

Bank ABC
Q3 / 9M 2023 Earnings Investor
Call Transcript

Mahmood Abdulla (Bank ABC Group Investor Relations):

Good afternoon, ladies and gentlemen. We welcome you to the Bank ABC Group's inaugural Earnings Investor Call for the Nine Months ended September 2023, hosted by the Group CEO, Mr. Sael Al Waary, and the Group CFO, Mr. Brendon Hopkins. We are also joined by our partners from SICO who have been assisting us on this strategic initiative. I would like to hand over to the Group CEO, Mr. Sael Al Waary, for the introductory remarks.

Sael Al Waary (Bank ABC Group CEO):

Thank you, Mahmood. Good afternoon everyone. I would like to welcome you to Bank ABC's Earnings Investor Call for the first nine months of the year, ended September 2023. The quarterly earnings call is an initiative we are launching to enhance ABC shareholders' understanding of our refreshed strategy to become MENA's International Bank of the future, as well as the Group's excellent financial results.



Q3 / 9M Performance at a Glance

The Group has delivered major milestones over the recent years, including digital innovation to build long-term shareholder value through cutting-edge technology and digital initiatives such as our digital-only mobile bank (ila) and our fintech payment company (AFS). Another strategic initiative successfully completed is the acquisition of BLOM Bank Egypt, which has added an extra dimension and momentum with the Group today having a sizeable market share in Egypt. I'm pleased to report that the acquisition and integration of BLOM Bank Egypt is progressing well, and we expect the integration to be completed by Q1 2024. As you are aware, our assets and income growths have been strong during 2022, with total assets exceeding \$40 billion and total income crossing the \$1 billion mark. Our Q3 2023 financial results have been similarly strong, with total assets growing to \$41 billion, and we remain on target to achieve total income of more than \$1 billion during 2023.

We recognize the challenges and difficult geopolitical situation in the region, particularly what is happening in Gaza and the Middle East today. We are confident that our diversified business across our countries of operation will reduce the geopolitical and political risks that we are exposed to. Having said that, we will remain very cautious going forward as we continue to grow. I'm going to discuss the refreshed Group Strategy, before handing over to our Group CFO, Brendon Hopkins, to discuss the Group's financial performance. There will also be an opportunity to ask questions towards the end of the call.

I will begin by highlighting our strong earnings for the nine months ended September 2023. Revenues have reached the \$943 million mark, representing a strong 19% year-on-year growth. We have seen strong momentum backed by strong business growth and rising interest rates. The net profit of Bank ABC surged by 61% year-on-year, reaching \$183 million with an improved ROE of almost 6%. Our balance sheet is sound, with our tier 1 ratio exceeding regulatory minimums, currently at 15.4%. NSFR is at healthy levels as we look to maintain a strong set of capital and liquidity metrics. Brendon will be taking us through the detailed financial performance later today.



Refreshed Group Strategy Overview

We have recently refreshed our Group strategy with a defined strategic aspiration and clear roadmap for execution. I am pleased to report to shareholders that our strategy has been validated by top-tier consultants, and our three year aspirations are achievable. The refreshed strategy was approved in July 2023 by the Group Board, and we now have a clear direction for the Group to deliver solid growth and accelerate performance across our units.

We have divided our strategy into three core pillars. We want to show real growth in core business performance with the acceleration of our wholesale and treasury business, and we have a clear set of initiatives to achieve this. We will also boost the performance of Group Retail - we are very strong in retail across MENA (Jordan, Egypt, Algeria, and Tunis), as well as a digital mobile-only bank (ila) in Bahrain and Jordan. We have put a clear plan to turbo charge Retail growth and have already witnessed improved numbers in Retail during 2023. We will also continue to capitalize on our ABC Brazil franchise, focusing on the middle market. In a nutshell, that is a brief overview of the first pillar of our strategy, which is to create near-term value for our shareholders.

The second pillar of our strategy, which is equally important, is to maximize the value of our Digital Units. ila has been successful and continues to go from strength to strength. We have rolled out ila in Jordan and the early signs are very encouraging. ila also continues to dominate the market in Bahrain. We have ambitious plans for ila as well as AFS, our digital fintech company. Between ila and AFS, we are building a very strong ecosystem in the kingdom of Bahrain focused on the next generation of payments and financial technology businesses.

The first two pillars of our strategy have to be supported by solid infrastructure, which brings us to the third pillar of our strategy around strengthening our operating model. We are flexible and agile in our thinking, and need to continue to improve our organizational effectiveness. Every organization has to do a health check and we are doing ours across the board such as levels of authority, delegation etc. We will also enhance our steering ability, strengthen our process efficiency and develop an agile infrastructure, whilst making sure that our Sustainability strategy is supporting the growth of business.

This brings me to an initiative, which is fully integrated with our strategy – our Sustainability strategy. Our Sustainability strategy is aimed at making sure that Bank ABC is fit for purpose for the future. We are fortunate to operate in 16 countries globally, where ESG and Sustainability has been taking on increased importance, and I'm pleased to see that the Sustainability engagement across the Group is strong. Earlier this year, we set up a Sustainability function in Head Office and appointed a Chief Sustainability Officer with a wealth of experience in this field. We have developed our Sustainability strategy based on five pillars. We will establish robust Governance, with direct oversight from our Board of Directors and the Board Risk Committee. We have also evaluated in detail the operational and HR impacts of our Sustainability strategy. We have also strengthened our diversity and equity and inclusion program. These initiatives will not be restricted to Bahrain only, but across our network worldwide. Business financing and green financing is also part of our strategy going forward, and we have already booked a large number of green transactions in Bahrain and the GCC (such as the Alba transaction) during 2023. The integration of Sustainability across the Group is very important for us as a bank. We have measured our greenhouse gas emissions as we work towards a net zero strategy. This is a brief summary of our Sustainability strategy, which is complex and I can spend hours speaking about the importance of Sustainability to the Group.

*Industry Awards received by Bank ABC*

We will now move to our other achievements, and I am pleased to see Bank ABC today as a regional leader in digital innovation and financial services. The awards we have received are recognition for Bank ABC's operations not just in Bahrain, but in the region and worldwide. Let me share with you some of the awards that have been received by Global Finance this year, such as “The World Best Financial Innovation Labs”. We also received awards for being the best trade bank in the Middle East, as well as an Islamic award and cash management awards. Ila has won six awards by Global Finance, including the “Best Digital Consumer Bank in Bahrain”, which is something we are extremely proud of. We will continue this momentum and we will continue disrupting the digital landscape in banking in the region and in Bahrain.

In short, this covers my presentation and how I see Bank ABC growing going forward. We have a clear strategy, clear vision, and clear three years plans that have been approved by our Board of Directors. We have assembled a best of breed team with international experience, and will continue to grow our balance sheet and deliver better returns to our shareholders. I will now hand over to our Group CFO, Brendon, to provide an overview of our financial performance.

Brendon Hopkins (Bank ABC Group CFO):*Overview of YTD 2023 Financial Performance*

Thanks to our Group CEO, Mr. Al Waary, for that comprehensive overview. Turning to the financial results, our performance has been extremely strong for the first nine months of 2023. Total operating income grew by 19% to reach \$943 million, benefiting from our underlying business growth and interest rates. Revenues are tracking higher year-on-year across all of the ABC units. I'll explain more on that in a moment. Our focus on the balance sheet strength continues with our capital ratios well above regulatory minimums. Tier 1 ratio is at 15.4% and the majority of that is Core Tier 1 at 13.7%. Net profit is up 61% to reach \$183 million translating into an annualized ROE of 5.9%, up just over 2% on the same period last year. In terms of outlook, we are pleased to see strong business pipelines and performance continuing during this coming quarter, which positions us well for another strong year of growth in 2024.

Turning to the Group's revenues to get a bit more detail. As I mentioned, top-line growth is strong across the franchise, with all our markets and businesses contributing well to revenue growth. Most units are experiencing double-digit income growth, for example – international wholesale banking is up 17% year-on-year, our Brazilian unit up 12% year-on-year, our MENA units up year-on-year, although affected by the Egyptian Pound devaluation, but up 35% on an underlying basis, our digital and other income business segments up over 200%. Net interest income has similarly improved 21% year-on-year to \$685 million, supported by stronger loan volumes on an average basis and rising interest rates, with net interest margin improving almost 20 basis points, up to 2.6%. Our other operating income grew by a strong 14% to \$258 million, reflecting rising levels of cross-sell and ancillary fee business.

Moving on to our costs, I am pleased to say that the Group continues to robustly manage its costs without compromising on investment into our strategy. We delivered positive revenue / cost jaws of 7%, with revenue growth of 19% outstripping cost growth of 12%. Our cost income ratio has consequently improved to 59% on a headline basis. When we adjust for our digital units and investment into those, it actually improves to 54%. While we continue to enforce cost discipline, we are going to continue to invest into our digital wholesale bank offering, our digital units, and ensure that our bank sales and coverage capability is strengthened to drive strong client coverage and product growth.

On ECL and cost of risk, our business growth is being prudently managed with a healthy view on risk appetite. The underlying cost of risk is at 53 basis points, improving from 58 basis points last year (after adjusting for a fraud event in Brazil). We remain cautiously optimistic as we close the fourth quarter of 2023 and enter 2024. Our business volumes, income and net profits are diversified, and we're not experiencing any significant headwinds from the ongoing high interest rate environment and geopolitical uncertainty. We will, of course, remain prudent and vigilant to ensure the cost of risk is carefully controlled.

Our balance sheet is strong and our capital levels are robust. All capital ratios are well above regulatory minimums. CAR at 16.5%, Tier 1 ratio 15.4%, Core Tier 1 at 13.7%. We are conscious that maintaining strong capital ratios as we grow is paramount to the ongoing confidence in ABC's balance sheet.

The same applies on our liquidity and funding. We maintain a liquid balance sheet with most of the book positioned to be maturing within the one-year period. Loans are around 40% of total assets. Although our lending growth has been a bit challenged in the first part of the year, we see a strong pipeline and expect loan growth to pick up in the last quarter of 2023. From an overall liquidity and funding perspective, LCR and NSFR ratios are at good levels, 247% and 122%, respectively.

Overall, our financial performance is excellent so far in 2023, with both a strong P&L and robust balance sheet, and we're set for another strong year in 2024. I'll now hand back to our Group CEO to provide closing remarks.

Sael Al Waary (Bank ABC Group CEO):

Thank you very much, Brendon. In summary, we are very pleased with our strong performance during 2023, which has been a record-breaking year for Bank ABC Group. As I said earlier, our refreshed strategy for the coming cycle is focused on accelerating our growth and performance, delivering better returns to our shareholders, and being MENA's International Bank of the Future.

Our net profit for the nine months surged by 61% to \$183 million translating into an ROE of 5.9%. Total operating income is strong, growing 19% year-on-year, as explained by Brendon. We expect this strong momentum to continue during 2024.

Our cost-to-income ratio has improved by 3%, which is due to the 7% revenue / cost jaws.

Cost of risk is well maintained, and our ECLs and overall cost of risk is better year-on-year. We are prudent in our risk management and provisions across our businesses. The Group will continue to maintain a strong balance sheet, and strong liquidity to allow us to grow.

At the same time, we remain cautious as I mentioned at the outset, particularly with the geopolitical situation, which hopefully will not affect our region adversely.

I will now hand over to Mahmood Abdulla from our Group Investor Relations Team to moderate the questions and answers sessions. Thank you all.

Mahmood Abdulla (Bank ABC Group Investor Relations):

Thank you Mr. Al Waary. We have received a number of questions in advance of the call and during the call, so we will try to go through as much of them as possible. If we could start off with discussing the economic outlook for Egypt and how the merger of Bank ABC Egypt and BLOM Bank Egypt is progressing.

Sael Al Waary (Bank ABC Group CEO):

Thank you, Mahmood and thank you for those who have asked questions.

Egypt is a very strategic and important market for us. Before the acquisition, we were subscale (ranked ~33 in the market in Egypt) in terms of assets and profitability. After the acquisition, the Combined Bank is much more sizeable meaning we are better able to compete in this core MENA market for the Group.

Egypt is a very important and strategic market. If you look at the population of Egypt today, it is over 100 million, and we've been present in Egypt for decades. We acknowledge the challenging conditions in Egypt, and understand the pressure of currency devaluation. We also understand the risk, but we have a very solid franchise in Egypt.

I can also report to our shareholders that we are extremely comfortable with the way our Egypt operation is running. The integration is going extremely smoothly, and we expect by Q1 2024 that the integration and business migration will be completed. The merger of our two banks in Egypt is a precedent for Banking mergers in Egypt, and is being used as a case study across the country.

Brendon Hopkins (Bank ABC Group CFO):

I'll also add a couple of points here. From a financial perspective, the performance in Egypt has held up very well on an underlying basis. We see good pickup in business as well as the high interest rate environment helping us. We are pretty much keeping our profitability in Egypt at a very good level on a dollar basis, taking into account the devaluation pressures so far. That amounts to great performance from the local team in Egypt, certainly notwithstanding the currency pressures.

Mahmood Abdulla (Bank ABC Group Investor Relations):

What is the effect and the impact of the geopolitical crises that are taking place on Bank ABC and our different units?

Sael Al Waary (Bank ABC Group CEO):

The geopolitical situation in the region and mainly the Gaza crisis might not have specific transaction or business ramifications on the Group. However, it affects morale and our various communities. As bankers, our duty is to protect our shareholders and the bank's integrity. We are evaluating these challenges carefully, assessing the impact on our business growth, pipeline, and stress testing our portfolio. We are also looking at our liquidity on a daily basis. For example, I was in Egypt two days ago, and we have stress tested our portfolio in Egypt. We have also stress tested our portfolio in Jordan, and have an agile and dynamic way to deal with crises.

Mahmood Abdulla (Bank ABC Group Investor Relations):

Moving on to specific aspects of our financial performance, there is a question on the main factors that underpin loan and income growth during the first nine months of 2023, and what is the outlook for income and ROE going forward.

Sael Al Waary (Bank ABC Group CEO):

I'll give the details to Brendon, but our loan growth has been within targets, and Total Operating Income growth has also been robust. Brendon will provide further details.

Brendon Hopkins (Bank ABC Group CFO):

Our loans have grown on an average basis, period on period, so although headline numbers are somewhat flat, when we look at year-on-year comparisons on an average basis, we are actually up 5% period on period. As we were saying earlier, it's growth in the core business across the Group.

We've seen growth, as I mentioned, across all of our markets, certainly on an underlying basis, including our MENA markets, Europe, North America, as well as in the GCC region. So that's been one aspect of driving the revenue increase, which, as I mentioned earlier, was a 21% increase in the net interest income and our net interest margin improving up to 2.6%. In terms of outlook, we are in a good position. We do have demand, and although we have not seen much growth this year on a headline basis, we have a strong business pipeline and expect to see loans pick up in Q4 2023 and heading into 2024. We do not give forward guidance on ROE or earnings targets, but obviously the trends this year are strong and we hope to keep those trends moving positively in the future as we progress through 2024.

Mahmood Abdulla (Bank ABC Group Investor Relations):

What is our approach to proactively preventing financial crime incidents that have happened in the past from recurring in the future?

Sael Al Waary (Bank ABC Group CEO):

That's a very good question. I am sure shareholders will remember the NMC case in 2020-2021. The Board of Directors and the Board Risk Committee, together with Executive management have put robust governance around this. Banks cannot entirely detect fraud, and sometimes even external auditors cannot detect fraud, and we have seen this with NMC in the past. We have therefore strengthened governance around lending. In terms of the Americanas case in Brazil, this is one of the top ranked companies in Brazil that had certain irregularities. Having said that, we have developed an action plan and will continue to strengthen our measures to avoid fraudulent transactions.

Brendon Hopkins (Bank ABC Group CFO):

The Group CEO has covered the main aspects of managing fraud and difficulties in detecting. Many banks in the region have faced these issues. Once there is a deliberate attempt to perpetrate a fraud on auditors and banks it is then very hard to detect. But clearly we try to do all we can to try and detect those things. On Americanas, they've now entered into a restructuring. We have taken a total provision of 70% on this, and believe this is sufficient given the ongoing restructuring.

Mahmood Abdulla (Bank ABC Group Investor Relations):

We'll take this final question around the subject of Sustainability. There is the ESG guide that has been published by Bahrain Bourse with a number of factors. The audience wants to know what we are doing to adhere to this, and any plans around enhancing Sustainability disclosures going forward.

Sael Al Waary (Bank ABC Group CEO):

This is important. As I've said earlier, Sustainability and enhanced disclosure is integrated into our strategy going forward. We have disclosed, as part of our 2022 annual report, around a number of the factors in question. This year, we will enhance our disclosure. As you are probably aware, the Central Bank of Bahrain has released a consultation paper and Bank ABC led the drive for higher disclosure. We submitted our comments and sat with the Central Bank of Bahrain and gave them our views, benefiting from our experience in countries where we operate where enhanced ESG disclosures are in place (such as the United Kingdom and Singapore).

This brings me to the conclusion of today's Earnings Investor Call. Thank you very much for those people that showed their interest and attended, with special thanks to our shareholders and staff. I want to thank Bank ABC's staff and my management team for their unwavering commitment in delivering these excellent results. I congratulate the team, Group Mancom, the Global Leadership Team for the support and hope we will share with you stronger results and performance during our next call. Thank you very much and God bless.



Additional Questions

Further questions submitted following the Earnings Investor Call:

Question	Answer
<p>Please provide the breakup of the ECL provision (both individual and collective basis) charged in 9M 2023 relating to Americanas Company in Brazil. Please also provide some colour as to how this occurred and what are the chances of recovery?</p>	<ul style="list-style-type: none"> <li data-bbox="689 475 2101 595">/ This was an apparent accounting irregularity (possible fraud) that developed in early 2023 before the Group’s financial statements for 2022 were published. In consultation with our auditors, the Group has taken provisions in 2022 and 2023 <li data-bbox="689 603 2101 722">/ Americanas is a large operating retailer in Brazil generating significant cash flow. There are positive signs that the shareholders will put additional money into the company, which is under discussion by the banks <li data-bbox="689 730 2101 850">/ However, taking into consideration the potential downside risks, the Group has now provided in total for ~\$36m in 9M 2023. Overall, we have an adequate provision coverage of 70% of the total outstanding amount
<p>Please provide some colour (average YTM, duration, credit rating, Bahrain sovereign vs. other split) on the type of non-trading investments deployed between FY 2022 and 9M 2023.</p>	<ul style="list-style-type: none"> <li data-bbox="689 938 2101 1010">/ The Group continues to invest in high quality investment grade assets of sovereigns, local governments, PSE’s and select corporates <li data-bbox="689 1018 2101 1090">/ We are comfortable with the all the names in our Group securities portfolio and the weighted average ratings are a strong reflection of the high proportion of HQLA in our books <li data-bbox="689 1098 2101 1169">/ Significant portion of the Group’s securities portfolio are deployed in local HQLA qualifying sovereign T bills / Bonds <li data-bbox="689 1177 2101 1281">/ Please refer to note 4 of the quarterly financial statements and to the Investor Presentation for publicly available information on non-trading investments

More than half of the assets are maturing within 12 months. On maturity, are you looking to deploy more into loans or of marketable securities? Which is the better avenue to deploy on a relative basis?

- / We see strong business pipelines and performance continuing during Q4 2023 and 2024, particularly in our corporate client business. As the balance sheet grows overall, we would also expect to see the securities portfolio scale proportionately in line with our strategy
- / We continue to assess the avenues for deployment of our book, with a strong business pipeline expected for 2024 and will remain dynamic in our asset allocation

Please provide some colour on the NIM outlook on MENA subsidiaries and Brazil for FY 23 and FY 24.

- / The impact of rising rates did have a favorable impact on the Group's Interest margins, and we also maintained strong average volume growth across all geographies
- / On an overall basis, the Net Interest Income grew by 21% to reach \$ 685m during the first 9 months of 2023, driven largely by core business growth and the impact of higher interest rates
- / Given the inflation outlook, rates are projected to remain elevated during the first half of 2024 and we expect a continuing positive impact from rates and volume growth in higher return markets to feed through our outlook for 2023 and 2024 results