Group Financial Review

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Bank ABC delivered record-breaking results in 2022, steering through volatile financial markets to achieve US$1 billion in top-line revenue for the first time in its history. The recovery that started in 2021 gained further strength with accelerated performance and solid core growth across all businesses increasing revenues by 29% and net profit by 54% year-on-year. Key drivers of profitability included improved margins and targeted credit growth, which helped to maintain the cost of credit, combined with increasing interest rates throughout the year.

In a strategic milestone for the Bank, we successfully completed the merger of BLOM Bank Egypt S.A.E., a leading bank in Egypt, with a national presence through 41 branches. Its consolidation with our existing Bank ABC franchise boosted 2022 profitability and will unlock the potential of this critical regional market to support future growth for the Group.

Achieving historical profits

In 2022, the Group built on momentum from the previous year to earn a net profit of US$154 million. This is a significant 54% improvement compared to 2021, when the Group earned US$100 million in net profit. Growth in profit in 2022 resulted in earnings per share for the year of US$0.05, compared to US$0.03 for 2021.

The Group's record-breaking revenues this year demonstrates our established strength in core MENA markets and ambitious growth of our footprint globally. We continued our investments into strategic digital initiatives and enhanced our digital proposition through a range of key partnerships and initiatives to build our 'Bank of the Future'. Digital KPIs demonstrated significant progress, while our mobile-only bank ila and our fintech payments provider Arab Financial Services exceeded our aspirational targets. Global growth was bolstered by the legal completion of the merger between Bank ABC Egypt and BLOM Bank Egypt (BBE), following the strategic acquisition of a 99.5% stake in BBE in 2021.

Net interest income for the year was US$786 million, an increase of 33% compared to US$592 million in 2021, after absorbing the impact of declining interest rates and FX depreciation. Non-interest income jumped by 20% to US$315 million from US$262 million the previous year, mainly due to last year's income being affected by significantly higher hedging in Banco ABC Brasil.

Meanwhile, the Group's Total Operating Income was US$1,101 million for the full year, a rise of 29% from US$854 million in 2021. This result reflected the strong recovery across most of our markets and business lines, and to some extent consolidation of BBE recently.

Operating expenses totalled US$690 million for 2022, rising by 21% from US$569 million as a result of the integration of BBE, which contributed to the full-year results in 2022 as opposed to only five months in the previous year, together with related acquisition expenses and with our businesses returning to normal level of activity. 2022 saw the Group's cost trajectory return to normal levels, through an unrelenting focus on cost discipline and continued investments in the Group's digital transformation and strategic initiatives.

Credit loss expenses for the year stood at US$119 million, compared with the previous year's US$106 million. Taxation on operations outside Bahrain was a charge of US$83 million (2021: US$51 million), resulting in the full year net profit attributable to the shareholders of the parent of US$154 million (2021: US$100 million).

Sources and uses of funds

Notwithstanding the challenging conditions of the year, the Group's overall asset portfolio quality remains solid, and our underwriting standards are sound. Equity attributable to the shareholders of the parent and perpetual instrument holders at the end of the period was US$4,095 million, an increase of 5.8% from the US$3,872 million reported at end of 2021, primarily resulting from the issue of AT1 perpetual instrument this year.

The Group's asset profile is predominantly made up of loans, securities, and placements. The loans and advances portfolio stood at US$18,190 million, 8.8% higher than the US$16,716 million posted at year-end 2021. Non-trading investments decreased by US$310 million to US$8,080 million, money market placements by US$805 million to US$2,226 million, while liquid funds and securities bought under repurchase agreements increased by US$948 million to US$4,272 million.

Deposits from customers increased by US$662 million to US$21,396 million. Deposits from banks, certificates of deposit and repos totalled US$7,077 million (2021: US$7,124 million), while borrowings totalled US$1,297 million (2021: US$1,211 million).

Total assets of the Group at the end of the year stood at US$36,639 million, 5% higher than at US$34,901 million as at year-end 2021. Average assets for the year were US$35,081 million (2021: US$32,165 million) and average liabilities, including non-controlling interests, were US$31,003 million (2021: US$28,336 million).

Credit commitments, contingent items and derivatives

The notional value of the Group's consolidated off-balance sheet items stood at US$42,461 million (2021: US$55,374 million), comprising credit commitments and contingencies of US$7,981 million (2021: US$7,735 million) and derivatives of US$34,480 million (2021: US$47,639 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,062 million (2021: US$3,009 million).

The Group uses a range of derivative products for the purposes of hedging and servicing customer-related requirements, as well as for short-term trading purposes. The total market risk-weighted equivalent of the exposures under these categories at the end of 2022 was US$827 million (2021: US$929 million). No significant credit derivative trading activities were undertaken during the year.

Geographical and maturity distribution of the balance sheet

Bank ABC Group has well diversified assets, primarily across the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world (63%; vs. 70% in 2021), followed by Latin America (19%; vs. 16% in 2021), chiefly in our Brazilian subsidiary, Banco ABC Brasil.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2022**	2021	**2022**	2021	**2022**	2021
Arab world	**41**	48	**63**	70	**41**	43
Western Europe	**11**	10	**8**	6	**11**	12
Asia	**2**	3	**1**	1	**1**	2
North America	**15**	11	**7**	3	**9**	7
Latin America	**26**	23	**19**	16	**31**	29
Others	**5**	5	**2**	4	**7**	7
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered or settled, or when they could be realised, shows that at the end of 2022, 64% (2021: 57%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 48% (2021: 62%). The proportion of liabilities maturing within one year was 56% (2021: 53%).

	Financial assets		Liabilities & equity	
(%)	**2022**	2021	**2022**	2021
Within 1 month	**32**	24	**24**	23
1-3 months	**13**	15	**12**	12
3-6 months	**9**	8	**5**	7
6-12 months	**10**	10	**15**	11
Over 1 year	**27**	36	**25**	30
Undated	**9**	7	**19**	17
	100	100	**100**	100

Distribution of credit exposure

ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) as of 31 December 2022 is given below:

	Funded exposure		Credit commitments & contingent items		Derivatives*	
(US$ millions)	**2022**	2021	**2022**	2021	**2022**	2021
Customer type						
Banks	**6,503**	5,497	**2,058**	1,974	**341**	341
Non-banks	**16,640**	16,496	**5,305**	5,367	**296**	193
Sovereign	**10,426**	10,360	**618**	395	**9**	9
	33,569	32,353	**7,981**	7,736	**646**	543
Risk rating						
1 = Exceptional	**2,162**	976	**908**	980	**-**	-
2 = Excellent	**3,607**	4,580	**291**	172	**61**	26
3 = Superior	**3,512**	3,179	**434**	250	**249**	380
4 = Good	**2,562**	3,165	**1,033**	872	**14**	66
5 = Satisfactory	**10,241**	8,841	**3,323**	3,161	**257**	45
6 = Adequate	**9,936**	10,941	**1,620**	2,073	**61**	26
7 = Marginal	**1,017**	388	**150**	90	**3**	-
8 = Special Mention	**340**	175	**134**	61	**1**	-
9 = Substandard	**166**	61	**54**	44	**-**	-
10 = Doubtful	**22**	47	**27**	33	**-**	-
11 = Loss	**4**	-	**7**	-	**-**	-
	33,569	32,353	**7,981**	7,736	**646**	543

* Derivative exposures are computed as the cost of replacing derivative contracts represented by mark-to-market values where they are positive, and an estimate of the potential change in market values reflecting the volatilities that affect them.

Classified exposures and impairment provisions

The total of all impaired loans as at the end of 2022 was US$655 million (2021: US$599 million). ECL allowances including stage 3 provisions at the end of 2022 stood at US$673 million (2021: US$691 million).

The total of all impaired securities as at the end of 2022 was US$74 million (2021: US$89 million). ECL allowances, including stage 3 provisions, at the end of 2022 stood at US$87 million (2021: US$105 million).

The ageing analysis of impaired loans and securities is as follows:

Impaired loans

(US$ millions)	**Principal**	**Provisions**	**Net book value**
Less than 3 months	68	43	25
3 months to 1 year	123	61	62
1 to 3 years	322	218	104
Over 3 years	142	141	1
Total	655	463	192

Impaired securities

(US$ millions)	**Principal**	**Provisions**	**Net book value**
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
Total	74	74	-

Note: Impaired loans and off-balance sheet credits are formally defined as those in default on contractual repayments of principal or on payment of interest in excess of 90 days. In practice, however, all credits that give rise to reasonable doubt as to timely collection, whether or not they are in default as so defined, are treated as non-performing and specific provisions made, if required. Such credits are immediately placed on non-accrual status and related interest income reversed. Any release of the accumulated unpaid interest thereafter is made only as permitted by International Financial Reporting Standards.

Group capital structure and capital adequacy ratios

Bank ABC's balance sheet remains strong with capital and liquidity ratios well above the regulatory requirements. LCR and NSFR stood at 225% and 124% respectively as at year-end 2022, while liquid assets to deposits ratio maintained a healthy level at 48.1%.

The Group's capital base of US$4,626 million comprises Tier 1 capital of US$4,336 million (2021: US$4,059 million) and Tier 2 capital of US$290 million (2021: US$265 million).

The consolidated capital adequacy ratio (CAR) as at 31 December 2022, calculated in accordance with the prevailing Basel III rules, was 16.8% (2021: 16.9%), well above the 12.5% minimum set by the Central Bank of Bahrain. The CAR comprised predominantly Tier 1 ratio of 15.7% (2021: 15.9%), well above the 10.5% minimum set by the Central Bank of Bahrain.

All ABC Group subsidiaries meet the capital adequacy requirements of their respective regulatory authorities.

A year of recovery in the MENA region

The outlook improved considerably in core and network markets in 2022 as the world economy continued to recover from the impact of the COVID-19 pandemic and corporate profitability rose. While the Russo-Ukrainian conflict, sporadic COVID-19 lockdowns in China, and base effects led to global growth slowing to 3.2% in 2022, down from 6% in 2021, our operating markets bucked this trend. MENA economies grew an estimated 5.5%, compared to 4.1% in 2021, led by hydrocarbon exporting countries which enjoyed a sharp improvement in their terms of trade due to the rise in commodity prices and which saw rising European demand for oil and gas pivoting away from Russia.

Interest rates rise to address inflation

In 2022, major central banks moved to counter global inflation with aggressive monetary tightening. This was led by the US Federal Reserve which hiked the policy rate by a cumulative 425bp to 4.5%. Operating conditions in the United States were favourable due to the post-pandemic recovery with higher net interest income. In Europe, the European Central Bank was slower to act and raised their policy rate by a cumulative 250bp to 2.5%. Although this led to an improvement in earnings on equity, operating conditions were more challenging due to higher inflation, spill over from the Russia-Ukraine conflict, and Italy's debt sustainability concerns. Meanwhile in the UK, although the Bank of England was the first major central bank to start their hiking cycle and lifted their policy rate by 325bp to 3.5% last year, the country struggled with double-digit inflation, energy supply concerns, and political instability.

The regional impact of rising commodity prices

Considerably higher commodity prices proved to be a windfall for our hydrocarbon exporting countries last year, as the GCC enjoyed a boom in economic activity and operating conditions improved significantly supported by higher net interest income due to Federal Reserve rate hikes. Algeria saw similar gains in their operating environment. In Libya, higher oil production and prices led to overall favourable conditions, although political uncertainty capped prospects. Despite a contentious election, Brazil saw an improvement in the operating environment and net interest income as the Central Bank of Brazil raised their policy rate by 425bp to 13.75%.

On the other hand, net hydrocarbon importing countries were especially challenged. Despite this, Jordan saw an improvement in its operating environment with a post-pandemic recovery, rising net interest income, and reduced loan loss provisions which supported an increase in return on equity. Conditions were more challenging in Egypt due to the sharp devaluation of the pound and concerns about asset quality due to tighter financial conditions. However, the International Monetary Fund (IMF) came to the assistance of Egypt and the new reform program has anchored confidence. Tunisia also signed a staff-level agreement with the IMF and the authorities are working on the passage of legislation to secure external assistance. Türkiye demonstrated stability towards the end of 2022 despite a series of challenges from heterodox monetary policy, which saw the policy rate reduced by 500bp to 9%, rising inflation, and commodity price shock.

Looking ahead to 2023

In the year ahead, global growth is expected to weaken to 2.4% due to the fading rebound from the post-pandemic recovery, tighter financial conditions and the ongoing Russia-Ukraine conflict. With slower global growth and a reduction in the geopolitical risk premium, global commodity markets are expected to remain under pressure. Energy and food prices have already returned to levels seen prior to the start of the conflict. Barring a further supply shock, inflationary pressures are expected to recede further. A decline in price pressures, in turn, is expected to allow major central banks, which are focused on tackling forty-year high inflation, to reduce the pace of their rate hikes, with policy rates peaking in the first half of 2023.

Looking further ahead, an eventual decline in inflation is expected to provide scope for central banks to lower policy interest rates, perhaps within two to three quarters following the peak in policy rates. Lower inflation and less hawkish central banks are expected to improve risk appetite and prospects for emerging markets, including for commodity importers in Middle East and North Africa, which have been buffeted by rising rates, a commodity price shock, and a strong dollar.

Bank ABC is setting bold aspirations for 2023, cautious of the expected economic headwinds such as tighter financial conditions, ongoing war in Europe and persistent inflationary conditions. With our strong track record of resilience and overcoming market volatility, we are confident of capitalising our strengths and leveraging our investments to continue to accelerate profitable growth during 2023.