Bank ABC
H1 2025 Earnings Investor Call Transcript

Fatema Yusuf, Group Head of Corporate Communications

Good afternoon, ladies and gentlemen, and a warm welcome to our valued investors. Thank you for joining Bank ABC's H1 2025 Earnings Investors Call. Unfortunately, our Group CEO, Mr. Sael Al Waary, is unable to join us today due to unforeseen circumstances.

Our Group CFO, Mr. Brendon Hopkins, will be leading the session. Mr. Hopkins will take us through today's presentation and provide us with key insights into our strategic progress and our financial performance for the first half of this year.

Following the presentation, I'll be moderating the Q&A session, and you are, as always, very much welcome to submit your questions via the questions feature. We will do our best to answer as many as possible, including those submitted ahead of the call.

Before we begin, let us take a moment to watch a short video highlighting Bank ABC's strategic achievements and performance milestones in 2025 to date.

Click here to access the H1 30 June 2025 highlights video.

Over to you, Brendon.

Brendon Hopkins Group CFO

Thank you, Fatema. Good afternoon and thank you for joining Bank ABC's investors call.

Our presentation today will focus on the first half of 2025's financial results. Our strategy execution, sustainability progress, and the many industry awards won during the period.

And as Fatema mentioned, we'll conclude with a Q&A session to address your questions.

Summary of Financial Highlights

Let me begin with a summary of the Group's financial highlights. Our revenues reached US$672 million, with good underlying growth in our core businesses.

On an underlying basis, adjusting for constant foreign currency, this represents a 6% growth year on year. Net profit reached US$152 million. A headline, 1%, and an underlying 9% increase year-on-year. And this was on the back of good, revenue growth, cost discipline, and well-controlled ECL.

While total assets reached US$48 billion, our balance sheet remains strong. All capital and liquidity metrics are well above our regulatory requirements, enabling us to sustain our growth momentum. And this performance translates into an annualized ROE of 7.3%.

We're well placed to deliver another strong year of performance, and I'll expand on these excellent results later in the presentation.

Turning to our strategy, we continue to progress well on our execution plans. These reinforce our position as MENA's international bank of the future, delivering value creation and higher returns for our shareholders.

Strategic Progress

As you're aware, our strategy is underpinned by three key pillars. Accelerating our core businesses, maximizing the value of our digital units and strengthening our operating model.

On Pillar 1, accelerating our core businesses, we made excellent progress.

Wholesale Banking (WB) and Treasury maintained strong performance, despite market uncertainties. Islamic Finance maintained robust business activity, and in collaboration with Group Capital Markets, led a record number of security transactions, totaling around US$6.5 billion.

WB also launched a new portfolio management function, which will optimize returns on the credit and lending activities using origination, distribution, and other structuring techniques.

In Retail Banking, we witnessed resilient growth in our MENA markets and had a fantastic launch of our mobile banking app in Egypt, which gained excellent coverage across all media channels.

Banco ABC Brasil, BAB, also continued to deliver strong underlying growth, contributing to the Group's bottom line, and progressing their strategy of middle market corporate banking within Brazil.

On Pillar 2, our two digital units that are creating long-term shareholder value, ila and AFS, also had a great first half.
Within ila, we continued the process of carving out ila into a separate independent bank, which will create future accelerated growth and different financing options. The standout milestone was the historic partnership with the national carrier of Bahrain, Gulf Air, to launch the ila Gulf Air co-branded credit card.

And AFS continued with its accelerated growth of payments revenues. Another key achievement was the successful rollout of its merchant acquiring business in the UAE, after securing its license earlier this year.

On Pillar 3, we had many new activities to strengthen the Group's operating model. We further embedded a sustainability strategy, and I'll expand on this more shortly. We've established a data management function, which will strengthen our effective use of AI and data analytics. In innovation, we revamped our AI assistant Fatima, which will drive staff efficiency and productivity. And we've also progressed the Group's new IT and digital operating model, which will enhance our IT resources.

Also, to empower our people, we've launched several learning and development programs, such as a mentorship program, new training courses, programs for graduate training, and postgraduate studies. And all of this is underpinning Bank ABC's strong emphasis on innovation and staff engagement, which we believe are key to our Bank of the Future vision.

Returning to sustainability, we made considerable progress on our strategy and execution plans. We launched a three-year environmental reduction plan and are progressing on embedding ESG risk in the credit approval process.

New group ESG standards have been developed, and more resources have been hired across the Group. We also focus on measuring our Scope 3 financed emissions and continue with training programs for client-facing teams, as well as implementing actions to improve KPIs on Diversity, Equity, and Inclusion (DEI). And on ESG disclosures, we will shortly be issuing our second annual Group Sustainability Disclosures Report.

Industry Awards

Turning now to industry awards, Bank ABC continues to enhance its brand and reputation as an industry leader. And so far, 2025 has brought exceptional recognition, with over 20 excellent awards. In a major milestone, Bank ABC was named **MENA Cash Management Bank of the Year** by MEED. This underscores the strength of our new cash management platform, which is redefining our Wholesale Bank clients' experiences.

Our growing leadership in sustainable finance and digital innovation earned us the **Best Bank for Sustainable Finance** and the **Best Digital Bank in Bahrain** from Euromoney.

We were awarded 6 titles by Global Finance in Treasury and Cash Management, namely **Best Cross-Border Payment Solution in the Middle East, as well as in Africa**, **Best Bank for Long-Term Liquidity in Africa**, and **Best Bank for Cash Management in Bahrain and Tunisia.**

Moving on to our Islamic finance capabilities, Bank ABC Islamic won the **Best Sukuk House in Bahrain** at the Euromoney Islamic Finance Awards, and this continues to demonstrate ABC Islamic's innovation in Sharia-compliant solutions, such as Sukuk's and ESG structures.

And finally, on awards, it goes without saying that our digital mobile-only bank, ila, continued to make its mark in the region and beyond. ila was named **MENA Retail Bank of the Year by MEED** and awarded the **Best Digital Bank for Consumers** by Euromoney.

And these esteemed awards continue to reflect ila's remarkable evolution.

In a few short years, ila has gone from a startup digital disruptor to now being a leading retail mobile bank, which is recognized in Bahrain and across the region.

Overall, this remarkable industry recognition continues to enhance our position as **MENA's leading international bank of the future**. So that, concludes the view on our, strategy, sustainability, and awards.

Detailed Financial Results

Now more detail on the financial results, our performance has been resilient with good underlying growth for the first half.

The total operating income was US$672 million. On a headline basis, is around the same level as the first half last year, but on a constant currency basis, which factors in some depreciation of the Brazilian Real and Egyptian Pound. In particular, the underlying income would have been 6% higher. The underlying cost to income ratio remains stable.

So, we are continuing to see good, broad-based, underlying growth in our businesses on a local currency basis across our core markets. Our focus on our balance sheet strength continues, with the capital ratios at strong levels. Tier 1 ratio, for example, at 14.8%. And the overall net profit's improving by 1% headline to reach US$152 million, which would have been 9% growth on a constant currency basis and translates into an annualized ROE of 7.3%.

As I mentioned earlier, Revenues on a headline basis were broadly constant. Adjusting for the FX depreciation, 11% BRL and 18% EGP this would have been $713 million on a constant currency basis, which gives the 6% year-on-year underlying calculation.

The core business growth on a local currency basis was resilient and diversified. And the mix continues to be broadly stable with International Wholesale and Group Treasury together, about 34%. Banco ABC Brazil, also around 32%, and MENA subsidiaries, 20%. And the other income, which includes ila and AFS, at around 16%. Moving on to efficiency metrics Cost-income ratio. We continue to maintain a broadly stable level as we seek to manage costs effectively while prioritizing investment into digital capabilities at our units. On a headline basis, the CI ratio stood at 57.7%. Adjusted for constant FX the ratio was almost flat, at 56.7%.

On cost of risk, the business growth is being prudently managed by robust risk appetite and risk frameworks. The cost of risk showed an improving trend for this half at 46 basis points .

Our NPL ratio improved 50 basis points to 3.2%, and the coverage ratio was up 3% to 96%.

So, our credit risk management remains robust and effective, with, very few new problems affecting our book. And this is, pleasing notwithstanding, some considerable uncertainties in the region, which are also likely to be exacerbated by the US trade and tariff policies as they develop. However, our portfolio is diversified, and we're going to remain vigilant on credit outlook and our underwriting standards the second half of the year.

On the balance sheet, we seek to continue to maintain it at strong levels. Capital and liquidity levels are robust, supporting our future business growth. On capital, the total car is at 15.9%. The Tier 1 ratio at 14.8%, and the core equity Tier 1 at 13.0%

Funding and liquidity also remain well diversified. Total assets reached another record level of US$48 billion, as we continue to actively manage our balance sheet, with more than 60% of total assets, 61%, maturing within 12 months.

Our loans were up by 12% since the year end on a headline basis. And these, comprise more than 40% total assets, with a loan-to-deposit ratio of 86%. And finally, our LCR and NSFR continue to be at healthy levels of 177% and 121%, respectively.

Summary

In summary, we're extremely pleased with a resilient first-half performance, demonstrating that our strategy is successfully being executed.

Our underlying net profits on a constant currency basis showed a robust growth of 9% year-on-year, reaching US$152 million on a headline basis, giving an annualized ROE of 7.3%. But looking ahead to the second half of 2025, we've got a strong balance sheet position.

We expect business momentum to continue, and we're targeting another strong year of growth for the Group.

So, I'll now hand back to Fatema, who will be moderating the Q&A session.

Fatema Yusuf, Group Head of Corporate Communications

Thank you very much, Brendon, for the informative presentation, and congratulations to the Bank ABC team across our network on the delivery of these outstanding results.

Moving on to the Q&As we'll start with the first question that was inquiring about the Bank's, resilient H1 performance and the drivers behind our revenue.

Brendon Hopkins Group CFO

Thank you, Fatema. As I explained, we did have a resilient performance. I talked about the headline basis being broadly stable at around US$672 million.

And the FX devaluation in BRL and EGP, having some impact on this. We saw depreciation levels of 11% and 18%, respectively. It is important to factor that into comparison of underlying business performance and growth.

Because it's on a constant currency basis. The underlying revenue would have been, better at US$730 million, which would have been a 6% growth, and this currency translation effect is obviously dampening that view.

We do see a few factors driving this performance. We're still seeing good growth in the core business, with a good deal pipeline across the franchise, being underpinned by new-to-bank client acquisition. And the headline volume demonstrating our loan assets are up 12% from year-end levels.

On top of this, our digital units, ila and AFS, both continue to have good, strong revenue performance, which gives us confidence that their strategy is working, and that they will deliver value over the longer term.

And, generally across all our markets, we're also seeing some broad-based, growth and revenue performance. We are in a very good position for the second half, as long as we see this, deal pipeline and momentum continue.

Fatema Yusuf, Group Head of Corporate Communication

Thank you, Brendon. Next question is inquiring about the impact of the FX depreciation on the bank, and whether it's going to affect the bank's future growth capacity.

Brendon Hopkins, Group CFO

I will let Suresh explain from finance and accounting perspective.

Suresh Padmanbahan, Group Head of Finance

The nature of the Group being present in emerging markets and operating in the local markets means naturally the Group is exposed to the local currency fluctuations against the US dollar, which is the home currency of the Group.

However, we also need to recognize that the Group will benefit from the local market dynamics, such as interest rates, growth rates, higher margins and cost dynamics. They're all typically different compared to the US dollar markets. In our case, particularly, Brazil and Egypt are two units which have been relatively most exposed to FX fluctuations in the recent times.

Both units have strong underlying growth in the local currency and positively contribute to the Group's performance. As far as the future growth capacity is concerned, FX fluctuations have very limited bearing to growth in local markets, which are predominantly in local currency, therefore not particularly impacted by the FX volatility.

Compared to last year, BRL depreciated by approximately 11%, and Egyptian pound depreciated by 18%, which impacted the US dollar profits of the Group, reducing the strong underlying growth delivered in the local currency.

This is from a P&L point of view. Similarly, on the other comprehensive income, H1 2025 showed a slightly different dynamic, because BRL strengthened compared to the year end.

Fatema Yusuf, Group Head of Corporate Communications

Thank you, Suresh. And the third question is, forward-looking. What are the expectations on the performance of the Bank for the rest of the year 2025?

Brendon Hopkins Group CFO

Trends from the first half are robust, and they're trending quite well, given the uncertain macroeconomic environments. So, for the remainder of 2025, our expectations are positive for these to continue.

We have good business pipeline in our core business units, wholesale, treasury, retail, and BAB, and our digital units are also performing well.

ECL charge and cost of risk was also benign in the first half, reflecting a very good credit risk management and experience

So overall, we anticipate the revenue momentum continuing. It does depend a little bit on how we see booking in the second half, but we also will control our operating expenses and expect to see cost of risk under control.

So, we're cautiously optimistic for another year of solid revenues, good net profit, and ROE performance. We don't announce a formal net profit or ROE target, but we are confident that strategy is on track and will lead us to higher profits and better returns over time.

This will also allow us to keep increasing our dividends to shareholders as profits increase.

Fatema Yusuf, Group Head of Corporate Communications

Thank you, Brendon. There are a number of questions that came through the Q&A feature.

The first question reads as, despite no change in Stage 3 gross loans, the ECL allowance rose by 14.5%. What could be the underlying reasons for this increase in provisioning?

Brendon Hopkins Group CFO

The Bank's ECL numbers and the balance sheet side of that is subject to a number of movements in and out, as well as recoveries that are coming back into the book. So, that is a function of the way the book has been performing. As we said, we had a good experience in the first half.

We haven't seen any significant new problem accounts coming into the first half, and that is also one of the reasons why the ECL charge is much lower year on year.

We have had a good first half. It does reflect the Bank's strong credit and underwriting policies and effective risk management.

Fatema Yusuf, Group Head of Corporate Communications

Thank you, Brendon. The following question is inquiring about the net loans increasing by 11.7% and ECL allowances rising proportionately. What does this indicate about the Bank's balance between growth and prudence?

Brendon Hopkins Group CFO

I've already answered that in relation to the ECL. Part of the increase on the loan performance was currency, as we mentioned. We are maintaining robust underwriting standards.

That's been a long-standing feature of the Bank's credit underwriting standards, and we expect a good credit experience in the second half.

Fatema Yusuf, Group Head of Corporate Communications

Next question is about profits for the period remaining unchanged year on year. How can the Bank enhance bottom line growth given the current pressure on income and rising costs?

Brendon Hopkins Group CFO

Yeah, as I've highlighted in a number of, aspects of the presentation. Although, on a headline basis, we saw 1% net profit growth and a flat revenue performance, this was largely due to the impact of currencies.

In a more stable currency environment, we would have seen a good uplift year on year. It would have been much stronger as I mentioned, 6% on the revenue and on the profits at 9%.

So being in some of these markets, as Suresh is also mentioned, we do see a bit of currency fluctuation. If currencies remain stable, then we should see a better year-on-year performance on a headline basis.

We think the strategy is working, we're seeing good core, business growth in our markets. We are also entering in a slightly declining interest rate environment which will take bit of revenues out of the equation as well.

So, if we can show good underlying revenue growth year-on-year, stable currencies, then we'll see a much better headline performance, and you will see the dollar equivalent performance of the Bank improving.

Fatema Yusuf, Group Head of Corporate Communications

Thanks, Brendon. And the next question is inquiring about the credit loss expense dropping by 33%. Does this reflect genuine improvement in asset quality, or could it be due to changes in provisioning methodology?

Brendon Hopkins Group CFO

Like I mentioned, a good performance with good underwriting policies has led to the improvement. There's nothing in particular that changed in methodology which has led to that improvement.

Fatema Yusuf, Group Head of Corporate Communications

And the next question, I believe you've covered it in your earlier responses, but I'll just read it out if there are any points to add. The question is inquiring about the Bank's future strategy for expansion and growth.

Brendon Hopkins Group CFO

As outlined in the presentation, the strategy remains unchanged. We believe that the strategy will lead to good underlying growth at the Group, and we'll continue to pursue that strategy, with its three pillars, accelerating our core businesses, maximizing the value of our digital units, and strengthening our operating model.

We've run a number of initiatives successfully around that. We expect to have another strong year of financial performance, which will continue to demonstrate success of our strategy.

Fatema Yusuf, Group Head of Corporate Communications

And moving to the last question, it's inquiring about the second quarter performance only. Could the management please provide some color on Q2 results and key developments during this period to give a complete picture of the performance.

Brendon Hopkins Group CFO

We disclose second quarter in the press release. We do give some detail on that, and historically, we've typically focused on the year-to-date performance in these presentations. If there is a desire for a bit more detail and a quarter-by-quarter analysis, we can certainly bring that into the presentation on future quarters. I will let Suresh expand on the performance.

Suresh Padmanbahan, Group Head of Finance

Before we look at Q2 performance its important to note that our business does not go through major seasonality fluctuations quarter to quarter. Therefore, we always feel that it is appropriate to cover the year-to-date performance, which, in a way, covers both quarters combined.

But as you can see in our press release or the financial statements itself, our Q2 net profit was US$76 million, almost the same as Q1; and that was 1% higher compared to last year. Similarly, our total operating income which was also similar to Q1.

Q2 total operating income was US$340 million, which was similar to US$332 that was reported for Q1. So, in that sense, Q2, from a financial sense, will be broadly similar to Q1. This year, particularly, it was much closer to Q1. Any specific events which are useful to understand the Q2 performance were covered in our presentation.

Fatema Yusuf, Group Head of Corporate Communications

Thank you, Suresh. Thank you very much, Brendon. With this, we conclude our session for today. Thank you very much for those who have joined us. We remain very much available to answer any questions. If there are any points that you'd like to have further clarification on, feel free to reach out to our Investor Relations or Group Corporate Communications team.

Thank you very much, and we shall meet you next quarter.