Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

ADIB 2Q 2023 Results Call

Thursday, 27 July 2023

Shabbir Malik Good afternoon, ladies and gentlemen. My name is Shabbir Malik and on behalf of EFG Hermes we are delighted to have the management team of Abu Dhabi Islamic Bank who will discuss the second quarter results. Representing the bank today is Mr Mohamed Abdelbary, Group CFO, and Ms Lamia Hariz, who is the Head of Investor Relations, Communications and Marketing, and Mr Ahsan Akhtar, who is the Group Financial Controller. We will start with the management presentation and then open the call for Q&A. I will now hand it over to Lamia. Lamia, please go ahead and start the call.

Lamia Hariz Thank you, Shabbir. Good afternoon to everyone on the call and thank you for joining us today. Before we get started, just a quick reminder that the presentation of today and our financial disclosures are currently being uploaded on our IR app and the website. As Shabbir mentioned, I have here, with me, Mr Mohamed Abdelbary, our Group CFO, and Ahsan Akhar. As usual, today we will cover the key highlights of the first six months of the year and then we will give you a quick update on the strategic progress of the bank and then we will end with a guideline, and after we will open the floor for Q&A. With that, I'll hand over to Mohamed to go through the financials.

Mohamed Abdelbary Thank you, Lamia. Good morning and good afternoon everyone, and thank you for joining us on today's call. We are very pleased to have reported yet another strong set of results with net income for the six months of 2023 reaching 2.3 billion, which is an increase of 61% year-on-year. Results were driven by strong revenue momentum, which were up 50% year-on-year. Return on equity has expanded further by 7.6 percentage points to reach 24.9%. It also worth mentioning that our net income for the second quarter, on its own, is a growth of 68% year-on-year.

As in previous quarters, the consolidation of ADIB Egypt had a positive impact on the group's revenues and margins, however the bottom line, if one would look at the 61%, it has only been supported approximately 6%, so if you were to normalise for the Egypt consolidation we would have grown 55% year-on-year. Also, our cost to income ratio has improved to 33.9%. We have seen significant growth of 18% year-on-year in our customer financing, driven by both segments, retail as well as the corporate side. The growth was funded by growth in our deposits, which have grown more than 30%. Again, when we quote the details we'll talk about our focus on ensuring that we always fund before we finance.

Moving on to slide number six. A bit of an update on our strategic initiatives. During the last quarter we had some key product launches. This included a successful salary cash back campaign, the launch of a new cash back card, introduction of digital on-boarding for business banking, the UAE's first long-term fixed rate for home finance, and the expansion of the remittance programme to new corridors. We have also added 1,700 new customers to Amwali. In the first half of 2023 we attracted almost 96,000 new customers, of which 31,000 were UAE nationals. We maintained our strong relationship with customers, taking our cross-sell ratio to 1.5x. We have also achieved 16% financing growth in the wholesale bank and recorded retail sales growth of 14% year-on-year.

A bit on digital. 98% of payment transfer requests are now received through our mobile app and online channels. 54% of personal finance volumes are digitised, while overall STP is now sitting at 91%. Moving forward, on the sustainability angle, we maintained our MSCI ESG rating at single A and we were also included in the ESG Leaders Index. We also issued 1.7 billion in sustainable finance during the first half of this year. We also achieved an upgrade to our environmental, social and governance score by Sustainalytics, one of the world's leading ESG rating agencies. ADIB's sustainability ESG risk score has improved from 34.25 in 2022 to 29.6 in 2033.

Moving forward, on slide number eight some of the key highlights of our financial performance again. I spoke about the 2.3 billion of growth in net income. Revenue has grown 50% year-on-year, backed by funded revenue growth of 75% through an ongoing expansion of the net profit margin as well as robust year-on-year asset and financing growth. Our return on equity, as mentioned, at 24.9% is market leading and we are very proud of how our cost to income ratio has been trending, now coming close to 33.9%.

Moving forward on slide number nine, this is the income statement slide. We continue to be very, very pleased with the quality of the profits that we are delivering. As you can see on the top right chart, the key driver of the profit growth was funded income, which showed 75% growth year-on-year. This was partially offset by growth in expenses. However, we still maintained our positive jaws and, again, when we talk about the expenses it is important to call out that these are all expenses, investment in people, technology and digital. From a segment perspective our core business, retail, wholesale and private bank, have all contributed very positively to the growth story.

Moving forward on funded income, we spoke about the 75% growth in funded income. As you know, this margin expansion occurred on the back of rising benchmark rates which materially improved financing yields in wholesale and retail segments, as well as increased interbank placement, income and treasury. The consolidation of ADIB Egypt also positive impacted funded income by almost 467 million, which we are reporting as part of the Associates and subsidiaries. On the funding side, we continue to benefit from a strong non-earning liability base. Nevertheless, as expected, the rising rate environment and the shift in the deposit mix meant also that our cost of funding has slightly increased from the first quarter of this year.

Moving forward, slide number 11, the non-funded income. The dynamics of non-funded income is visibly improved in the second quarter where we have seen a 32% growth year-on-year as opposed to what you've seen been slightly flat in the first quarter. Accordingly, in the first half of 2023 our non-funded income rose by 14% year-on-year. If I just take you to the waterfall on the right-hand side, which highlights the components of the movement. It is worth noting that investment income as increased 8% and that is quite impressive, given where the cycle is at this moment. Fees and commission grew by a solid 15%, and the drivers you see at the bottom chart on the slide. Then, also, FX income has grown 21% year-on-year.

Moving forward to the expense slide, expenses have grown 25% year-on-year. If I were to normalise, just to help you understand this chart a bit better, for the Egypt impact, the underlying cost growth is approximately 9% and the remaining is coming from the impact of the Egypt consolidation, having no cost last year versus fully loaded into the first half of this year. The main investments have been in employee costs, where we had a few rounds of adjustments this year but also it is a reflection, in terms of general administration costs, this is mainly IT spend over the past few years for projects being delivered this year as well.

Moving forward on to the impairment slide, a few points to call out. The first point is that, as shown on the top left chart, the net impairment charge for the period increased by 62% year-on-year. Similar, like the comment I made on cost, normalising for the Egypt impact, we have grown our impairments approximately by 13% year-on-year and that was largely driven by impairments or ECRs booked in the wholesale bank as well as the retail bank.

Moving forward to the next slide, our NPAs have improved from 7.7% in the first quarter to 7.5% in the second quarter, so clearly moving in the right direction. We're also very happy to see that the stock of NPAs is starting to taper off. In the first quarter we had 8.7 billion, which is now trending towards 8.6 billion. In terms of coverage, we have also continued to increase or enhance our provision coverage, as we have been promising the market. 72.5% is the number in the second quarter and we continue to improve. If one would look at it including collaterals, we are now trending still at the 128%.

From balance sheet perspective, if we were to compare our balance sheet from the second quarter of last year at 142 billion, coming close to now 182 billion and this is the year-on-year comparison. And the driver for that increase, again if you were just to normalise for Egypt around 17 billion or so, has been coming from a growth in financing close to 10 billion year-on-year. From the beginning of the year, the growth has been approximately 8%, driven by increases particularly in our investment book. Financing has grown by 1.6%, however the underlying growth is slightly bigger than that because the FX devaluation in Egypt has probably taken away 1.2 billion of that financing growth. On the investment side, we have continued to build our book. We've started the year with 19.4 billion. We are now close to 22.6, so very structurally building our investment portfolio, which is predominantly in investment grade assets. If you can see the build-up between amortised cost and fair value, it is clearly more tilted towards amortised cost.

Customer deposits have grown from the beginning of the year, from 138 billion to 150 billion. The good thing to point out is two things. First of all, both segments, retail and wholesale banks, have contributed very positively to growth but also in a very high rate environment being able to still grow CASA by 5.2 billion from the overall growth it is quite impressive. If you actually see the Wakala deposits at 2.6, CASA has outgrown the contractual deposits in a very high rate environment, and that's a reflection again of some of the campaigns we have been running, particularly in the retail side, and I spoke about the salary cash back campaign, which has been a huge success.

From a capital position, we remain to build our capital buffer, so our CET1 now is close to 12.8%, up from 12.5% in the first quarter and our total CAR ratio is trending at 17.7%, so quite comfortably building on that front. If one would just look at our capital build-up, which now stands at 22.7 billion, the main contributor is the first six months net income, as you can see in the lower right-hand side of the chart. RWAs have grown 7%, while our capitalisation issues have grown 10%, so clearly we are writing capital accretive business.

Very briefly on the outlook and guidance, we are still holding towards the 5-8% full year guidance in terms of customer financing. Net profit margins, we are still targeting around 4.5%. We did obviously all see the announcement of a further rate hike of 25 basis points. However, as we all know, it takes time to reflect in our financials, so we're not changing our guideline of 4.5% at this stage. Cost of risk, we are now trending at 48 basis points, so the guidance of 55-65 still holds. Cost to income ratio, we are already below 35% and we do expect this trend to continue. And return on equity above 22%, we're already comfortably above that level. With that, I'm concluding my presentation and we are happy to open it up for any Q&A.

Shabbir Malik Thank you, Mohamed. Thank you, Lamia, for the presentation. To the participants, if you would like to ask a question, you can either raise your hand or you can also type your question in the Q&A box. I'll now move to the participants who raised their hands. Waleed, your line is open. Please, go ahead.

Waleed Mohsin Good afternoon. Sorry, the line was muted. Thank you very much for the presentation and apologies if some of the questions have been covered in the financials or the presentation. The financials were out late, so I may have missed some of the comments. Firstly, on the changes in the mortgage guidelines, if you could talk about what exactly is the impact that you see. I understand the impact is quite limited but any clarity on that will be very helpful. Secondly, if you look at how you are faring in terms of your ROE, your net interest margin, at least in the short-term it seems there is upside risk to your medium-term guidance. Any comments around how you see your medium-term performance changing? Also a question around tax rate. How are you tackling that in terms of the CAR that you will be eligible to pay going forward? And my final question is on the loan growth. We've had a few mixed quarters in the sense of some very strong quarters and some relatively muted quarters. What trends are you seeing in terms of origination and how should we think about loan growth going forward? Thank you.

Mohamed Abdelbary Thanks, Waleed. I will take them one by one. If I miss anything, please do let me know. I'll start first with the new home finance regulations which came out. The short answer is that we've done the assessment and we believe the impact to be not very material, and the impacted segment from that is predominantly UAE nationals and they fall into two categories, one is salaries above 40,000 per month and one is below. The guidelines in terms of rationalising some of the profit rate charged on home finance has to follow certain steps. So, we did an assessment and our initial outcome is that the amount will be quite immaterial, even in a worst case scenario. So, we're not too concerned about that at this stage and hence there is no risk from that new regulation on ADIB.

The second question on your ROE guidelines and net profit margins. Net profit margins, you're right, there could be an upside risk, so we could actually overachieve that but we are intentionally being slightly cautious about it for two reasons. One reason is that we are now currently at 4.41. We have given a guideline of 4.5. What needs to happen for us to significantly exceed the 4.5 is, number one, that the portfolio repricing continues at the same pace. However we, at the bank, always take also the client interest into consideration, so in many cases where we have optionality not to pass on the entire rate to the client we do that, and that is particularly on the newly originated financing because any financing which is on our books is following a contractual obligation of how we reprice, so there's less flexibility. But for new financing, we do have optionality.

And adding to that is that the cost of funding, as we also see in our chart, is going up and clients, rightly so, are demanding to be compensated for higher rates and hence I would say the corridor between what you charge the client and how you fund your liabilities will not probably continue at the same jaw as we have seen. So, we're still holding to the 4.5 and we will continue updating you as things are progressing. From an ROE perspective, we are at 24.9. We do believe that this is probably a fair number to be had at this stage because when we do calculations for ROE it is an annualised net income and hence for this number to significantly change it means that our full year outlook also has to significantly change, coupled with a change in your equity position. At this stage, we don't anticipate our equity position post-dividend to change significantly, as well as taking into consideration that the remainder of the year also will be quite predictable.

Your question on loan financing growth being slightly volatile, you're absolutely correct. We are going through cycles. Our first quarter was slightly muted, second quarter definitely much better, and what is happening is that we are seeing a lot of good asset or financing origination, but there are also clients who have the ability to repay, and I'm talking about GREs or governments, even the usual corporate clients given the higher rate environment, any optionality to repay, they actually are seeing that. However, our initial origination, particularly on retail has been quite strong. So, we see momentum continuing to pick up from where we are today and hence we are holding to 5-8% growth. The only headwind which we need always to consider is now Egypt being part of our numbers, they are showing growth as well from a local currency perspective. But translating that into our own functional currency, that's where we see the headwinds and hence we have seen a number of 1.2 billion negative in our financing book, just by the way of FX translation.

The fourth point on tax rate, what is the impact on that? It is starting next year, so we are doing, as we speak, an assessment of the implications. We do believe that there could be probably a 13-14% effective tax rate applied on us next year, numbers to be confirmed once we conclude the assessment, but I think it is something to be considered. 9% is the quoted rate, however I think once we do all the deductions and really come out with the taxable income base, I think 13-14% is a good estimate at this stage. We do not pay the Zakat on behalf of our clients. We only calculate the Zakat for our clients, which we disclose in our financial statements, and then it is up to all the clients to pay the Zakat at their own discretion. So, we do not so any payments on their behalf for Zakat. Waleed, please tell me if I missed any of our points.

Waleed Mohsin No. Perfect. All clear. So, there will no change in your Zakat methodology, even under the new tax regulation. It's just going to impact corporate tax directly. Just one thing, the 13-14% is based off a 9% rate. If the regulator decides, the tax authorities decided that they're moving towards 15%, then you believe that this rate could be even higher, right?

Mohamed Abdelbary Absolutely, because we do expect that definitely, once you come to your taxable income base, usually it works against the institution to start with and then it becomes a timing difference and it catches up with you, but I think the starting point will probably be not in the favour of the institution.

Waleed Mohsin Got it. Understood. Mohamed, thank you so much.

Mohamed Abdelbary Thank you, Waleed.

Shabbir Malik Thank you. Our next question is from Aaron Armstrong. Please, go ahead.

Aaron Armstrong Hi. Good afternoon. Thanks very much for taking the question. Can you talk in a little bit more detail firstly about the loan growth side, please? That has been a little bit below guidance in the first half. Could you talk about what the challenges have been? Has that been about higher than expected repayments or lower demand from customers? Then, secondly, I know you touched on it very briefly but could you talk a little bit about the pipeline and what gives you the conviction of a pick-up in the second half?

Mohamed Abdelbary Regarding the financing growth for us, Q2 has been much better. I was mentioning to Waleed also some of the headwinds have been the Egypt devaluation but definitely the pipeline is strong. Usually, H2, particularly on the wholesale bank side, is much more active. So, what we do see is that Q1 is slow because most of the transactions would be closed before year end, so you are almost closing Q4 and Q1 transactions in Q4. Then, you build the pipeline. You start evolving into Q2 but then actual delivery on the wholesale bank usually happens between Q3 and Q4, so we do expect that to ramp up.

On the retail side, we are very pleased with the gross sales which we are seeing. I can tell you that if I compare my gross sales, whether it is in personal finance, home finance, auto finance and cards in this quarter versus quarter two of last year we are probably at least 40% up in terms of gross sales and this will eventually translate into growth in the book of retail as well. So, we're still holding to the 5-8% financing cost for the full year.

Aaron Armstrong Thanks. So, the main headwinds you identified, thank you. That was clear on the Egypt side. Was there anything in terms of repayments or government cash position being strong? Are there any other kind of headwinds?

Mohamed Abdelbary Government, no. I think, unlike some of the Dubai-based banks, we have not seen these repayments but some of the corporates who have become a bit more cash rich and have the optionality to repay, we have seen some of that. Nothing to be concerned about but, to be honest, if I'm in their situation I would probably do the same and these are usually the big development entities who are sometimes flooded with cash from off-plan sales and then they manage their financing accordingly.

Aaron Armstrong That's great, thank you. Then, could you talk in a little bit more detail about the net interest margin, please? I think your slide deck shows the half-on-half comparison. Could you talk a little bit about the quarter-on-quarter trends please for Q2 versus Q1, and if you could go into the details of asset yield repricing versus cost of fund repricing on a quarterly basis, what you've been seeing there and the outlook going forward?

Mohamed Abdelbary Sure. The 4.41 is my year to date net profit margin. If I were to see it for Q2 on its own, it's approximately 4.45, so you can add four basis points to that number which also can give you an indication of how Q3 and Q4 will start to fare and hence we are very comfortable with the 4.5 full year guidance and I think, as Waleed mentioned, there is probably an upside risk which could happen if things all go in the right direction. And the cost of fund is more controlled because, as you can see, the cost of fund is going up, rightly so. Particularly on the corporate side, demands for being compensated for deposits are being definitely accommodated by us because these are all strategic clients to us and we support them through high rate and low rate environments. So, we are kind of comfortable with it. Sorry, did you have a follow-up question after the net profit margins?

Aaron Armstrong Thanks. Yes, just on the slide deck you show the first half '23 numbers here on cost of funding and gross margin, so asset yields. You show that as a first half basis. Could you talk about it for quarter-on-quarter, please?

Mohamed Abdelbary Quarter-on-quarter, yes. That is also probably I would say four basis points up also, not much but this is four basis points up and if you look at the composition of our book, our corporate book is on a fully repricing basis. Our retail book is a mix of home finance being a portion of it fixed and variable and personal finance, which is approximately 17-18 billion, is fixed and auto finance which is fixed. So, it's a nice to mix to have because you would want this diversification because as the cycle turns you would want to have some hedge on the downside as well, so when rates go down you have a natural hedge not to be impacted by lower rates and you have the ability to create floors as well as you are originating new financing in this environment.

Aaron Armstrong That's great. Thank you. Last question if I may, please. Could you talk a little bit on the cost of fund side? So, one, in terms of the impact of repricing individual deposits. You mentioned giving higher rates to corporates versus changes in your funding mix and your CASA ratio and how those two factors are playing out and what you think is happening there in the next couple of quarters.

Mohamed Abdelbary Sure. Let us show you. Here, is the deposit slide, right?

Aaron Armstrong Yes.

Mohamed Abdelbary So, if you see our CASA ratio to total deposits is now at 66% and, just looking at the market, I think this is probably one of the highest CASA ratios in the market and, in fact, we have seen other institutions dropping that ratio much faster, in the lower 30s I have seen some numbers. So, that's a fairly good number to have in an environment where rates are high and you're still able to generate CASA at 6% growth year-on-year. Now, the ratio for us was closer to 68% but it is a natural progression because the demand for being compensated, as I mentioned, is becoming more visible and justified as well. So, we expect this ratio probably to stabilise at this level and as the cycle turns we do expect that this ratio will also go up again. Just for the benefit of the audience, this ratio doesn't come on its own, like naturally. There is a clear strategy behind the value proposition for CASA balance holders backed up by salary transfers, backed up by campaigns, incentives as these CASA finances drop. It is not just that the client leaves his balance with us but it requires effort and active engagement with the clients to keep that balance where you see it today.

Aaron Armstrong Thanks. If I may follow-up with one final point, please, and then I'll rejoin the question queue. Could you talk about non-performing assets, please, and maybe break that down into the legacy NPA book versus the more current NPA book and whether you're seeing different movements there, different dynamics, coverage ratios, which ones are driving cost of risk and how the two different parts of the NPA book are performing, please?

Mohamed Abdelbary Sure, happy to. If you look at the 8.6 billion size of the book today, I would say apart from NMC, which is the 1.27, which we are calling out here, and another exposure which was added to the book in the third quarter of last year and that's why you also see the third quarter spiking from 8.1 to 8.6, that is one name in the real estate sector. Everything else or the majority of it is before 2018, legacy. These are all legacy exposures which are being actively pursued for resolution. It is taking a bit longer than expected. However, there will be inflection point where we will decide when to write off these exposures against provisions we have or try to find a faster settlement agreement because they are quite old, from 2018 vintage and before. But the good thing is that the flow in to NPA is quite controlled and we have to deal only with one side of the equation, which is really trying to clear the book and not having to clear the book as well as trying to deal with new flow in, which reflects our strong underwriting standards.

Now, what is meant is that our NPA ratio is dropping from 7.7 and, if we go back further, at a high of 8.4 last year to 7.5, driven by the stability of the NPA book and growth on the financing side. This number we expect also to continue dropping as we take some strategic decisions in terms of our NPA portfolio fairly soon. From a coverage perspective, 72.5% is our coverage ratio now without collateral and we will continue to enhance it. We are, at this stage, very comfortable with our provisioning levels, especially looking at our collateral position and coverage with collaterals. Having said that, we did promise and commit to the market before that we will enhance our provision coverage ratio without collateral, and that's exactly what we're doing and we are moving toward that.

Aaron Armstrong You mentioned take strategic decisions soon on the NPA side. Could you elaborate a little bit on that, please?

Mohamed Abdelbary Not at this stage. I think we will eventually come with slightly more clarity but management is very keen on ensuring that, especially for some of the legacy exposure, a decision is made. And one decision clearly could be a write-off decision and write-off does not necessarily mean that you are foregoing your legal actions and pursuing rights for recovery but this is one action. Other actions could be what you've seen other banks doing in the market but at this stage we're not really in a position to comment on it any further other than that we are actively pursuing that ratio and we will ensure that it will continue to improve quarter-on-quarter.

Aaron Armstrong That's great. Thank you very much.

Shabbir Malik Our next question is from Naresh. Naresh, your line is open.

Naresh Bilandani Hi. Can you hear me?

Shabbir Malik Yes. Go ahead.

Naresh Bilandani Hi, Mohamed. It's Naresh Bilandani, from J.P. Morgan. Thank you very much for the presentation. Just two questions, please, from my side. One, would it be fair to understand that under the new regulations for UAE citizen mortgages, it limits your ability to pass on higher rates into this portfolio as the DBR is capped at 60% for mortgages where the borrower is earning more than 40,000? Is that a fair understanding? Also, can you please share some insight into what is the split of your citizen mortgage portfolio between customers with over and under 40,000 income? I'm trying to understand whether this is a factor which is constraining you from raising your NIM guidance despite a favourable trajectory. So, that's the first question. And the second is, would you please be able to guide in the current environment, even if you assume a few cuts in rates in '24 and '25, how should we think of your medium-term ROE beyond '23, say by '25? That would be great. Thank you.

Mohamed Abdelbary Sure. Thanks, Naresh, for the questions. Let me take the second question first. I think our ROE guidance, fast forward two years from today, and probably seeing the rates in the market normalising, we still do believe that it will be above 20%. ADIB's history has been always at that level, so we are very efficient in terms of our capital deployment and it is reflected in, if I look at my corporate book, which is quite tilted towards the GOEs and public sector, so RWA efficient. If I look at my retail book, you would see that it is split between home finance and personal finance. Home finance does get a lot of RWA relief as well, and personal finance also has usually a short duration and hence becomes also quite capital accretive. So, for ROE long-term, I would advise you to also think about the 20% mark and that is what management attention or focus will be. That is on the ROE.

In terms of the impact on home finance, if one would look at our total home finance book of approximately 17 billion or so, I can tell you that probably 80% of that book is financed to UAE nationals, so that is the addressable pool. Now, it does not mean that the entire book will be subject to the new regulation. Let me clarify a few points on the regulation. It is that it has to be a first property. It has to be that the UAE national is living in the property, so it is not bought for investment purposes. It has to be qualified between who earns more than 40,000 and less than 40,000.

And number four, and more importantly, he has to show signs of stress. You have to follow all these steps before you come to the conclusion that I will not hike the profit rate on this specific asset or I will be absorbing the rate impact on his before. Hence, our impact, after we did all this assessment, has become quite immaterial because by the point you reach a level where it is his first property, he lives in it and he earns less than 40,000 and he is in stress, the pool becomes fairly small. Hence, we're not too concerned, Naresh, about what could be the possible impact on that.

Naresh Bilandani Thank you very much.

Shabbir Malik Our next question is from Aybek. Aybek, please unmute your line. Go ahead, Aybek.

Aybek Islamov You keep mentioning the CASA deposits in retail. Obviously, you're putting a lot of effort to get that level but when do you start booking the costs? For example, the salary transfer campaign, is it from next year when the customer stays with you for a year and then transfers his salary and other loans to your bank or do you start amortising these costs immediately from day one? So, I just want to understand your cost trajectory, that's one. Secondly, what are your thoughts about your corporate loan growth in view that you're still phasing in risk-weighted assets in Egypt? Again, could you remind us how is the phasing of risk-weighted assets form Egypt going on, number one. And, number two, your capital consumption on corporate lending as it happens. What is your comfortable growth speed in risk-weighted assets given your capital position at the moment?

Mohamed Abdelbary Thanks, Aybek. Very good. Your first question, I think, and please do correct me if I'm missing any point or misunderstood one of the questions, the first point is the impact of the salary cash back campaign and when the costs will kick in, right?

Aybek Islamov Yes, correct.

Mohamed Abdelbary The criteria for qualifying for that specific campaign is that, number one, the salary is transferred to ADIB and stays with us for 12 months. That's number one. Number two, you have to avail a personal finance transferred from the bank where you are currently are banking with. It is not that you transfer salary and take new finance from me. No, you have to bring your personal finance or your home finance from that specific institution with your salary, and we have given also a multiplier X or the personal finance to qualify for it. It has to be 7x times of the salary you transfer. And for home finance it has also a floor which has to, I think, exceed 1.1 million, right?

Lamia Hariz Yes.

Mohamed Abdelbary AED 1.0 million. Once all this is happening, then you qualify for the 50% cash back which will kick in after we sight 3x your salary transfer into the account with a clawback if it leaves before one year. This is the criteria. Now, economically, this works for us very well because we did the math and it's beneficial for the client and beneficial for us. Now, the cost is considered to be a loan origination cost, so you will not see that specific cash rate in our cost line. However, it will be considered as a contra revenue to be amortised over the life of the asset or financing originated. If it is a personal finance for three years that will be the amortisation of the cost. If it is a home finance, same situation. So, you will not see a spike in cost but you will probably see a contra revenue coming against that specific class.

Aybek Islamov It will be booked as interest expense, right?

Mohamed Abdelbary Yes. Negative revenue, correct.

Aybek Islamov And that, we should start seeing it from, I guess, 12 months from now, right, at the earliest because the campaign is quite new?

Mohamed Abdelbary Absolutely, yes. Despite that the cash flow itself will hit the client account only after only he signs 3x of his salary, the actual amortisation will start when the asset is created. The moment the asset is created on our book, that's when the amortisation of the cash back will happen, even if the cash flow to the client only happens after three months.

Aybek Islamov Thank you.

Mohamed Abdelbary Good. So, that is on this one. Then, you had a question on RWA Egypt. By H1 of this year, now we are six out of eight quarters RWA consolidated. We have only two quarters left. The total was around 17 billion, so you can assume that another four billion or so will be added on in the second half of the year for our RWA pot. That is the remaining part and by the end of this year Egypt would have been then fully consolidated from a capital perspective. It is only from direct capital, missing two quarters, equating to around AED 4.0 billion.

Aybek Islamov Thank you.

Mohamed Abdelbary Then, I think you had a third question on RWA for corporate financing. Can you just repeat that one, just to remind me, so that I'm getting it correct?

Aybek Islamov Yes. In view of your quarter one ratios today, what kind of target risk weighted asset growth do you have in mind? I know you're also conscious about dividends. I think your shareholders, your board cares about the good payout ratios. What is the comfortable risk weighed asset growth you would think about?

Mohamed Abdelbary Fantastic. Thank you. Very good, Aybek. You've absolutely correct. ADIB is quite conscious regarding its dividend policy and shareholder requirements and we've been very consistent about it. For us to be able to meet that requirement, you're absolutely spot on, we need to ensure that we are building enough buffer, CET1, allowing us to pay dividends as we usually expect. What it means is that as we build our RWAs, we have a very clear guidelines to the business of RWA consumption by year end. It does mean financing costs are up because the business is free within our risk appetite to write assets as long as the RWA consumption is set. Usually, our RWA efficiency on the corporate side is anywhere between 70-80% and can drop even further if you turn more towards the GREs. So, we are giving that guidance to ensure that by year end we have enough buffer to be able to meet that dividend as well.

Aybek Islamov Thank you. One last question if I may. Your write-offs, you said that at some point you will be writing off your legacy NPRs and within NPRs there are a lot of legacy ones, very old. Is there a particular coverage ratio where you can be writing off these NPRs? Is it like when your coverage ratio goes to 100 maybe? Is there such a thing or not really?

Mohamed Abdelbary Aybek, the 72.5% you see there is a blended rate between exposures which are already 100% covered and some which are less so, so not everyone is at the same level. The ones which are at 100% are straightforward and they will be immediately addressed. The ones which are less so will take a bit more time. So, either we will build enough coverage to take that decision or we come to an amicable settlement with the counterpart whereby you at least cover the open exposure and then proceed with settlement and write-off. So, we're doing it very sensibly to ensure that we get the best benefit for the institution at the end of the day.

Aybek Islamov Thank you. That's all, thank you.

Shabbir Malik Thank you. Next question is from Olga. Olga, your line is open.

Olga Veselova Hi. Can you hear me?

Shabbir Malik Yes, go ahead.

Olga Veselova Thank you. I have two remaining questions, please. The first one is what part of your home financing has floating versus fixed interest rates? And the second one is on a similar topic. Do you think that the high cost ratio can increase your net profit margins and stated falling rates versus local peers or this will be more than offset by your fixed rates on the relatively sizeable personal financing book?

Mohamed Abdelbary Thanks, Olga. Let me take again the second part first. You are correct. We believe that our 65-66% CASA ratio is definitely a comparative advantage for the institution vis-à-vis our peers. It allows us to benefit much faster in a rising rate environment but also as rates go down we have the floor, as I mentioned, on the asset side to ensure that we always are quite protected in both cycles. That we expect to continue and ADIB is a very liquid bank. So, if you look at our AD ratios, NSFR, LCR ratios, we are very liquid and this is also demonstrated by the fact that we haven't gone to the market for any senior issuances so at this stage we do not see the need to do so.

If we ever need, we will definitely be tapping that market but at this stage we are fairly liquid. So, yes, CASA is definitely a comparative advantage for us. The second point, you mentioned the split between home finance, between fixed and floating. At this stage we are more tilted towards floating but we did introduce a fixed rate product in home finance recently which can go all the way up to 15 or even 20 years. We are still assessing the appetite for that in the market but we do offer that opportunity for our clients.

Olga Veselova Thank you, Mohamed. Would you be in a position to disclose the percentage fixed versus floating?

Mohamed Abdelbary We don't disclose that at this stage but it is a good mix, tilted towards floating. But I think what you can do as an assumption is tilt more towards floating because even the fixed ones, they convert into floating either after one year or three years on the book today. So, even the fixed turn into floating eventually.

Olga Veselova If I can ask on that, is it more often one-year or more often three-year? What dominates?

Mohamed Abdelbary This year, at this stage we see more one-year because I think the clients also anticipate that if you fix for too long you will probably lose out on the cycle when it turns. So, we are seeing more in one-year but there are also cases where we have five years.

Olga Veselova Thank you.

Shabbir Malik Thank you. Next question is from Vikram. Vikram, your line is open.

Vikram Viswanathan Hello?

Shabbir Malik Yes, we can hear you. Go ahead.

Vikram Viswanathan Great. My question is on the margins. When Fed rates go up, typically the banks' lending rates, they go up with a lag. My question is should we expect this lag to continue into 2024? We already saw a lag impact of higher interest rates in 2023. Should this be lower in 2024? Also, how should be think about margins in 2024? I think 2023 is fairly clear. You are guiding for a certain net interest margin and the market is already observing it but how should we think about it next year?

Mohamed Abdelbary The voice was not very clear but what I understood from you is you said you wanted to understand the time lag between when rates change and when they are reflected in our net profit margin or in our pricing of the book, correct?

Vikram Viswanathan No. What I wanted to ask was clearly there is a lag in your lending rates whenever there is a change in the Fed rates or, let's say, the interbank rates in the UAE. My question is how long is this lag? We saw the impact of lagged rates producing a good increase in margins for this year. Should we expect the lagged impact to continue into 2024? That was my first question. My second question, I was going to ask 2023, I think you have it in your bag. Your guidance for margins is quite strong in 2023. The market has already digested the rate. How should we think about 2024 for the moment, if we make an assumption that there are no major movements in interest rates in 2024? Let's say the rates stay as it is, what should happen to margins in 2024?

Mohamed Abdelbary Fantastic. On your first question, you can assume that 42% of the book would have repriced within 12 months. That is the average behavioural repricing portfolio of our entire financing book, and then after the second year, probably 67-70%. So, it's a book which reprices quite frequently and fast, so 42 in one year and by year two, probably 67-70%. Thinking about next year, I think next year the rates will continue to stay high. At least the guidance for now is that the tapering off of rates will not happen before second half of next year and hence the exit point which we will see this year will probably continue all the way next year as well, in 2024. Going into '25, the story will obviously then start to change but the good thing is that the change of story, with the same assumption that only 42% of the book reprices in one year, that it will take us also way into '25 before we start seeing any material change in our net profit margins. So, that is the assumptions we are currently taken in terms of net profit margin and repricing profile of the book.

Vikram Viswanathan All right. Great. Thank you, Mohamed.

Mohamed Abdelbary Thank you.

Shabbir Malik Thank you, Vikram. We can now move to some questions in the Q&A box. The first one is from Rida. How much was growth in retail and corporate lending in the UAE entity?

Mohamed Abdelbary This is all UAE entity because outside the UAE it is predominantly only Egypt and Egypt has actually de-grown, so it is has gone backwards due to the FX devaluation. From a local currency perspective, they've actually grown as well.

Shabbir Malik The second question is from Abhat. What portion of your CASA is retail versus corporate? Also, could you comment on retail CASA percentage versus corporate CASA percentage?

Mohamed Abdelbary In terms of composition of CASA, the majority is retail and corporates are more tilted towards Wakalas and contractual deposits. The growth has been actually, in terms of total deposits on the client side, equal on both sides. But if you talk about CASA, CASA has been predominantly on retail and contractual predominantly on the corporate side.

Shabbir Malik A question from Abdulaziz. On your ROE guidance, are you considering ROE with or without intangibles in the denominator and is it adjusted for Tier 1 cost?

Mohamed Abdelbary It is adjusted for Tier 1 cost, definitely. The issuance we have there, we adjust it when we do the calculations for ROE. What was the first one?

Shabbir Malik If it is adjusted for intangibles?

Mohamed Abdelbary Yes.

Ahsan Akhtar Also, the intangible cost is already passed off our P&L so, yes, the net income reflects that, so it is automatically adjusted also.

Shabbir Malik So, it is both Tier 1 interest expense, Tier 1 coupon expense is deducted from the P&L?

Ahsan Akhtar Absolutely. And it also deducted from the profit in arriving at the profit after tax.

Shabbir Malik But in terms of the denominator, is it subtracted from equity, so is it tangible equity?

Ahsan Akhtar The denominator, Shabbir, this is a very small number, so it doesn't materially impact.

Shabbir Malik A question from Khalid. Given strong H1 results, why don't you update guidance for H2? I'm guessing you answered some of these but maybe I think if you want to touch some more on financing and growth.

Mohamed Abdelbary I think if you look at the H1 result and full year guidance, it is pretty much in line, whether that's financing, net profit margin we spoke about, cost of risk we spoke. Cost to income ratio, we always say it's below 35 so, yes, this will probably improve from where we are today and ROE is always above the 22%. So, no, no change for the full year guidance.

Shabbir Malik If I may, from my side, I think one thing that I noticed was the provisioning. I haven't looked at the results in detail but in terms of provisioning there was a pick-up on the corporate side. Anything worth highlighting over there? Is it mostly BAU? Generally, on the retail side, especially on mortgages with rising interest rates, are you beginning to see any clients coming to maybe renegotiate the terms or anything, maybe slipping into past due, etc., that is probably not a concern now but could be a concern maybe in a quarter or two?

Mohamed Abdelbary In terms of the home finance, particularly, we're not seeing any stress. It must have to do also with the fact that 80% of that book is UAE nationals, so this has been a very good performing book and, no, we have not seen any specific requests coming to us. The pick-up in some of the provisions you see on the retail side is mainly on what we call the REF, which is more on the commercial real estate, but it is a fairly small book and it is more of a precaution, measures we are taking, so nothing there. On the wholesale banking side, that is an actual build-up of the growth in our book as well. With the book growing almost at 18% year-on-year, we are building also our Stage 1 provisions and we take also some overlays to ensure that we are covered for any future anticipated stress in that portfolio.

Shabbir Malik A follow-up question from Aaron. Because of the impact of interest rates on profits or revenue, could you talk about your outlook for opex to assets ratio instead of cost to income ratio?

Mohamed Abdelbary We could include that. At this stage we don't have it there but we can maybe talk about it eventually. Sure.

Shabbir Malik Let me just check, finally, if there is any audio question left. Naresh, do you have a follow-up?

Naresh Bilandani No, thank you. I'm good. Thanks a lot.

Shabbir Malik Thanks. I think those are all the questions on the line. I'll now hand it back to you guys for any concluding remarks.

Lamia Hariz Thank you, Shabbir. Thank you, everyone. As usual, if you need any follow-up questions you can always email us. Thank you for attending. Have a lovely afternoon. Bye.

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

Shabbir Malik Thanks a lot. Thank you, everyone. Have a nice day.