



BBK 2ND QUARTER, 2025 INVESTORS' CONFERENCE CALL

Audio Transcript

Sumaya (SICO):

Good afternoon everyone. I would like to welcome you all to BBK's second quarter of 2025 conference call. By now you would have all received the financials and the press release. Do note the presentation of today will be available after the call and published on the company's website as well as Bahrain Bourse. And with that I would hand the floor to Mr. Yasser Alsharifi to start the presentation.

Yasser Alsharifi:

Good afternoon everyone. Welcome to our investor call covering the bank's performance for the second quarter of the year. We will start off with key items of corporate and strategic developments. Obviously, a key item is our ongoing discussions with NBB which you see from our regular updates to the market.

We are also delighted to share with you the news that we have received the regulatory approval from the Central Bank of Bahrain for having completed the notice for approving the acquisition of HSBC portfolio. We are very excited about this opportunity and we are ready to welcome the HSBC team that will be integrated within ours and collectively looking forward to welcoming the customers across.

And we will continue to have press releases and communications going out as we progress towards a full transfer and integration later in the year. We managed to not only roll over the \$250 million club term loan facility that we had previously, we managed to upsize that to \$500 million and extend the tenor to three years from two with competitive pricing and expanding the number of banks that participated in that. I think that all shows the strength of the Bank and the belief of the wider industry and a testimony that our plans are going forward in our commitment to meeting the expectations of our customers.

We decided to upsize our prizes pool for Al Hayrat to BD 5 million, the largest in the country and expanding the number of winners for the coming 12 months. So that seems to be in progress moving forward and you know, a lot more to watch in this space as we roll out our social media and other campaigns to be able to attract new and old customers to this fantastic opportunity. Our rating has been reaffirmed by our agencies. Obviously there is a lot more that we have done over the last six months in continuation of our budget and our plan for 2025.

In terms of governance, we obviously work closely with our Board and various stakeholders, led by our Corporate Secretary Ahmed AbdulQudoos and continuously looking at how we can improve the overall governance structure at the board level.

A 360-performance review was done. We have looked at embedding new technologies like AI features onto the board setup for their benefit. And obviously one of the key committees for which we have reviewed the terms of reference, has been our Mergers and Acquisitions committee, which has been quite active and supporting the management's efforts and the inorganic ambitions of the Bank. And the investor relations platform has been enhanced with additional and updated information.

Ahmed AbdulQudoos:

I just want to add on this, we are honored to have all the investors on this call. And regarding investor relations platform, we have done a lot of enhancement to that, a lot of disclosures, coverage of shares, share price and other things. And we promise our investors to even enhance it further. And we would like to hear the feedback of the investors through our website. And thank you all for joining.

Mohamed Khadem Alaali:

On the sustainability front, we have five pillars for our sustainability. The first one is robust governance which is already covered, but from a responsible and responsive employer, we have successfully finalized the Bahrainization of some of the senior executive roles. We have established two way communication between the management and the staff through structured town halls. And we have launched Bank Wide well Being initiative, big drive from the management around employee engagement and culture and driving the talent management agenda for driving performance of the employees.

We have also launched the Grow Internship program, a signature program that the bank is proud to graduate high performing employees into the organization. From a customer perspective, we are in the process of conducting countrywide research on brand perception and understanding of our different segmentations and the needs of these customers in order for us to better understand and meet the needs of different segments on our customer base. And then we have also launched a project called the BBK Way. And this project aims to define our service principles and enhance the customer experience across all different channels by redesigning all the customer journeys.

We have also launched an initiative to enhance the UI UX of all our digital channels to ensure that our channels are easy to use and smooth and up to the expectations and in line with the BBK Way principles. From a social responsibility perspective, a lot has been done. A few highlights, we have committed to the ICU expansion of the Royal Medical Services BDF, with a BD 2 million donation.

We have commenced the work on the BBK Health center in Galali and conducted multiple social volunteering events such as the blood donation and our sponsorship for the National Forum towards Inclusive and Sustainable Economic Development the Shura Council and the Parliament. And we have continued our support for the Crown Prince International Scholarship Program along many other sponsorship and donations. From a climate perspective, there is a big focus from the Bank from a sustainability perspective on climate. Our objective is to help reduce our emissions and also help support the country's objectives in a net zero emission economy. So, we are working with Standard Chartered Bank and launching and formulating our Sustainable Finance Framework which is aiming to be launched before October 2025.

This will help us report on our books, both liabilities and assets, how much of it is sustainable and that will help us track our performance against our targets. We have also wrapped up the \$500 million club loan with a sustainability linked provision that will help us also renew our commitment and show our commitment towards sustainability. Linking that to the Sustainable Finance Framework would be basically a good win for us. We are engaging with suppliers to replace energy inefficient ACs that are ozone depleting. We have about 12 of these.

We are also looking at installation of solar panels for our branches as part of our decarbonization plan which aims at reducing our carbon emissions by 30% by 2030. And we are looking at few other initiatives around climate to help us achieve our objectives. Thank you.

Mohammed Abdulla:

Looking at the financial performance, the Bank has delivered a solid performance year to date with a good growth year over year. If we look into the second quarter's performance, the bank have reported BD 17.5 million net profit attributable to the owners of the Bank which represents 8% year on year growth, with the fees and other income being higher by around 16% and lower provisioning by 53%. The net interest income has slightly dropped below last year by around 5%, obviously due to the interest rate cuts that have happened in the last quarter of 2024. The decline in the net interest income is considered moderate considering the size of balance sheet of the Bank.

Operating expense has grown over the same period of last year by 9% mainly because of the investment in our human capital and various strategic initiatives, along with some timing difference.

If we move to half yearly performance, the bank have reported a BD 38.6 million net profit, 6% higher than the same period of last year. The net interest income stood at a solid level of BD 58.7 million, while the Other income (being FX, fees and investment income) increased to BD 21.7 million, a robust growth of 35% year on year. The operating costs have grown only by around 6% year on year, showing a prudent control of the operating expenses, while the net provisioning dropped by 38% compared to last, due to the prudent risk management.

Moving to the balance sheet, we have closed the quarter with total assets of around BD 4.3 billion, representing a growth of 2% year to date. This was led by a solid growth in our loan portfolio of around 14% to stand at BD 2.0 billion compared to the previous year-end of BD 1.8 billion. Customer deposits declined slightly year to date mainly due to balance sheet optimization and non-rollover of expensive deposits.

On the equity side, the Bank is maintaining a healthy level of equity at BD 612 million.

Moving to the key performance indicators, the return on average equity was very sound at 12.6%, an improvement over last year, which was 11.7%. Return on average assets was also healthy at 1.8% while the earning per share have improved from 20 fils to 21 fils a 5% growth. The operating expense to income ratio remains at a healthy level of 44.4%, relatively in line with last year. The specific provisions coverage ratio has improved from 65.1% to 69.0% mainly due to restructuring certain accounts and provisions that were provided. The ECL stage 1 and 2 remains at 1.2% healthy level and gross NPL has improved from 4.2% as of December 2024 to 3.9% as of June 2025.

The capital adequacy stood at a comfortable level of 22.6%. The bank strategy was to utilize the excess capital through deployment in profitable and core assets, as shown by the growth in loans investments.

The liquidity ratios (NSFR and LCR) remained at very comfortable levels of 130.6% and 236.1%, respectively.

As a result, the board has resolved for an interim cash dividend of 12.5 fils subject to regulatory approvals. Thank you.

Yasser Alsharifi:

If I could just add, in conclusion, as you can see from the results, the bank has continued to perform quite well and in line with our plan. If you recall, we put together a new strategic plan for the bank for 2025-2027 that was built on several pillars, at the core of which was customer obsession and customer centricity enabled by engaged people through a platform in innovation and technology. And we're happy to report that we are well on track with regards to this. Some of you may question the movement and the overall NIMs, but that was expected considering the overall environment in the market where the rates have remained high, so the overall cost of deposits and funding remains higher than it has been in the past.

However, what we're comfortable with as a management team is that we have taken action to make the business more resilient going forward. So, as the rate cuts come through, we'll benefit not only on the NIM side, but the overall lower sensitivity to any movements that are anticipated going forward.

The deployment of the capital was again in line, utilizing the excess liquidity that the bank has had to book assets that again will support the growth and development of the business. And for the coming period, we expect a pickup on the fee income side based on several initiatives that we have been working on internally as a bank and hope to share with you when we have the next call.

And with all of this, I'm happy to also show that our overall ratios, whether it is returns or liquidity ratios or cost income, have remained quite helpful. Thank you all.

Sumaya (SICO):

Thank you Bu Zaid for the presentation and thanks to the rest of the BBK management team. I would like to welcome your questions. Feel free to type them in the chat or raise your hand if you wish to ask them verbally. With that, we will give a minute or two for everyone to log in their questions. Thank you very much.

Yasser Alsharifi:

Thank you for that question, Srinivas. Obviously, as BBK, we're quite fortunate to have a wide footprint being licensed in Bahrain, India, and Kuwait, but also actively engaged to our rep offices in Istanbul and Dubai and being able to identify opportunities. And as a bank with a 50 plus year history in the region, we also have booked assets and looked at opportunities whether they are for the loan book or the investment book and other territories including but not limited to Egypt, Oman and other markets.

And we believe that with that approach and geographical diversity so there's enough opportunity with the right mix of risk return, considering our funding base and our approach to be able to continue the growth trajectory for the coming three years.

Yasser Alsharifi:

Thank you Ali for the question related to the HSBC portfolio. Our objective is to have that integrated by year end and therefore the balance sheet impact you will probably see at the year-end but the PNL impact you will start to see follow through in 26 onwards. The second part of the question is what is the plan to maintain the spread going forward? Obviously, the same discipline that we bring as a management team in terms of managing the portfolio. The nature of the HSBC acquisition was dominated by a depository relationship with a smaller loan and credit card portfolio. Our objective is to utilize the excess liquidity in our growth plans and to be able to meet the expectations and needs of the customer base that we bring on board. We are very happy that we've mapped our products to be able to continue to service the customers at least the level they were expecting and better in the future.

Yasser Alsharifi:

obviously, the question about the NBB BBK merger I may have a privileged perspective considering that I work for NBB and BISB and now I am responsible for BBK in terms of the combined entities value and just briefly I will touch about some of the key points. So obviously what is usually talked about is the size so obviously the larger balance sheet, more resilient and ability to underwrite bigger risks but also participate in bigger transactions not only locally but regionally. The second item is obviously the licensing regime that we would benefit the complementary presence of the two banks BBK being in India and Kuwait and BBK being in Saudi and the UAE.

Obviously NBB today have a leading Islamic bank subsidiary that we would benefit from having within the group and we have the leading cards and payments business on the island and there are many other elements including synergies that could be driven from technology investments and capital expenditure and, most importantly in an ever dynamic world the ability to manage risks, invest in compliance, fraud and other related systems to protect our customers as we continue to develop and grow.

The cost of the acquisition of HSBC, and I am not sure if we're able to disclose but we were able to negotiate a good deal with the team at HSBC whereby there is a price adjustment mechanism depending on the closing balances of the portfolio and we're excited to share with you the news that we're confident that it is value accretive to our existing business and portfolio and fits in quite well with our ambitions to develop two key pillars that gives us that HSBC gives us a good platform to build on and number one is the expat portfolio.

We are a leading provider of quality banking services to the local community. We are now delighted to be able to do that for our expat community and secondly the private and wealth experience that is an ambition for BBK to continue to build on our existing offerings of Al Wajaha.

Sumaya (SICO):

We have some questions sent by email that I would like to share with the management. Finishing off with the HSBC question, there was another question raised on this, cash balances have decreased significantly in the second half, is that related to funding the HSBC transaction? Has it been cash funded?

Mohammed Abdulla:

This part of our strategy. We are trying to deploy our cash or excess liquidity into more sustainable assets and loans and investment to ensure that we are well positioned and prepared for further interest rate cuts and to minimize the impact of the interest rate cut as it comes. So no, it has nothing to do with HSBC and nothing to do with the funding HSBC.

Sumaya (SICO):

And in that case, could you share with us how was the HSBC transaction funded?

Mohammed Abdulla:

Still, it has not been funded, it will be arranged in due course. The bank is very much cash liquid. It should not be an issue for us to fund the transaction.

Sumaya (SICO):

Thank you, Bu Abdalla. The next question is relating to the corporate lending growth. There was an earlier question about it, I guess this is a follow-up. Which sector was driving this corporate lending? Or is it one single or a couple of single large tickets? And is this growth sustainable? Again, it was asked, but we could shed more light on this in the upcoming quarters.

- Yasser Alsharifi:** So, the growth has actually been in both Bahrain and regional. So, we've seen assets being booked locally, we have seen assets being booked in Turkey and Saudi Arabia, in India and in Kuwait. It is a diversified portfolio. So, it is not a single ticket or two or three large ticket transactions, but one of the notable ones was the solidarity acquisitions. And so sectoral allocations are diverse. There is a select growth within the real estate and contracting businesses, but all linked to high quality, long track record contractors and also projects that are strategic in nature in whatever territory we have looked at with quality A grade paymasters.
- Sumaya (SICO):** Thank you Bu Zaid. The second question again relates to lending and net interest income. We have not seen the robust lending growth reflected on net interest income where volume could compensate for pressure on the yields. Does this mean that BBK is going for volume at competitive rates?
- Yasser Alsharifi:** Great question. So obviously the volume has grown but as you know there's a timing mismatch. So, you'll begin to see the benefits of the asset growth flow through over the coming period and obviously as we manage the funding side on the depository side that improvement will also flow through. And as I mentioned part of our plan from the beginning was to reduce the sensitivity of the balance sheet to interest rate movements. So, some of the hedging decisions that we have made also have had an impact. But we're confident that all of these will show sustainable positive growth for the future.
- Mohammed Abdulla:** Another point to highlight, , with all the balance sheet restructuring that was done, interest income sensitivity dropped to around BD 5 million for every BD 100 basis points drop in interest rate. For a balance sheet size of BD 4.3 billion , which is considered a mild impact.
- Sumaya (SICO):** Thank you Bu Abdullah. Another question is related to deposits decline. What has driven that? And Bu Zaid mentioned earlier during the presentation that some expensive deposits have exited. What is your strategy going forward and what will be the impact of onboarding HSBC clients on your CASA contribution overall?

Yasser Alsharifi:

So, as Bu Abdulla had said earlier, it was a conscious decision to let go of some of the more expensive deposits that we had. Obviously, at the end of the day, we are responsible as a management team to deliver quality, sustainable results for the shareholders going forward. That, as you can see, is reflected in the asset growth. On one side, it's the more active and dynamic approach to our investment book that you've seen reflect in the results.

That is the unleashing of different fee income parts of our business where we had already made the investment and built the infrastructure to deliver those types of services for the clients and to match that, obviously the liability side, we have a plan that includes targets for all the key business lines. At the end of the day, we want to ensure that we have sticky low cost deposits. And as I'm sure all our competitors are trying to do, one example of our approach to be able to do that has been the revised scheme for Al Hayrat, plus other initiatives that you will see over the coming months and years.

So, we believe that by third and fourth quarter of this year you're going to see the impact of that flow through. The HSBC portfolio in particular addresses part of that because it's predominantly the deposit space, so that will be a net increase in our liquidity and cheap deposit base.

Sumaya (SICO):

Thank you Bu Zaid. I think there is a question online. Regarding the net provisions and credit losses which have declined between the second quarter of 2024 and second quarter of 2025. Does this reflect improved credit quality or has there been a shift in your traditionally conservative provisioning policy?

Yasser Alsharifi:

Not at all. Actually, as you saw during last year we decided to take significant provisions to ensure that we were reflecting the risk within the portfolio. As a team, we have remained vigilant and very close to our customer base, working with them during the challenging period to ensure that they overcome any crisis they may have. As you can see from the provisions taken up to the mid-year, we have not shied away from taking any that were required. It's also a reflection of our active management of this portfolio and therefore not a deviation from our approach to it.

Sumaya (SICO):

Follow up question is on cost to income ratio. It says it increased in the second quarter 2025, it is probably on the drivers of that increase.

Yasser Alsharifi:

Obviously, we continue to grow and develop as a business and we continue to invest. Right. And that investment takes different forms, whether its systems, technology, innovation and also our people. And we continue to watch the cost to income ratio as a management team and pace the deployment of both CAPEX and OPEX to match with revenue growth that we anticipate. So that ratio will remain, I think, competitive as we progress throughout this year. And we have a clear target for 26 and 27, which our shareholders or our board has also endorsed.

Sumaya (SICO):

I think with that, that wraps up the questions we have received. I would like to thank BBK's management and everyone who has attended the call for joining and would leave the last comments to you Bu Zaid.

Yasser Alsharifi:

Thank you very much. I think we are well aware of the competitive nature of our industry and some of the stresses or challenges that some of the clients are facing. We have full confidence in our leadership and the government and putting together these solutions which we are seeing come through, whether it's through infrastructure or key initiatives or the geopolitical relationships. We also want to thank the support of the central bank. We see a new approach in terms of their mandate to continue to stabilize and grow this important sector. And we as a BISB bank, continue to remain actively involved in staying apace with the opportunities that the central bank open up for us, whether it's with new sectors or the approach to regulations. I want to thank my management team that have worked tirelessly with me over the I'm close to completing a year with the bank and delivering these results and there's a lot more to come and hopefully you'll all join us in the next quarterly call for us to share with you some of the good news if you haven't picked it up in the wider media in the interim period. Thank you very much, thank you for your confidence and I hope to see you soon.

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