the impact of this sale, the underlying non-interest income for Q4 was the highest of any quarter in the 2024 year.

On line 5, operating income increased by 9.1 or 5%.

On line 6, operating expenses have increased by 5.7 or 7%. We saw a 9% increase sequentially from Q3 to Q4 which was largely driven by the other expense category. And in particular various consultant/advisory fees combined with IT transformation expenses.

On line 7, operating profit before total provisions and impairments has increased by 3.3 or 3%.

On line 8, you can see credit costs increased by 13.3, to reach 42.5 for the full year 2024. It's worth noting that the increase was 15.5 for year-to-date Q3 and that the Q4 credit cost was the lowest of any quarter during the 2024 year, which was supported by a good level of corporate recoveries.

On line 9, general provisions increased by 1.6 due to stronger loan growth this year versus last year. A 1% charge is required to be taken as a general provision as per CBK regulations mainly against non-government loans booked in the quarter.

On line 12, you can see the Q4 net profit of 20 was the highest of any of the quarters. And in fact, it was the highest profit the bank has posted since Q4 2019.

Turning to page 6, we can see the balance sheet.

On line 8, Net Loans and Advances of 5.5 billion increased by 5% year on year. The growth achieved this year came from our corporate business, particularly in the financial, trade, and real estate sectors.

On line 13, Total Assets increased by 4% year on year to reach 7.5 billion.

On lines 15 & 16, Total Deposits of 5.6 billion increased by 233 million or 4% year on year. We did see our CASA ratio decline to 27.7% versus 29.7% last year. However, there's been a system wide decline in CASA when compared to last year, albeit at a slower pace in recent quarters.

On line 17, other borrowed funds declined by 9% year on year due to some pre-repayments of medium-term borrowings, however, this was more than offset by an increase in customer deposits.

Moving on to asset quality, our non-performing loan ratio, shown on line 24, was 1.3% at the end of December 2024, up only 0.1% from last year. Also, we continue to have a significant total coverage ratio of 340% that includes total provisions and collaterals.

Now, turning to Page 7 you can see in the chart on the left that as at 31 December 2024, total provisions are 270 which is a decrease of 42 from a year ago. The decrease was primarily related to releases, following regulatory approval, of excess general provision, in both the second and third quarters. The releases were in relation to two corporate borrowers whose facilities moved from stage 2 to stage 3 and were then fully provided for and subsequently written off. However, despite these 2 releases the excess of total provisions over IFRS 9 continues to be very healthy at 35%.

Looking at the pie charts on the top right of the page, you can see that our stage 1 loans have increased to 95.8%, Stage 2 has declined to 2.8%, and Stage 3 slightly increased to 1.4%, when compared to same period of last year.

The chart on the bottom right side of the page shows the evolution of Stage 2 and stage 3 percentages historically. We can see that Stage 2 declined to 2.8% in Q4 24 from 4.6% same period last year and Stage 3 continues to remain very low and stable.

Turning to page 8, on the top left, our Tier 1 ratio was 15.2%, which is well above our regulatory minimum of 12%. And it's worth noting that all our Tier 1 is CET1.

On the bottom left, our Capital Adequacy Ratio of 17.3% was well above our regulatory minimum of 14%.

Our risk weighted assets, shown on the top right, increased by 5% year on year.

On the bottom right, our leverage ratio as of 31 December 2024 is 9.8%, slightly lower than last year's level of 10.2%, but well above the 3% regulatory minimum.

Turning to page 9, we can see our key liquidity ratios. The chart on the left side shows our quarterly average daily Liquidity Coverage Ratio, which is 258%, and on the right side, you can see the Net Stable Funding Ratio is 111%. Both ratios continue to be well above regulatory minimums of 100%.

Now, I will turn it back over to Dalal for the Q and A session.

Dalal: Thank you, David. We are now ready for Q and A session. If you wish to ask a question, please submit your question into the designated questions text area.

We will wait for few minutes to receive most of your questions, and we will try to group them by topic.

(Pause)

Ok, we will go through the questions now.

Dalal (Q1): **We received a question regarding the conversion to a Sharia compliant bank? Or the deal with Warba? Daivd, would you like to take that question?**

David (A1): Yes, thanks Dalal.

Regarding the potential conversion to Islamic banking, I'd like to refer back to our announcement on June 11, 2024, when we disclosed that our Board of Directors had authorized the engagement of an international consultant to conduct a feasibility study on converting Gulf Bank to operate in accordance with Islamic Sharia principles. The Central Bank of Kuwait has granted its no-objection for the commencement of this study.

Currently, the feasibility study is underway. Upon completion, the findings will be presented to the Board and then to the Central Bank of Kuwait. Ultimately, the decision will be brought to our shareholders at the AGM for their approval.

Dalal (Q2): **Next, we have received couple of questions on OPEX? David?**

David (A2): Thanks, Dalal.

In terms of the cost to income percentage, we guided at the beginning of the year that we would look to move this lower in 2024. And when you look at this ratio for the first 9 months of the year, it was in line when compared to 2023 level. But in Q4 we did see a step up in the quarterly costs, which meant that for the full year 2024 our cost to income ratio exceeded where it was in 2023.

Now, the main driver of the Q4 step up was in the other expense category. And specifically in this category we had significant costs relating to our transformation program, potential merger transaction with Boubyan and consulting fees. Now, we have further costs coming through in relation to the merger, which was called off earlier this year, and we have also signaled to the market we are moving forward with our sharia-compliant banking feasibility journey. So, we may have elevated levels in the other expense category for a while longer.

However, when we look at staff costs, which represent almost 60% of our cost base, they've reduced in 2024 by around 1%. And occupancy costs reduced by around 7%. So, we've been working hard to optimize the core "business as usual" cost base. So, I think it's important to recognize that even though reported costs are up in Q4, our core costs are being well controlled. And when we compare to other banks, our total operating expense growth of 6.6% for 2024 is the lowest of all the banks that have reported so far.

Now, looking forward into 2025 we will continue our cost optimization journey and are targeting a fall in the full year cost to income ratio, but as I said we may experience elevated levels in the other expense category for a while.

I think we need to be cognizant that we are moving forward with our shariah compliant feasibility so it's really a question of whether the ongoing optimization of our BAU cost base outweighs the additional costs of the feasibility and potential conversion, which is obviously subject to the relevant approvals.

Dalal (Q3): **We have question related to Credit Cost; and expectations for next year? David?**

David (A3): Thanks, Dalal. In 2024 there's been a lot of dynamics and complexity at play when we look at the banks credit costs. Just to recap they were higher by 13.3 million or 46% than in 2023. Our full year cost of risk for 2024 was 75 basis points which exceeded the top end of the guidance we gave at the start of the year of 70 basis points. But to fully understand the credit cost dynamics we need to look at corporate and retail separately.

On the corporate side, 2024 represented a clean-up year of many old legacy accounts. In fact, each quarter in 2024, we reached full provision and subsequent write-off of one material corporate account. This is why our stage 2 percentage went from 4.6% at the end of 2023 to 2.8% at the end of 2024. And not only is this the lowest the bank has seen since the introduction of IFRS 9, but it's the lowest of any bank in Kuwait. So, we are very comfortable with the asset quality status of the corporate book. And now of course we've already passed the point of peak interest rates and have moved into an easing cycle which gives me more confidence around the quality of the book.

Also, for two of the large corporate accounts we were able to utilize our excess general provisions (in both Q2 and Q3) to significantly buffer the potential P&L hits arising from moving to 100% provisions. And this utilization of excess general provision is testament to the banks very strong provisioning levels.

Now, on the retail side I've said before that the credit costs have been elevated each quarter this year and in Q4 we saw a continuation of a similar trend. And whilst we have strengthened collection mechanisms and ceased underwriting in the segments we identified as having poor asset quality outcomes, it could take some more time before we start to see retail credit costs normalize.

Looking forward into 2025 I think credit costs may be lower than what we saw in 2024. I'd expect the corporate book to perform better given many of the legacy accounts are now behind us, however retail may remain elevated for some time. So, on balance an annual credit cost in the 60-70 basis point range could be achievable in 2025.

Dalal: Thank you, David. We will pause for few minutes to receive more questions.

(Pause)

Dalal (Q4): **We have few questions related to loan growth? David?**

David (A4): Thanks, Dalal.

Gross loans and advances have grown 4% this year. Now, we did give guidance at the start of the year that full year loan growth would be around mid-single digits, and we achieved this.

And the growth this year has been dominated by our corporate book which grew almost 10%. And this is a significant turnaround from 2023 where we saw a degrowth in corporate of 1%. In terms of the market growth, we saw corporate grow by around 9.3%, so we've outperformed the market in corporate.

I've said before we're shifting our focus more towards local deals as we expect activity to pick up in this space. So, in Q4 we did see a degrowth as we repositioned the book by reducing exposure to foreign currency loans. Our local pipeline is strong, which reflects renewed activity in the market, so I'd expect to see good loan growth in the corporate space going forward.

On the retail side, the market has been slow which is a function of the higher rate environment as the retail loans are fixed rate. However, we did see a pick-up in the second half in system level. We are keen to resume growth in retail, but this will have a dependency on the timing and size of local rate cuts.

Looking forward into 2025, I'd expect full year loan growth to be around mid-single digits again with a return to growth in our retail business and more focus on local deals within the corporate business.

Dalal: Thank you, David.

Dalal (Q5): **We can see question on NIM's; How should we be thinking about NIMs for the next two-three quarters, considering the September rate cut of 25 basis points by CBK as well as a potential, new rate cut of 25 basis points in 1H25? David?**

David (A5): Thanks, Dalal.

If we look at the first 9 months of 2024, we held our margin versus the same period in 2023. And we were sitting at a year-to-date margin of around 214 basis points. Now, we saw the CBK cut rates by 25 points at the end of Q3 and we've also seen multiple cuts in dollar rates in Q3 and into Q4.

Whilst we did see the cost of funds continue to fall in Q4 and this was the third successive quarter of falls in the year, however, given the immediate repricing impact due to the rate cuts, we did see a fall in margin in Q4. So, for the full year 2024 our margin is now sitting at 212 basis points.

Clearly the biggest driver of margin going forward will be the timing and size of rate cuts. We've disclosed in our financial statements the impact of a 25-basis point change to our net interest income. And for our KD book this is 1.5 million and for our USD book its 1.1 million. Which gives a total of 2.6 million KD for every 25 basis points. And this also assumes a parallel shift across both sides of the balance sheet. So, in 2025 we will likely see further margin reductions driven by benchmark rate cuts, but to provide guidance on the quantum of such reductions, given the uncertainties around size and timing, is very difficult.

Dalal: I believe we have covered the majority of topics and questions raised today during the call. You may refer to **page 11** of the presentation for 2025 guidance summary.

And with that, we would like to conclude our call for today.

If you have any questions, you may visit our investor relations page at our website or reach us at our dedicated investor relations email. Thank you all very much for your participation today.