



National Bank of Kuwait

FY 2024

Earnings Conference Call

29 January 2025



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Edited transcript of National Bank of Kuwait earnings conference call that took place on Wednesday, 29 January 2025 at 3:00 pm Kuwait time.

Corporate participants:

Mr. Isam Al-Sager – Vice-Chairman and Group CEO, NBK

Mr. Sujit Ronghe – Group CFO, NBK

Mr. Amir Hanna – Head of Investor Relations and Communications, NBK

Chairperson:

Ahmed El Shazly – EFG Hermes

Ahmed El-Shazly: Good afternoon everyone. This is Ahmed El-Shazly and on behalf of EFG Hermes, I would like to welcome you all to the National Bank of Kuwait fourth quarter and the twelve-months earnings call for the year 2024. 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, Head of Investor Relations and Communications at NBK.

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

Please go ahead Amir.

Amir Hanna: Thank you Ahmed.

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

We will start the call with our usual disclaimer as I would like to bring to your attention that 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 also refer to the full disclaimer in our presentation for today's call.

Today's call will follow our usual agenda. Our Vice Chairman and Group CEO, Mr. Isam Al-Sager, will start the call by giving some opening remarks on the operating environment and the highlights of the reporting period. Then Mr. Sujit Ronghe, our Group CFO will go through the financials in more details. Following our presentation, there will be a Q&A session through Webex platform. If you have any follow-up questions after the call please direct it all to our Investor Relations email address and we will answer them at the earliest. Today's presentation is 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.

I am pleased to join you today for our fourth quarter and full year 2024 earnings call.

The global economic outlook continues to be characterized by moderate growth projections as performance and monetary policy diverged across regions. Additionally, potential inflation pressures, heightened regional conflicts and uncertain policy direction continued to dominate the scene.

In that context, GCC economies fared relatively well to recent economic shocks while poised for accelerated growth this year on the back of the roll-out of reforms and diversification efforts that are supporting business activity. On the contrary, significant geopolitical developments could disrupt supply chains in the global oil and gas sector and increase its volatility on the demand and pricing side.

In Kuwait, although headline activity was relatively subdued in 2024, the near-term outlook implies a strong rebound in 2025. With an expected unwinding of voluntary production cuts by OPEC+, a modest recovery in consumer spending, credit growth, projects awards and a possible rise in public investment; GDP growth in Kuwait should recover to reach 3.0% in 2025. On the other hand, inflation continued to trend lower to average 3.0% in 2024 and is expected to continue the same stance with headline rate averaging 2.5% in 2025.

As for domestic project activity, we witnessed a strong rise in the awards of each quarter throughout 2024 that boosted the yearly total to KD 2.74 billion; exceeding the value of awards in 2023 by 45%. The momentum foreseen is expected to carry in 2025 as the government continues to push with the execution of its development agenda. Moreover, an estimate value of KD 7.8 billion worth of awards are in the pipeline for the year.

Notwithstanding the continuing challenges arising from macroeconomic and geopolitical tensions; NBK demonstrated its strength and adaptability in navigating a dynamic global landscape towards achieving robust financial performance.

We reported net profits of KD 600.1 million for the year 2024; growing by 7% on an annual basis. As for the three-months ended December 2024, net profits reached KD 143.1 million; posting a growth of 10.5% year-on-year.

Our net operating income grew by 7.2% year-on-year to reach KD 1.3 billion; mainly underpinned by the growth recorded in net interest income, higher fees & commission and FX income.

We continued excelling with our successful diversification strategies and harnessing technological innovation to further seize emerging opportunities across different segments and geographies while demonstrating agility, resilience, excellence in creating long-term value for all stakeholders. Our return on average assets for the period reached 1.55% while our return on average equity reached 15.1%.

At NBK, we remain committed to delivering exceptional value to our clients by introducing innovative products and services tailored to their diverse needs. As such, we will continue to prioritize innovation and leverage technology to preserve our leadership, foster sustainability while capitalizing on emerging opportunities and our unique access to Islamic banking.

Beyond Kuwait, our international business continued to expand its offerings in key markets further diversifying our income streams, mitigating risks and optimizing costs. Likewise, our wealth management business continued broadening its presence and offerings to enrich our client experience.

In 2024, NBK distinguished itself through its unwavering commitment to sustainability, demonstrating a strong dedication to environmental stewardship. During the year, we became the first bank in Kuwait to join the Partnership for Carbon Accounting Financials (PCAF) and the lead issuer of the first green bond out of Kuwait. This testifies to the Group's progress towards a more sustainable future and its commitment to play a pivotal role in shaping the future by mobilizing the necessary capital to drive the transition.

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

Please go ahead Sujit.

Sujit Ronghe:

Thank you Mr. Isam.

Hello everyone and welcome.

I am very pleased for the opportunity to take you through the financial results with respect to the year ended 31 December 2024.

We have announced a net profit of KD600.1m for 2024, the highest ever in the history of the Group and a 7% increase over the previous year. These results stem from a strong operating performance by the Group and demonstrate the continued growth in our diversified business model.

Before going on to details of our financial results, a few words regarding the overall operating environment during 2024.

Although, global and regional geopolitical situation remained unstable, an overall stable operating environment in Kuwait and the higher interest rate regime for a significant part of the year, have generally benefitted the Bank. The uncertainty regarding the quantum of bench-mark interest rate cuts, expected pressures on demand and geo-politics continue to adversely affect the global operating environment.

Now turning to the financial results for 2024.

As shown at the top left of this slide, net profit at KD600.1m reflects an annual growth of KD39.5m i.e. 7%. Underlying drivers for the robust bottom-line performance are a combination of growth in business volumes, relatively higher interest rates, together with strong fees and fx income have culminated in a strong operating performance. Group loans and advances grew year on year by 6.4%.

Investment securities also contributed strongly to Group assets with a growth of 10.8% v Dec 23.

The top right chart reflects operating surplus i.e. profit before provisions and taxes for 2024 at KD783.2m, a growth of KD42.9m, +5.8% over 2023. Net operating income increased by KD84.4m, +7.2%, whilst operating expenses grew by KD41.5m, +9.7% over last year.

4Q24 net profit at KD143.1m was 13.1% lower than previous quarter affected by lower benchmark interest rates, higher costs and increased credit provisions and other impairments.

The operating income mix profiled at the bottom right hand continues to show a healthy mix with 22% coming from non-interest income sources.

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.

The chart at top left reflects the net interest income of KD980.1m for 2024, a growth of 8.3% over 2023. NII largely benefited from a strong growth in loans and investment securities across geographies and segments together with higher average interest rates compared to 2023. You would also note from the chart at the top right that Average earning assets grew by KD2.0bn i.e. 5.6% over 2023, to reach KD36.9bn.

We see from the chart at the bottom left, that average NIM for 2024 at 2.66% reflects an improvement of 7bps over 2023, driven by a higher yield, despite increased funding cost. Group yield and funding cost for the current year were 6.14% and 3.93% respectively. The higher funding cost reflects the repricing of deposits at increased market rates and the fuller impact of CASA migration to time deposits during the previous year. However, CASA deposit volumes have stabilized during the current year. Moreover, an overall sticky and stable base of retail customer deposits continues to benefit the Group.

4Q24 NIM at 2.58%, 15bps lower than the previous quarter, was negatively affected by benchmark interest rate cuts (both US\$ and KD) and a change in the asset mix due to lower volumes of CBK bonds and increased money market activity which benefited the NII but at a relatively lower margin.

At the bottom right of this slide, we can see drivers behind the 7bps yoy increase in average NIM to 2.66% in 2024. Increased loan volumes, backed by a strong year on year growth and relatively higher average interest rates, contributed net 46bps to the NIM. Higher funding cost negatively affected the NIM by 26bps. The drop of 13bps in Others largely reflects factors like change in mix etc.

Moving on now to the next slide.

As we can see at the top left of this slide, total non-interest income of KD271.1m was KD9.5m higher than 2023. Fees and commissions income was strong at KD205.7m, reflecting a year on year increase of 4.6%, driven by robust contributions across different lines of business and geographies. Fx income at KD41.2m, was 13.9% higher than 2023, arising from a stronger underlying performance and positive swing of currency movement on assets related to our \$AT1 bond issuances. Other non-interest income sources at KD24.3m was lower than the previous year mainly due to lower investment income.

Our fees and commissions are from a diverse geographies and lines of business. Also, major sources of non-interest income are core banking activities in respect of business-related factors.

Turning now to operating expenses reflected in the top right-hand side of this slide. Total operating expenses for 2024 at KD468m, were 9.7% higher than the previous year. The cost growth reflects increasing activity levels across the Group's network and investments in key businesses initiatives, digital technologies, resources etc. This enables the Group to offer best-in-class service to its customers and optimize resources to improve operational efficiency.

NBK's focus on digital channels and product offerings continues to play a vital role in attracting and servicing customers, with increased volume of electronic transactions. We also continue to press ahead with selective product offerings in certain geographies e.g. through our global wealth management business i.e. NBK Wealth, Islamic banking through Boubyan Bank and by further leveraging our overseas network.

As a result, the 2024 cost to income ratio was at 37.4%, compared to 36.6% for 2023.

Moving on to provisions and impairments profiled on the bottom right-hand side of the slide.

Total credit provisions and impairment losses for 2024 were KD86.5m, a decrease of KD16.6m over the last year. Provision for credit facilities was KD87.2m compared to KD81.8m in 2023. Specific provision of KD65.1m was in course of normal business activities at Kuwait and overseas locations. KD22.2m was towards general provisions, which included a component of precautionary provisions. The Group remains committed to its conservative approach in managing credit exposures.

The Group wrote back KD0.8m in 2024 towards ECL and other impairment losses, benefiting from a lower net requirement towards non-credit financial assets.

The cost of risk for 2024 was 37bps compared to 36bps in 2023.

It is worth noting that 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.

Moving now to the next slide.

On this slide, I would like to elaborate on the matter of earnings diversification of the Group through different lines of business.

NBK Group continues to benefit from its unique position amongst Kuwaiti banks in terms of geographical spread through International Banking and the ability to conduct business in both Conventional and Islamic Banking.

NBK's business segments serve as main pillars of diversification, providing a strong competitive advantage and a significant degree of resilience to Group earnings.

You would note that NBK's Consumer Banking contributed 21% and 17% to the Group's net operating income and profit respectively. Similarly, Corporate Banking contributed 13% and 19% to the Group's net operating income and profit.

International Banking contributed 24% to net operating income and 23% to the Group's profit, reflecting a strong operating performance.

The Group's Islamic banking subsidiary Boubyan Bank delivered a net profit of KD96.8m, up 20.3% on 2023, boosted by a strong growth of 11.7% in operating surplus and lower provisions for credit losses.

NBK Wealth contributed 9% and 11% of the Group operating income and profit respectively. NBK Wealth provides asset management, brokerage, lending, deposits and other customized and innovative offerings to high-net-worth individuals and institutional clients.

Finally, chart at the bottom right corner, you will note that International Banking and Boubyan Bank contributed 44% and 23% respectively to Group's total assets enforcing the diversification agenda of the Group.

Moving to the next slide.

Here we will look at some of the movements in key volumes during the year.

As profiled on the chart at top left, the Group total assets reached KD40.3bn as of Dec 24. The 7.1% year on year net growth, includes adverse effect of EGP devaluation in March 24.

Group loans and advances at KD23.7bn registered a strong growth of KD1.4bn i.e. 6.4% during the current year. Loan growth was achieved at Kuwait and International locations, in both - conventional and Islamic banking. Similarly, investment securities reflected a yoy growth of 10.8%, to reach KD7.6bn.

Customer Deposits, i.e. non-bank and non-FI deposits at KD22.9bn, reflect a yoy growth of 4.2%. During 2023, we noted some low-cost deposits moving to relatively expensive time deposits. However, CASA deposit levels have settled during the year and Dec 24 volumes exceed Dec 23. The Group continues to benefit from a strong base of core, franchise retail deposits.

NBK's stable deposit and the fuller funding base reflects a sustained focus on the deposit gathering aspects of our business, the Group's strong brand, customer appeal and credit ratings.

Customer deposits comprise a healthy 67% of total funding mix of the Group.

During the year, NBK successfully launched its maiden Green Bond amounting to US\$500m under its Global Medium Term Note program, further diversifying funding sources and marking a pivotal step towards NBK's commitment to sustainable and transition finance.

I want to highlight that the Group continues to maintain healthy liquidity levels & comfortably exceeds the minimum requirements of Basel III ratios.

Moving now to the next slide.

We will now look at the impact 2024 financial results had on certain key performance metrics.

The Return on Average Equity for 2024 remained steady at 15.1%. Similarly, Return on Average Assets increased to 1.55% compared to 1.53% in 2023.

At 17.3%, the total capital adequacy ratio remained strong and stable, well above the regulatory minimum with CET1 and Tier1 ratios at 13.2% and 15.1% respectively.

As regards asset quality, NPL ratio improved marginally at 1.34%, compared to Dec 23 level. Loan loss coverage ratio is at 263%, reflecting the conservative provisioning policy of the Group.

Moving to the next slide.

On this slide, I would like to discuss Expected Credit Losses (ECL) on credit facilities as per IFRS 9 calculated in accordance with CBK Guidelines. As per the regime adopted by CBK, Banks calculate the credit provisions required (i.e. the amount in the balance sheet) as per CBK instructions and compare it with the ECL on credit facilities as per IFRS 9 in accordance with CBK guidelines. Consequently, the charge to income statement is based on the higher of the two balance sheet amounts.

It is important to note here 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 ECL provision required as of Dec 24 was KD634m, marginally higher than Dec 23.

Although IFRS 9 ECL and CBK provisions are two different regimes and should not be compared as such, currently the balance sheet provision as per CBK instructions exceeds the ECL by KD276m. This provides ample cushion for the Group to withstand any possible adverse effect of prevailing uncertainties on ECL provision requirements.

Now to the final slide in this section.

Before concluding, allow me to summarize our financial performance in 2024.

NBK's strong operating performance coupled with a healthy balance sheet, comfortable liquidity and a strong capital base continued to be a feature of 2024 results.

Considering the ongoing regional and international geo-politics, we remain cautiously optimistic that the overall operating environment, although challenging, will remain generally stable in 2025.

Now turning to the guidance for 2025.

As regards loan growth - Given the current geo-political and the overall macroeconomic situation, we continue to expect the overall loan growth for 2025 to be in the mid-single digit range.

Now, turning to the NIM. The 2024 NIM of 2.66% benefited from stronger volumes and higher interest rates for a large part of the year. However, as mentioned earlier, 4Q24 NIM was at 2.58%. The fuller impact of recent rate cuts, with more expected (the quantum and timing of which remains uncertain) and the changed asset mix, are expected to pressurize the NIM during 2025.

As regards operating expenses, the 2024 cost growth was 9.7%. As the Group continues to invest in human resources and digital technologies, we expect the annual cost growth to be c.10% and the cost to income ratio to be in high thirties.

The cost of risk was 37bps during 2024. We are cautiously optimistic of an overall stable operating environment and expect the full year cost of risk to be closer to 40bps.

Another significant development is in relation to Pillar 2 GloBE taxation under BEPS2.0. Kuwait has recently introduced domestic minimum top-up taxes (DMTT) effective from the year 2025 on entities which are part of MNE Group with annual revenues of EUR 750 million or more. The law provides that a top-up tax shall be payable on the taxable income at a rate equal to the difference between 15% and the effective tax rate of all constituent entities of the MNE Group operating within Kuwait. Executive regulations are expected to be issued within six months from the date of issue of the Law. The Law effectively replaces the existing National Labour

Support Tax (NLST) and Zakat tax regimes in Kuwait for MNEs within the scope of this Law. Similar DMTT laws were announced in Bahrain and United Arab Emirates.

As a result, the Group's effective tax rate is expected to increase significantly in 2025 due to applicability of the Pillar 2 legislation in low tax jurisdictions such as Kuwait, Bahrain and UAE.

Given the overall geopolitical and macroeconomic uncertainties, it would not be prudent to give specific guidance on earnings / capital adequacy. We are hopeful of maintaining capital adequacy ratios in line with our internal targets above the regulatory minimum.

That ends my presentation.

Thank you very much for your time.

Back to Amir.

Amir Hanna: Thank you Sujit and thank you Mr. Isam.

As our usual practice, we will break for a while as questions are being received; and we will be addressing them based on the themes.

We have 2-3 questions on the bank's approach and view on the upcoming calls for the AT1's and the Tier 2's.

Sujit Ronghe: The AT1 and Tier 2 call dates are in the last quarter of 2025. As such, it would not be very proper to give specific guidance today on what decision the Bank would take at that time.

However, historically speaking, the Bank has called and replaced its first AT1 and NBK generally tends to have an investor friendly approach, which could give you an inkling on what could be expected.

Of course, any decision would be taken closer to the event and based on market conditions.

Amir Hanna: The question on growth, substantial growth on commercial loans comes from Europe and UK, please elaborate on these sectors, and the growth guidance for 2025 from Europe and from the local market.

Sujit Ronghe: There are a few parts to this question and I will answer the local loan growth first.

The retail loan demand in Kuwait has been very muted in the last year or year and a half, mainly because of the high interest rates. The 25-basis point decrease in the CBK discount rate did not increase the borrowing appetite of the customer significantly. The retail lending activity will depend on the size and timing of CBK rate cuts in response to the expected 1-2 Fed rate cuts during 2025.

However, significant project activity is expected to commence in the current year, which is expected to benefit the Bank in terms of first, increased trade finance activity and later growth in credit facilities. We would probably see some benefit on the trade finance, not necessarily in interest income but more on the fee income side in 2025. We could see some increased credit drawdowns related to the project, typically 4-6 quarters after the project is awarded.

Loan growth in our international network was not only in Europe and the UK, but contributed by most of our overseas locations. These loans are not very lumpy loans and are spread across different sectors and many customers. We have a strong pipeline of credit demand in our international locations and are expecting good loan growth in the coming year as well.

Amir Hanna: Question on expectations for Kuwait to return to the Euro-bond market.

Isam Al-Sager: Of course, I would say that there was a recent note by the Minister of Finance, during an interview, stated that the government's agenda aim for a development of the domestic economic landscape, which includes activity for several financial instruments, and most importantly the debt law. So, the debt law will go through, however, it all depends on the market condition.

Amir Hanna: A question on OPEX, what are the main drivers behind the +13% increase in annual growth in administrative expense?

Sujit Ronghe: As I mentioned in my earlier discussion, the Bank is continuing to focus on the development of digital capabilities and increasing its focus on specific areas with respect to new product offerings and technological enhancements, both at the front and at the back end. The cost attached to these initiatives is expected to continue in 2025, resulting in a growth of c.10%.

Amir Hanna: Couple questions on NIMs, and the impact of a 25-basis point cut on NIMs in 2025.

Sujit Ronghe: When we model the net interest income for the Bank, it is very difficult to predict whether the CBK will follow any rate cut on the Fed's side on a like-for-like basis. However, in a scenario where a 25 bps rate cut by the US Fed is followed by CBK, we would expect the annualized impact of the parallel shift in assets and liabilities rates, to be in the range of 3-4bps, closer to 4bps.

Amir Hanna: On the strategy front, can you please elaborate on your acquisition plans?

Isam Al-Sager: Well, we continue executing against our current strategy and there is nothing in the pipeline in terms of acquisition. However, with any potential plans it must be of an added value to our stakeholders.

Following the recent developments in calling-off the Boubyan-Gulf merger, we have no plans in the pipeline.

Amir Hanna: A question on the split of the loan book between domestic and international.

- Sujit Ronghe:** The loan book split is roughly 70:30 percent. The larger 70% is from Kuwait and the 30% from international locations.
- Amir Hanna:** Is it fair to assume that most of the loan growth in 2024 is coming from KSA?
- Sujit Ronghe:** Not really. The loan growth that we witnessed in 2024 came from Kuwait and from our broader international network. We witnessed growth not only from KSA, but also from other locations including UAE, UK, France, Singapore etc.
- Amir Hanna:** So many questions on the mortgage law and the recent press coverage on the mechanism and how the draft law would look like?
- Isam Al-Sager:** Thus far, discussions are ongoing between various stakeholders including banks indicating good progress in finalizing the initial draft very soon.
- Other than the mentioned, there is no material updates on the law, but serious steps are in place to passing the law with some adjustments under discussions that may allow its implementation soon.
- Amir Hanna:** Is the mid-single digit loan growth guidance taking into account any potential growth that could come from the mortgage law?
- Sujit Ronghe:** The mid-single digit guidance related to loan growth is our base case scenario which doesn't account for any potential benefits from the mortgage law. We are yet to see the law and the related executive guidelines. It is somewhat early to project growth associated with the mortgage law.
- Amir Hanna:** We are seeing strong retail spending, are you observing strong retail spending on the ground and strong retail borrowing demand?
- Sujit Ronghe:** The retail spending continues to be at healthy levels, but I think the higher interest rate environment is at play and the spend is not really translating into a credit demand from retail customers. We are hoping for a better uptake in retail loans as and when interest rates decrease.
- Amir Hanna:** These are all the questions that we received for today.
- Since we don't have any more questions we'll conclude the call.
- Thank you so much for attending the call.
- Thank you Mr. Isam, Sujit and Ahmed.