Earnings Conference Call

First Half 2025

Edited Script

29 July 2025

Corporate Participants:

Mr. David Challinor – CFO

Mr. Youssef Dib – Investor Relations Team

Host:

Ms. Elena Sanchez – EFG Hermes

Elena: Good morning and good afternoon, everyone. This is Elena Sanchez, on behalf of EFG Hermes; I would like to welcome you all to Gulf Bank first half 2025 earnings conference call. It is a great pleasure to have with us on the call Mr. David Challinor, Gulf Bank CFO and Mr. Youssef Dib, from Investor Relations Team at Gulf Bank.

At this point I would like to hand over the call to Mr. Youssef Dib, please go ahead.

Youssef: Thank you, Elena. Good afternoon and welcome to Gulf Bank's first Half 2025 earnings call. We will start our call today with key highlights and updates on the operating environment of Gulf Bank during the first half of 2025 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. I would like to draw your attention that there has been an upgrade to the Webex application and now questions can be posted on the “chat box” instead of the designated Q&A option that was available earlier, and therefore, questions and comments will be visible to all participants. Feel free to type in your questions at any time during the call and we will address them once we open the Q&A session.

Please note that we can only comment on questions and information that are publicly disclosed. I would also like to draw your attention to the disclosure on **page 9** 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 hand over the call to Mr. David Challinor. David?

David: Thank you, Youssef. Good morning and good afternoon, everybody.

The first half of 2025 was marked by a dynamic operating environment and rising geopolitical tensions and oil price fluctuations have added volatility to regional markets and shifted governments priorities. These factors have also influenced market sentiment, creating a more cautious investment landscape. Locally, fiscal policy developments have also played a role in shaping market conditions. The most recent local government debt issuances estimated at 600 million KD and planned international issuances of 6 billion USD are expected to support government spending on capital development projects across vital sectors including infrastructure, housing, and logistics. These will accelerate economic activity and enable faster participation by banks in financing national initiatives. Moreover, such instruments could provide banks with added flexibility in managing their balance sheets and responding to emerging financing opportunities.

In line with this momentum, the total value of contracts awarded in H1 2025 reached approximately 1 billion KD — marking a 30% increase year-on-year. This growth was primarily driven by infrastructure investments, concentrated on modernizing the Oil & Gas, Power & Water, and Transportation sectors.

Against this backdrop, and despite continued pressure on margins across the sector, our financial performance reflects strong execution and a prudent approach to managing our operations. We continued to maintain a balanced approach between credit expansion and asset quality, ensuring the resilience of our loan book. Our low non-performing loan ratio and high coverage levels underscore the effectiveness of our risk management framework and our ongoing commitment to financial stability.

We are also advancing our internal readiness for a potential Islamic Sharia-compliant conversion, subject to being granted with the necessary regulatory and shareholders' approvals. The essential systems, governance frameworks, and talent are currently being explored. We are carefully assessing all operational and market implications to ensure we would be well-prepared subject to obtaining the necessary approvals. We view this potential strategic move as an opportunity to broaden our offerings and better serve a growing client segment in the local market.

In addition, we have recently signed a Memorandum of Understanding with Warba Bank stating the basis of cooperation in assessing a proposed merger between both banks, independently ensuring the best interests of all the Bank's shareholders in line with all regulations.

Following that, we announced yesterday that we had obtained approval from the Central Bank of Kuwait to engage and appoint a group of specialized consultancy firms with the necessary qualifications and expertise to carry out the feasibility study and due diligence for the potential merger.

In terms of Gulf Bank's financial strength and operational resilience, during the year we were affirmed by leading credit rating agencies. Fitch Ratings assigned a Long-Term Issuer Default Rating of 'A' with a Stable Outlook. Moody's rated long-term deposits at 'A3' with a Positive Outlook. Capital Intelligence affirmed a Long-Term Foreign Currency rating of 'A+' with a Stable Outlook, all further highlighting the Bank's stability and sound risk management practices.

Finally, we continue to advance initiatives that align with our customers' evolving needs and expectations. During the quarter, Gulf Bank was proud to receive the award for "Best Mobile Banking Application and Experience" by MEED Business Intelligence. This recognition reflects our continued investment in digital innovation and our efforts to deliver a seamless, secure, and accessible banking experience across all channels.

Now, I will move into the details of the Bank's financial performance for the first half of 2025.

Turning to page 2, we can see the movement in net profit from 28.2 to 24 million, which is a decline of 4.2 million or 15%. This marks an improvement from Q1 where the decline was 27%.

Looking at the components, we can see the biggest decline is a 13.7 million decrease in interest income followed by a 2.6 million increase in operating expenses, which was mainly driven by the other expense category.

This was offset by a decrease in interest expense of 8.8 million, a decrease in credit costs of 3.1 million and a decrease of 0.3 million in general provisions.

Turning to page 3, we have a detailed breakdown of our income statement.

On line 1, interest income declined by 13.7 million or 7% in the first half of 2025 compared to the same period last year. This was primarily driven by the repricing effects of the 25-basis point cut in the KD rate and the 100-basis point cut in the USD rates between September and December last year. However, interest income improved from Q1 2025 by 2 million or 2%, reaching 94.6 million.

On line 2, interest expense decreased by 8.8 million or 7% in the first half of 2025 compared to the same period last year. On a quarterly basis, interest expense declined by 0.5 million or 1% in Q2 compared to Q1. This marks the third consecutive quarterly decline in interest expense since its peak in Q3 2024, which is a positive development.

On line 3, net interest income amounted to 72.7 million, representing a decline of 6% in the first half of 2025 compared to the same period last year. However, on a quarterly basis, net interest income rose by 2.5 million or 7% compared to Q1.

On line 4, non-interest income fell by 0.2 million or 1%, to 19 million in the first half of 2025, primarily due to lower gains from foreign currency. However, net fees and commissions recorded a growth of 2% over the same period.

On line 5, operating income for the first half of 2025 decreased by 5.1 million or 5%, to 91.8 million. However, Q2 operating income improved by 3.8 million or 9% compared to Q1.

On line 6, operating expenses increased by 2.6 million or 6% year-on-year in the first half of 2025. This growth was mainly driven by higher other expenses.

On line 7, operating profit before provisions and impairments declined by 7.7 million or 15%, reaching 44.9 million in the first half of 2025. However, it increased by 3.2 million or 15% in Q2 compared to Q1.

On line 8, credit costs were 17.6 million in the first half of 2025, reflecting a decline of 3.1 million or 15% compared to last year. This improvement was largely due to higher recoveries in our corporate business. On a quarterly basis, credit costs decreased by 2.6 million or 26% compared to Q1.

On line 9, general provisions declined by 0.3 million in the first half of 2025, primarily due to slower loan growth compared to last year. As per CBK regulations, a 1% general provision charge is required, mainly against non-government loans booked during the quarter.

Turning to page 4, we can see the balance sheet.

On line 7, net loans and advances of 5.7 billion increased by 2% year on year and 4% year-to-date. Our corporate business remains the current growth engine of the loan book.

On line 12, total assets decreased by 2% both year on year and year-to-date to reach 7.3 billion. The year-to-date drop is, primarily due to a lower balance of cash and cash equivalents.

On lines 14 & 15, total deposits were 5.4 billion, representing a decline of 184 million or 3% year-on-year. We also saw an improvement in our CASA ratio, which rose from 27.7% at Q4 to 28.5% at Q2. This improvement outperformed the market, which saw the ratio move from 30% at Q4 to 30.2% at the end of May.

On line 16, other borrowed funds increased by 23% year-on-year and 46% year-to-date, primarily due to the successful issuance of a 650 million dollar senior unsecured term facility during Q1.

Moving on to asset quality, our non-performing loan ratio, shown on line 23, stood at 1.4% at the end of Q2 2025, up 0.2% from the same period last year. We continue to maintain a strong total coverage ratio of 317%, which includes both provisions and collateral coverage.

Now, turning to Page 5 you can see in the chart on the left that as at 30 June 2025, we have 96 million of excess provisions, representing 35% of total provisions.

Looking at the pie charts on the top right of the page, you can see that our Stage 1 loans have declined to 95.4%, Stage 2 has increased to 3.2%, and Stage 3 increased to 1.5% when compared to 31 December 2024. The majority of Stage 3 loans comprise of retail.

The chart on the bottom right side of the page shows the evolution of Stage 2 and Stage 3 loans. We can see that Stage 2 loans ticked up from an all-time low of 1.9% but continued to be much lower when compared historically. Stage 3 loans continue to remain low and stable.

Turning to page 6, on the top-left, our Tier 1 capital ratio was 14.6%, which is well above the regulatory minimum of 12%. And it's worth noting that all of our Tier 1 is Common Equity Tier 1.

On the bottom-left, our Capital Adequacy Ratio of 16.8%, was well above our regulatory minimum of 14% and both ratios don't include interim profits for the first half of 2025.

On the top-right, our risk-weighted assets decreased by 0.1% year to date.

On the bottom-right, our leverage ratio as at 30 June 2025 was 9.6%, slightly lower than the 9.8% reported on 31 December 2024, but still well above the 3% regulatory minimum.

Turning to page 7, we can see our key liquidity metrics. The chart on the left shows our quarterly average daily Liquidity Coverage Ratio at 221%, while the chart on the right displays our Net Stable Funding Ratio at 108%. Both key ratios remain well above the regulatory minimum of 100%, reflecting our strong liquidity and funding profile.

To conclude, the second quarter's performance reflects our continued focus on credit discipline and operational control. As we enter the second half of the year, we remain committed to managing risks, executing on priorities, and supporting client needs.

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

Youssef: 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 "chat box".

We will wait for a 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.

Youssef(Q1): We have received question on NIMs, could you explain the drivers of margin trend during Q2 on a sequential basis? David?

David (A1): Thanks, Youssef.

During the Q1 investor call I mentioned that we could expect a margin increase in Q2 and that was indeed the case. In fact, the margin expanded very strongly by a total of 14 basis points from Q1. We're now at 204 basis points, which is broadly in line with the Q4 level. And the expansion was driven primarily by a sequential fall in the cost of funds of 9 basis points, primarily due to continued repricing down of liabilities as they fall due. And there was also an improvement in the overall income yields of 4 basis points from quarter to quarter.

Now, even though we saw a fall in the cost of funds during Q2 the market has recently become very competitive which is causing the cost of new deposits to rise and if this dynamic continues to persist, then we could be faced with some margin pressure even in the absence of cuts to benchmark rates. And as we've previously disclosed the impact of a 25-basis point reduction in benchmark rates to net interest income is circa 2.5 million KD, assuming a parallel shift across both sides of the balance sheet.

Youssef: Thank you, David.

(Pause)

Youssef(Q2): We have questions related to Credit Cost and the Bank's asset quality? David?

David (A2): Credit costs dropped 15% from H1 24 to H1 25. And we also saw a drop of around 26% sequentially from Q1 to Q2 25.

As I've mentioned on previous investor calls, for at least a year now, the vast majority of the bank's credit costs are coming from the retail book and this trend continued into Q2. However, the Q2 credit costs for retail were the lowest since Q3 2023 which is an encouraging sign. Although, I think it's probably too early to conclude that the Q2 levels represent a new baseline for future trends, but nonetheless it was a positive outcome for Q2.

On the corporate side, the book continues to perform exceptionally well with insignificant new NPLs. The bank had a significant clean up during 2024 of legacy corporate accounts which has placed the book in a very strong position from an asset quality perspective. In the quarter we did see a small tick up in our stage 2 percentage which was mainly driven by a downgrade in the credit rating of a corporate borrower. However, we do have full collateral for the facility so if the exposure did move to stage 3 then there would be zero credit cost impact. And our current stage 2 percentage of 3.2% continues to be very low both historically and as compared to other banks in the system.

Overall, the NPL percentage remains very low at 1.4% and we have significant total coverage including collaterals of 317%.

In terms of the guidance we gave at the beginning of the year we said FY25 credit costs are likely to fall in the 60 to 70 basis point range, which was down significantly from 75 basis points for FY24. For H1 25 we are sitting at 61 basis points, so I think the full year guidance of 60 to 70 continues to be appropriate at this stage.

Youssef: Thank you, David.

Youssef(Q3): We have few questions related to loan growth, specifically loan growth slowed sequentially to 1%, how do you expect the loan growth to evolve in H2 2025? David?

David (A3): Thanks, Youssef.

In Q2 we continued to grow the loan book, and the year-to-date growth was 3.8% for the first half of 2025. Now, when we compare it to the second half of last year, where we saw a contraction of 1.8%, H1 25 has witnessed a strong rebound from H2 24. And this rebound has been driven by our corporate business, which has grown 7.2% year to date versus the market growth, to the end of May 25, of 5.1%. So, we've gained market share in corporate this year and we also gained market share last year. And we've also seen more activity locally with less foreign currency lending than we saw last year.

Now when we look at retail, this continues to be a challenge in the current environment, and according to the CBK data the growth to the end of May 2025 was only 1.2% which is perhaps indicative of the current higher rates and future rate expectations.

In terms of the outlook for total loan growth for the full year 2025, we did guide for around mid-single digit loan growth, and we are currently on track to achieve this.

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

(Pause)

Youssef(Q4): We had a question; can you confirm cost of risk guidance 60-70 basis points full year 2025? David?

David (A4): Yes, that's right. We did give a guidance between 60 and 70 basis points and at first half we were at around 61 points.

Youssef: Thank you, David.

Youssef(Q5): Next, we have received couple of questions regarding the OPEX? David?

David (A5): Thanks, Youssef.

We've seen a 6% growth in total operating expenses in H1 25 versus H1 24. When we break this down, we can see that the business-as-usual expenses such as staff costs and occupancy have been well controlled as a result of the banks optimization program that commenced during 2024.

And the majority of the year-on-year increase was due to non-business as usual type expenses such as depreciation, which was mainly driven by the significant completion of our transformation program, and in the other expenses category. And this category has been driven primarily by consulting costs and further investment in our retail business to support a return to future growth when market conditions improve.

I think given the potential Islamic banking conversion coupled with the potential merger, we are likely to have a higher absolute level of operating expenses in the second half than the first. But we will continue to optimize business as usual costs in order to mitigate the potential increase as much as we can.

Now, the increase in the cost to income ratio at H1 25 has been primarily by asset repricing on the income side, coupled with an uptick in the other expenses category which I just had explained. However, we did see an improvement in the cost-to-income ratio in the second quarter versus the first as the margin recovered, but I think the full year outlook is that the ratio is set to increase from FY24 levels.

Youssef: Thank you, David.

I believe we have covered the majority of topics and questions raised today during the call. If you have any further 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.

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