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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, 22 April 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:

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 first quarter earnings call for the year 2025. 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 Elena.

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 glad to join you today for NBK's first quarter 2025 earnings call.

In recent months the global economy continued to navigate a complex landscape marked by shifting monetary policies and escalating geopolitical tensions. Moreover, the recent trade war and the tariffs imposed by the US administration with its expected repercussions will likely cause inflation to rise and economic growth to slowdown, adding more uncertainties to the world's economic outlook.

For the GCC region, these developments present a mixed outlook. Supported by strong fiscal buffers, strategic reform plans, robust project pipeline and healthy demand; GCC economies are likely to uphold a relatively strong performance trajectory throughout 2025. However, tighter global financial conditions could weigh on investment and trade flows, borrowing costs and inevitably oil demand and prices.

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 could recover to reach 3.0% in 2025.

Following a robust year of project market activity in 2024, the momentum slowed down to some extent in the first quarter of 2025. More than KD 400 million worth of projects were awarded during the first quarter of the year while the outlook remains very strong with estimates of over KD 10 billion worth of projects in the pipeline. This further affirms the government’s commitment to accelerating the pace with its development and reform plans.

Moving on to our quarterly performance, NBK reported net profits of KD 134.1 million for the three months ended 31 March 2025; compared to KD 146.6 million in the corresponding period of 2024. The reported 8.5% year on year drop in attributable profits is mainly the result of the effective implementation of the domestic minimum top-up tax on multinational enterprises which led to increasing our effective tax rate to 16.3% in 1Q2025 up from 9.2% in 1Q2024. If we look beyond the impact of the newly implemented tax, our profit before tax line grew at 0.8% year on year reaching KD173.4 million in 1Q2025.

Our returns remained strong despite the impact of the new tax regime with return on average assets for the period reaching 1.33% while our return on average equity reached 13.1%.

At NBK, we are confident in our ability to adapt and lead domestically. By staying agile, investing in technology and innovation and upholding high standards of serving the evolving needs of our clients, we will not only weather the challenges in the economic scene but will emerge stronger.

Our regional and international presence will continue to be a key factor in mitigating risks, stabilizing returns, while optimizing operational costs. Our aim is to continue maximizing the benefits we generate from cross selling our services across locations. Similarly, our wealth management business will leverage its expertise in delivering a holistic approach to portfolio management, advisory and investment opportunities while our Islamic banking arm will remain distinguishing our unique domestic position and further diversifying our profitability streams.

NBK remains strongly committed to sustainability and the advancement of its sustainable finance agenda. A key milestone in this journey was the successful issuance of the Bank's first green bond, which attracted strong international investor interest and underscored market confidence in NBK's ESG strategy. The Bank continues to make profound progress in integrating climate considerations into our operations, with a particular focus on portfolio decarbonization and climate risk management. These efforts align with global best practices and reinforce NBK's role in supporting Kuwait's carbon neutrality commitment, positioning the Bank as a key enabler of the country's low-carbon transition.

With that, I will conclude my comments and leave you with my colleague Sujit Ronghe, our Group CFO, to cover quarterly 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 in respect of the first quarter of 2025.

We have announced a net profit of KD134.1m for 1Q25, an 8.5% decrease over the corresponding quarter of 2024. You would note that although profit before tax and non-controlling interest reflects a small year on year increase, imposition of Domestic Minimum Top-up Tax (DMTT) of 15%, mainly in Kuwait and Bahrain from 1 Jan 2025 has negatively affected 1Q25 bottom-line. However, the operating engine of the Group remains solid with strong growth in business volumes, particularly loans and investments.

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

Although, global and regional geopolitical situation remained unstable, the overall operating environment in Kuwait and the fuller GCC remained stable. However, developments during the last few weeks have increased macro-economic uncertainties and heightened concerns regarding the implications of a possible tariff war, are affecting the global operating environment adversely.

Now turning to the financial results for 1Q25.

As shown at the top left of this slide, net profit at KD134.1m reflects a yoy decrease of KD12.5m i.e. 8.5%, significantly impacted by the 15% DMTT applicable in Kuwait, Bahrain and UAE (increased from 9% to 15%).

Net operating income, at KD310.7m, was marginally higher than the previous year, mainly due to a higher non-interest income, partially set off by lack of growth in the net interest income, the reasons for which we will discuss shortly. However, business volumes, particularly loans and investments, reflect a continuation of the growth trajectory witnessed during 2024.

The top right of this slide reflects that profit before tax at KD173.4m was KD1.4m higher than 1Q24, benefiting from contained cost growth and a release towards expected credit losses on non-credit facilities. Resulting from the changes in tax laws, the effective tax rate has increased to 16.3% in the current period from 9.2% in 1Q24.

1Q25 net profit at KD134.1m, was 6.3% lower than the previous quarter, primarily driven by increased tax charge, partly softened by a lower provision charge for credit losses & impairment losses.

The operating income mix profiled at the bottom right hand continues to show a healthy mix with 24% 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 and net income from Islamic financing of KD236.8m, was almost flat compared to 1Q24. 1Q25 NII benefited from 8.1% year on year growth in interest earning assets, namely loans and investment securities, across the Group. However, an unfavorable change in mix of different categories of assets maintained with the Central Bank of Kuwait, yoy effect of Egyptian Pound devaluation in last year, and relatively lower benchmark interest rates adversely impacted the NII and NIM for the current quarter.

With the recent passage of the Debt Law in Kuwait, we are hopeful of sovereign debt issuances during the year, allowing the Bank to deploy liquidity into interest earning assets.

We see in the bottom left chart, that average NIM for 1Q25 dropped to 2.45%, reflecting a decline of 19bps over 1Q24 driven by a steeper decrease in yield (for reasons explained earlier), compared to the funding cost. Group yield and funding costs for the current quarter were 5.75% and 3.71% respectively. The Group continues to source deposits efficiently balancing cost and regulatory requirements, while diversifying the funding base. Also, an overall sticky and stable base of retail customer deposits continues to benefit the Group.

At the bottom right of this slide, we can see drivers behind the 19bps yoy decrease in NIM to 2.45% in 1Q25. Loans and other interest earning assets affected by lower interest rates and an unfavorable asset mix contributed a net decrease of 14bps and 35bps to the NIM respectively. Lower funding cost affected the NIM positively by 30bps.

Moving on now to the next slide.

As we can see at the top left of this slide, total non-interest income at KD73.9m for 1Q25 was KD3.1m higher than the comparable period in 2024. Fees and commissions income was strong at KD55.3m, reflecting robust contributions across different lines of business and geographies. Fx contributed KD11.3m benefiting from higher transaction volumes and favorable currency movements. Other non-interest income sources (mainly investment income) contributed KD7.3m, benefiting from improved valuations.

Turning now to operating expenses reflected in the top right-hand of this slide. Total operating expenses for 1Q25 at KD115.7m, were 3.8% higher than 1Q24. The modest cost growth reflects in part the Group's efforts to harness efficiencies, favorable effect of EGP devaluation and certain timing differences.

The Group continues to invest 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.

As a result of a flattish operating income and controlled cost growth, the 1Q25 cost to income ratio was 37.3% compared to 36.1%, one year ago.

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

Total credit provisions and impairment losses for 1Q25 amounted to KD21.5m, a decrease of KD4m over 1Q24. KD24.5m of the current quarter's charge was for provisions for credit facilities whereas lower requirement for ECL on non-credit facilities resulted in a release of KD3.2m. Specific provision of KD17m was in course of normal business activities whereas KD7.5m was towards general provisions. The Group remains committed to its conservative approach in managing credit exposures.

The cost of risk for 1Q25 was 40bps compared to 44bps in 1Q24.

It is worth noting that the Group's Balance Sheet remains strong with a 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 and the ability to conduct business in both Conventional and Islamic Banking. NBK's business segments serve as the main pillars of diversification and provide a significant degree of resilience to Group earnings. This strong competitive advantage enables us to offer selective products and services to customers in different geographies e.g. in global wealth management through NBK

Wealth, Islamic banking through Boubyan Bank and by further leveraging our Group network.

The chart at the left reflects that Operating income is well-spread across all key business segments viz. International Banking 26%, Islamic 22%, Consumer 20%, Corporate 12% and NBK Wealth at 9%.

The Group similarly benefits from well diversified contributions to net profit from International Banking 27%, Islamic 19%, Corporate 17%, Consumer 16% and 10% from NBK Wealth.

At a stand-alone level, Boubyan Bank delivered a net profit of KD26.5m up 6% on 1Q24 reflecting strong growth of 9.8% in operating surplus and lower provisions for credit losses.

Finally, you will note from the chart at the right 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, Group total assets reached KD41.6bn as of March 25, an 8.7% increase over March 2024. Group loans and advances at KD24.6bn registered a strong growth of KD2.2bn i.e. 9.9% from March 24 and 3.8% during the current quarter. Loan growth was achieved at Kuwait in both conventional and Islamic sectors and at International operations. Similarly, investment securities reflected a yoy growth of 19.9%, to reach KD8.3bn.

Customer Deposits, i.e. non-bank and non-FI deposits at KD23.5bn, reflects a yoy growth of 5.6%. Similarly, certificates of deposit at KD1.7bn reflect a strong increase of 15.9% during the current quarter and 5.9% yoy, further diversifying the funding base. The Group continues to benefit from its strong base of core, franchise retail deposits. CASA deposit levels have been stable during the last year, with March 25 volumes exceeding that of March 24 and Dec 24.

NBK's stable deposit base reflects a sustained focus on the deposit gathering aspects of our business, leveraging our longstanding ability to capitalize on the Group's strong brand, customer appeal and credit ratings.

As reflected by the bottom right chart, Customer deposits comprise a healthy 66% of total funding mix of the Group.

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 1Q25 financial results had on certain key performance metrics.

The increased tax charge in Kuwait, Bahrain and in part at UAE, has adversely affected the net profit and consequently return ratios of the Group. The Return on Average Equity for the current quarter dipped to 13.1% and the Return on Average Assets now stands at 1.33%.

At 16.6%, the total capital adequacy ratio remained strong and stable, well above the regulatory minimum. CET1 and Tier1 ratios at 12.6% and 14.5% respectively. Interim cap-ad ratios tend to be lower than year-end ratios as they are negatively affected by the growth in risk weighted assets, whereas interim profit is not included in regulatory capital.

As regards asset quality, NPL ratio stands at 1.38% compared to 1.34% as at Dec 24. Loan loss coverage ratio is at 251%, reflecting 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' (IFRS 9). 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. 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 March 25 was KD689m.

Although IFRS 9 ECL and CBK provisions are two different regimes and should not be compared as such, as of March 25, the balance sheet provision as per CBK instructions exceeds the ECL by KD240m. 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 1Q25.

As mentioned earlier, a change in composition of interest earning asset mix and implementation of new tax law in Kuwait, have negatively affected 1Q25 bottom line in spite of a healthy growth in balance sheet, comfortable liquidity levels and a strong capital base.

Looking forward, ongoing regional and international geo-politics, ambiguity regarding implications of tariffs levied by USA and response from affected countries, possibility of recession and an uncertain interest rates scenario are likely to result in a macroeconomic environment which is less conducive to growth. We however remain cautiously optimistic that the overall operating environment, although challenging, stabilize in due course during 2025.

Now turning to the guidance for the year ahead.

As regards loan growth – The Group continues to enjoy a strong pipeline of approved credits and although we have strong growth in the current quarter, given recent concerns regarding the macroeconomic situation, we continue to guide the overall loan growth for 2025 to be in the mid-single digit range. However, any positive changes to the prevailing global uncertainty, pace of project activity or passage of housing finance law in Kuwait would benefit loan growth in general.

Turning to the NIM. Given the uncertainty with macro-economic situation, interest rate outlook, the changed CBK asset mix mentioned earlier and increased competition, we are expecting the NIM to be under pressure during the year, as reflected in the 1Q25 NIM of 2.45%.

Coming to operating expenses, the 1Q25 year on year cost growth was lower than normal at 3.8%, which is not indicative of the fuller year expectation. While the Group works to harness efficiencies, we continue to invest in human resources and digital technologies. Hence, 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 40bps during the current quarter. Given the current global macro-economic uncertainty, we are cautiously optimistic of an overall stable general operating environment and expect the full year cost of risk to range at a similar level.

As regards the recently introduced DMTT in Kuwait, it is important to note that relevant Executive regulations are expected to be issued within six months from the date of issue of the Law. In absence of fuller regulations, current estimates indicate the effective tax charge for the full year 2025 to range between 16%-17% of pre-tax profit.

However, 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.

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 pause for a while as questions are being received on the webcast platform; and we will be addressing them one-by-one.

First question is asking how do you see funding side developments and liquidity to support huge projects in the pipeline?

Sujit Ronghe: NBK is very well-placed as a market leader to attract deposits, and in fact at times we have preferred to let go of deposits, when it did not suit our requirements. We benefit from a diverse network at different locations across geographies, which serve as deposit gathering units for the Group.

We also have diversified funding sources in terms of customer deposits – retail, corporate and non-bank FI, inter-bank. We also have GMTN, CD and an ECP programs and access to bilateral borrowings, all of which together help us to have a very sound and stable funding base for future growth.

As such, there are no concerns with respect to funding the project pipeline. Also, all credit demand from the project pipeline is not expected to emerge over a short period of time. Demand for loans or credit facilities related to the projects will materialize over short to medium term, which would provide us flexibility in deciding optimum funding sources.

Amir Hanna: The second part of the question, what is the minimum oil price you may see that downgrades your growth outlook?

Isam Al-Sager: Well for the oil outlook in the short term and as the government continues to focus on the implementation of the development plan, we believe oil prices volatility will be less relevant to capital expenditure. Today cap-ex is about 10% of the total budget spending, which makes it less likely to make any potential budget savings in case oil revenues are pressured.

Additionally, the first couple of years of capex spending mainly targets closing the infrastructure gap and providing the basic services for the growing population, so a full change in direction is unlikely.

Amir Hanna: Moving on, there are a few questions on the asset mix and its impact on margins and the outlook for margins going forward. How material is the impact of change in asset mix at CBK and devaluation of margin compression in Q1 2025?

Sujit Ronghe: As I mentioned earlier, in the first quarter 2025 NIM at 2.45% was adversely affected by an unfavorable change in the mix of different categories of CBK assets, year-on-year effect of EGP devaluation and relatively lower benchmark interest rates. When we compare 1Q25 NIM, versus the last quarter, we note that the change of the CBK assets mix did not fully impact last quarter's NIM.

A large part of the drop in NIM compared to the previous quarter comes from changes in CBK assets mix. Also, 4Q24 benefited from some one-off interest recoveries which did not repeat in the first quarter of 2025.

Amir Hanna: A follow up on the same question, what is your expectation of these drivers during the rest of the year?

Sujit Ronghe: There is not much visibility on how long the current situation with CBK assets would prevail. We are hopeful that with passage of the debt law, there will be opportunities for the bank to redeploy these amounts in interest yielding instruments, which, depending on the timing and volume of issuances, can be expected to improve the full year NIM.

However, under the assumption of a status quo for a longer period, we expect full-year 2025 NIM to be around the current levels.

Amir Hanna: Changing subjects, question on the updates for the mortgage law?

Isam Al-Sager: Well on the mortgage law, actually its both on the mortgage law and debt law, as we know the debt law has been recently approved allowing the government to be more flexible by issuing debt up to KWD 30 billion.

On the mortgage law, there has been some serious meetings recently to approve the law, the meetings have taken place with the Public Authority of Housing in signing consultatory services contracts with real estate developers. As we all say, the approval of the housing finance law is expected considering its importance, as there are more than 100,000 outstanding housing applications and the young demographics of Kuwait with an additional 10,000 new applications on a yearly basis.

The strong liquidity position of the banking sector also allows it to play a key role in solving the residential housing problem in Kuwait.

Amir Hanna: There is a question on our approach to our AT1's and Tier 2's call options, since both are callable this year, do you intend to take other factors, other than economics, into account in making your call decision?

Sujit Ronghe: The decision to call AT1's or Tier 2's is one that would be taken keeping in mind the capital needs for the Group at different levels of regulatory capital. At the same time, historically, the bank has taken actions that were investor friendly, and we intend to continue with that approach in the coming instances as well.

Amir Hanna: On the same topic, a question on the CET1 buffers. Where would you ideally like to see your CET1 buffer over the minimum requirement by year-end and how do you plan to achieve it?

Sujit Ronghe: As mentioned in my previous interactions, the Bank aims to maintain the year-end total capital ratio at least 1.5% above the regulatory minimum. This capital buffer can be achieved through different means such as internal profit generation, risk weighted assets optimization or the dividend distribution policy; which is are typically decided upon at the year-end by the Board of Directors.

Amir Hanna: There is question on year-to-date loan growth; what drove the strong loan growth in the first quarter and how does this compare to the guidance of mid-single digit for the year?

Sujit Ronghe: The strong loan growth of 3.8% in the first quarter of 2025, stemmed from Kuwait and across the international network. In Kuwait, loan growth on the retail side continues to be rather muted. Given the current higher interest rate environment, the credit appetite from retail consumers across the sector is not at the levels prevailing a few years ago.

Bulk of the loan growth came from our diversified overseas network (both regional and international locations) and corporates in Kuwait – in Islamic and conventional segments.

Amir Hanna: There is another question on what's the impact of oil prices on spending cuts; I think we covered that already.

A question asking how much of loan growth in the first quarter was driven by international business and if you can provide some thoughts on the progress of the mortgage law; the mortgage law was covered.

Isam Al-Sager: Our loan book mix is 70% Kuwait based and 30% through our international presence.

Amir Hanna: Sujit you want to add some comments on the growth itself?

Sujit Ronghe: 70% to 30% is the typical ratio of local vs. international loans. From a growth point of view, we saw that majority of the growth was attributed to international locations. At the same time, we are seeing a good pickup in Kuwait, especially on the Islamic operations side.

Amir Hanna: Why did the bank increase its certificate of deposits (CD) meaningfully in 1Q25 to nearly 15%? Is it in anticipation of growing activity in Kuwait?

Sujit Ronghe: CD are amongst different funding sources employed by the Group. CDs are mainly issued through our branch in New York and we witnessed a significant drop in volumes at the beginning of the war in Gaza i.e. during the last quarter of 2023. However, over a period we witnessed a rebound in CD volumes and the increase in current quarter has taken us back to a level higher than that of October 2023.

Amir Hanna: Another question that is more specific on NIMs. Why did the asset yield decrease significantly while the discount rate has been more stable?

I think we made clear reference to the change in asset mix and the devaluation in Egypt; so that's has been covered as well.

Those are all the questions that we have received so far. If we don't get any questions for another 15 or 20 seconds, we will conclude the call for the quarter.

Are you seeing any impact of the global economic environment on trade flows related fee-income?

Sujit Ronghe: The latest trade developments have brought in a lot of uncertainty with respect to the global operating environment and tariffs have complicated the matters for many countries.

The GCC countries are charged with 10% tariffs and are probably less impacted when compared to some other countries. Currently, we are not seeing any impact of global economic uncertainty. However, it is early in the cycle to comment on the long-term impact of the latest developments in USA and other impacted countries.

Amir Hanna: These are all the questions that we received for today's call.

Thank you so much for joining us.

Elena back to you.

Elena Sanchez: I would like to thank the management team of National Bank of Kuwait for the presentation and all the answers provided and to the attendees who joined us for today's call.