بنك الخليج
GULF BANK

Earnings Conference Call Edited Script
Third Quarter 2024

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Corporate Participants:

Mr. Waleed Mandani – Acting CEO

Mr. David Challinor – CFO

Mr. Dalal Aldousari – Head of Investor Relations

Host:

Ms. Elena Sanchez – EFG Hermes

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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 third quarter of 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 Dalal, please go ahead.

Dalal: Thank you, Elena. Good afternoon and welcome to Gulf Bank's third quarter 2024 earnings call. We will start our call today with key highlights and updates on the operating environment of Gulf Bank during the first nine months of the year presented by Acting CEO, 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 10** 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. It’s a pleasure to be here to share

with you the Bank's performance and outlook as we navigate the evolving economic landscape.

Starting with the global economy, recent developments have marked a turning point, particularly with central banks adjusting their monetary policies in response to evolving economic conditions. Most notably, the U.S. Federal Reserve recently implemented a 50-basis points rate cut, signaling a shift in focus from inflation control to supporting growth in the face of slowing economic momentum. This move reflects growing concerns about global economic softness, particularly in light of lingering geopolitical tensions, supply chain disruptions, and the need to stimulate investment and consumer spending.

The Fed's decision has sent ripples across global markets, easing financial conditions and providing some relief to borrowers and businesses alike. For the global banking sector, this rate cut signals an environment of lower borrowing costs, potentially boosting demand for credit while placing some pressure on margins. As liquidity improves, banks will need to navigate the challenge of supporting growth while sustaining profitability in a lower interest rate environment.

On the local front, the Central Bank of Kuwait followed the Fed's lead by announcing a 25-basis points rate cut. This action underscores the Kuwaiti regulator's commitment to maintaining a balance between fostering economic growth and ensuring financial stability. Lower borrowing costs are expected to stimulate demand for credit, particularly in consumer lending, as well in vital sectors such as construction and real estate, areas that are crucial for driving the Kuwaiti economy forward.

For the Kuwaiti banking sector, this adjustment opens opportunities for expanded lending activities, especially in corporate and project finance, as businesses seek to capitalize on more favorable borrowing conditions. However, similar to global trends, the rate cut will also likely exert pressure on net interest margins, requiring banks to further diversify their revenue streams and enhance operational efficiencies.

Kuwait's financial system remains resilient, bolstered by stable oil prices and the government's renewed commitment to economic diversification through large-scale investments. This focus, particularly on advancing key initiatives under the

New Kuwait Vision 2035, strengthens the prospects for local banks to continue playing a vital role in financing national development. The resumption and acceleration of efforts in sectors such as energy, housing, transportation, and digital transformation present significant growth opportunities for the banking industry, offering a chance to further enhance our project financing capabilities. Our Bank is well positioned to play a crucial role in financing these developments, leveraging our strong relationships with both public and private sector stakeholders.

Lastly, I would like to take a moment to update you on the potential merger between Gulf Bank and Boubyan Bank.

We have first made an announcement on 30th July, 2024 regarding the Board's approval of a proposed potential merger with Boubyan Bank to create a unified, Sharia-compliant entity, and the recommendation to move forward to carry out the needful actions to commence the initial feasibility study and necessary due diligence for the merger, aligned with the Central Bank of Kuwait's guidelines for the merger process.

Additionally, on 17th September 2024 we signed a Memorandum of Understanding (MOU) with Boubyan Bank, establishing the foundation for independent assessments to ensure that the best interest of both banks' shareholders and investors is maintained.

And most recently, we have announced the CBK approval to the selection of the consultancy firms that will be carrying out the feasibility study and due diligence for the potential merger including Goldman Sachs as the Investment Consultant, PricewaterhouseCoopers as the Financial and Tax Consultant, International Counsel Bureau as the Local Legal Consultant, and Freshfields Bruckhaus Deringer as the International Legal Consultant.

As we move forward, we remain fully committed to complying with all applicable regulations and will continue to update our stakeholders on key developments.

Now turning to Page 2,

And moving on to Gulf Bank third quarter results of 2024, we continue to face headwinds with our credit costs which resulted in a drop of our net profit during

the first nine months of the year compared to the same period of last year. Having said that, we have seen our loan book expand during the first nine months of the year and our net interest income and operating income continues to grow during the same period reflecting the success of our strategic initiatives in meeting our clients' evolving needs.

Now, allow me to summarize our financial results with six key messages:

First, we have recorded a net profit of KD 40.2 million for the first nine months of 2024, a decline of KD 13.6 million or 25% compared to 2023 first nine months net profit of KD 53.8 million.

Second, our operating profit before total provisions and impairments has increased to KD 78.6 million, representing a growth of 5% compared to the first nine months of 2023.

Third, our gross loans and advances reached KD 5.8 billion, a year-to-date increase of KD 303 million or 6% compared to 31 December 2023. This growth came primarily from the corporate segment.

Fourth, the portfolio continued to be resilient as our non-performing loan ratio as of 30 September 2024 stood at 1.3%, with a strong NPL coverage ratio of 334% including total provisions and collaterals.

Fifth, as of 30 September 2024, our Tier 1 Ratio was 14.2% with a buffer of 220 basis points above regulatory minimums of 12%, and our Capital Adequacy Ratio was 16.3% with a buffer of 232 basis points above regulatory minimums of 14%.

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

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

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In conclusion, while the global and local economic landscapes are evolving with shifting market dynamics, Gulf Bank remains well-positioned to navigate these changes. We are hopeful that the improving lending landscape, combined with ongoing investments in Kuwait's economy, will have a positive impact on stakeholders across the industry. We will continue to focus on growth, innovation, and financial strength, ensuring that we capitalize on the opportunities ahead.

With that, I'll turn it over to the CFO, David Challinor, who will cover the financials of the first nine months of 2024 in more depth, thank you. David, over to you.

David: Thanks Waleed.

David: **Turning to page 3,** we can see the movement in net profit from 53.8 to 40.2. The decline of 13.6 is mainly attributed to higher credit costs of 15.5. We also had much lower recoveries than we had in the prior period. There was an increase of 2.1 relating to the General Provision driven by loan growth, which was very strong this year compared to last year. In addition, there was an increase in net interest income of 6.9 due to strong asset growth combined with stable margins. There was also a decrease in non-interest income of 1 and an increase in Operating Expenses of 2.5.

Turning to page 4, we have a detailed breakdown of our income statement.

On line 1, interest income was up 33.5 or 12% year to date compared to the same period last year. This was primarily due to a combination of stable margin and 7% asset growth year on year.

On line 2, interest expense increased by 26.6 or 17%. It's worth noting that the growth in interest expense has slowed significantly from the full year 2023 where we saw a 115%.

On line 3, net interest income grew 6% year on year to reach 117.3 and quarterly NII has also expanded each successive quarter this year.

On line 4, non-interest income decreased by 1 or 3% primarily due to a one off in our cards business in Q1 23. However, the Q3 24 level of non-interest income is a 4% improvement over Q3 23 and has also improved from Q2 24.

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On line 5, operating income increased by 5.9 or 4%.

On line 6, operating expenses have increased by 2.5 or 4%. We saw a 2% increase sequentially from Q2 to Q3 largely driven by other expenses.

On line 7, operating profit before total provisions and impairments has increased by 3.4 or 5%.

On line 8, you can see credit costs increased by 15.5, to reach 34.8 year to date. The credit cost increase came from both the retail and corporate book, however primarily from the former. Additionally, the level of recoveries, which act to net against the specific provision, is also much lower than in the same period last year.

On line 9, general provisions increased by 2.1 due to strong loan growth year to date versus a relatively flat loan book for the same period 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.

Turning to page 5, we can see the balance sheet.

On line 8, Net Loans and Advances of 5.6 billion increased by 8% year on year and 7% year to date. The strong growth achieved this year is predominantly coming from the corporate segment as opposed to last year where corporate showed a full year de-growth.

On line 13, Total Assets increased by 7% year on year to reach 7.5 billion and 4% year to date.

On lines 15 & 16, Total Deposits of 5.7 billion increased by 617 million or 12% year on year and 7% year to date. We did see our CASA ratio decline to 28.1% versus 32.3% of last year. However, there has been a system wide decline in CASA when compared to same period to last, albeit at a slower pace in recent quarters.

On line 17, our other borrowed funds declined by 8% year on year and 13% year to date as a result of a partial repayment of medium-term borrowing, however, this was 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 September 2024, which is slightly higher than the same period last year. Also, we continue to have a significant total coverage ratio of 334% that includes total provisions and collaterals.

Now, turning to Page 6 you can see in the chart on the left that as of 30 September 2024, total provisions are 275 which is a decrease of 36 from a year ago. The decrease was primarily related to releases, following regulatory approval, of excess general provision, in both the third quarter and second quarter. The releases were in relation to 2 corporate borrowers where their 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 36%.

Looking at the pie charts on the top right of the page, you can see that our stage 1 loans have increased to 95.7%, Stage 2 has declined to 2.9%, and Stage 3 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 2.9% in Q3 24 from 4.4% same period last year, this was primarily due to the 2 corporate borrowers whos facilities were downgraded to stage 3 and then subsequently written off after there were fully provided for. Stage 3 continues to remain very low and relatively stable.

Turning to page 7, on the top left, our Tier 1 ratio was 14.2%, which is well above our regulatory minimum of 12%. And all of our Tier 1 is CET1.

On the bottom left, our Capital Adequacy Ratio of 16.3% was well above our regulatory minimum of 14%. It’s worth noting that both ratios don’t include year to date profits.

Our risk weighted assets, shown on the top right, increased by 6% year on year, slightly slower than our asset growth of 7%.

On the bottom right, our leverage ratio as of 30 September 24 is 9.2%, slightly higher than last year’s level of 9.0%, and well above the 3% regulatory minimum.

Turning to page 8, we can see our key liquidity ratios. The chart on the left side shows our quarterly average daily Liquidity Coverage Ratio, which is 298%, and on the right side, you can see the Net Stable Funding Ratio is 109%. 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.

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Dalal (Q1): **We have few questions related to loan growth? David?**

David (A1): Thanks Dalal. Year to date gross loans and advances have grown 6%, which has been dominated by corporate lending with retail being relatively flat. Clearly the current rate environment has significantly reduced the appetite for retail borrowing, but we'd expect this to recover as rates start falling.

When we look at what's been happening in the system to the end of September, total year to date loan growth was 5.4%, so at 6% we've been growing slightly faster than the system.

As I mentioned on the Q2 call, I expected the second half loan growth to be slower than the first, still dominated by corporate but with more focus on local lending. And we're certainly seeing renewed optimism and traction in the local projects space and we're actively building a pipeline of quality deals.

In terms of the outlook, we gave guidance at the beginning of the year that full year loan growth would be around mid-single digits. We're on track to meet this and may even outperform subject to converting some of the pipeline in Q4.

Dalal: Thank you, David.

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

David (A2): We've managed to keep operating expense growth to just 4%, year on year, which is very low compared to other banks in the system.

Now, in terms of the key components of the cost base, we've seen staff costs fall around 2% year on year, and we also saw a sequential fall from Q2 to Q3.

Depreciation has shown a 9% growth year on year which is driven by the completion of key transformation projects, and most notably in Q2, the bank went live with a new core banking system for the retail business.

There was, however, an increase in other expenses from Q2 to Q3 due to a combination of one-offs and increased consulting/advisory expenses, but the underlying operating expenses remained relatively flat.

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Dalal: Thank you, David.

Dalal (Q3): We can see questions related to Margins; and the impact from the recent rate cut? David?

David (A3): Thanks Dalal. On a year-to-date basis the margin is flat to last year, but we did lose a few basis points from Q2 to Q3.

As I said on the Q2 investor call, the cost of funds peaked in Q1, and since then we've had 2 quarters in succession of falling cost of funds. The market remains very liquid and clearly the expectations are for further rate cuts. So, on the cost of funds side, we'd expect this to continue to fall.

However, we did see some pressure on income yields, particularly in the Treasury business due to the floating nature of the book.

Now, clearly, we saw the CBK lower the discount rate by 25 basis points in September after the Fed lowered by 50. So, the local discount rate now sits at 4%. We'd expect this to continue to move lower but perhaps not at the same pace as the Fed. After the local rate cut, we repriced our corporate assets and all new retail business will now be booked at the new prevailing rate.

And on the deposit side, the minimum rates offered to customers moved down by the same amount, but clearly the deposit book reprices slower and hence we'd expect margin pressure going forward. But on the positive side as rates continue to move down, we could expect a pick-up in CASA balances which can work to further lower the banks cost of funds.

Dalal: Thanks David.

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Dalal (Q4): **We can see questions related to Credit Cost; and reasons behind the pickup this year? David?**

David (A4): The credit costs for Q3 were KD 14.2m which were higher than what we saw in both Q1 and Q2.

If we look at retail and corporate in turn. For retail, the Q3 credit cost continued to be elevated but was lower than Q1 and Q2. I've mentioned before that the bank has been strengthening collection mechanisms and has ceased new business in segments where poor asset quality outcomes have been identified, but these measures typically take some time to feed through into positive results. But in Q3 we did see lower credit costs for retail, albeit still elevated, and also the new NPL generation on the retail book has slowed down which is a positive development.

On the corporate side, we had an account that moved into stage 3 which had been classified as stage 2 for a significant period of time. We created a 100% specific provision in relation to this borrower, and then wrote off from the books from an accounting perspective. However, 80% of the total specific provision that we created was exactly matched by a release, following regulatory approval, of excess general provision. So, this meant that the move from stage 2 to stage 3, and subsequent 100% provision, had much less impact on the P&L given we were able to utilize some of our excess general provision and clearly this is a positive outcome for stakeholders.

Now, if we look at the asset quality indicators, they continue to remain very strong. The NPL percentage is 1.3%. The stage 2 percentage has further dropped and is now only 2.9%, which is probably the lowest in the Kuwaiti banking system, and certainly the lowest the bank has seen since the introduction of IFRS 9.

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

(Pause)

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Dalal (Q5): **We have another question; do retail loans get written off after being passed due for 365 days? David?**

David (A5): Generally, when we get to 100% provision, we write off retail loans so yes, at 365 days mark defiantly will be written off, but sometimes we might go earlier to get to 100%.

Dalal (Q6): **What is the internal buffer for CET1 over regulatory requirements?**

David (A6): We usually keep a 100-basis point buffer over the minimums.

Dalal (Q7): **What is your NIM's sensitivity for 25 basis points drop in key rates?**

David (A7): For every 25 basis points its 2.2 million drop in net interest income and that assumes a parallel shift on both sides of balance sheet.

Dalal: I believe we have covered most 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.

[GBK Classification: PUBLIC]