

## Bank ABC Announces 2020 Results

**An increase in Loan Loss Provisions, largely related to unforeseeable major fraud cases and Covid-19 impact, created a Net Loss of US\$89 Million, Attributable to the Shareholders of the Parent**

**Strong Underlying Operating performance despite market factors resulted in underlying Net Operating Profit of \$282 million before provisions**

**Group progressing well on strategy with a landmark acquisition in Egypt, a core market and pursuing successfully its digital transformation journey.**

**Manama, Bahrain:** Bank ABC (Arab Banking Corporation B.S.C.) - Bahrain Bourse Trading Code "ABC" - today announces its results for the Year ended 31 December 2020. A year that was like no other, impacted by unprecedented and deeply challenging conditions.

The Group had a strong start to the year supported by a robust balance sheet, good client transaction pipeline and a clear plan for growth driven by our digital agenda and wholesale bank transformation. However, as the year progressed, our financial results were heavily impacted by the unique combination of COVID-19, collapse in oil prices and consequent economic and market pressures, together with the emergence of some major regional fraud cases, which significantly elevated Loan Loss Provisions to abnormally high levels.

ABC responded early to the pandemic, with measures to protect its staff, strengthen operational resilience, contain costs during Q1 2020 itself and at the same time continued to invest in strategic priorities.

ABC took its digital transformation, during the year, to new levels, completely changing the banking experience of its customers in Bahrain, with its world-class mobile-only digital bank, *ila*, significantly exceeding our expected growth targets. In addition, *ila* was awarded the Seamless Middle East 2020 award for Digital Banking Experience of the Year – 2020, and four Transform Middle East awards for its visual identity.

Likewise, the Group identified an opportunity during the crisis for inorganic growth in our core market Egypt, having some of the best fundamentals in terms of population and growth potential for banking services. After extensive due diligence and negotiations, Bank ABC entered into an agreement to acquire 99.4% stake in Blom Bank Egypt S.A.E., providing an excellent franchise addition and platform for growth.

Overall in 2020, the underlying\* business and client revenues held up well in all our markets of operation, achieving 91% of previous year levels, when normalised for hedging and adjusted for

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uncontrollable market factors, primarily depreciation of the Brazilian Real ~23% creating a significant translation impact on revenues from Banco ABC Brasil (BAB).

In response, extensive measures were taken on operating expenses to mitigate the reduction in revenues, so that on an underlying\* net operating profit basis, the Group achieved a net result of US\$282 million compared to US\$351 million in 2019.

However, a significant ECL charge of US\$329 million (FY 2019 US\$82 million), of which US\$183 million was the result of unforeseeable major client frauds in the region. The remainder of US\$146 million was elevated due to the pandemic and the forward-looking nature of IFRS9, representing a significant increase on previous year's levels, similar to the experience of other market players.

In summary, the ECL charge has led to the Group reporting a net loss of US\$89 million, and without the one-off fraud element the Group would have been in a net profit position of US\$94 million.

Expanding further on our underlying 2020 performance, Bank ABC has demonstrated resilience in a number of key areas:

- Our Global diversification has proven again of added value, with solid growth in the Americas, steady growth in MENA, compensating for the slower growth in our European markets.
- Client and transaction revenues have performed well, with total operating income levels averaging to around 94% of previous year comparatives across the Group units.
- Many key wholesale and retail banking clients have been provided with support measures such as payment deferrals extending across approximately US\$ 0.9 billion of our consolidated loan portfolio.
- Bank ABC's reputation and standing have allowed us to continue to act as a lead arranger in areas of Debt Capital Markets and Syndications on major conventional and Islamic financing transactions with approximately US\$23 billion of debt origination facilitated.
- Our payment and digital retail banking capabilities continue to expand, through our new digital, mobile-only Bank ila, which completed its first full year of operation in Q4 2020 showing exceptional customer numbers and deposits.
- Our overall asset portfolio quality remains solid, with sound credit underwriting standards, further confirmed by extensive client-level stress-testing reviews; The 'one-off' nature of client-related fraud impacting our ECL has been recognised by rating agencies reaffirming our most recent ratings with a Stable outlook.
- Bank ABC's balance sheet remains strong with excellent capital and liquidity levels, further bolstered by the retention of the 2019 dividend. Group Tier 1 ratio is 16.6% (comprising predominately Core Equity ("CET1") at 16.2%), LCR is 324% and NSFR is 122%.

Bank ABC's Group Chairman, Mr. Saddek Omar El Kaber commented "2020 has been a year like no other. Our performance has been overshadowed by the COVID-19 pandemic with its

consequent lockdowns and market uncertainties including low interest rates and low oil prices, compounded by unprecedented fraud cases in the region. Against this turbulent backdrop, Bank ABC was able to demonstrate its resilience and agility in adapting to the “new normal”. We had ended the year healthy with excellent liquidity and stability in pre-provision profitability, although disrupted by an exceptional fraud impact.

In contrast, 2020 has allowed us to expand our business by a significant acquisition and a remarkable head start of our digital consumer bank in Bahrain. I thank our staff for their exemplary dedication and commitment in serving our customers against all head winds.

As we look towards the future with the Bank’s health intact and a more efficient operation, we remain confident that we will return to Profitability and our strategic efforts will bear more fruits during 2021.”

A more detailed summary of 2020 Financial Results explained below:

#### **Q4 2020 Business Performance**

- Consolidated net loss attributable to the shareholders of the parent, for the three months of Q4 2020 was US\$33 million, compared to a net profit of US\$33 million reported for the same period last year.
- Earnings per share for the period was negative, compared to US\$0.01 in the same period in the previous year.
- Total comprehensive income attributable to the shareholders of the parent was US\$91 million compared to US\$85 million reported for the same period last year.
- On a headline basis, total operating income was US\$218 million, 6% lower compared to US\$232 million reported for the same period last year. On an underlying basis,\* total operating income was at US\$203 million for the period, compared to US\$223 million for the same period last year.
- Net interest income was US\$134 million, 6% lower against US\$143 million reported for the same period last year, after absorbing the impact of declining interest rates and FX depreciation.
- Operating expenses were at US\$126 million, 10% lower than US\$140 million for the same period last year, benefiting from the cost savings initiatives during the year, while reprioritising the continuing investments into the Group’s digital transformation and strategic initiatives.
- On an underlying\* basis, the Group achieved a net operating profit of US\$70 million compared to US\$83 million in Q4 2019.
- Impairment charges (ECL) for the period were US\$95 million compared to US\$36 million reported for the same period last year, due to reasons explained above.

**FY 2020 Financial results**

- Consolidated net loss attributable to the shareholders of the parent, for the year 2020 was US\$89 million, compared to a net profit of US\$194 million reported for the same period last year.
- Earnings per share for the period was at US\$-0.03, compared to US\$0.06 in the previous year.
- Total comprehensive loss attributable to the shareholders of the parent was -US\$267 million compared to total comprehensive income of US\$261 million reported last year, reflecting the net loss combined with significant market volatility during the year mainly from Brazilian Real depreciation of ~23% and unfavourable movements in fair value of debt instruments.
- Equity attributable to the shareholders of the parent at the end of the period was at US\$3,767 million, 7% lower compared to the US\$4,031 million at the 2019 year-end.
- Total assets stood at US\$30.4 billion at the end of the period, 1% higher compared to US\$30.1 billion at the 2019 year-end. On an underlying\* basis, total assets grew by 7%.
- Loans and advances were at US\$15.7 billion at the end of the period, compared to US\$16.5 billion at the 2019 year-end, a reduction of 5% on a headline basis. However, adjusted for BRL depreciation impact, the Loans and advances were 2% above last year, reflecting continued focus and selective growth in key markets through a more prioritised asset selection given the prevailing conditions.

**FY 2020 Business Performance**

- On a headline basis, total operating income was US\$646 million, 25% lower compared to US\$865 million reported for the same period last year. However, it should be noted this is before the effect of normalising adjustments due to currency hedges in Banco ABC Brazil and before FX depreciation. On an underlying basis,\* total operating income was at US\$793 million for the period, 91% of US\$875 million for the same period last year, reflecting resilience across most of our markets and business lines.
- Net interest income was US\$516 million, 9% lower against US\$564 million reported for the same period last year, after absorbing the impact of declining interest rates and FX depreciation. On an underlying\* basis, net interest margin was at 98% of last year.
- Operating expenses were at US\$486 million, 7% lower than US\$524 million for the same period last year. Cost savings initiatives have been undertaken, while reprioritising the continuing investments into the Group's digital transformation and strategic initiatives.
- On an underlying\* basis, the Group achieved a net operating profit of US\$282 million compared to US\$351 million in 2019.
- Impairment charges (ECL) for the period were US\$329 million compared to US\$82 million reported for the same period last year. The sharp increase in ECL was to a large extent attributed to a major client fraud which affected many banks in the region. The situation is complex but is progressing steady towards a recovery plan. However, it is clear that there are

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sophisticated schemes and systematic high-level collusion to defraud banks, mislead auditors and obfuscate significant undeclared debt levels.

- Leaving aside fraud related elements, Stage 3 ECL charges remain well contained and in line with our past experience. An increased ECL charge on Stage 1 and 2, arising from application of IFRS 9 to the portfolio under the stressed macroeconomic conditions, is also in line with industry trends given the forward-looking nature of IFRS9.
- The ratio of impaired loans to gross loans was at 5.2% compared to 2019 year-end levels of 3.7%, the increase largely attributable to the fraud cases noted above. The ratio normalises to 4.4%, when long-standing legacy fully provided loans are adjusted for.
- Notwithstanding these challenging conditions, the Group's overall asset portfolio quality remains solid and our underwriting standards are sound.

## Balance Sheet

- Deposits were at US\$21.3 billion, compared to the levels of US\$21.0 billion at 2019 year-end. Despite the prevailing conditions, our deposit experience remained steady underscoring the confidence of our clients. Our efforts to diversify and improve the quality of our deposit base continue.
- Liquidity ratios are strong with LCR and NSFR at 324% and 122% respectively with comfortable buffer and liquid assets to deposits ratio healthy at 52% improved from 51% at 2019 year-end.
- Capital Ratios strong: CET1 at 16.2%, Tier 1 at 16.6% and total capital adequacy ratio (CAR) 17.5%.

Bank ABC is a leading player in the region's banking industry and provides innovative wholesale financial products and services that include corporate banking, trade finance, project and structured finance, syndications, treasury products and Islamic banking. It also provides retail banking services through its network of retail banks in Jordan, Egypt, Tunisia and Algeria and through ila bank in Bahrain.

The full set of the financial statements and the press release are available on Bahrain Bourse' and Bank ABC website.

*\*'Underlying' basis referred above calculated after adjusting for normalization of tax treatment of currency hedges in Banco ABC Brasil which have an offsetting effect between Income and tax, FX depreciation and other one-off exceptional items. Further details are explained in the Investor presentation available on Bank ABC website*

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