ADIB

Earnings Call Transcript – 4Q 2022

Waleed: Good day everyone. Thank you for joining us. Welcome to Abu Dhabi Islamic Bank's FY '22 earnings call, hosted by Goldman Sachs. It is my pleasure to welcome the Abu Dhabi Islamic Bank management today, represented by Mr. Mohammed Abdel Barry, Chief Financial Officer, Lamia Khaled, Head of Public Affairs and Investor Relations, and Ahsan Akhtar, Group Financial Controller. Please note that today's call is being recorded. The call is intended for analysts and investors only. And any media personnel on the call should disconnect immediately. So without any further delays, I'll pass on the call to ADIB management. Lamia, please go ahead. Thank you.

Lamia: Good afternoon, good morning, everyone. Thank you, Waleed. And thank you for joining us all on the call. Before we get started, I just want to give a quick reminder that the presentation of today as well as all our financial disclosures are already on our corporate website on the IR section, and on ADIB's IR app. As Waleed mentioned, we have with us on this call Mr. Mohammed Abdel Barry, our Group CFO, and Ahsan Akhtar, our Group Financial Controller. The agenda of today is aligned with previous quarters. Basically, we're going start with giving a quick overview of the financial performance for the full year and for the quarter. We will then give an outlook and guidance for the rest of the year; after which we will open the room for Q&A. With that, I will hand it over now to Mohammed to take you through the presentation. Mohammed, over to you.

Mohammed: 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 strong set of results, with net income for the year exceeding 3.6 billion, which is an increase of 55% year-on-year. This result was driven by strong revenue momentum, where we have reported an increase of 23% over last year. And the good thing is that has been supported by non-funded income of close to 21%. It's also worth highlighting upon that the financial results were impacted positively by the consolidation of our Egypt business in the first quarter of the year. What has happened, and as we have indicated few quarters ago, is that Egypt has undergone a couple of rights issues, where ADIB has fully participated, but also increased its stake directly by approximately 2.4%. And accordingly, our shareholding in the Egypt franchise now stands at close to 53%. And accordingly, we have now fully consolidated the Egypt franchise into our Group financials. As Egypt is a listed entity, we are not publishing their financials in detail. However, I think in a few weeks' time, Egypt will also be finalizing their financials and going to the market. And at that point, you will have more disclosure regarding the Egypt standalone franchise.

All right. So as you know, our strategy is informed by our renewed purpose as a lifelong partner for our customers, colleagues, and community. And our vision is to be the world's most innovative Islamic bank. The strategy is based on four key pillars, split into continuous innovation, segment focus, digital excellence, and sustainable future. And I will be providing a progress report in each of these in the next few slides.

Okay, slide seven. So under continuous innovation, during the last quarter, we had some key product launches. For example, we launched ADIB Yusr to provide customers with easy access to salary advance finance of up to 50% of their salary. In addition, the bank launched a new offering, Small Business Finance, to support small and medium sized businesses with bespoke and comprehensive financial solution and services. Also, from an Amwali initiative perspective, we have opened now close to 10,000 new accounts during the year. On the segment focus, we attracted over 126,000 new customers, of which almost 50,000 are UAE nationals. We've also deepened our overall relationship with customers, taking our cross-sell ratio close to 1.5X.

We have also achieved 12% financing growth in the wholesale bank alone. And our retail sales have surged to 19% growth year-on-year. From a digital excellence perspective, 99% of our payment transfer requests are now received through our mobile app and online channels, 45% of personal finance volumes are digitized, while overall straight through processing is now close to 93%. Our mobile app is being used by 750,000 monthly average user, and is rated 4.7 and 4.5 in the App Store and Google Play, respectively. We also have now introduced 63 bots in our end-to-end process, which have helped us to ensure that we are digitally investing not only on the front end, but also at the back end as well. Moving on to highlight our MSCI ESG rating. In 2022, shares of ADIB were include into the ESG MSCI leader index. Our employee engagement remains strong at 78%. And we continue to be ranked the number one bank in customer experience, with an NPS of 78%.

Okay, moving forward. As you can see, the KPIs underpinning our surge are very clear. And we have made excellent progress towards achieving these ahead of schedule. I think the most prominent one is our ROE. We started the journey in full confidence that we will achieve and deliver this target. There were some very valid questions in terms of the achievability of this target. But now sitting here today, reporting at 21.4%, we're very proud of that achievement. From a cost to income ratio perspective, reporting 34.9%, I think is a record breaking achievement for ADIB. And as we've also signaled to the market, after two years of consistent expense reductions, we did highlight that the next phase of cost to income improvement will come from productivity, and which has exactly happened this year as well.

Okay, let's talk about the highlights of the financial performance. As mentioned, 3.6 billion net profit, which is 55% up. Again, this is coming from growth in revenue, and improvement in efficiency. Our cost of risk has more or less normalized at this stage. And we've seen improvement across all the other KPIs.

All right, moving forward on the income statement. We continue to be very pleased with the quality of the profits we are delivering. As you can see on the top right chart, the key drivers of profit growth were the improved top line and the lower impairments. From a segment perspective, all segments have contributed positively to the net profit. Treasury was slightly impacted by some MTM losses on our sukuk trading portfolio, which I think is quite in line with what we've seen in the market as well. Note that improvement in real estate and other mainly rose from a one off gain, which we'll talk about at a later stage. From a funded income perspective, funded income has grown 24% year-on-year, 11% has grown in average profit earning assets, and 47bps on year margin expansion to 3.56%. As you know, this margin expansion occurred on the back of rising benchmark rate, which materially improved our financing yields, particularly in the wholesale bank. However, we've also kept our cost of funds quite under control. And accordingly, the corridor between the growth financing yield and the growth in cost of funding has really moved or continued to move in favor of ADIB, and hence the improvement on our net profit margins.

From a non-funded income perspective, another key driver of performance was, as I hinted, 21% growth in non-funded income. I will draw your attention to the waterfall chart on the right, which highlights the components of the movement in non-funded income. Investment income improved 48% or 477 million year-on-year. A strong growth in our share of results from associates. Again, Egypt played a role in this, which we will have to address in our Q&A session. The FX impact... Yeah, just I think on the FX impact, we can mention it. Upon consolidation of or moving from a joint venture to a subsidiary, accounting rules require you to recycle any FX losses which you might have in your equity position as part of your equity accounting, exactly which we have done. So the 416 reduction in FX is predominantly coming from having to recycle the FX sources built over the years from our Egypt investment. Operating expenses, again, a very good story. The point I would like again to highlight to the audience is a significant improvement in our cost to income ratio, to 34.9%. Again, predominantly driven by strong performance on the top line. And the investments which we have made, particularly in digital and people starting to be reflected in our cost base. I call them, these are good costs as long as they yield to enhance productivity, as you can see on the chart.

All right, moving forward. Slide 15 on digital banking. We continue to make excellent progress with our digital agenda, as it's reflected in our key digital metrics highlighted on the slide. For digitally active customers now have moved close to 70% of our customer base. And if I compare that to only two years ago, 64%. Again, an excellent achievement here. ADIB also has launched, developed, and implemented several leading digital technologies during the year, which include 22 interactive teller machines, the first open API platform, facial recognition account opening, and the first digital Islamic proposition for youths, to mention just a few.

Okay, now let's talk about the section on impairments and asset quality. What we are seeing here is that our full year impairments at 769 has shown a growth reduction of 19%. However, if you were to exclude the NMC impact from last year, you will see that in fact, we have cautiously increased our impairment for the year. And accordingly, as you will see in the next few slides, that our NPA ratio has dropped to 7.7%, while we have focused on enhancing our coverage ratio, which now has reached 71.8 or 72%, if one would exclude collaterals, but including collaterals is close to 128%.

Now, as you can see, the 72% is the highest we have seen in terms of coverage since the beginning of '21. From a balance sheet perspective, we report a solid 23% balance sheet growth during the last 12 months, and we are reaching 168 billion. This has an impact of the Egypt consolidation. But if one would even exclude Egypt, we are still showing a healthy 12% to 13% growth in underlying balance sheet. From a financing perspective, growth customer financing again good 22%. In terms of the components of this growth, you can see on the top right chart that this was nicely balanced domestically across retail, government, and public sector, as well as FI. And it was further boosted by the Egypt consolidation. We're very happy to report that if one would compare this growth, even excluding the Egypt consolidation, with what we've seen in the market, I think the market average as per the announced numbers is close to a financing growth of 5% to 6%. We're talking about a double-digit growth, which implies that we have been able to take market share across all segments.

Customer deposits rose 26% to 138 billion. We find it very, very important to highlight that in a rising rate environment, where clients become more and more sensitive to returns on their deposit, we have still managed to grow our

CASA book by close to 12 billion, wakalas have grown 18, which is not surprising. However, maintaining the growth in CASA is impressive. And accordingly has allowed us to keep our cost of funds in check and remains to be a competitive advantage for the franchise. From a capital and liquidity perspective, these are the numbers post the announcement of our proposed dividend, which is subject to AGM approval. We are proposing a payment of 49 fils per share, which is the highest ever in ADIB's history. It translates into almost 49.2% of net profits reported. And after incorporating this adjustment, and after the age of consolidation, we are still reporting a healthy 12.1 CET1, as well as the total CAR ratio of 17.2. This is quite impressive for us.

Okay, now let's talk about the guidance to conclude on our introduction. To summarize, we are extremely pleased with the financial performance for '22 and are cautiously optimistic about what lies ahead for this year as well. In terms of growth financing, we achieved 22% growth in '22, or 12% if one would exclude the Egypt impact of the consolidation. We are aware that as rates continue to rise, and the impact is felt, that probably financing growth will start to get muted as well. We are forecasting a 5% to 8% growth. We will continue to revise these numbers as we see how the year plays out. Net profit margin was 3.56% for '22. Again, which is above the guidance we initially provided. In 2023, we expect margins to benefit from additional rate hikes and the full year benefit of last year's hike. This will likely be offset as expected, by some of the increasing cost of funding. And we're looking anywhere between 3.8% and 4.1% average for the year. Which I think is, again, quite impressive, given the market conditions. Cost of risk for the year was 58 basis points, in line with our guidance. The credit risk environment remains benign, and we are comfortable with the heads of our portfolio. So we believe that this trend is likely to continue.

Our cost to income ratio, our target is to keep it below 35%. And let's see how, again, this plays out. Because we would like to continue on our success story of investing not only in digital, but in digital and people, and ensuring that we are always a few steps ahead of what is to come, and we're able to continue our growth trajectory on the top line. Return on equity, as I mentioned, 21.4%, is extremely impressive. We believe that we will hold at that level for this year as well. There is an element where we need to create internal equity to support our growth. At this stage, we are comfortable that this has worked for us so far. And we're not highlighting any concern at this stage. But accordingly, we would like to keep the ROE at this level. Now, if one would look at these numbers and then start comparing it to the main KPIs in our strategy, we are conscious of the fact that we are obviously quite pleased that we've outperformed the targets we set ourselves two years ago. We will be regrouping internally and re-looking at some of these KPIs. And while the strategy in its main pillars remains and we fully believe in it and will continue as such, probably some of these KPIs will change given the outperformance we've seen in 2022. Thank you. I think with that, I'll hand it back for any Q&A. Thank you.

Waleed: Thank you much, Mohammed. At this time, if anyone would like to ask a question, please raise your hand. We'll unmute you, and then you'll be able to ask a question. I see that we have our first question coming from Shabbir. Shabbir, if you could unmute yourself, and please ask the question.

Shabbir: All right. Thank you, Waleed. Can everyone hear me?

Mohammed: Yeah, we can hear you, Shabbir. Go ahead.

Shabbir: Yes. So, two questions from my side. I think you've pointed at mid-single digit kind of loan growth for 2023. Given that interest rates are high, I would expect that the retail segment would be quite sensitive to that. And I would expect a slowdown as a result of that. Maybe if you can highlight what you think will be the key components of that growth? What are your expectations on the corporate side and on the retail side? That will be very useful. My second question is regarding your fourth quarter results. Because this was the first quarter where you consolidated ADIB Egypt, it was difficult to kind of isolate some of the trends at the UAE business. So if you can maybe highlight what happened to some of the key items. For instance, provisioning was quite high this quarter. What was the driver of that? Was it the UAE business or the Egypt business that caused the increase? And also maybe if you can touch on the margins? What was the margin behavior this quarter for the UAE business?

Mohammed: Okay, thanks, Shabbir. And thanks for the question. So let me take the second one first. I'll comment on the fourth quarter performance. And we'll try to isolate the Egypt part so I can give you a bit of sense of what were the dynamics. So if one would start with the provision, the higher provisions in Q4 are predominantly coming from the UAE business. So we intentionally have taken more provisions in Q4 as an overlay. So these are not specific provisions, but these are overlays, because we wanted to ensure that we are quite comfortable, and what could be coming in the foreseeable future. We are at an inflection point. We are hitting the highest point in our interest rate curve probably by June of this year. And accordingly, we wanted to ensure that the portfolio is protected from any unexpected headwinds, given the prolonged interest rates at this level.

The Egypt business contribution to provision was not very material, so it's more coming from the UAE overlay. In terms of performance for Q4, again, the UAE business had a very strong Q4. In Q4 itself, we were able to recognize some one off transactions. I could quantify them possibly at 200 million or so. And these were driven by some of the contracts which we have signed with third parties, which allowed us to recognize some of the fees upfront. You can count around 200 million of that. But having said that, the underlying business has remained very strong, and we have seen continuous growth at all fronts. That's for the fourth quarter performance and happy to take any follow up on that. In terms of our expectation for growth in '23. Now, we are saying 5% to 8%. If I would just reflect back what happened in '22 to be able to project '23. So '22, the fundamentals of growth has come from really underlying core business in terms of financing, driven by our ability to capitalize on our digital investments. So 45% or 50% of our sales have now come from digital channels. So we're able to reach the clients faster, easier, and in a much more efficient way. And accordingly, our retail sales have grown almost 19% year-on-year, have had in terms of ensuring that we are taking market share at a time where the market was growing probably at 5%, 6%.

So, with that in mind, what do we see for '23? We believe that this trajectory will continue, but not at the same levels. Exactly for the point to mention, is that, as rates will slightly become elevated, there is an expectation that there will be a bit of slowdown. We are still aiming for high single digits, but we will continue updating the audience of how this plays out during the year. On the corporate side, if you would take it by segments, we don't expect too much growth in the government side. In fact, there have been significant repayments on the government financing side in '22. And we don't see that significantly reversing in '23. But on the GLE side and the large corporate, demand is still there. And we expect that to continue also in mid to high single digits.

Shabbir: Thank you for that. Maybe one more question as a follow up. In terms of rate sensitivity, it's been very...ADIB has been pretty good in terms of its trajectory on NIMs, given the higher interest rates. Given there are expectation that rates are going to trend lower, maybe from the second half, how sensitive do you think we would be on the downward side to this changes in interest rate?

Mohammed: So, our assessment remains to be that our sensitivity up and down is probably 120 million for every 50 basis points. However, the good thing for us is that, in an upward cycle, our ability to reprice the assets are much faster given the type of the portfolio we have, versus the additional cost of fund, which would be attracted by higher costs. Now, in a downward cycle, the portfolio will also be repricing, however, there will also be an element of our ability to reduce our cost of funding to some extent. Now, this year I don't think there will be a material downward impact, because the portfolio will take time to reprice, but it is yet to be seen what it means for us in '24 and beyond. But we are moving with the cycle and we are creating mitigations in terms of higher volumes, and adding clients and products to ensure that we do not get negatively impacted as the cycle turns.

Shabbir: Great. Thank you. Got it.

Waleed: Perfect. We have a question from Shevon Mendis. Shevon, please unmute yourself and go ahead.

Shevon: So, can everyone hear me?

Mohammed: Yes, we can hear you. Go ahead, please.

Shevon: Hi. Firstly, I want to congratulate you on a brilliant set of results. And secondly, I just have a follow up question. So in terms of rate sensitivity, what kind of an impact would you see on your bottom line given a 50-basis point rate hike?

Mohammed: It's 120 million dirham for every 50-basis points.

Shevon: All right. And also, since you were speaking about the frequency of how often your loan book gets repriced, could you just give us the frequency?

Mohammed: Yeah, so if you take a holistic view of the portfolio, around 60% to 67% gets replaced in one year. So it's a floating book. And probably another 10, 15 between two and three years.

Shevon: And what about the deposit book?

Mohammed: The deposit book of our total liability base, you will see that 70% to 74% are current account and savings account, so they're not contractual. And only probably 25 are wakala deposit, which have a contractual term attached to them. And they vary between the month one year. All right, so that is the average standard.

Shevon: Okay, right. Great. Thank you. That's it for me. Thank you so much.

Mohammed: Thank you.

Waleed: Perfect. Thank you. While we wait for additional live questions, I will quickly go through the Q&A chat box, where we've received a number of questions. There is a question on the contribution from JVs and associate income. So if you could talk about what's the remaining contribution and the increase which is coming, is it one off or related to the consolidation of Abu Dhabi Islamic Bank, Egypt business? That's the first question. Maybe we can start there and then I'll read through the rest of the questions.

Mohammed: Sure. So the contribution from associates year-on-year is not very material, probably 50 to 60 million. And the reason being is that, also you need to take into consideration that our biggest associate has been ADIB Egypt. And there was a material FX devaluation, which happened particularly in the last quarter of the year, was rate moved to the dollar from probably 18 to touching 30, 32. So that has also eaten away. So despite that, there was an upside. But within the 3.6 billion on a year-on-year basis, the benefit from associates has not been very much near.

Waleed: Perfect, thank you. There is a live question. So I'll shift to the live question. So Chander Kumar, you have a question. Please unmute yourself and ask your question.

Chander: Hello?

Mohammed: Yes. Hi, please go ahead.

Waleed: Yeah, if you could unmute yourself, you'd be able to ask a question.

Chander: Hi. First of all, I wanna congratulate on a good set of results. So I have a question regarding, like, could you please share with us how the bank has managed to achieve extraordinary growth in growth income and profits, like highest net profit margin, highest CASA, and highest payout ratio in industry. So what unique strategies that you have implemented that help set you apart in the market?

Mohammed: So first of all, thank you for the question. And I think the recipe of success really sets in defining your strategy, which we have done a couple of years ago. And you need to stay the course for implementing the strategy, even when times get a bit tough. So one of the strategic initiatives we always said is we will lead with digital. So we've continued on that journey. As I mentioned, my introduction point is that, even at times where probably some institution would cut back on costs, we continued on that. We had a very clear defined risk appetite. And in every decision-making process, the client, shareholder, and employees were at the center of this decision. So once you have that in place, you are able to outperform and provide always the service which the client needs, and accordingly, benefit from that.

So if one would look at it from a shareholder also perspective, dividends were important. So I think we were able to achieve the highest ever dividend, proposed dividend payout in ADIB's history, and it’s market leading. And from a client perspective, the products which we have been able to offer, the key is to offer them in an efficient digital easy manner, and at a price which is fair to the bank and the client as well. Putting that all together, and you see the results which we have seen in 2022.

Chander: Okay, great. Thank you. Thank you so much.

Waleed: I'll move back to the written Q&A. So a number of questions here. There's a question around one offs. If you could highlight the one offs during the fourth quarter 2022 results, especially with regards to the non-interest income line, forex losses, investment income, and fee income. What are the one offs? And if you can kindly quantify them.

Mohammed: So I think that to simplify the matter, and because of the consolidation, you would have some lines slightly inflated and some lines negatively impacted. So, FX gets negatively impacted by the recycling of the FX from OCI. You will see from an acquisition or from the purchase price allocation exercise, you get some benefits as well. So I would say you could put net net all the one offs so you can see anywhere between 200 to 250 million net. That is probably a good proxy for one offs for the quarter.

Waleed: Next question is on capital. Since the CET1 is on the lower end compared to your peers, and is closer to the Basel III requirement of 11%. Do you anticipate that ADIB will need to raise capital to financial long term growth strategy?

Mohammed: No, I did not imply that we're going to raise capital. All I said is that, so far, our internal generated equity has served us well, in terms of providing or supporting growth, and being able to meet shareholders' expectation in terms of paying dividend. This year, I think the journey will continue and we are comfortable that we will be able to still create enough equity internally to support growth. Having said that, if ever a time comes where we believe there is a need for intervention, we'll definitely do that. But at this stage, we're quite comfortable with where we're sitting.

Waleed: Perfect. Next one is on operating costs. How should we think about the operating cost growth in FY '23?

Mohammed: I think it's fair to assume that the cost will have to continue growing, I would say probably indexing the digit. And that's expected, given that the significant investments we have made over the years, they're starting to come in, like we've seen in 2022. But the key is that, it's not all about productivity. It's not a cost cutting exercise. It was always about cost efficiency. It was always about creating space to be able to invest. But we are at an inflection point where our costs are now actually creating value for us. And accordingly, it's all about productivity. So thinking about costs, I think it's good to think about mid-single digit probably.

Waleed: Perfect. There's a question around tax. Given the announcement of the corporate tax rate, should we expect the bank to pay zakat in addition to the tax and at what rate?

Mohammed: We are not aware of whether there will be any regulations on zakat imposed to be paid by banks. But in the current situation, ADIB is obliged to report on what is the zakat payable on its profits, and for every shareholder then to make his own decisions on the payment of zakat. So in our financials, you will not see zakat payment. What you see here as zakat in the tax slide are predominantly coming from our international businesses who actually pay corporate tax on the net income. But we do not pay zakat on behalf of the shareholders. Going into 2024, as and when corporate tax will be implemented, the announced number is 9%, effective rate anywhere between 9& and 15%. I think it is going to be an additional impact from '24 onwards.

Waleed: There's another question related to Egypt. Should we expect you to increase your stake in ADIB Egypt going forward?

Mohammed: At this stage, we are comfortable where we are. So we are close to 53%. If an opportunity arises where we will be increasing, we will definitely consider. We have always said that we are considering ADIB Egypt or Egypt as a strategic country for us. We're taking a long-term view, and this view has not changed.

Waleed: There's a follow up question regarding the income from associates and JV, in the financial statements, have increased from 316 million to 915 million. Why is that?

Mohammed: Yeah, so that is the point I mentioned regarding some of the distortion in the lines. So you would see, as part of the purchase price allocation consolidation, you would see a huge uptick on that line, which is offset on the FX line. All right. That's why I indicated that it's a good estimate to take 200 to 250 as one off in Q4, also as part of the consolidation.

Waleed: Given the full consolidation of Egypt and the uncertain macro environment, do you expect to increase provisioning related to your credit exposure in Egypt?

Mohammed: No, in fact, Egypt as a standalone, has a very, very... Actually, if you look at the NPA ratio, it's quite efficient, and very, very low, especially compared to markets. The provision levels in Egypt are very adequate. And in fact, part of the consolidation has reflected positively on the Group itself.

Waleed: Perfect. I'll take a pause from the chat box. And we'll move to live questions. Shabbir, you have a follow up. You can unmute yourself and ask the question.

Shabbir: Yes, thanks. I think you may have touched this before. But is there any update on the financial targets for 2025? Are you planning to change those? Because some of those targets you've already crossed.

Mohammed: Yes. So, we are going to have another look at our KPIs and financials probably for 2025 by given where we are not today. And we will revert back to the market with some revised financials.

Shabbir: Is it expected soon in the coming quarter or any timeline that you can give?

Mohammed: Not in the coming quarter. Probably we will aim before half one, but it's a complete exercise which we are going through, which have many elements. And as indicated, the strategic pillars are unlikely to change. It has worked very well for us. It actually even worked more than well for us. And accordingly, we are changing the financial KPIs. Probably before half one, we will aim to come back. If not, it'll definitely before closing.

Shabbir: And maybe one more. In terms of your NIM guidance, what are the key assumptions that you've made in terms of interest rates, and in terms of competition, and maybe even in terms of CASA migration?

Mohammed: So, we are in line with the market where there is an expectation for maybe a couple of more hikes, closing shy of 5% by half one of this year, and then it starts to taper off. Our assumption on the funding cost is that there could be a slightly more uptick to that, as in there will be more migration, particularly on the corporate deposit sides, from CASA accounts to wakala deposits. But they will not make a significant impact given that today, we're sitting almost at 70% of CASA. So even if a lot of corporate deposits will migrate, the impact on the cost of funding will not be material, especially if compared with the growth financing yields.

Shabbir: Thank you.

Waleed: Perfect. Thank you, Shabbir. Moving back to the questions in the Q&A box. There's a question on...follow up on margins, follow up to Shabbir's question. Net profit margins have shown good improvement despite strong government public sector lending. Can you please talk about this? What kind of pass through has gone through in the loans book so far, especially in retail? And given your answer to the question of margins, there's another one, which is, is there pressure in the retail book pricing? What drove the year-on-year decline in retail financing net profit margins?

Mohammed: So actually, I'll take the last one. So at the bank over all, I think we have done very well in terms of ensuring that we capture the upside from the market on interest rate. But also, we have been very mindful of what's in the best interest of our clients. And it was not necessarily the fact that everything needs to be passed on to the client, even if it's on the floating rate papers. It's not a matter of only competition, it's a matter of also supporting our clients during these times, and ensuring that we don't put undue pressure on them, which could push them into a default situation. And that explains probably some of the margin compression on retail. But overall, the bank has done very well. Your first part was regarding what we expect in terms of the output for the year?

Waleed: It was, despite the growth in the public sector, how were you able to expand your assets?

Mohammed: Good. Yeah. So, in the public sector, we have, obviously, the pricing there is slightly more thinner. But it was important for us that we create a good mix of financing growth between government, GLES, as well as corporate. And that's important for us from a capital perspective. So it's not only a matter of margins, but also to ensure that our capital ratios and our capital sweats a bit more for you, when you create more efficient RWAs. It will have impact on margins, but overall, given the volume increase, net net, the bank came out much more profitable, especially on the net profit margin at the bank level.

Waleed: Thank you. Another question is regarding, have you seen any deterioration in asset quality in any part or segment of your financing book, especially given the higher rates at a quicker pace? And what do you expect the impact to be from the implementation of a corporate tax rate on asset quality?

Mohammed: So from an asset quality perspective, we have been, I think, quite rigorous in terms of ensuring that we continuously stress test our asset book. We have not seen any unexpected pressure, let's put it this way, in terms of our book. And we have also provided for it adequately. And that's reflected in our NPA outstanding balances, but also in the ratio itself, whereby the growth has outpaced the NPA itself. And accordingly, we're reporting 7.7%. Having said that, we have taken overlays in Q4 as indicated, to ensure that we are ready for any unexpected surprises if and when they occur.

Waleed: Just to follow up on this, what is, if any, targets that you have regarding your NPL coverage? What levels are you comfortable with?

Mohammed: Including collaterals, we are extremely comfortable. Excluding collaterals, we're now at 72. We're probably going to aim for 75 over time. But these levels where we are now are very comfortable for us. And we believe that we are adequately provided across all sectors and segments.

Waleed: We'll take a quick pause from the Q&A box and shift to a live question. Adnan, you can unmute yourself and ask your question.

Adnan: Hello. Thank you for the presentation and congratulations on the strong set of numbers. I have a couple of questions. Just to make sure, the guidance that is provided is for the consolidated entity and takes into account whatever you expect for the Egyptian business. And secondly, I wanted to understand if the funded income line during the fourth quarter didn't have any one offs, or that's purely coming from business from UAE and Egypt.

Mohammed: So the first question, the guidance, yes, includes the new status quo, which includes ADIB fully consolidated. So that is the first question. The second part, does the funded income include any material one offs? The answer is, no, it does not. It's all core business. However, it does include obviously now the Egypt consolidation as well, in terms of the line.

Adnan: Thank you.

Waleed: We're going back to the to the written questions. There's another one regarding the move in the Emirates interbank rate. In the third quarter, the average interbank rate was around 2.7%. In fourth quarter, it was around 4.2%. As a result, should we expect a significant increase in first quarter '23 asset yields in high spirits as you pass on the impact of higher rates? Or are you finding it difficult to pass this impact on to your customers?

Mohammed: I think it's not difficult. So for the existing book, it does contractually reprice, as well as for the new originated financing. We're also quite competitive reprice. But I would like again to stress on the point, is that we are making conscious decisions of when and how to reprice. If we were to go with completely repricing on the current basis, you will see probably slightly higher numbers. But we intentionally wanted to support our clients during this time. Because if the client comes under pressure, we come under pressure. And accordingly, we are comfortable with the way we have been capturing the upside in the benefit of the bank as well as for the clients.

Waleed: Thank you. Another couple of questions. There's been a significant growth in lending to financial institutions and corporates. Could you highlight which sectors are these companies in and which geographies? And do you accept equity securities as collateral?

Mohammed: Yeah, so the growth in the FI financing part is in the GCC. So whether it's in the UAE and Saudi and other GCC countries. And they are mainly with some FI strategic relationships we have. So it's not pure just by that financing. But it would be on the back of strategic relationship we have with these FI.

Waleed: And then there's another question on the fee income. The sequential increase in fee income is quite strong. How much of this is organic? And how much of this is a one off? And how should we consider fee growth going forward?

Mohammed: I would say that the majority of it is core business organic, because it's again, on the back of significant increase in client activity, particularly in the second half of the year. I think it's fair to assume that hopefully this trend will continue. But in line with what we've also given as guidance for the full year. But it's been healthy, and we've taken market share, and our products are really being captured by our clients in the way we have anticipated. And accordingly, our non-funded income, which I have to reimply again, it is core for us. We're leading with financing, but if we cannot grow our non-funded income faster than our financing, then it's not really what we want to do. We always want non-funded income to lead before financing.

Waleed: Okay. Some more questions coming in. What collateral is usually used against the FI loans? And do you have any exposure to the Adani Group?

Mohammed: We don't have exposure to Adani Group at this stage. And collaterals in general, as we also disclosed in our financial, is predominantly on the property side. So this is the main collateral we keep against financing.

Waleed: Perfect. We've wrapped up all the written questions, and there are no live questions. So maybe just one or two quick questions from my side. In terms of your loan growth guidance for 2023 of 5% to 8%, you know, how much of this do you think is the market growing itself? And how much of this is coming from potential market share gains? So in essence, what I'm looking for is, how do you expect the market to grow this year? And which sectors are most interesting to you in terms of loan growth? And then finally, on the public sector side, we've seen mixed trends. We've seen in Dubai, you know, the government has been repaying. What trends are you seeing at the Abu Dhabi government level side? And how do you see yourself positioned to benefit from government spending? And in which particular areas? Thank you.

Mohammed: Sure, Waleed. So I think the market will probably grow at 5%. So this year it has been on average 5%, probably next year will be as well. And we expect that when we give the guidance 5% to 8%, we do expect that we will outperform probably the market as well. Where we see the growth coming, as you rightly said, government has been repaying, I think the numbers we've seen has actually reduced almost 13% year-on-year on the government side. And that's on the back of the IPOs and some of the oil prices we've seen. But the GLEs themselves have grown, corporates have grown in mid-single digit to high single digit. I think this trend will continue as well into '23. And the retail sector will as well. If you see who was the biggest gainers from a GDP perspective this year, I can remember that, I think definitely transportation, the airlines and others have grown. I can see manufacturing, I can see financial service industries. And I can see also retail and wholesale trade. So I think these will continue to be also the gainers for us in '23 as well.

Waleed: Perfect. Thank you. My final question is on a cost of risk. This 55 to 65 basis points guidance, I mean, for 2023, how does this kind of compare with what you think is normalized credit losses for the Group? And, you know, secondly, this 55 to 65 basis points is on a net basis. How do you think of gross customers versus net cost of risk for the Group?

Mohammed: I think Waleed, the normalized cost of risk is probably at that level, 50 to 55 basis points. And it will predominantly again come from the non-retail sector. Eighty five percent of our financing is to the UAE nationals who tend to be quite resilient, and have performed very well even at difficult times, during the pandemic as well. From a gross and net perspective, I would say probably gross will be close to 70, 75. Again, on the corporate side. Net will be closer to the 50, 55, if you count in recoveries.

Waleed: Perfect. Thanks so much. That wraps up the question from my side. We have no live questions or no remaining questions in the Q&A box. So, Mohammed, over to you and Lamia for any closing remarks.

Lamia: Thank you, Waleed. Thank you everyone. As usual, if you have any follow up questions, you can reach out to me via email, or to Ahsan, or to Mohammed. Thank you and have a nice afternoon, everyone.

Waleed: Thank you much.