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Janany Vamadeva: Thank you, Charlie. Good afternoon, everyone. And thank you for joining us today. This is Janany Vamadeva, and on behalf Arqaam Capital, I'm pleased to welcome you to Abu Dhabi Islamic Bank Q4 2021 Earnings Conference call. I have with here today from ADIB, Mohamed Abdelbary, chief financial officer, Ahsan Akhtar, Group Financial Controller, and Lamia Khaled Hariz, the head of public affairs and investor relations. Without any further delay, I'll now turn the call over to the head of investor relations, Lamia Khaled. Lamia, over to you.

Lamia Khaled Hariz: Thank you, Janany. Good afternoon to everyone on the call. Thank you for joining us. Before we get started, just to quickly remind that today's presentation and all our financial disclosures are already on the IR section on our corporate website, and as well as our dedicated IR app. As Janany says with me on the call, we have Mr. Mohamed, our group CFO, and Ahsan, our group financial controller.

Lamia Khaled Hariz: The agenda course today is Mohamed is going to cover the highlights of our financial performance for the full year 2021. After that, he will give you an update on our 2025 strategy and what we rolled out in terms of initiatives in the last quarter, followed by detailed analysis of our financial performance for the full year, basically of 2021.

Lamia Khaled Hariz: He will then provide you with an outlook and guidance for 2022. After that, we will open it for Q&A. With that, I will now hand it over to Mohamed to start the presentation. Mohamed, over to you.

Mohamed Abdelbary: Thank you Lamia and good morning, good afternoon, everyone. And thank you for joining us on today's call. We are very pleased to have reported yet another set of strong results for 2021. So I'm just going to give you the highlights of the performance before we dive into a bit of more detailed analysis. So from a net profit perspective, we reported a 45% growth year on year with a healthy return equity of 14.3%. So we've delivered this net profit growth by delivering a growth on our revenues, a 4% predominantly delivered by a 9% growth and non-funded income. We've also managed to continue reducing our cost by 8% year on year, and delivering and improving in our cost to income ratio to now 40.7%, which is reduction of five percentage point.

Mohamed Abdelbary: Just as a reminder, this would be our second consecutive year where we are reducing cost by close to 8%, taking our cost down over the last 24 months by 15%. From a balance sheet perspective, we've also shown growth in both customer financing and customer liabilities. We've grown customer financing by 7% and managed to grow customer liabilities by 8%. Again, in line with our strategy to ensure that we always fund before we finance to protect our liquidity position. And from a capital perspective and post our dividend proposal of 48.5% of net profit, which translate into 31 sales per share. We are still reporting a fairly strong capital position with the C to I of 12.93% and a total CAR ratio north of 18.5%.

Mohamed Abdelbary: So with that, I'll move on to the next slide. And let's talk a bit about our strategy, which we have spoken about in our last call. So on slide six, we are showing our four main key pillars of the strategy of 2025 split into continuous innovation, segment focus, digital excellence, and sustainable future. In the next few slides, I'll talk a bit more about the tangible deliveries against some of these pillars, but just, again, as a reminder, it is very much in line with our aspiration to become the world's most Islamic innovative bank from a digital perspective. And at the same time, we are aiming to solve for very key KPI, which is a 20% return equity by 2025.

Mohamed Abdelbary: Moving on to slide seven, and these are some of the... I would call it tangible deliveries against the main key pillars. So under continuous innovation, we are showing some of our digital deliveries over the past few months. So we've launched turbo, which is a digital ecosystem for the auto industry. We've also had recently launched Amwali proposition, which is targeting gen Z and looks at capturing the use of the entire life cycle of our clients. And segment focused, we have also grown our customer base in the right and sustainable way. We have spoken about enhancing our leadership positions. When it comes to the Emirate or UE national segment, we've welcomed 35,000 new Emirate nationals to the bank. And we've also overall welcomed more than 117,000 new clients.

Mohamed Abdelbary: From a digital agenda perspective, we have continued to deliver on our strategy to automate the banks, not only from the client-facing perspective, but also from within the bank. So we've introduced 60 to 66 new robots adding into our end to end process enhancement. And we've also continued to be rated quite successfully when it comes to our mobile app. It is now rated at 4.5% on both App Store and Google Play. From a sustainable future perspective, again, ESG is very important to us in a deep. And our MSCI ESG rating stands at 8 and the 78% is our employment re-engagement index, which we have recently surveyed.

Mohamed Abdelbary: Moving forward on slide eight, I did speak about our main KPI of 20% ROE, but just as a reminder for the audience, the way we want to deliver it is that we are doubling our profits from last year. We are looking at the cost to income ratio of below 36% and continue to innovate the bank to ensure that as we become more efficient, we are ensuring that we are able to still serve our clients, our employees, without putting undue pressure just by taking out costs.

Mohamed Abdelbary: Moving forward from the management team perspective, I think the one point I would like to call out that we have now been joined by Mr. Nasser Al Awadhi. He has been appointed as group CEO for the institution, and we are looking forward to work under his leadership to continue on our strategy.

Mohamed Abdelbary: Also, you might have seen a recent announcement for our head of retail banking retiring Mr. Phillip King. So he retired recently and Samih Awadhalla, who has been with the bank for a long time, has now been appointed as the retail head. And moving forward, now I'm on slide 11 and I spoke about these key highlights. So I think the point I would just like to make is that we are happy with the quality of the profits which we deliver. So it's not only a matter of 45% growth in net profit, but we are happy to see that it is coming from growth in revenue, reduction in cost, and normalizing of cost of credit while growing the balance sheet in a healthy and sustainable way. And while creating still a very robust capital position, post a record dividend payout in 2021.

Mohamed Abdelbary: And all this has led eventually to enhancing our cost to income ratio. And it's taking us nicely to our journey of coming sub 40% in the first time in ADIB history in the near future.

Mohamed Abdelbary: Moving on to slide 12, I spoke about these main pillars. So I would suggest I move directly to slide 13, where we show the waterfall for the net profit movement from 2020 to 2021, 1.6 billion going to 2.3. Again, just to highlight, 9% has been contributed by gross and non-funded income, expenses down 8%, and impairments down 27%. From a segment perspective, the biggest contributor has been the wholesale bank, and that's where we will talk about. And the second is that one of the main contributors is the lower impairment charges we have taken in

2021. Also, our treasury has been very strong and continues to deliver a strong performance again in '21, as it has done also for us in 2020.

Mohamed Abdelbary: Moving on to the non-funded income on slide 14, the 9% growth we are calling out 26% growth in investment income and reduction in 3% in fees and commission. It's important to call out that when we look at the fees and commission movement, so that despite the reduction of 3% in fees and commission, we have seen cost income actually going by 40%. That's a continuation of the strong performance and recovery, which we have seen over the past few quarters. It's clearly a reflection of the positive client sentiment, which we are seeing and which will also continue with us in 2022.

Mohamed Abdelbary: Moving on to slide 15, funded income. Our net profit margins have reduced year on year from 3.51 to 3.25. That has been predominantly on the back of some growth asset yield repricing in line with market movement. So it's not something which was not expected given the way the curve is, but we've been able to call back some of the reduction by reduction of our cost of fund. Our cost of fund remains to be market leading at 30 basis points. And I think the good point, which we would like to call out is that even with the anticipated rate hacks, which will come in, our efficient cost of funding base will remain to be market leading and will not reprice as fast as we will then expect assets to reprice as well.

Mohamed Abdelbary: Moving on to slide 16, operating expenses. We spoke about 8% reduction, but I would like to reemphasize the message that from a digital spend perspective, we have not changed the pot allocated to that specific area. So it's only a 3 million reduction year on year, while CapEx has actually increased. And we have been able to more than self fund this spend by creating efficiencies in our infrastructure. And some of the other elements I have called out in terms of our robotics implementation and our trade through property.

Mohamed Abdelbary: On slide 17, that's just the manifestation of our digital journey. As we can see, we have now 71% digitally active clients. If one would compare that to first quarter of '20 of 57, that's quite remarkable in terms of pickup. Our digital sales remain to be at 42%, which is a very healthy number for us because it is a very fine mix between how much you are attracting clients to a digital platform versus also the high network high ticket items, which we will need to maintain in the normal channel.

Mohamed Abdelbary: Moving forward... I apologize. In terms of our impairments on slide 18, so the one point which is very important for us to call out is that the 27 reduction in impairments has been predominantly in the wholesale bank. And I'm sure this is probably a question which will come up and we've also shown at this time on the next slide is that NMC and Neopharma has played a big role in terms of the swing. But what is really encouraging to see is that our retail cost of risk has continued to perform extremely well. And it shows the health and resilience of our retail portfolio, particularly given the fact that it is predominantly driven by the Emirate segment.

Mohamed Abdelbary: On the next slide, slide 19. I think the main message I would like to call out is that if you look at NMC and Neopharma. Now, as we stand, we've covered 85% of the exposure. I believe that it is now market leading. Not many banks have moved that. We've decided to be more on the conservative side. We are actually cautiously optimistic that the value is probably a bit better than that. So we expect some recoveries on that front. But for us to be more on the conservative side, the decision was to go up to 85% of coverage. And that puts this story I hope now behind us.

Mohamed Abdelbary: Moving on to slide 20 and where we look at our coverage ratio. Now we've got thing to enhance our coverage ratios, one, look at the upper right hand waterfall. We are now sitting at 66.8% of provision coverage, excluding any collateral. If you add the collaterals, we are at 120%. It's important to note that in first quarter of 2020, we were at 56%, we've moved up to 66.8. And that tells us that more and more, we are closing the coverage ratios or target, which we are aiming to solve for.

Mohamed Abdelbary: And one point also to be calling out is that most of our collaterals are sitting in the real estate sector. We have seen healthy appreciation in that segment. We have decided not to take the entire upside into our collateral evaluation. We are awaiting to see a bit of more history and sustainability on that before we take the upside. So even this number I can tell you is a fairly conservative number. It can only get better from here. Our NPA ratio at 8.9% remains to be more or less in line with the previous few quarters.

Mohamed Abdelbary: As we go into 2020, and we are starting to see more financing growth as well as clearing some of the non-performing assets we have. We are, again, cautiously optimistic as this number will start to trend downwards in the next few quarters.

Mohamed Abdelbary: On slide 21, the balance sheet growth I think has been quite spectacular. So again, first quarter 2020 at AED1.2 billion of total assets sitting now at 136.9 billion. That's quite phenomenal, especially given the fact that a lot of the growth has been coming from sustainable financing growth, as well as building the client deposit base in a very healthy manner. If one would look at where the movements have come from, it's predominantly in customer financing as you can see 4.8 billion growth a year on year, and we speak about it in the next slide.

Mohamed Abdelbary: From a financing perspective, the 87.4 moving to 93 billion, 7% growth has been predominantly in the government sector of 2.7 billion. And in retail of 1.4. Retail growth has been driven by personal finance. Now looking at the past few quarters, I think that we now have definitely wind in our tail in our... Sorry, wind coming as a tail wind. And we will be looking at growth in the next few quarters and this momentum will continue.

Mohamed Abdelbary: Going on, moving forward, sorry, to slide 23, customer deposits. Again, the strong story continues. From a position of 101 billion by December 2020, we are closing at 110 billion, which is an 8% growth. Contribution is coming both from retail and wholesale bank. The point which is in line with our strategic direction is that we've grown current account and saving account and STIs quite exponentially while continuously optimizing on the Wakala deposits, which are more cost here. And the 8% net growth is actually driven by healthy cost-efficient deposit growth, and that's again, a reflection of the 30 basis point effective cost of funding. And that will become very handy and beneficial as we start seeing various hacks coming in.

Mohamed Abdelbary: So moving on to the capital position, I touched on this. And if one, again, would look at our C to I ratio at 12.9%, it's at par with our 2020 position post, a dividend payout, which is I think deep history, as well as our total capital decrease ratio at 18.6. I would like to believe that 18.6 is probably market leading, if one would compare to the peer banks who have announced also their results recently. Our liquidity position remains healthy and strong, and again, supported by the fact that we are funding before we provide financing to any of our clients.

Mohamed Abdelbary: I would like probably to include by giving some guidance and recounting of our 2021. So I'm very happy to see that we've either come within consensus, or sorry, outlook, or even better than outlook. So our net profit margins have come in slightly better. Growth financing has outperformed particularly given the growth we've seen in Q4. Our cost to income ratio has definitely performed better than we have set ourselves the targets for and net income growth is within our outlook. So all net-net, I think the guidance we have provided earlier in the 2021 have more or less landed where we set it would be or slightly better.

Mohamed Abdelbary: For 2022, what are we saying? We are probably seeing the financing growth continuing in mid single digit. I would say probably more in the high single digit. Net profit margins, we are keeping it to the 2021 guidance. But seeing now where the rate hikes are coming and where our cost of funding would be, I believe that could be slightly better. Cost of risk is going to be normalizing at these levels because we are also acknowledging the fact that we have ample room to take a bit of more risk, particularly on the retail side and growing our top line much faster.

Mohamed Abdelbary: Cost to income, we are committed to bring it down to the 40% in 2022. I see that within reach, especially if one would judge our performance for Q4 of this year. Return on equity, anywhere between 15% to 17% taking us one step closer to our 20% target by 2025. So with that, I would like now to open it up for any Q&A. Thank you.

Operator: Of course, if you'd like to ask a question, please press star followed by one on your telephone key pads. And if you're joining us online, please click the request to speak flag icon. If you choose to withdraw your question, please press star followed by two. And when preparing to ask a question, please ensure your phone is unmuted locally. As a reminder, that star followed by one if you wish to submit a question. Our first question comes from Edmond Christou of Bloomberg Intelligence. Edmond, your line is now open.

Edmond Christou: Hi, thanks for the presentation and for the guidance as well, which is very useful. The first question I do have is on what is the credit growth sector will be driven from this year and within the strategy? It's quite interesting to see the capital saving that happened from significant growth in the government and public sector entity. This is sustainable going forward, or it's not sustainable. You see more shift into the corporate and retail outside the local segment. What is the impact you could see there? And do you see that the payout will be sustainable under this scenario going forward?

Edmond Christou: The second question is I see the guidance on the NIM stable. I don't know if you are budgeting any interest rate hikes here, but what surprised me is the sensitivity on the interest rate at 25 basis per point up on your financial reports. I think it has doubled from the sensitivity report in 2020.

Edmond Christou: I just want to understand what is the reasoning behind better sensitivity. I do understand that the structure of the loan book is retail reprices slowly and your cost of funding is very low and you have a sharia compliant profit sharing deposit structure. So I would be surprised to see a sensitivity of 4 basis points for every 25 base interest rate hikes.

Edmond Christou: The last question I do have, if I may, is on the coverage. You mentioned coverage target, what is the coverage target you have in mind either for this year or, and during the strategy? Thank you.

Mohamed Abdelbary: Okay. Thank you very much. So I'll take the questions one by one. And please, if I miss any of your points, do call them out. So I start with the prayer growth. So we've seen in 2021 healthy growth, of course, to 7%. And it has been coming predominantly from some on retail and the wholesale bank side, mainly from the government sector. So the question was, where do we see that going forward into '22?

Mohamed Abdelbary: I think the retail bank will definitely play a bigger role in growth now given that retail takes slightly a bit longer to adapt and to reflect the client confidence into the actual numbers. Because you are working on two fronts, you're working on new originations or sales origination. You are looking at your normal repayment and then attrition. And in times when sometimes the confidence of the client is a bit on the low side, particularly that you are in the height of the pandemic, you are slightly standing on a treadmill. So you are selling, but on the backend, some of the attrition repayments are catching up with you.

Mohamed Abdelbary: What is promising for us to see is that in the last quarter now the growth sales have completely outstripped the attrition and accordingly having now hit records growth in sales, particularly in post finance and home finance, we expect retail to definitely contribute more. On the wholesale banking side, we remain to be focused on our GREs because as you guys said, they are capital creative or very capital efficient, but we are also going to continue focusing on large corps and mid corps within the ecosystem, which we have defined within our risk appetite. And accordingly, you would see some build up in that area and which are slightly more consuming from a capital perspective.

Mohamed Abdelbary: And second question in terms of price sensitivity, let me give you the in-house perspective of how we see things are going to play out and then we can reconcile it back to the financial statement.

Mohamed Abdelbary: So we are saying that every 50 basis point increase with the prior move in the curve will result into a AUD120 million top line contribution for the bank on an annualized basis. So we are expecting five rate hikes in 2022 and probably two more in 2023. What it means for us is that once the cycle has completed, we could expect on a like for like basis, probably anywhere between AUD450 to AUD500 million additional top line contribution to even what you see today. And that's on a like for like basis. But this is once the cycle has completed and all the seven cycles have happened.

Mohamed Abdelbary: On the net profit margin guidance, I agree with you, that is probably slightly on the conservative side. And the reason why we are saying that and we're keeping this guidance is that we are taking other elements into consideration.

Mohamed Abdelbary: Number one is the ability to quickly reprice on the assets side the duration of when assets come up for repricing and as well as the competition factor. But we are cautiously optimistic that given our efficient cost of fund, we have a lot of elbow room to make our choices wise on when and how we are going to reprice on the asset side.

Mohamed Abdelbary: Your last question was on the coverage. We are currently at 66%. I wouldn't give a target to a provision coverage excluding collateral. Because at the end of the day, we look at what is our net at risk after factoring in the collateral. With collateral, with the conservative view, we are standing at 120%, so fairly comfortable. Without the collateral where we would feel comfortable today was at 68%. We will continue building on that as and when we see the need and maybe I should have clarified it in my opening remark is that while we are looking at enhancing this number, it doesn't necessarily mean that it has to go in a certain area, but it has to ensure that it covers adequately for the risk we have on our books at any point in time. So please tell me if I missed any of your questions and I can happy to elaborate.

Edmond Christou: Thank you. Just to follow up, so you expect a slight gradual shift into the corporate, so which will be capital constructive and probably are saving capital on the government. So the question is net to net, do you still expect dividend to be sustained at this level in terms of the payout?

Mohamed Abdelbary: So Edmond, I think ADIB has a very clear strategy in terms of deciding its dividend pay. It's a combination of number one, taking the shareholders interest into consideration, but also the growth aspiration and preserving capital in the bank. It is too early to give you specific guidance for 2022. However, if you look at history of the bank and how we have been consistent in our dividend payout, it'll also give you some sense on how '22 would look like. Just as a reminder, I think in 2020, we paid around 46.6. We've now moved up to 48.5. First per share has moved up from 21 to 31.

Mohamed Abdelbary: So I think it's definitely moving in the right direction and we've been very consistent. And as the year progresses, we will be happy to provide a bit of more clarity and color to how we see 2020 playing out as well.

Edmond Christou: Perfect. On the sensitivity to interest margin on the financial, it has double between 2020 sensitivity to 2021. Any reason for this? Any structural change within the balance sheet that has contributed to more sensitivity to interest?

Mohamed Abdelbary: So, Edmond, I think the explanation I can provide you without going into too much detail is that the bank positions its portfolio in anticipation of how it sees interest rates moving. So the rise in interest rate is something which I think not only I did, but the whole market anticipated, and accordingly as you structure your portfolio, you would ensure that it's repricing duration is also in line with anticipated rate hike. And accordingly, that's why you see us, that we are now more optimistic in terms of how we can capture the benefits of these highlights in the rising rate environment.

Mohamed Abdelbary: Now, if it was the opposite, you would have probably seen the opposite as well, whether sensitivity would've been more in favor of the bank and we would have taken longer duration on the financing book.

Edmond Christou: Excellent. Great. Thank you.

Mohamed Abdelbary: Thank you.

Operator: Thank you for your question, Edmond. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone key pad. And if you've joined us, please click the request to speak flag icon. Alternatively, you may use the chat box function at the side of the web conferencing platform to submit a wish and question. Our next question comes from Elahi Patel of Bearings. Elahi, your line is now open.

Elahi Patel: Yes. Hi, guys. Thank you for the call. Can you hear me okay?

Mohamed Abdelbary: Yeah. Loud and clear.

Elahi Patel: I've got a few questions please. First question was, can you just repeat your NIM sensitivity? Did you say every 50 basis points hiking rates would give you AUD120 millions on your net interest income?

Mohamed Abdelbary: Yeah. So let me repeat what we said. So 50 basis points, as you like said, it is going to give us a top line contribution of AUD120 million on the existing series. So like for even factoring any growth in financing. So 50 basis points means 120 million. Five hikes expected probably this year on an annualized basis is close to AUD300 million. And by the end of the seven cycles, which we expect, you could add a total of AUD450 million annualized basis.

Elahi Patel: So I calculate that. So a hundred BPs will give you 240 million and that would be 23 basis points improvement in the margin. It doesn't seem right to me. I don't know if my numbers are off, but if I just literally tag on 240 million to a net interest income line, the NIMs for 2021 would move by 23 basis points. It seems contrary to the comments earlier from Edmond that you'd have four basis point improvement in NIM for every 25 hiking rates.

Mohamed Abdelbary: Yeah, I did not specifically comment on the four BPs Edmond mentioned, but we can probably, if you want, provide you with the exact simulation on how the net profit margins would move. I think the best way to look at it is how it would translate into actual dirham contribution because there are many other factors involved in that. Number one is you would have to take into consideration how far also you would be repricing the different elements of the book. And we also, for us, taking into consideration what it means for us in terms of competition and duration of the book.

Elahi Patel: If I look at your guidance, the 15 to 20% net profit growth, I'm trying to understand how you get that. When if you look at your loan growth of 6 to 7% or 6% at the midpoint and 15 basis points, NIM contraction, because of the competition and more public sector stuff, that would give you only plus 3% on net interest income. You've given us the cost of risk guidance. So how do you get from the 3% net interest income growth to 15% to 20% net income growth. It must be something incredibly high on either the fee and commissions or something incredibly low on your cost of risk or OPEX.

Mohamed Abdelbary: So good question. Let me clarify how the math will work. So, and I'll start by giving you the high level view, and then we can go into details. Our strategic direction is to ensure that the contribution from non-funded income plays a much bigger role for us in the future, for two reasons. Number one is that we would like to, as we go into more riskier segments, our WA consumption will put pressure on capital, and we do have a growth aspirations to ensure that we continue to deliver on our 2025 strategic objections. So number one is more contribution from non-funded income, and I'm happy to go in bit more detail of what we mean by that.

Mohamed Abdelbary: For example, our asset management proposition, our work management proposition, our GTB, or what we call global transaction banking proposition, they're already showing very strong signs of contribution, not only in '21, but also before. That's one element. The second element is our cost aspiration will also continue to deliver benefits. And that's on the back of the initiative, which we have embarked from over the last two years and where our digital capabilities are helping us to deliver on these aspirations.

Mohamed Abdelbary: So really that's how we look at it. And, accordingly, when we look at net income growth, anywhere between 15% to 20%, the math will actually suggest that we have also a good chance of outperforming this number, if everything falls into place as expected.

Elahi Patel: And just the final question was just on your cost of risk. So of the 950 million that you've taken in 2021, I know a lot of this was NMC as you were increasing your coverage there. So for example, 250 million was taken in Q3. Could you give us the number of what was the total NMC specific cost of risk taken in 2021 of the 950? I think I remember your normalized cost of risk was very low.

Mohamed Abdelbary: Yeah, that's correct. So the numbers we have disclosed to the market, so I can talk about them a bit freely. So we have approximately taking close to 400 million or so on NMC and Neopharma, and like. So if you were to take that out from the total cost of risk, which we have reported in 2021, it means that our cost of risk itself from a percentage perspective is probably in the lower maybe 40, 50 basis points or so.

Elahi Patel: So it would go from sort of over a hundred basis points down to 55. And that's why I'm wondering if 55 is the more normalized level and you are already at 85% coverage on NMC, why your cost of risk guidance forward is so high at 80 to 90 basis points. Is that just you being conservative and could there be like some recoveries there?

Mohamed Abdelbary: So I wouldn't... So when you give the guidance, I always like to be within a specific range in line with the directions, which we would like to take. I think as a bank, our portfolio is very healthy and the cost of risk is allowing us to actually take a bit of more risk. So as we wander into more of the corporate slash corporate, mid corporate, and in retail more into the expert segment, I expect that the cost of risk will go up. But it'll go up only if we deliver the right return.

Mohamed Abdelbary: And accordingly, our direction is we want to open up for the expert segment. We want to open up for large corporate and mid corps, and that will attract a higher cost of risk, but hopefully also it will give us a better return overall.

Elahi Patel: Okay. Thank you very much.

Mohamed Abdelbary: Thank you.

Operator: Thank you for your question. Next question comes from Janda Kumar of ARCOM Capital. Janda, your line is now open.

Janda Kumar: Hi, everyone. Thank you for taking questions. My first question is like we have seen significant improvement in investment income during the year, and largely coming from share of substitutes and JVs. So I just wanted to check if there's any element of one off, or it's a means or positive or means good earning growth in your subsidiary.

Mohamed Abdelbary: Yeah. So the main contribution and this strong performance is coming from the contribution of our Egypt business, which we capture here. I cannot be too open on Egypt because Egypt itself is a listed entity and they have not yet announced their results, but I can tell you that within that uplift, we are very happy with what Egypt has been performed and you would see probably what I mean when they're going to the market with their financials as well.

Janda Kumar: So going forward, should we expect some kind of growth in 2022 or it'll be normalized? Because if you look at 2019 and 2020, the income is around 10 to 20 million, but in 2021, there is a significant jump, and especially in fourth quarter. So how we can see it going forward in 2022?

Mohamed Abdelbary: So I would not take a base of 2019 or '20 because the consolidation or the contribution of the Egypt business really only started in '21. So from a history perspective, the acquisition has been old, but the actual contribution of that business only literally started in '21. So can you assume all of it to continue in '22? No. There is a small element of it due to the transition of some of the elements happening with the ADIB Egypt business into the group, but it will still be a very meaningful and sustainable contributions to the wider group franchise, not only in '22, but in '22 and beyond as well.

Janda Kumar: Okay. Yeah. My second question is regarding the bank is taking income from Sukuk investment into the non-funded income. Other banks are classifying under a funded income, because there's a fixed income stream from Sukuk investment. So I just wanted to check, is it the right way, whether we should take in funded or non-funded income, because I believe the gains and losses should come in non-funded income and this income should come in as a part of a funded income. So just wanted to get clarification from.

Mohamed Abdelbary: So this, I confirm, I understood your question correctly. The normal profit return on the Sukuk is part of our funded income. The capital gain, which we recognize from Sukuk is part of non-funded income. That's what we do. Are you seeing something different?

Janda Kumar: Yeah. Actually in funded income, actually all the financing related activities are classified as a part of funded income while all investment income has been classified in the non-funded income in your management discussion and every everywhere. So that's why I wanted to get... Because if we look at other banks, means NII is coming from both financing and investment portfolio, but in your book, all the investment income is reflecting in non-funded. If we compare...

Mohamed Abdelbary: Got it. So what I would ask, Ahsan, my financial controller here, he will get back to you separately on this, if you don't mind sharing this question specifically with Lamia and Ahsan.

Lamia Khaled Hariz: Yeah, I got you question, Janda.

Mohamed Abdelbary: And they will get back to you on that specific point.

Janda Kumar: Sure, sure. Thank you so much.

Operator: Thank you, Janda. Our next question comes from Shabbir Malik of EFG-Hermes. Shabbir, your line is now open.

Shabbir Malik: Thank you. Thank you very much for this presentation and congratulations on a good set of results. Couple of questions from my side, in terms of your CASA deposit, I think your CASA mix stood at around 75% based on your latest disclosure. How do you feel about the sensitivity of these deposits to interest rates? Do you think higher interest rates could mean that these CASA deposits, some of them actually go out and your CASA mix comes down or what's your sense on that?

Shabbir Malik: My second question is on your... You may have addressed this earlier, I could have missed it and joined the call a bit late, but in terms of NIM sensitivity, you highlighted that there's the 120 million positive impact. I just wanted to understand what's the lag. How much is the lag from the day of the rate hike to the eventual transmission, to the NIM. And also, if you can maybe elaborate on your loan book, typically personal lending is fixed rate, but what about your mortgage portfolio? What about your corporate portfolio? How's that in terms of the sensitivity to rates.

Shabbir Malik: And finally, in terms of your cost trajectory, a very good outcome in 2021, I think almost 8% down year and year. You think, is there more room for improvement next year or it's going to be more about better efficiency, et cetera, which more revenue driven than cost driven improvement and cost to income next year.

Mohamed Abdelbary: Thanks, Shabbir. And these are a lot of questions Shabbir. So let me just make sure that I capture them all and please do feel free to follow up if I missed anything.

Shabbir Malik: Sure.

Mohamed Abdelbary: So sensitivity on CASA, you're absolutely correct, so it's almost 76%, 77% of our total liability book, that means to be in CASA, and we're asking healthy reduction in Wakala for the question is that, do you think that some of that will transform into probably Wakala deposits if it screw up? I would like to believe that nothing significant because the type of clientele and client deposits we have, the sensitivity to raise movement is not very high.

Mohamed Abdelbary: Having said that, we are factoring some of these yes to be repriced upward, but the acceleration into upward pricing versus how fast assets yield will reprice is definitely in favor of ADIB. And we are going to start seeing some widening of these jobs fairly quickly as the rates go up. So that's on the CASA one.

Mohamed Abdelbary: On the NIM sensitivity, yes, 50 basis points means 120 million. How fast will that translate into our actual possibility? Considering an annualized number, again, from a context perspective, our whole book recycles every four years. So 25% of the book every year. Outside PF, which is around 20 billion of the portfolio, most of the book reprices anywhere between three to six months. So it's a fairly fast repricing duration for us. And accordingly, we expect to see some uplift. If I were to give you a number, particularly only for 2022, we could probably see anywhere between 60 to 80 million maybe coming in, depending on when and how the reprice will happen and how fast we are able to reprice as well.

Mohamed Abdelbary: So we are, again, cautiously optimistic that we will write some of the wave definitely in '22, but it's good news for us once the cycle completes and then the entire race will be factored into our book.

Mohamed Abdelbary: Your third question was, I think, on cost, is there more for cost reduction? I would say, again, because cost optimization, we are continuously looking for ways to create more efficiency in terms of being able to be more or make the dirham work harder for us. And accordingly, I would say if there is no absolute reduction to the cost, at least we will continue on our journey to be able to ensure that we are self-funding any additional investments we are making, particularly on the digital front. Shabbir, did I capture all the points or did I miss anything?

Shabbir Malik: No, no. You captured all the points. Thank you very much.

Mohamed Abdelbary: Thank you so much. Thanks, Shabbir.

Operator: Thank you for your question, Shabbir. Our next question comes from Vikram Vis of NBK Capital. Vikram, your line is now open.

Vikram Vis: Yes. Thank you. Thank you, Mohamed, for this confidential presentation. A question on the profit rate risk sensitivity. You mentioned that for every 50 basis point, you'll see 120 million increase in net interest income. Did you actually mean every 25 basis points will cause an increase of 120 million? Because when we look at your profit rate risk sensitivity, section 42.4.1, you're telling us that for every 25 increase in interest rates, there'll be an increase of between 115 and 120 million in profitability. So probably you meant 25 BPs and not 50 BPs, right?

Mohamed Abdelbary: No, 50 bits on an annualized basis is 120 million. We will get back to you on this specific point if you are seeing anywhere 25 business points for 120. Ahsan, if you can get back on this point.

Ahsan Akhtar: I will.

Vikram Vis: Profit rate this section 42.4 0.1. And there you are telling us that for every 25 BPs increase in rates, the profit sensitivity is between 115 and 120 million. So I was a bit confused when you said the 120 million is for 50 BPs and not 25BPs.

Ahsan Akhtar: Has to be 50.

Mohamed Abdelbary: Yeah, no, it's 50 become... So we will get back to you on that specific point, but you can take it for me, it's 50 basis points, 120 million annualized up ticks.

Vikram Vis: All right. Okay. Thank you. Sorry, just one more question. In your guidance on earnings growth, what kind of rate hikes are you baking in? Are you baking in five rate hikes for this year? Is that your base case in your guidance?

Mohamed Abdelbary: Yes, we are expecting five.

Vikram Vis: So your guidance of 15% to 20% bakes in five rate hikes, right?

Mohamed Abdelbary: Yes. Five this year. Two probably next year.

Vikram Vis: All right. Okay. Thank you.

Mohamed Abdelbary: Thank you.

Operator: Thank you for your questions, Vikram. As a reminder, if you'd like to submit a question, please press star followed by one on your telephone key pad. And if you've joined us online, please click the request to speak flag icon. Our next question comes from Waruna Kumarage of SICO. Waruna, your line is now open.

Waruna Kumarage: Hi, thank you, gentlemen. I hope you can hear me.

Mohamed Abdelbary: Yeah, we can, please go ahead.

Waruna Kumarage: Yes, I have two questions actually. The first one is on your long term target of ROE. You have a target of reaching 20% in 2025. I want to know what are the different components of this improvement from the current level increasing to 20%? That's my first question. And secondly, in terms of the absolute level of cost, can we assume that the hundred that you achieved in fourth quarter, this is the sustainable level going forward, or if not lower?

Mohamed Abdelbary: All right. On the first question ROE, the assumption is that it will have to be a combination of profitability and the capital efficiency. So our guidance was that we are doubling our net profits from when we announced the strategy. And given that we are also ensuring that we remain capital efficient and maintaining our CASA ratios at levels where we are comfortable with, you will be coming to a 20%. So even as I mentioned with this year's outlook, we are anywhere between 15% and 17%. And we are definitely optimistic that this number given what we are seeing today is within reach.

Mohamed Abdelbary: Regarding your cost question, I would not definitely use Q4 on its own for, as in run rate, there were some optimization elements which have come in, particularly in Q4, but I would say the average of maybe the last two quarters is a good proxy for you, but please, when you do your simulation, factor in the fact that we are also heavily investing our digital capabilities, these are systems and the licenses which come into play as they become operational. And accordingly, it is for us not only a one way. And we are not solving for only a cost production, because for us to grow, you have to continue investing.

Mohamed Abdelbary: And our philosophy has always been investing through cycle and this philosophy is not changing. So as we are creating efficiencies, we are spending money and we will continue spending the right level of money as long as we are sorting also for productivity, which will then play a key role in driving the cost to income ratio to the levels which we have committed.

Waruna Kumarage: Okay. Thank you very much. And to the previous question, I think, Vikram's question on sensitivity, I think, appreciate if you can clarify, because as you mentioned, the financial statements referred to 25 basis point sensitivity of around 120 million. So maybe you can clarify it I due course. Thank you.

Mohamed Abdelbary: Absolutely. Sure. Yeah, we will clarify that. Thank you.

Operator: Thank you for your question. As a final reminder, if you wish to submit a question, please press star followed by one on your telephone keypad. If you join us online, please click the request to speak flag icon. We now have a follow up question from Janda Kumar of ARCOM Capital. Janda, your line is now open.

Janda Kumar: Hi. I just so wanted to check. I wanted to know the minimum capital requirement from central bank in 2022.

Mohamed Abdelbary: So the central bank minimum capital requirement are the usual Basel guidelines. So total CAR would be at 13%. But this is not what obviously the industry is solving for. We are currently 18.5%, 18.6%. And these are some of the levels which we are trying to continue solving for our C to I at 12.93% also is at the levels which we like. So the Basel central bank requirements are definitely much slower than that, particularly that there's still the buffer, which has been introduced as part of the test program, but for a deep and specific, and also the market, we are trying to remain within these guidelines.

Janda Kumar: Thank you so much.

Operator: Thank you, Janda. We have a follow-up question from Waruna Kumarage of SICO. Waruna, your line is now open.

Waruna Kumarage: No, actually I must have pressed by accident. Sorry, bud. No more questions.

Operator: Perfect. Thank you. We now have a question from Janany Vamadeva of Arqaam Capital. Janany, your line is now open.

Janany Vamadeva: Thank you for the call. I just have a quick follow up on the guidance for 2022. So if we look at the return on equity of 15% to 17%, if it includes rate types of five times, but we cannot see that reflected in the NIM guidance, because that sort of maintains. I'm just wondering whether we are missing anything here. If you could create some color, that would be helpful. Thank you.

Mohamed Abdelbary: So, the guidance we provided is based on the fact that it does take a bit of time for the reflection of hikes to translate into actual pricing in the portfolio. Now, I would like to believe that we are probably going to be on the higher side from that maybe in the next update, we will be revising it upwards depending on how things are moving. But as we stand now, we felt that it would be prudent to show these levels, given that the rate hikes are yet to happen, and we need to see how the portfolio respond to that. But we are optimistic that this will definitely move in the right direction.

Mohamed Abdelbary: In our next update, we will make sure that we continue updating the market of how we see that translating into our actual financials and net profit margins.

Janany Vamadeva: Thank you. That was helpful.

Operator: Perfect. Thank you. And we have a follow-up question from Edmond Christou of Bloomberg Intelligence. Edmond, your line is now open.

Edmond Christou: Hi, two questions. First one. Is it possible to give some number on the write off for bad loans in this year compared to last year? I cannot find the number on the financial. If you guide me through the financial where it's located. And the other one is if you can give some color on the corporate lending. I believe this is coming from Abu Dhabi. If you just give some color on Abu Dhabi and Dubai corporate demands for credit would be very useful. Thank you.

Mohamed Abdelbary: Yeah. So on the right of... Ahsan will, again, also share with the audience the specific reference in our financial statement, it's in the financing section where we are highlighting the exact write off. Your second point was a corporate growth Dubai versus UAE versus Abu Dhabi, correct?

Edmond Christou: Correct. Yes. What do you see in the demand between corporate in Dubai and Abu Dhabi this year, and also, where most of the corporate growths have book in which state. Thank you.

Mohamed Abdelbary: So today we are slightly heavy on the Abu Dhabi side from a corporate book perspective, as we go more and more into the large corporate and mid corps and banking our ecosystem, I think the ratio becomes a bit more balance. It doesn't mean that we're not focusing on the Abu Dhabi center, but by virtue of it being bigger today, it means that probably the growth in terms of percentage and value will be more on the Abu Dhabi side. But our focus remains to be UAE holistic, not only Abu Dhabi, Dubai, but we look at the entire country and really follow our clients to ensure that we provide the right level of financing within our capital.

Edmond Christou: Thank you. And for the retail is the same when we talk about the experts?

Mohamed Abdelbary: Yes. For retail, experts would be more in Dubai. So given that we are today almost 80% UAE national, as we open up more the expert segment, that's definitely more in Dubai.

Edmond Christou: Great one. Thank you.

Operator: Thank you for your follow-up, Edmond. We currently have no further questions. So I'll hand it back over to the management team for any closing remarks.

Mohamed Abdelbary: All right. Thank you everyone.

Lamia Khaled Hariz: Thank you all. And we will send the follow-up questions to the people who asked about it. And if you have any other questions, you have our email. Otherwise, if this is fit, we'll send them by email. Thank you.

Mohamed Abdelbary: Thank you very much.

Operator: Ladies and gentlemen, this concludes today's call. You may now disconnect your lines.