



Bank ABC
YTD 30 September 2024
Earnings Investor Call Transcript

Wasif Naeem (Moderator):

Good afternoon, ladies and gentlemen, and valued investors. Thank you very much for tuning into Bank ABC Group's year-to-date 30 September 2024 Earnings Investors Call.

With us today are Brendon Hopkins, the Group CFO, Suresh Padmanabhan, the Group Head of Finance and Fatema Al Khan from Group Corporate Communications. I'm Wasif Naeem from Group Strategy and I will be moderating today's session

Shortly, Mr. Hopkins will commence this session with a presentation on the Bank's financial results and recent achievements. Subsequently, we will be answering questions received ahead of the session.

You are also welcome to submit questions via the questions feature in this webinar, and we will do our best to answer them within the allocated time.

Before Brendon kicks off the session, here is a short video showcasing the Group's key performance and strategic highlights in 2024 so far.

[Click here to access the YTD 30 September 2024 highlights video.](#)

Over to you, Brendon.

Brendon Hopkins (Bank ABC Group CFO):

Thank you, Wasif, and thank you all for joining our Investors call for the period ended 30th September 2024.

I am pleased to say it's been an excellent year so far, with strong execution of our strategy that's continuing the momentum of our financial performance.

We witnessed strong revenue momentum surpassing the 1 billion dollar mark for the first time at the 9 month stage a 6% growth year-on-year. This has led to a very good increase in our net profit, up 17% to reach US\$ 215 million and pleasingly translates into an annualised Return on Equity (ROE) of 7%, up almost 1% year-on-year.

Underpinning this, our emphasis on our strong balance sheet is maintained. All our capital and liquidity metrics are at robust levels, which underpin our growth momentum.

Now let me take you through our strategy and business highlights for the first nine months.

As we've outlined in our previous investor calls, our refreshed strategy is aimed at accelerating growth and delivering higher returns to our shareholders. We have 3 main pillars of our strategy:

- / To **accelerate our core businesses**, Wholesale Banking, Treasury, Retail and Brazilian operations - Banco ABC Brasil
- / A second key pillar is to **maximise the value of our digital units** –our industry leading mobile-only digital bank, ila, and our leading regional Fintech payments provider, AFS.
- / As a third pillar of strategy, we have an objective to **strengthen our operating model**, including our IT infrastructure our culture, and many other aspects to boost our performance.

By achieving this strategy, we aim to strengthen our position as **MENA's International Bank of the Future**.

So far, this year we've continued the strong momentum in executing our transformation roadmap. This resulted in the delivery of a number of our strategic milestones.

We've launched a new retail digital app in more units across the ABC network.

We've rolled out multiple enhancements to our Wholesale Banking digital platform which greatly benefits our corporate clients.

We're progressing well on the Bank's new core banking system implementation. This is going to enhance our data architecture, which positions the Group well on its journey to harness advanced AI techniques into our banking platform, also leveraging our award-winning innovation and digitisation center, ABC labs.

On other aspects of our operating model:

We published our first Group Sustainability Disclosures Report reinforcing the Bank's firm support for the transition to a more sustainable low carbon economy.

And we're also embedding our strategic framework through strategic KPI's that prioritise the delivery of each initiative. This will accelerate progress towards generating greater value for all our stakeholders.

Reflecting on our historic strengths and focusing on the accelerated digitisation of our Wholesale Bank, Bank ABC continues to receive multiple new awards.

Since our last update, Bank ABC has been recognised as the Best Bank for Transaction Banking in the Middle East by The Banker - Financial Times. The Banker also recognised Bank ABC as the Best Bank for Innovation in Digital Banking in the Middle East.

These are fantastic awards, and this means that 2024 has so far brought an unprecedented number of over 25 awards, truly signifying the strength of the Group's brand and capabilities.

And these are across leading financial publications, including Global Finance, Global Trade Review, Euromoney and The Banker.

All of these recognise our distinguished Wholesale Banking capabilities, including Trade Finance, Cash Management, cross-border payments, and Islamic Finance.

Our Retail Banking business continues to do extremely well. Particularly, ila Bank, our digital mobile-only bank, which won the 'Best Consumer Digital Bank in Bahrain' title for the 4th consecutive year, along with 6 other awards by Global Finance.

Our Islamic Finance capability is also gaining recognition, with Bank ABC Islamic being named the 'Best Islamic Financial institution in Bahrain' in 2024 by Global Finance for the second year in a row and the 'Best Islamic Bank in Bahrain' by Islamic Finance News (IFN).

As well as this, we received multiple awards for our roles in landmark Debt Capital Markets (DCM) deals as Joint Lead Manager (JLM) and Bookrunner, attesting to our increasingly strong Capital Markets capabilities.

So that's a snapshot on our strategic and business progress. We will give a much more detailed update when we present the full year results in February.

Let me now turn to the Bank's excellent financial performance.

For the nine months to September, our top line growth has been strong across the franchise. Most of our markets and business lines have contributed positively to the year-on-year revenue growth. As we've talked about before, our income generation is diversified across our franchise.

Our MENA subsidiaries contribution is around 20%, International Wholesale and Treasury together about 30%, Brazil around 35% and another 20% from other income, including our digital units, ila and AFS.

Net interest income grew to US\$ 692 million, supported by the increase in loan volumes, which were up by 3% compared to yearend 2023, after absorbing some currency depreciation.

Our net interest margins remain positive at 2.7%, and our other operating income grew by an exceptional 20% to US\$ 310 million reflecting increased cross-selling and ancillary fee income.

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Turning to our efficiency metrics, the bank continues to improve its cost to income ratio. The group experienced positive jaws of 3% year-to-date with a revenue growth of 6% outstripping the cost growth of 3%. So, our cost-to-income ratios improved by almost 2% to 56.7% on a headline basis.

And when we adjust for the digital investments and investments into our digital units, the cost to income ratio stands at around 51.7%.

So, as we continue to enforce cost discipline across the Group, we're not compromising on investments into the Group's transformation and strategic initiatives.

We continue to invest into digitising our Wholesale Banking and Retail Banking businesses and upgrading our core banking infrastructure to build our roadmap for AI capabilities.

Turning to the cost of risk, our business growth is also being prudently managed by our robust risk appetite and risk frameworks.

Our cost of risk showed an improving trend at 69 basis points on a headline basis. We remain cautious on the outlook for the remainder of 2024, given the regional uncertainties. However, our business volumes, income, and net profits are diversified, and so far, we're not experiencing any headwinds from the interest rate environment and geopolitical pressures.

On the balance sheet, our emphasis on maintaining a strong balance sheet remains paramount to the Group. Our capital and liquidity levels are robust, which support our future business growth aspirations.

All the ratios are well above the regulatory minimum, with the Total CAR at 15.3%, Tier 1 ratio at 14.2%, and our Core Equity at 12.5%.

And I'll also remind that our Shareholders have approved an AT1 issuance and we're certainly going to continue to maintain strong capital buffers to support our future growth.

On our funding, our balance sheet is well diversified and liquid. Total assets were at US\$ 46 billion as of Sept. 2024. We continue to actively manage the tenor of our book. With more than 60% of total assets maturing within 12 months, loans were up 3% since the year end on a headline basis.

And this is after absorbing some currency depreciation in both Brazilian real (BRL) and Egyptian pound (EGP). Loans comprise more than 40% of Total Assets, equivalent to giving us a loan deposit ratio of around 85%.

Our liquidity and funding also remain stable and strong. Our LCR and NSFR ratios are at healthy levels of 183% and 119% respectively.

And we'll continue to actively manage and prioritise our liquidity and funding as we seek to grow the bank.

So, in summary, we're extremely pleased with our record year to date performance. It demonstrates that delivery of our refreshed group strategy is well underway.

Our revenues have surpassed 1 billion dollars for the 1st time at the 9-month stage. Our underlying business growth is strong and operating costs and cost of risk are well controlled.

All of this has led to the net profit growth. 17% year on year up to 215 million dollars an improvement in roe to 7%, almost 1% year on year.

Our balance sheet remains strong, and looking ahead to the final quarter, we expect momentum to continue and are hopeful of an overall record year of performance for the Group.

So that concludes the presentation, I'll hand back to Wasif, who moderates our Q&A session.

Wasif Naeem (Moderator):

Thank you very much, Brendon for the informative presentation and congratulations to all the teams across our global network on the delivery of these outstanding results.

 *Q & A Segment*

We will now be answering some questions received ahead of the session. And we start with the first question to you, Brendon.

What are the drivers of revenue growth and expectations of interest rate impact for the year 2024 and going into 2025?

Brendon Hopkins (Bank ABC Group CFO):

So, as I've mentioned earlier, 2024 has been a record year so far on our revenues, which surpassed the US 1 billion mark for the first time by September, growing by 6%, with our operating income particularly strong at 20% year on year.

There's obviously a number of drivers behind that and I'll just pick out three in particular.

First, we've been growing our core businesses with a strong deal pipeline across the franchise being underpinned by our new-to-bank client acquisition and increased cross sell.

Second, we've had a strong increase in our fee-based businesses, or what we would term, our capital light product revenues. For example, increasing our capital markets, syndications, our trade businesses, our cash businesses and our retail businesses.

And this is leading to a better fee, based and higher returning business across the Group's franchise.

Third, on our digital units, we see very good revenue growth in both ila Bank and AFS. They both had a strong year for business growth, leading to a good contribution to the Group's overall revenues.

On the second part of that question, which is on interest rates, obviously the interest rate cycle is beginning to turn.

As we anticipated during the year, on US dollar rates, we've seen 2 rate cuts. So far this year 75 basis points total. We do expect the path of rate cuts to continue. But interestingly, the US Election may, we believe, slow the pace of interest rate cuts somewhat during 2025. If the new US Government's policies prove to be inflationary, we'll have to wait and see on that. Obviously, the path in MENA, for the pegged currencies, tends to follow the US Dollar rates so well.

We do anticipate our core business to keep growing. And we're hopeful that 2025 will be another year of overall growth for the Group, outstripping any negative impact from an interest rate cutting environment.

Wasif Naeem (Moderator):

The second question that came in asks:

What are the expectations for the performance of the Bank for the full year 2024?

Brendon Hopkins (Bank ABC Group CFO):

Well, we've had a very good 9 months, as I've said a number of times, and so we're very pleased about that. We're now obviously into November, so we have a view on how the rest of the year is trending. We are anticipating that the revenue momentum will continue.

We've got a good control on the Group's cost base. So far as I mentioned earlier, our cost of risk is well controlled, so things continue to trend in a similar direction. We'll hope for an overall record year for the Group in 2024 and establish some good momentum as we head into 2025. I'm not going to give a forecast but the signs are certainly positive for one of the best years, if not the best year in the Bank's history.

Wasif Naeem (Moderator):

The next question asks:

What is the implication of the newly announced Tax regime in Bahrain on Bank ABC?

Brendon Hopkins (Bank ABC Group CFO):

Again, a topical question. The new tax regime, the domestic minimum top up tax is a new regime and 15% rate of tax for certain companies.

Bank ABC is one of the largest companies in Bahrain. A large MNE, with multinational operations, is in the scope of the tax and whilst it will apply to the Group, it will only effectively apply onto the Group's Bahrain based profits.

We have a lot of business substance in Bahrain, and I'm not going to give too much forecast before we've got into the detail. But we do anticipate that there'll be a good net position for the Group and the overall impact on the Group's results for 2025 won't be very material.

Wasif Naeem (Moderator):

One last question we have received in advance is asking:

Given the recent capital increase in AFS by Bank. ABC, how does Bank ABC view AFS' financial outlook?

Brendon Hopkins (Bank ABC Group CFO):

Well, as I mentioned earlier, AFS is within one of the key pillars of the Group's strategy. Our second pillar to 'maximize the digital value of our digital units' and I think AFS is in a very strong growth mode.

There's a lot of investment needed. And we're anticipating seeing some good results out of that. Suresh is close to AFS and I'll ask him to give a perspective on this as well.

Suresh Padmanabhan (Head of Group Finance)

Thank you, Brendon. Indeed, as you mentioned, AFS is a strategic investment for the Group. A key pillar of our Group's digital strategy is to maximize long term value of AFS. The payments industry is unique, very dynamic and capital intensive industry, operates on large transaction volumes to unlock scale and profitability.

The capital injection was done on the back of a clear strategy and execution capabilities, and it has been steadily progressing, also outperforming its strategic plans.

Most recently they have launched their UAE operations under a license from Central Bank of UAE. The Group is very confident in this turnaround story that it will unlock significant value for the shareholders as the strategy continues to deliver.

Question

There is one more question which has come in live. There has been a change in the Central Bank of Libya, on the management as well as the Board. How could this have an implication on the Bank's strategy?

Brendon Hopkins (Bank ABC Group CFO):

The Bank remains very strong in its links with Libya. Our strategy is still constant. We haven't had any change to the strategy and the Board remains exactly the same as it was. Any subsequent changes will obviously be communicated in accordance with due process and in the fullness of time.

Wasif Naeem (Moderator):

Thank you, Brendon. Thank you, Suresh. Thank you everyone. With this, our session comes to an end.

Thank you once again for taking the time to join us for this session. For any further questions, please feel free to reach out to our Corporate Communications team or our Group Investor Relations team at any time.

Thank you very much, everyone, and see you next time.