Earnings Conference Call

First Half 2026

Edited Script

3 August 2026

Corporate Participants:

Mr. Sami Mahfouz – Acting CEO

Mr. David Challinor – CFO

Ms. Dalal Aldousari – Head of Investor Relations

Host:

Mr. Ahmed El-Shazly – EFG Hermes

Ahmed: Good afternoon everyone and welcome to Gulf Bank's 2Q 2026 earnings call. This is Ahmed El-Shazly from EFG Hermes; it is a great pleasure to have with us on the call Mr. Sami Mahfouz, 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.

Dalal: Thank you, Ahmed. Good afternoon and welcome to Gulf Bank's first half 2026 earnings call. We will start our call today with key highlights and updates on the operating environment of Gulf Bank during the second quarter of 2026 presented by Acting CEO, Mr. Sami Mahfouz, followed by a detailed presentation of our financial results by the CFO, 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. Questions can be posted on the "chat box" and will be visible to all participants. Feel free to type in your questions at any time during the call and we will address them once we open the Q&A session.

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

Sami: Thank you, Dalal and Ahmed. Good morning and good afternoon, everyone, and thank you for joining us today to discuss Gulf Bank's results for the first half of 2026.

I will begin with a brief overview of the operating environment and our business priorities during the first half of the year, before handing over to David for a detailed review of our financial performance.

The first half of 2026 was marked by elevated geopolitical tensions and heightened regional uncertainty. While these developments have weighed on sentiment across parts of the region, Kuwait has continued to demonstrate resilience, supported by strong sovereign fundamentals, and the stability of its financial sector. The country's credit profile remains robust, while continued access to both domestic and international funding markets reinforces confidence in Kuwait's financial position and funding flexibility.

At the same time, the announced State Budget for fiscal year 2026/2027 reaffirmed the Government's commitment to infrastructure development and capital investment with significant allocations directed toward strategic projects. These investments are expected to support credit demand and economic activity, creating opportunities across multiple sectors. As implementation of the development agenda progresses, we believe the banking sector will continue to play an important role in financing these projects and facilitating broader economic growth.

From a banking sector perspective, conditions remained broadly favorable during the first half of the year. The unchanged benchmark interest rates provided greater stability for businesses and better visibility for borrowers. Moreover, the sector continued to benefit from strong capitalization, healthy liquidity levels, and sound regulatory oversight.

Against this backdrop, Gulf Bank delivered a strong performance during the first half of the year. We achieved growth in profitability, expanded our lending portfolio, and maintained robust asset quality. These results underscore the resilience of our business model, the strength of our risk management framework, and the disciplined execution of our strategic priorities.

Beyond our financial performance, a key area of focus during the first half was advancing our planned transition to Islamic banking.

We continued to make progress across multiple workstreams, including governance, products, systems, policies and processes, further strengthening our operational readiness for the transition as we move through the necessary regulatory and shareholder approval process.

Equally important, we invested significantly in human capital development through specialized training and capability-building programs to ensure that our employees are well prepared for the transition and equipped with the knowledge and skills required to support the Bank's future operating model. The conversion remains one of the most important strategic initiatives in the Bank's history, and we are committed to executing it in a disciplined and well-managed manner.

Now turning to Page 2 of the presentation, allow me to summarize our financial results with six key messages:

First, we recorded a net profit of KD 27.4 million for the first half of 2026, an increase of 14.1% compared to the first half of 2025 net profit of KD 24 million.

Second, our operating income reached KD 94.3 million, an increase of KD 2.5 million or 2.7% compared to the first half of 2025.

Third, our gross loans and advances reached KD 6.5 billion, a year-to-date increase of KD 444 million or 7.3% compared to 31 December 2025. This growth came mainly from our corporate banking segment.

Fourth, our asset quality metrics remained strong, underpinned by disciplined risk management and prudent underwriting practices. The non-performing loan (NPL) ratio stood at 1.2% as of 30 June 2026, while our NPL coverage ratio remained robust at 312%, inclusive of total provisions and collateral. These metrics underscores the soundness of our credit profile and the resilience of our balance sheet.

Fifth, as of 30 June 2026, our Tier 1 Ratio was 13.8% achieving a buffer of 277 basis points above the new regulatory minimums of 11%, and our Capital Adequacy Ratio was 15.8% achieving also a buffer of 280 basis points above the new regulatory minimums of 13%.

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 'Stable' 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.

Overall, we are pleased with our performance during the first half of the year. Looking ahead, we remain focused on executing our strategic priorities and advancing the initiatives that will position Gulf Bank for its next phase of growth while delivering sustainable long-term value for all stakeholders.

With that, I'll turn it over to the CFO, Mr. David Challinor, who will cover the financials for the first half of 2026 in more depth, thank you. David, over to you.

David: Thanks Sami.

Turning to page 3, we can see the movement in net profit from 24 to 27.4 million, representing an increase of 3.4 million, or 14%, and a sequential improvement in net profit of 8.6 million compared with Q1 2026.

Looking at the underlying components, the net profit growth was driven by a 6.1 million increase in interest income, a 1.8 million increase in non-interest income, and a 5.7 million reduction in credit costs. These positives were partially offset by a 5.4 million increase in interest expense, higher operating expenses of 3.8 million, and a 1.1 million increase in general provisions, which reflects the impact of very strong loan growth for the first half compared to last year.

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

On line 1, interest income increased by 6.1 million, or 3% in the first half of 2026 compared to the same period last year, and by 4.1 million, or 4%, sequentially from Q1 2026. The growth was driven by strong loan book expansion and higher interest income from recent government issuances.

On line 2, interest expense increased by 5.4 million or 5% in the first half of 2026 compared to the same period last year.

On line 3, net interest income reached 73.4 million, up 1% in H1 2026 compared to the same period last year and 8% sequentially versus Q1 2026. The increase was primarily driven by strong growth in interest-earning assets.

On line 4, non-interest income rose to 20.8 million in the first half of 2026, up 10% year-on-year and 13% sequentially. Growth was mainly driven by strong fees and commission income, which was up 13% year-on-year, underscoring solid business momentum.

On line 5, operating income for first half of 2026 reached 94.3 million, an increase of 2.5 million or 3% year on year, and growth of 9% when compared to Q1 2026.

On line 6, operating expenses increased by 3.8 million, or 8% year-on-year, in the first half of 2026. This growth was mainly driven by higher other expenses.

On line 7, operating profit before total provisions and impairments declined by 1.3 million, or 3%, reaching 43.6 million in the first half of 2026. However, Q2 operating profit improved by 0.3 million or 1% from Q1.

On line 8, credit costs were 11.9 million in the first half of 2026, declining by 5.7 million, or 32%, compared to the same period last year, and decreased by 6.8 million, or 73%, sequentially versus Q1.

On line 9, general provisions were 2.9 million in the first half of 2026, and 2 million in the same period last year, reflecting stronger loan growth during the first half of 2026. As per CBK regulations, a 1% general provision is required, mainly against non-government loans booked during the year.

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

On line 7, net loans and advances of 6.3 billion increased by 11% year on year and 8% year to date. Growth was driven by the corporate segment.

On line 12, total assets increased by 11% year on year to reach 8.1 billion. The increase reflects continued growth in net loans and advances, coupled with an increase in exposure to Kuwait government bonds.

On lines 14 & 15, total deposits were 6 billion as on 30 June 2026, this represents an increase of 616 million or 11% year on year and 273 million or 5% year to date. Our CASA ratio stood at 23.4% at end of Q2 2026, lower than the same period last year of 28.5%. The decline in CASA reflects a broader market trend, with the market ratio decreasing from 30.1% at the end of June 2025 to 27.2% by the end of June 2026. This was primarily driven by a shift in the deposit mix from current accounts to time deposits during the period. Looking ahead, we expect this trend to gradually improve, through expanding and diversifying our funding sources.

On line 16, other borrowed funds increased by 13% year-on-year, and 10% year to date.

Moving on to asset quality, our non-performing loan ratio, shown on line 23, stood at 1.2% at the end of Q2 2026, down 0.2% from the same period last year. We continue to maintain a significant total coverage ratio of 312%, which includes both total provisions and collaterals.

Now, turning to Page 6 you can see in the chart on the left that as at 30 June 2026, we have 74 million excess of total provisions over IFRS 9, representing 30% of total provisions.

As shown in the pie charts on the top right of the page, Stage 1 loans increased to 96.5%, Stage 2 loans have declined to 2.3%, and Stage 3 loans increased to 1.3% when compared to 31 December 2025. The majority of Stage 3 loans comprise of retail accounts.

The chart on the bottom right of the page shows the evolution of Stage 2 and Stage 3 loans. Stage 2 loans are at one of their lowest levels historically, and Stage 3 loans remain stable and very low.

Turning to page 7, on the top-left, our Tier 1 capital ratio was 13.8%, which is well above the current regulatory minimum of 11%. And it's worth noting that all of our Tier 1 is Common Equity Tier 1.

On the bottom-left, our Capital Adequacy Ratio of 15.8% was well above our current regulatory minimum of 13% and both ratios don't include first half 2026 profits.

On 26 March 2026, the Central Bank of Kuwait announced a stimulus package for local banks, reducing the capital conservation buffer by 1%, resulting in lower minimum regulatory capital requirements.

On the top right, our risk-weighted assets have increased by 3% year to date, primarily driven by strong loan growth.

On the bottom-right, our leverage ratio as at 30 June 2026 was 9.0%, lower than the 9.7% reported on 31 December 2025, but still well above the 3% regulatory minimum.

Turning to page 8, we can see our key liquidity metrics.

The chart on the left shows our quarterly average daily Liquidity Coverage Ratio at 217%, while the chart on the right shows our Net Stable Funding Ratio at 104%. Both key ratios remain well above the regulatory minimum of 80%, reflecting our strong liquidity and funding profile.

As previously noted, and in line with the stimulus package announced by the Central Bank of Kuwait on 26 March 2026, the regulatory minimums for the Liquidity Coverage Ratio and Net Stable Funding Ratio were reduced from 100% to 80%, supporting liquidity and stability in the local banking sector.

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. If you wish to ask a question, please submit your question into the "chat box".

We will wait for a few minutes to receive most of your questions, and we will try to group them by topic.

(Pause)

Dalal(Q1): Okay, we have a number of questions on Margins and NIM's? David, would you like to take that please?

David (A1): Yes, sure thanks, Dalal.

We saw the margin expand in Q2 by 8 basis points from the Q1 level. And this expansion was driven by a decrease in the cost of funds combined with an increase in income yields.

The cost of funds fell by 6 basis points in Q2 after falling 5 basis points in Q1. And this primarily reflected the repricing following the December rate cuts.

On the income yield side, we've seen continued upward repricing in a portion of the retail book, and we've also benefited from increased holdings of Kuwait Government Bonds.

Looking ahead, obviously the key driver of margin movements are changes in benchmark rates. And the general consensus is that rate cuts are significantly less likely now than they were at the start of the year, which is positive for the margin outlook. We'd also expect CASA levels to start increasing, which will work to put downward pressure on the cost of funds. And in our corporate business we're very focused on optimizing the overall yield on the book. So, we think that the second half could be positive for margin levels.

Dalal: Thank you, David.

Dalal(Q2): We have a question on if there are any updates on the conversion to Islamic banking and on the potential merger with Warba Bank? Sami, would you like to take that question?

Sami(A2): Sure, thank you Dalal.

As mentioned earlier on the Sharia-compliant conversion, the Bank continues to make measured progress in line with the regulatory framework following the Central Bank of Kuwait's preliminary approval. Implementation efforts are advancing across core workstreams, with dedicated teams overseeing the transition across business, operation, and technical areas. Focus remains on ensuring readiness in a structured manner, while maintaining consistency in service delivery.

As for the potential merger with Warba Bank, process is progressing in an orderly manner, and any material updates will be communicated in line with disclosure requirements.

Dalal: Thank you Sami.

Dalal(Q3): We have also few questions on the drivers of loan growth this quarter? David would you like to take this question?

David (A3): Thanks, Dalal. We had another strong quarter of net loan growth in Q2 of 118 million or 1.9%, which has brought growth in the first half to 7.6%. And once again the corporate banking business was the growth engine with a mix of high quality local and international transactions.

Looking at customer loan growth, which excludes bank lending, the growth was even higher at 8.3%. And this compares very favorably to the market growth (to the end of June) of 3.6%. So, we've achieved a significant market share gain in the first half of 2026.

However, the market growth in the retail segment was only 1.6%, which reflects the continuation of a subdued environment leading to highly competitive pricing. But our strategy remains, which is to continue a disciplined approach in our credit appetite and to prioritise credit quality over volume, which has resulted in a better performing loan book.

Looking forward, we anticipate that loan growth in the second half will develop at a more moderate pace. And this shift represents a deliberate management decision to prioritise balance sheet optimization. And by increasing our focus on margin enhancement and capital efficiency we will ensure our lending activity delivers maximum value to shareholders, rather than pursuing growth for its own sake.

So, in terms of guidance. At the start of the year, I said high single digit which we've achieved primarily because we front loaded the growth. So, I'd expect the full year to consolidate around these levels, as we continue to optimize the balance sheet for enhanced margin and capital efficiency.

Dalal: Thank you, David.

Dalal(Q4): **We have also questions on operating expenses and to explain what drove the other expenses higher. David?**

David(A4): Thanks Dalal. Operating expense growth for the first half was 8%, which represented an absolute increase of 3.8 million. Now, three quarters of that increase related to the "other expense" category. And the growth was mainly due to the advancement of our strategic projects, the Islamic conversion and the merger, coupled with an operational risk provision.

But when we exclude the "other expense" category and look in total at staff, occupancy and depreciation, which together make up approximately two thirds of our current cost base, we see growth of less than 3%. So, this clearly reflects our ongoing cost discipline. So, we've been very focused on keeping our core operating expenses in check whilst we advance our strategic projects.

Now, in terms of guidance, I'd previously mentioned that the cost growth for FY26 would be around the mid to high single digit range, but I think the latter is now more likely.

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

(Pause)

Dalal(Q5): **So what is your expected Cost of Risk for 2026 and asset quality trends? David?**

David(A5): Thanks Dalal. The net credit cost charge for Q2 was 2.5 million, which translates into a cost of risk of only 16 basis points for the quarter. Now clearly, we haven't seen such a low level of quarterly cost of risk and credit cost for many years, which is an outstanding result, and this was indeed the biggest driver of the bottom-line earnings growth.

I've mentioned many times on previous earnings calls that we've experienced elevated levels of credit costs in our retail business. And in response to this we'd both tightened underwriting criteria and also commenced a transformation in relation to the collections process. And we saw in Q2, both a lower specific provision and a higher level of recoveries than we'd usually seen in previous quarters, which is a very encouraging development.

Now on the corporate side, we had several provision releases coupled with recoveries which together helped to lower the bank's credit costs even further.

If we look at the percentage of loans classified as stage 2, it's now only at 2.3% which is likely the lowest in the Kuwaiti banking system. So, our balance sheet is in a relatively strong position versus competitors to handle any future shocks arising due to the current geopolitical situation. And we've been closely monitoring the portfolio for any potential stresses and will take a proactive approach if and when necessary.

In terms of guidance. At the start of the year, we expected the cost of risk to land in the 50-to-60-point range for FY26, but we're now lowering this to under 50 basis points.

Dalal: Thank you David and Sami.

I believe we have covered the majority of the topics and questions raised today during the call. And with that, we would like to conclude our call for today. 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.