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Earnings Conference Call

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Edited transcript of National Bank of Kuwait earnings conference call that took place on Tuesday, 21 July 2026 at 2:00 pm Kuwait time.

Corporate participants:

Mr. Isam Al-Sager	Vice Chairman and GCEO, NBK
Mr. Sujit Ronghe	Group CFO, NBK
Mr. Amir Hanna	Group Chief Communications Officer, NBK

Chairperson:

Elena Sanchez	EFG Hermes

Elena Sanchez: Good afternoon everyone. This is Elena Sanchez and on behalf of EFG Hermes, I would like to welcome you all to the National Bank of Kuwait's first half earnings call for the year 2026. It is a pleasure to have with us in the call today Mr. Isam Al-Sager, NBK Vice Chairman and Group CEO, Mr. Sujit Ronghe, NBK Group CFO and Mr. Amir Hanna, Group Chief Communications Officer at NBK.

At this time, I would like to handover the call to Mr. Amir Hanna.

Please go ahead Amir.

Amir Hanna: Thank you Elena.

Good afternoon everyone. Thank you for joining us for today's earnings call.

First let me start with our usual disclaimer. Certain comments in this presentation may constitute forward-looking statements. These comments reflect the Bank's expectations and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described herein. The Bank does not assume any obligation to update its view of such risks and uncertainties or to publicly announce the result of any revisions to the forward-looking statements made herein. Please refer to the full disclaimer in today's call presentation.

For today's call agenda, Our Vice Chairman and Group CEO, Mr. Isam Al-Sager, will start the call by giving some opening remarks. Then Mr. Sujit Ronghe, our Group CFO will discuss the period's financials in details followed by the Q&A session. If you have any follow-up questions after the call, please direct them all to our Investor Relations email address and we will answer them at the earliest. Today's slides are available on our website for your convenience.

Now let me hand over the call to Mr. Isam Al-Sager for his opening remarks.

Isam Al-Sager: Thank you Amir.

Good afternoon everyone.

Thank you for joining us today for our earnings call for the first half of 2026.

In recent months, the Middle East has experienced recurring periods of heightened tensions and instability, a geopolitical scenario that has long been a drag on our regional markets. Although there was some progress earlier towards a peace resolution, tensions have recently escalated creating more uncertainty around global economic growth prospects.

While geopolitical risks remain because of the ongoing turbulence, the GCC economies proved their resilience and are well-positioned to navigate external shocks, supported by robust sovereign balance sheets, ample liquidity, and strong financial buffers.

In Kuwait, and while economic activity temporarily moderated following partial resolution of geopolitical tensions, the recent escalation continues to represent a drag on economic recovery.

Following a strong start to the year, project award activity has relatively slowed down during the second quarter with total awards reaching approximately KD2.3 billion during the first half of 2026. While execution timelines for certain projects are expected to shift into the second half of 2026 and 2027, Kuwait’s ongoing commitment to infrastructure development is expected to underpin a gradual recovery in project activity as conditions normalize.

Moving on to our performance, NBK reported net profits of KD324.8 million in the first half of the year; compared to KD315.3 million in the corresponding period of 2025. Furthermore, net operating income grew by 4.8% year-on-year to reach KD662.0 million for the same period. The results demonstrate the strength of our diversified business model and broad geographic footprint, which helped sustain performance and enhance resilience amid recent regional developments.

Our returns also remained strong with return on average assets reaching 1.42% while return on average equity reached 14.4%.

Strategically, we remain focused on advancing our digital transformation agenda and strengthening our innovation capabilities. Through continued enhancements to our digital channels, expanded mobile offerings, and a broader range of customer solutions.

Looking ahead, we remain well-positioned to build on our momentum and strengthen our domestic market leadership, supported by strong fundamentals, a robust balance sheet, and a diversified operating model. Our trusted relationships across the public and private sectors continue to provide opportunities to play a leading role in Kuwait’s investment, infrastructure, and economic transformation plans.

Our focus on diversification remains a priority, supported by a strong regional and international presence, while our wealth management division and Islamic banking subsidiary, Boubyan Bank, continued to drive the Group’s diversification efforts.

During the year, we updated our ESG Strategy, further aligning with evolving market expectations and leading industry practices. We continued to book sustainable assets, achieving 60% of our 2030 USD10 billion sustainable finance target. Moreover, we have published a new Sustainable Financing Framework, strengthening our capacity to support our clients in their sustainability journeys.

With that, I will conclude my comments and leave you with my colleague Sujit Ronghe, our Group CFO, to cover our quarterly and half year results in more details.

Please go ahead Sujit.

Sujit Ronghe: Hello everyone, and welcome.

I am very pleased for the opportunity to take you through financial results for the first half of 2026. As you know, NBK have announced a Group net profit of KD324.8m for 1H26, which is a 3% year-on-year increase.

Before going on to details of our financial results, I would first like to say a few words regarding the overall operating environment.

2026 began with a lot of optimism with business growth expectations, both in Kuwait and internationally. However, sudden and sharp escalation in geo-political tensions since end-February has resulted in an unstable regional operating environment and increased macro-economic uncertainty, fuller implications of which are yet to unravel.

Despite these unexpected challenges, NBK Group has demonstrated operational and financial strength benefiting from its well-diversified business model. NBK's 1H26 performance also reflects the Group's resilience and adaptability for ensuring uninterrupted operations in the most challenging and unpredictable circumstances.

Now turning to the financial results for 1H26.

As shown at the top left of this slide, net profit at KD324.8m reflects a yoy increase of KD9.5m, +3.0%. 2Q26 net profit exceeds 2Q25 by 4.5%, driven by a stronger operating performance and lower tax cost, mitigating the relatively higher net provisions and impairment losses charge.

At KD409m, 1H26 operating surplus remained solid and reflected a growth of 4.6%, benefiting from the strong business volumes, particularly loans and investments.

Net operating income, at KD662m, exceeded the previous year by KD30.6m i.e. 4.8%, due to healthy growth in both net interest income and non-interest income. The operating income mix shows a continued healthy mix with 24% contributed by non-interest income sources.

Similarly, the pie chart at bottom right reflects well-diversified net profit contributions by key business lines. You will note that International and Islamic Banking, our two key pillars of diversification together contribute 38% of the Group profit.

I will go into the main drivers behind movements in income, margins and costs shortly.

Moving on now to the next slide.

We now will look at net interest income and drivers behind its performance.

Net interest income and net income from Islamic financing of KD500.5m, as shown in the chart at top left, increased by KD10.8m, i.e. 2.2% compared to 1H25. Current year NII benefited from 10.2% year on year growth in average interest earning assets, namely loans and investment securities, across the Group. However, relatively lower benchmark interest rates and the mix of asset growth affected the NII and 1H26 NIM unfavorably.

Continued issuance of KD denominated Kuwait Government treasury bonds has progressively increased the proportion of interest earning reserves with the CBK, positively affecting NII and NIM. We hope debt issuances will continue, allowing the Bank to deploy liquidity into better yielding CBK assets.

We see in the top right chart that average NIM for 1H26 dropped to 2.29%, driven by a higher decrease in yield, compared to the funding cost. Group yield and funding cost for the current six months were 5.32% and 3.42% respectively. 2Q26 NIM at 2.28% was broadly on par with the previous quarter.

At the bottom left of this slide, we can see drivers behind the 17bps yoy decrease in NIM to 2.29% in 1H26. Loans and other interest earning assets affected by lower interest rates and less favorable asset mix contributed a net decrease of 30bps and 9bps to the NIM respectively. Lower funding cost positively affected the NIM by 22bps.

Chart at the bottom right reflects that non-interest income at KD161.5m, was KD19.8m i.e. 13.9% higher than the comparable period in 2025. Fee income was strong at KD114.9m, +7.8% yoy, reflecting robust contributions across different lines of business and geographies. Fx contributed KD27.6m benefiting from favorable currency movements. Other non-interest income sources (mainly investment income) contributed KD19m, benefiting from improved valuations.

Moving on now to the next slide.

Turning now to operating expenses at the top left of this slide. Total operating expenses for 1H26 at KD252.9m were 5.3% higher than 1H25. Growth in staff costs stems from yoy increase in headcount and annual increments etc. to support business activities. Non-staff costs reflect Group's continued investment in key businesses initiatives, digital technologies, and processes which enable us to offer best-in-class service to its customers and optimize resources to improve operational efficiency.

1H26 cost to income ratio was 38.2%, similar to 38% one year ago.

Moving on to provisions and impairments profiled at the top right of the slide. Total credit provisions and impairment losses for 1H26 amounted to KD6.4m, an increase of KD16.7m over 1H25 which reported a net recovery of KD10.3m.

KD17.2m of the current six-month charge, was for provisions for credit facilities. In 1H25, specific provisions were a net release of KD35.9m due to significant recoveries of amounts provided towards credit losses during prior years. Specific provisions for 1H26 at KD1.5m also included a similar benefit but to a much lesser extent compared to previous year.

The Group has continued to take provisions in ordinary course of business for retail and corporate customers in Kuwait and overseas locations. KD15.7m was towards general provisions, which included an element of precautionary provisions.

ECL on non-credit facilities for 1H26 was a net release of KD12.4m mainly due to improvements in macro-economic inputs at the beginning of this year, the benefit of which was not considered in 1Q26. ECL charge of 1Q26 reflected conservative position taken by the Bank given significant uncertainty caused by the regional conflict, which moderated during 2Q26.

1H26 cost of risk was 12bps due to recovery of fully provided debts as mentioned earlier.

The Group's Balance Sheet remains strong with stable credit quality. NBK's capital base, along with the ability to generate healthy operating profits, provides a strong credit loss-absorption capacity. The Group remains committed to its conservative approach in managing credit exposures.

I would now like to discuss Expected Credit Losses (ECL) on credit facilities as per IFRS 9. You would note that stage-wise ECL composition has remained stable during the year. As we know, amount of provision for credit facilities (in the balance sheet) is based on the higher of IFRS9 ECL and that as per CBK rules. It is important to note that CBK guidelines for calculating ECL on credit facilities as per IFRS 9 are on a more conservative basis compared to the original accounting standard.

The key chart on this slide at the bottom right reflects that the Bank holds credit provisions of KD950m as per CBK rules, against an ECL requirement of KD676m. Balance sheet provision as per CBK rules thus exceeds ECL requirement by KD274m, providing an ample cushion for the Group to withstand any possible adverse effect of prevailing situation.

Moving now to the next slide.

Here we will look at some of the movements in key balance sheet items.

As profiled on the chart at top left, the Group total assets reached KD46.2bn as of June 26, a 5.9% increase over June 25. Group loans and advances at KD27.8bn registered a yoy growth of KD2.3bn i.e. 8.9% and 3.6% during the current half-year, reflecting adverse geo-political developments in the region since end-February. Investment securities at KD9.2bn reflected a yoy growth of 6.4%.

The overall balance sheet composition has remained largely stable during the year. Also, NBK's total asset composition is well diversified between Kuwait and International and Conventional and Islamic Banking.

Similarly, the chart for loan exposure by sector reflects a well-diversified portfolio, with personal loans at 28% as the largest segment. A significantly high portion of personal loans are extended to a large number of Kuwaiti individuals, pre-dominantly employed with the Government, backed by salary and with low default rates.

Customer deposits i.e. non-bank and non-FI deposits at KD27bn comprise a healthy 67% of total liabilities. Customer deposits reflect a yoy growth of 13.1% and were largely stable during the current half-year. At KD4.2bn, deposits from other non-bank FI comprise 10% of total liabilities. The Group continues to benefit from its strong base of core, franchise retail deposits. CASA deposit levels remained stable during 1H26, with volumes exceeding that of June 25 and Dec 25.

The stability of NBK's funding base during the recent turbulent period reflects confidence of customers resulting from deep, longstanding relationships, a solid brand and strong credit ratings.

In response to the ongoing crisis, CBK implemented various measures to reinforce Kuwaiti banking sector, details of which are mentioned in Note 14 of the 1H26 financial statements. NBK Group continues to maintain healthy liquidity levels with Basel III ratios (LCR at 154% and NSFR at 108%) exceeding the original minimum requirements.

Moving now to the next slide.

We will now look at the impact 1H26 financial results had on certain performance metrics.

The Return on Average Equity for the current half year period was 14.4% and the Return on Average Assets stands at 1.42%.

Cost income ratio for 1H26 stood at 38.2%, similar to 38.4% for the full year 2025.

At 17.0%, the total capital adequacy ratio remained strong and stable, with CET1 and Tier1 ratios at 13.0% and 14.9% respectively. Kindly note that interim profit is not included in regulatory capital for calculating interim capital adequacy ratios.

During 1Q26, CBK released 1% of risk weighted assets from the Capital Conservation Buffer included in CET1, thereby reducing the Group's total CAR requirement to 14%. NBK's cap-ad ratios as at June 26 continue to be healthy and in excess of original minimum requirement.

NBK's asset quality has improved with NPL ratio at 1.22% v/s 1.36% as at Dec 25. Loan loss coverage ratio is at 256%, reflecting conservative provisioning policy of the Group.

Now to the final slide in this section.

Before concluding, allow me to summarize our financial performance in 1H26.

NBK has demonstrated operational resilience with a sound bottom-line profit, a healthy balance sheet, stable liquidity and strong capital base during this challenging period. Although hostilities from the regional conflict appeared to be somewhat moderating during latter part of 2Q26, recent developments have resulted in a volatile situation, affecting the time required for return to normalcy and business growth potential.

Going forward, we remain cautiously optimistic that overall operating environment, although challenging, will stabilize during the course of 2026.

Now turning to the guidance for the year ahead.

As regards loan growth – given current volatile situation and uncertainty, our guidance for 2026 loan growth continues to be in the mid to high single digit range. We continue to monitor the ongoing situation and will update our guidance if improvement in operating conditions exceeds current expectations.

Turning to the NIM. You would have noted that NIM has declined since 2Q25. We currently expect full year 2026 NIM to remain under pressure, closer to the 2Q26 NIM of 2.28%.

Coming to operating expenses, the 1H26 year on year cost growth was 5.3%. The moderate cost growth has resulted from the Group's efforts to curtail expenses and harness efficiencies while continuing to invest in human resources and digital technologies. Annual cost growth is anticipated to be in the mid-to-high single-digit range and the cost-to-income ratio to be below 40%.

Coming to the cost of risk – 1H26 reflected a lower net cost of risk of 0.12% due to recoveries against which credit provisions were taken in earlier years. The currently evolving geo-political scenario and uncertainty regarding the timeline to normalcy makes it difficult to provide specific guidance regarding the cost of risk. The overall health of our credit portfolio remains strong, and we expect that 1H26 recoveries will benefit the full-year provision charge. Hence, while normalized cost of risk remains closer to 40bps, reported cost of risk for 2026 will be materially lower.

It would not be prudent to give specific guidance on earnings / capital adequacy in the current environment. We are hopeful of maintaining capital adequacy ratios in line with our internal targets above the regulatory minimum.

NBK continues to closely monitor the evolving situation and will continue to reassess implications and provide updates on a quarterly basis.

That ends my presentation. Thank you very much for your time.

Back to Amir.

Amir Hanna: Thank you Sujit. Thank you, Mr.Isam. Thank you everyone for listening.

We will pause for 20-30 seconds, for all the questions to come in, and we'll start taking the questions by topic. Please type your questions in the general chat section.

We'll start with the first question, could you give us some color on NIM outlook for the rest of the year? Q2 margins were better than expected vs. Q1. What is driving this? How is deposit pricing pressure?

Sujit Ronghe: Q2 margins were very similar to that in Q1. As benchmark interest rates are expected to be more or less stable during the year, we expect the full year 2026 NIM to average closer to the second quarter NIM which was 2.28%.

Amir Hanna: What sectors drove loan growth in Q2 and how is the pipeline for the second half given the recent developments?

Sujit Ronghe: The growth in the second quarter was majorly contributed by corporate lending in Kuwait and across our international network.

Amir Hanna: Have you had any deferral requests so far? What is driving the strong recovery in Q2? How should we think about NPL formation and cost of risk trends in the second half?

Sujit Ronghe: There have been no unusual deferral requests since the war started. As normal business activity, we do get a few requests periodically. However, we did not experience anything out of ordinary during these last few months.

With respect to the NPLs - NPLs have improved because of conservative provisioning policy, allowing the bank to move fully provided loans to off-balance sheet.

Amir Hanna: Question on fee income. Not much impact on fee income emanating from the conflict. Was there no impact on card travel spend and trade related fees?

Sujit Ronghe: Fee income actually reflected a sound growth during the first half. Card-related income associated with travel was impacted at certain points of time and has started improving now. Also regarding trade finance, which has remained stable overall but not grown as per our earlier expectations.

Amir Hanna: Why was tax rate so much lower in Q2 vs. Q1? What would be the annual tax rate?

Sujit Ronghe: The first half of 2026 benefited from some release of tax accruals resulting from closure of certain assessments. We expect the benefit of these reversals to continue in to the full year, resulting in a lower than usual effective tax rate for 2026. Thereafter, the underlying tax charge should continue to be in the 16-17% range.

Amir Hanna: Is it prudent to release/reverse provisions in the current conflict environment?

Sujit Ronghe: There is a background to the release of ECL provisions. The Group had the ability to benefit from moderation of certain inputs to the ECL model at the beginning of the year. However, the Group took a conservative position and did not take the benefit given the heightened regional uncertainty in Q1. During Q2, as things started getting better and we had more visibility into model inputs, we were able to release excess provisions. That said, the Group has sufficient provisioning to cater for unexpected occurrences.

Amir Hanna: Could you clarify whether any future capital increase would be through bonus shares, a rights issue for existing shareholders, or another method?

Isam Al-Sager: We haven't decided yet if there is any capital increase at this point in time.

Amir Hanna: What assumption for GDP growth and Strait of Hurmuz opening timeline is backed into the guidance?

Sujit Ronghe: It is not possible to forecast any kind of timeline on the opening of the Strait of Hurmuz. What we consider for our growth is the strong pipeline of loans we have across the network. We expect that stability will gradually resume in coming months, leading to more growth opportunities during coming quarters.

Amir Hanna: Is the mortgage law still top focus for the regulator?

Isam Al-Sager: Well, due to recent geopolitical developments, we have unfortunately not received any further updates regarding the mortgage law. The latest draft submitted to the cabinet of ministers following the review by Fatwa Legislation Authorities is advancing towards the final stage of this law. The draft was sent to the Central Bank for review also, as a regulator. The Minister of Housing Affairs recently affirmed the government's intention to translate this, being a very important step for approving the housing mortgage law, and there were some expectations that it can come within the next two to three months, but we have to wait and see.

Amir Hanna: For the near-term, one-year current growth, could you provide insight for regional coverage, Kuwait, GCC, and other key regions?

Sujit Ronghe: NBK operates in 13 different locations and we have a strong pipeline of loans, regionally and in international locations as well. The overall loan growth is expected to be in mid-to-high single digit, and we expect loan growth to take place across the network. With respect to the question on non-resident deposit outflow, we have not noticed a significant outflow of such deposits. In early weeks of the conflict, there were some outflows or non-renewals, but over a period of time we saw a return of deposits that were not renewed or fresh money coming to us and even for longer tenors.

Amir Hanna: Another question, why did inter-bank assets decline so sharply in the second quarter vs Q1?

Sujit Ronghe: Assets maintained at inter-bank are mainly short-term placements and this movement can be linked with the drop in certain funding temporarily parked with other banks.

Amir Hanna: Question on project roll-out, I think we answered that in our main presentation, there has definitely been a slowdown in projects in the second quarter.

How is the government domestic bond issuance progressing?

Sujit Ronghe: There are two types of bond issuances. From a KD issuance point of view, the Government through the Central Bank of Kuwait has cumulatively issued KD3.25 billion, almost half of it was in the six-month current period and which we see continuing in future. In terms of international issuances, there was a Sovereign Bond issuance of USD11.25 billion last year, followed by USD2.0 billion private placements in the current year.

Amir Hanna: What is your strategy on dividend payout especially considering interim dividends?

Isam Al-Sager: Our current capital position remains strong and continues to support the Group's strategic objectives and growth ambitions. We have consistently maintained a disciplined and rewarding dividend policy, supported by a prudent capital management approach that ensures a strong capital position aligned with our long-term growth strategy and regulatory requirements. This approach confirms our commitment to delivering shareholder value, while striking a balance between capital distribution and maintaining financial resilience to support future growth.

Amir Hanna: There was a follow up on the bond issuance questions, when do you expect this to start showing meaningful impact on NIMs?

Sujit Ronghe: NIM is impacted by two things, one is the bond issuances allowing us to deploy CBK assets into interest earning ones and also the impact of funding costs. The benefit of having higher amounts of interest earning CBK assets is off set to an extent by a slight pick-up in funding cost because of the war, resulting in a stable NIM. We expect the NIM to be in the same region for coming two quarters.

Amir Hanna: There is a question on the timeline of the central bank's support and lower capital requirements? Have they shared any timeline?

Isam Al-Sager: There has not been any set timeline, and it will depend on the development of the geopolitical situation.

Amir Hanna: Within inter-bank borrowing we notice a build-up for deposits from other FIs can you please share who such other FI counterparties are? Are these government-linked entities?

Sujit Ronghe: Inter-bank does not include deposits from FIs. Deposits from other FIs are a mix of Government and non-Government FI deposits.

Amir Hanna: At this point we don't have any other questions so we'll conclude the call and if you have any further requests or any follow up questions, just send it to Investor Relations' email address and we'll get back to you as soon as we can.

Thank you very much. Back to you Elena.

Elena Sanchez: Yes, thank you very much for the call and the Q&A, and thank you everyone for joining the call today.

Have a good day.