

Q3/9M 2021 EARNINGS CALL TRANSCRIPT

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ABU DHABI COMMERCIAL BANK Q3/9M 2021 EARNINGS CALL TRANSCRIPT

Naresh Bilandani: Hi, good day, everyone. It's Naresh Bilandani from J.P. Morgan. Thank you for joining us today for the Abu Dhabi Commercial Bank's third quarter 2021 results call, which J.P. Morgan is very pleased to host. I will pass the call to Denise for speaker introductions and to commence today's presentation. Denise, over to you, thanks.

Denise Caouki: Thank you, Naresh. Ladies and gentlemen, welcome to this conference call for ADCB's third quarter results which were announced yesterday. We'll be referring to our earnings presentation which is available on our website. Today, we'll be giving you an overview of the bank's financial performance before opening the floor for questions. I would now like to introduce the host of the call. I'm joined by Deepak Khullar, group CFO, Kevin Taylor, Group Treasurer, and Monika Malik, our Chief Economist. I'll now hand over to Deepak to begin the presentation.

Deepak Khullar: Thank you, Denise, and thank you all, and welcome to our call today. I'm pleased to report that ADCB produced a steady performance in the third quarter, set against a macroeconomic environment that is recovering yet still subdued relative to pre-COVID levels.

The bank recorded a 36% increase in nine-month net profit, to 3.8 billion dirhams, with Q3 net profit at 1.3 billion dirhams. This translates to a return on average tangible equity of 11% for the nine-month period, and 10.7% for quarter three. While Q3 net profit declined sequentially, year-on-year we see many positive underlying trends coming through in our numbers.

The bank achieved net loan growth of 1.2% in the first nine months versus average credit contraction in the UAE banking sector. We've had an active lending pipeline with 28 billion dirhams of new credit extended year-to-date, driven by increased lending to GREs, while exposure to real estate has reduced.

The bank continues to diversify revenue streams. Net fee income was up 24% in the nine-month period, supported by higher loan processing and card-related fees, in line with improving consumer sentiment. We have continued to reduce operating expenses, which has driven a 200-basis-point year-on-year improvement in the cost-to-income ratio in Q3, a major achievement in the context of the low interest rate environment.

The bank is on track to exceed its cost synergy target of 1 billion dirhams by a significant margin. At the same time, additional efficiencies from digital transformation and disciplined management of expenses have also made a material impact on the cost base.

ADCB's strong franchise continued to attract significant CASA deposits, which were up 19 billion dirhams year to date. Meanwhile, asset quality remains stable, with cost of risk for the nine-month period at 79 basis points, in line with our medium-term guidance of 80 basis points.

A major milestone in the structuring of NMC was also reached in quarter three. Creditors voted in favour of a plan that will see ADCB receive approximately 39% of exit instruments in a new 2.5 billion USD debt facility.

Please turn to slide six for income statement highlights for the first nine months of the year. The increase in net profit was driven by continued momentum in non-interest income, increased efficiencies and lower impairment charges. Net interest income declined 11% year on year, on account of lower benchmark rates

which was partially offset by a 19% increase in non-interest income, with fee and trading income both rising. We are particularly pleased with the 9% improvement in operating expenses, achieved through synergies, digital transformation and cost discipline. Impairment charges were 35% lower than in 2020, when we recorded significant provisioning for NMC, Finabl and related entities.

Turning to slide seven for an overview for the Q3 income statement, the bank reported net profit of 1.3 billion dirhams for the quarter, 7% lower year on year, but a sustained reduction in the cost base helping to cushion the impact of lower net interest income.

Net interest income declined 5% year on year, largely on account of the low interest rate environment, and decreased 6% sequentially due to higher interest and suspense reversals and fair value unwind in the previous quarter. Non-interest income increased 3% year on year, whilst the sequential decline was largely due to higher loan processing fees recorded in Q2, which, as we explained last quarter, were mainly related to large corporate repayments.

The improvement in our cost base continued in Q3, with operating expenses decreasing 8% year on year, and 4% over Q2. Net impairment charges were 12% lower quarter on quarter, and 18% higher year on year, on account of higher releases recorded in quarter three of 2020.

On slide eight you will find information on the balance sheet as of 30 September. Total assets were 5% higher year to date, at 432 billion dirhams, mainly on account of an 8% rise in investment securities and increased loans to banks.

Total customer deposits stood at 256 billion dirhams, up 2% both sequentially and year to date, compared to system-wide deposit growth of 2.3%. The bank has had a very active lending pipeline, extending 28 billion dirhams of new loans to targeted economic sectors, in line with our five-year growth strategy. At the same time, we have significant corporate repayments, particularly in the second quarter.

The consequent net growth of 1.7% quarter on quarter, and 1.2% year to date, outpaced a system-wide contraction of 0.7% as at the end of August. Including lending to banks, net growth was 4.4% year to date.

On the next slide you will see the improved diversification of our loan book. Notably, the bank has extended an additional 6.1 billion dirhams net in credit to government-related entities, resulting in exposure to the sector increasing to 24% of gross loans, from 21% at year-end.

Other sectors where we have increased credit include financial institutions and trading. Meanwhile, corporate repayments have reduced our concentration risk to the real estate sector in particular, with exposure to the sector decreasing to 25% from 29% in December. Our real estate portfolio comprises mostly completed properties, and the loan to value ratio was 79% at the end of September. I will now hand over to Kevin to discuss our funding mix. Kevin, over to you.

Kevin Taylor: Thank you, Deepak. Please turn to slide ten. ADCB benefits from a healthy funding position, with customer deposits accounting for 68% of total liabilities. Leveraging the bank's strong franchise and strong levels of customer loyalty, we have continued our successful strategy to attract CASA deposits, which contribute to a favourable cost of funds.

The pace of growth in CASA deposits was sustained in Q3, with an increase of 4.5 billion dirhams in the quarter, bringing year-to-date growth to 18.9 billion dirhams. Total CASA deposits stood at 146 billion dirhams as at September-end, accounting for 57% of total customer deposits, up from 51% at year-end.

Meanwhile, time deposits have decreased 12% year to date, to 109 billion dirham. Wholesale funding, including euro commercial paper, remains well-diversified over a range of currencies and maturities, and

accounts for 22% of total liabilities. The bank maintains a comfortable liquidity position with an LCR ratio of 131.7%, and a loan to deposit ratio of 94.6%.

If you turn to slide 11, you will see that the bank's capital ratios remain robust and comfortably above regulatory requirements. Our capital adequacy stood at 16.25% at the end of September versus 16.61% after deducting dividend payments. The slight decline was mainly due... Just give me one second. Yes, sorry. The slight decline was mainly due to changes in the credit risk-weighted assets following new regulations from the UAE central bank with regards to GCC exposures.

The impact of the new regulations on CET1 was 64 basis points, resulting in a CET1 ratio of 13.23% at the end of September, in line with our medium-term guidance of above 12%. I would also like to remind you that our dividend guidance is for a payout ratio of 50% of net profit. I will now hand back to Deepak.

Deepak Khullar: Thank you, Kevin. Please turn to slide 12, where we discuss asset quality. Our cost of risk for the first nine months of the year was 79 basis points, significantly improved from the 141 basis points a year earlier, largely due to the provisions for NMC, Finabl and other related companies taken in 2020. The NPL ratio decreased to 5.64% from 5.86% at June-end. Including purchased or originated credit-impaired assets, the NPL ratio was 7%.

We're comfortable with our provisioning levels, and the bank's provision coverage ratio stood at 88.4% at the end of September, and was 143% including collateral held.

If you turn to slide 13 for an update on the NMC group, ADCB's proactive approach to NMC was a catalyst for a significant positive development in the third quarter. In September, creditors voted overwhelmingly in favour of a debt restructuring plan which would see the group exit administration in 2022. This follows the bank's legal action to appoint administrators in April 2020, and our subsequent support to ensure operational continuity, a swift turnaround of the business, and an orderly restructuring process.

On slide 14, I will explain what the creditor vote means for ADCB. Creditors including ADCB will receive exit instruments in a \$2.25 billion Holdco facility, a debt claim sized to the expected future value of NMC. All net proceeds from the future sale of the business will return to holders of exit instruments, including any value in excess of \$2.25 billion. There are also further possibilities to benefit from any recoveries from ongoing litigation. Participants in exit instruments will benefit from a cash margin of 0.5% per annum, as well as payment in kind of 2% per annum.

Having participated in a \$325 million administration funding facility, ADCB was granted elevation and conversion rights in the new Holdco facility. As a result, ADCB is expected to receive 39% of the \$2.25 billion exit instruments. Given this material progress in restructuring, the bank considers the provisions and interest in suspense for NMC recorded to date to be at an appropriate level.

It is also worth noting that the AFF will be repaid using proceeds already generated from the sale of non-core assets, as well as a new \$350 million facility extended to NMC on the effective date of restructuring.

Moving now to slide 15 for an update on customer deferrals, as a result of the bank's successful proactive engagement with customers, ADCB has recorded a reduction of 10 billion dirhams in TESS and other deferrals, decreasing our outstanding deferrals to 4.5 billion at the end of September.

ADCB continues to hold significant collateral of 37.8 billion dirhams, against the exposure of 28.7 billion dirhams to consumers benefiting from deferrals. Around two thirds or 2.9 billion dirhams of outstanding deferrals are classified as Group 1. These customers have been temporarily and mildly impacted by liquidity constraints, without substantial impact to their creditworthiness. I will now hand over to Kevin.

Kevin Taylor: Sure, thank you, Deepak. Turning to slide 16, our cost of funds in Q3 was broadly flat sequentially, at 67 basis points, and improved by 80 points year on year, to 70 basis points for the nine-month period. Lower benchmark rates combined with an increase in CASA deposits drove a 53% decline in interest expense for the first nine months.

We have seen a 26-basis-point decline in net interest margin in Q3, mainly due to higher interest in suspense reversals and fair value unwinds recorded in Q2. Looking at the first nine months of the year, net interest margin was 36 basis points lower year on year, primarily due to decline in asset yields driven by lower benchmark interest rates.

Please turn to the next slide, which gives you a breakdown of non-interest income. We are pleased with the continued diversification of our revenue streams. For the first nine months of the year, non-interest income increased to 26% of operating income, up from 21% for the same period last year.

Net fees and commission income in the nine-month period grew 24%, with net trading income increasing 13% on account of high FX and derivative income. Other operating income increased 15% due to higher gains from disposals of investment securities, higher property management income and retirement of hedges. I'll now pass back to Deepak.

Deepak Khullar: Thank you, Kevin. Moving on to slide 18, we've improved our cost-to-income ratio significantly in the nine months, despite a 25% decline in gross-interest income in a low interest rate and subdued economic environment. The cost-to-income ratio stood at 34.9% in Q3, an improvement of 200 basis points year on year, and was 34.8% for the nine-month period, 190 basis points lower.

Operating expenses in Q3 declined 4% sequentially and 8% year on year, driven by strong progress on synergies and additional efficiencies and cost control measures. The bank is also on course to realise over 600 million dirhams in cost savings in addition to synergies.

Slide 19 shows how strong progress in cost synergies has contributed to our improved cost base. The bank has already captured 984 million dirhams of synergies in the first nine months, and is on track to exceed the 1 billion dirhams target for 2021 by a significant margin. In Q3, we realised 322 million dirhams of synergies. I'll now hand over back to Kevin to provide information on our subsidiaries and progress in digital transformation.

Kevin Taylor: Thanks, Deepak. ADCB Egypt is making strong progress in its strategy to increase market share, particularly in the affluent segment and among corporates. Digital adoption amongst customers has also grown rapidly. The bank reported a net profit of 379 million Egyptian pounds for the first nine months, 3% increase on 2020, representing a return on equity of 11%. During this period, net loans increased 21%, and deposits grew 38%.

Al Hilal is making good progress in its strategy to deliver a leading Islamic digital banking offering for retail customers with active digital users increasing 48% in the last 12 months. The bank is on course to launch a new cloud-based digital platform in Q4 that will offer seamless, Shari'ah-compliant financial solutions for individual customers and their families.

Moving to slide 22, I will now discuss progress in the digital transformation programme for ADCB. The bank reached a major milestone in Q3, with more than 800,000 customers now registered for ADCB Mobile Banking app. This brings the total number of digital subscribers to approximately 940,000. A further seven digital releases were made available in Q3, taking the total to 86 since the inception of the transformation programme.

Among our new offerings, we launched FlexiPay on internet banking, which allows customers to convert the full credit card outstanding balance into instalments. For Wholesale Banking customers, ADCB introduced account statement and payment notification APIs, and provided new beneficiary management features on ProCash Mobile.

More customers are using ADCB's digital transaction banking tools, ProCash and ProTrade, with 79% of all trade finance and 96% of cash management transactions being conducted digitally.

Please turn to the macro section starting on slide 24 for information on our operating environment. The UAE economic recovery is gathering pace, supported by a reduced COVID-19 impact, as well as stronger oil prices and production volumes. The recovery in externally-facing services is likely to gather pace in the coming months due to greater global vaccination levels, Expo 2020 and peak travel seasons for the region.

However, it is worth noting that the import-dependent UAE economy is sensitive to the current global supply chain constraints. We are already seeing inflation in energy, commodities and consumer products, and this is an area which we will continue to monitor closely. I will now hand back to Deepak.

Deepak Khullar: Thank you, Kevin. I'd like to now wrap up with a summary on slide 26, where you'll also find our medium-term guidance. ADCB has produced a solid financial and operating performance, and is in a strong position as the UAE economy continues to recover. The bank has achieved broad-based loan growth led by higher lending to the GRE sector, providing a solid foundation for mid-single-digit loan growth in the medium term, as per our guidance.

We've also continued to improve our cost to-income ratio, driven by synergies and significant additional efficiencies. We continue to take a prudent approach to provisioning, and our cost of risk is in line with guidance of 80 basis points. The bank's digital transformation programme is progressing well, resulting in efficiencies and high levels of customer engagement. This remains a key element of the bank's strategy to gain further market share. Thank you, this now concludes our presentation. I'll hand over to Lydia, the operator, who may now open the floor for questions.

Operator: Thank you, Deepak. If you'd like to ask a question today, please press star followed by one on your telephone keypad now. To withdraw your question, please press star followed by two, and when preparing to ask your question, please ensure your phone is unmuted locally. Our first question today comes from Waleed Mohsin of Goldman Sachs. Waleed, your line is now open.

Waleed Mohsin: Thank you very much. Good afternoon, and thank you for the presentation. A couple of questions from my side. First, your net interest margin, excluding the impact of fair value adjustments and the interest in suspense reversals, I was wondering if the growth on the public sector side is also impacting asset yields, and if you could actually provide some quantification on that, how much of an impact you're seeing from that shift towards public sector lending, which presumably would be lower margin?

And then, linked to that, what should we consider a normalised net interest margin for the bank? And if it's slightly lower, then I would presume that some of that benefit will flow through the risk-adjusted NIM, because your cost of risk on the public sector lending business would be much lower.

And then finally, if you could comment on Egypt, we noticed that the third quarter profitability seems to be weaker than the profitability that you reported in the first two quarters, so any colour on that would be very helpful. Thank you very much.

Deepak Khullar: Thank you, Waleed. So yes, you're right, in terms of the lower yield and the lower NIM for this quarter, that is a result of rebalancing the lending from the real estate sector to GREs, which are obviously lower yield. But we expect to see the benefit coming through the cost of risk as well, so net-net it should be a positive for the bank. If I look at that risk-adjusted NIM, that should be a positive overall for the bank. I don't have the exact numbers to give you in terms of that shift, but it's at least about ten to 12 basis points, somewhere in that region.

And I think in terms of Egypt the question you had, yes, profitability of quarter three was lower, primarily on account of taking impairment on a large corporate account that we had to take this quarter. So that's the reason for the decline, quarter on quarter, and the Egypt financial performance.

Waleed Mohsin: Thank you very much, Deepak. And any outlook on Egypt? Excluding that one exposure that you're talking about where you had to take impairment, otherwise the outlook for the business remains strong? I'm just curious to hear your thoughts on that.

Deepak Khullar: Yes, the outlook looks strong. We continue to invest in the business in Egypt, we're going to be launching a number of new products, especially on the consumer side as well, so that is an area that we continue to invest in, and the franchise in which we continue to invest, so we're positive on the overall Egypt growth prospects in the medium term.

Waleed Mohsin: Thanks very much, Deepak, that's very helpful.

Deepak Khullar: Thank you

Operator: Thank you. Our next question today comes from Shabbir Malik of EFG Hermes. Shabbir, please proceed.

Shabbir Malik: Thank you, everyone, for the presentation. A few questions from my side. In light of what you have seen in terms of loan growth this year, would you consider revisiting your mid-single-digit loan growth guidance that you outlined? That's my first question.

And the second question is around the OPEX trajectory for next year. Do you think there's going to be any residual benefit of cost synergies going through in 2022? Or what we see for 2021 as operating costs for the full year is basically going to be the starting point from which we should build our forecast for the next two to three years?

And how should we think about your asset quality? What do you think about your prospects for asset quality once the deferral programme comes to an end? Do you expect any material deterioration which could mean maybe higher provisions next year, once this programme ends? Or do you have enough confidence, given the recovery in the economy and the provisions that you've taken in the past that provisions could actually be stable or lower from next year? Thank you.

Deepak Khullar: Thanks, Shabbir. So in terms of the medium-term loan growth, we said it will be mid-single-digit and we expect obviously the economy to pick up. So, the result from the UAE central bank that we have, we don't have all the banks declaring their September numbers yet, and from the central bank we only have data up till August, that showed a contraction of 0.7%. And against that backdrop, we grew 1.2% year to date, and we grew 2% sequentially. So that is encouraging.

We have a healthy pipeline and, in the medium term, we expect things to start picking up over the next few quarters, so we don't think we'll make any material change to our guidance, we still maintain that single-digital growth over the medium term.

In terms of OPEX, yes, obviously the jumping-off point will be the full-year cost base for 2021, but we expect to see some inflation coming through as well in the OPEX, whether it is general and admin expenses, a bit of wage inflation as well, which obviously the bank will have to adjust to, and certain investments going into enhanced regulations as well. So whether it is cybersecurity or overall compliance-related OPEX, we could see some increases there.

In terms of asset quality, once the TESS programme concludes, yes we could see some impact on that, but that's been over the last, I would say, four to five quarters that's been happening, and we've been seeing that come through the income statement, either in terms of provisioning, but we don't see any material change to that.

And I think on our TESS exposure slide we show that the total deferrals are about 4.4 billion, exposure against that is 28.8 billion against which we have collateral of roughly 38 billion, and provisions just shy of 1 billion. So in terms of coverage, we're well covered, there, but could some move into stage three? Yes, the answer could be yes, there could be some movement going in there. But we still maintain our overall guidance of cost of risk of 80 basis points for the medium term.

Shabbir Malik: Thank you. If I may, one last question on the fee income. There was a decline in the third quarter, and I think you mentioned in your commentary that there was not a one-off but some chunky fees in the second quarter. Can you please explain again what was the reason why there was a dip, Q on Q, in the fee line?

Deepak Khullar: Sure. It's exactly that Q2, we had not a one-off but we had a chunky fee income on a particular corporate client, and some amortisation of fees. Not amortisation but the unamortised portion of the fees was recognised into income, where we saw the attrition of the loan.

So typically, certain fees we amortise over a period of time, and if the loan moves across or attrites then the unamortised portion of that fee gets recognised immediately. So we saw that happening as well, especially in quarter two. Obviously, that wasn't repeated in quarter three, so that's why we saw a bump in Q2 which wasn't repeated in Q3.

Shabbir Malik: Okay, clear, thank you.

Operator: Thank you. Our next question today comes from Edmond Christou of Bloomberg. Edmond, your line is open.

Edmond Christou: Hello, good afternoon, thank you for taking my question. Edmond Christou from Bloomberg Intelligence. First question, if possible, on the loan mix changes. Clearly, you are favouring growing carefully into the government or GREs, do you expect the shift to continue into next year?

I just want to understand if you expect a weaker public sector credit demand going into next year, possibly on repayment or less need for financing on high energy prices. And also, what is the reason for the weak personal credit growth? Is it due to repayment or attrition on the retail portfolio? This is the first question.

The second question, we have seen for the second quarter write-offs which have helped your NPL to stay in order, I just want to understand, into Q4, do you expect recoveries to help you keep the cost of risk at

80 basis points? Because if I try to exclude recoveries, your cost of risk was high. Any view on this, especially going into next year?

You alluded to NPL rising. I don't know how much it's going to rise but NPL formation is expected into next year, as the programme. So how can you manage your cost of risk, given you have an NMC exposure, recoveries coming from it? Any light on this would be much appreciated, thank you.

Deepak Khullar: Thank you, Edmond. I did try to write down most of your questions, so if I miss something please remind me that I haven't answered your question and I'll come back to that. In terms of loan mix changes, yes, we are moving towards reducing our concentration on the real estate sector, something we said several quarters ago, that that was our medium-term plan, over the five years, and this is something we'll continue to do.

And in terms of GRE and government public sector enterprises, we think the demand should pick up next year with increased spending on infrastructure, so we see that demand coming through.

The weak personal credit growth, I think we're seeing primarily on credit cards, where we're seeing less revolvers happening this year compared to pre-COVID levels. I think this is more financial discipline that our clients are adhering to, post-COVID. So even though we see the spend on cards go up, which directly contributes to card fee income, on the revolver side we're seeing lower revolvers, which obviously shows up in the lower net interest income.

In terms of write-offs, yes, we do continue to write off debt in accordance with our write-off policy, which is detailed in our notes to financials, in the full year financials you see our write-off policy, so this is nothing new in this quarter, this is a regular phenomenon and we follow that for retail credit and wholesale credit.

The fact that we have written off a loan does not mean that we will not pursue our claim on that loan. That claim continues to be pursued and we will see that write-off every year.

In terms of recoveries, yes, we're pursuing a number of recoveries, and the timing of these recoveries is very difficult to predict. So you could get a very uneven recovery line item. Some quarters may be much better than others. So that's how I would characterise the recoveries piece.

Cost of risk, yes, we look at it on a net basis, gross less recoveries. And because of the pipeline of recoveries that are there because of what we expect to see in gross recoveries, we still feel that that 80 basis points cost of risk in the medium term is our guidance as of now.

Edmond Christou: Thank you. On the mortgage, it has fallen 0.7% sequentially. I would assume, with the demand in the market this should improve, right? Or there is some attrition happening here?

Deepak Khullar: No, I don't think we've seen any significant attrition, other than the normal maturities that happen. And this is an area, again, that we are pressing ahead significantly, so we expect to see growth coming through, both on the mortgages and the personal loan side in the coming quarters as well.

Edmond Christou: Okay. And on the cost of risk, it's sensible to assume for Q4 around 80 basis points, correct?

Deepak Khullar: Yes. We don't typically zoom in on a particular quarter, but overall I think, yes, the 80 basis point level is something we feel where we will probably end at.

Edmond Christou: Okay, much appreciated, thank you very much.

Operator: Thank you. Our next question today comes from Rahul Bajaj of Citi. Rahul, your line is open.

Rahul Bajaj: Thank you, hi, this is Rahul from Citi, thanks for the call. Two quick questions from my side. The first is on loan growth, the second one is on cost. On lending growth, I notice there's this big jump in lending to banks, year to date but also sequentially in the third quarter. Just wanted to understand, if you could provide some more colour on who are these banks you're lending to, and why are we seeing this big jump? And if I exclude lending to banks, are repayments still happening from the corporate side, or have they stabilised? Any colour there would be useful. That's the first question.

The second question is on cost. You mentioned, Deepak, earlier that the 1 billion synergy number, synergies could exceed meaningfully versus 1 billion, which is for 2021. How should we think about 2022 when we model synergies? Is there room to grow this number further, or you think we've reached the final level of synergies that we could grow?

And a linked question to this is the 600 million number, which I'm not sure if you have mentioned in your previous presentations but it is mentioned in this presentation, so is this on top of the 1 billion, this 600 million which should be realised next year? Or what's the timing of the 600 million, and how much of that has been realised so far? Thank you.

Deepak Khullar: Sure. So let me take your questions on repayments, whether they're still happening or they've stabilised. Yes, we see a stabilisation of that. We had a few large repayments both in quarter one and quarter two, less so in quarter three. Repayments are a normal source that happens all the time.

In terms of loan growth, yes, we saw some good loan growth coming through. Sequentially, we grew roughly 2%, year to date 1.2%. And lending to banks, we classify this separately, we don't include it in our loans to customers. But certain other banks of our peer group do classify them under loans to customers. So if I was to take both of them together, loans and advances to customers and loans to banks, overall we grew by roughly 4.4%. And these are not long-term lending to banks, these are short-term lending, typically about a year or so. And all banks have syndicated facilities, bilateral facilities, etc., and banks are both on the lending and the borrowing side of this as well. So that's on the lending to banks.

In terms of synergies, yes, we've done about 900-odd million in the first nine months, so we expect to exceed the 1 billion target. And from a synergies perspective, yes, that would be probably it, and what you see now is we don't expect more to come through in 2022.

And the additional cost savings that we're talking about, these are initiatives that we've taken or initiated today that will yield those results, to enable us to generate room to invest. So you're not going to see a 600 million delta in a reduction in our cost base from one year to the next, but this provides the room for us to invest in new technology and digitisation, in compliance, etc., cybersecurity, to not grow our cost base significantly.

And these are initiatives which we've taken this year which will start yielding results in most of this year, next year and the following year as well. So that's how we look at it. What we look at overall is our cost-to-income ratio, which is coming down, and is moving in the right direction, over a 200 basis-point decline.

But having said that, and I alluded to that earlier, we're also seeing some inflation coming through in the marketplace in all kinds of areas, and some of that inflation will move in and we've got to find room to manage that inflation with the initiatives and the efficiencies that we're planning to deliver over the next few years.

Rahul Bajaj: Understood, thank you

Deepak Khullar: Thank you.

Operator: Thank you. We have five minutes left of the presentation, so we have time for one more question. Our final question comes from Aybek Islamov of HSBC. Your line is open.

Aybek Islamov: Yes, thank you for taking my questions. I have two questions, really. The first one is about the loan loss reserve ratio, this is loan loss reserves over your loan book. This ratio appears to be falling in the last couple of quarters, but equally it's at an all-time high when I look at the pro forma history of ADCB and the banks you merged with.

Obviously, the ratio is partly falling because of the write-offs that you explained earlier, but how do you feel about the provisioning levels? Do you feel that you're kind of over-provisioned at this point of time, and do you have the room to drive this loan loss reserve ratio lower? That's my first question.

And the second question is about your cost of funding. I've seen your slides about CASA deposits and that you're growing them very nicely, looking at your funding costs, it already looks pretty good to me, but is there room to drive funding costs lower, below the current level? Looking at the sector, to me it looks like UAE banks are quite liquid, there's plenty of liquidity in the banking sector, so what would be your thoughts on the funding cost?

Deepak Khullar: Thank you, Aybek. I'll let Kevin respond to the cost of funding side, but before I hand over to Kevin, let me just pick up your question on the loan loss reserve ratio. Yes, we are at 88.4% yes, and it's been declining over the last quarter. I think the main reason for that is the provisioning on NMC, which we've explained that's a large exposure, on which we're roughly about 25% to 28% provisioned.

If I exclude that, and we've explained NMC in great detail over the last several quarters, and you see we are adequately provisioned against NMC at that level, if we exclude that then our provisioning coverage would be around 104%, 105% mark on the rest. And this excludes any collateral held, so including collateral held we are at 143%. So we feel we're adequately provisioned there.

Your second question was are we over-provisioned? No, I don't think we look at it that way. We are adequately provisioned, and whether there is a scope to write back, again it all depends on how the clients behave. If things improve, sure, we will reassess that at the reporting period, and if there is a write-back, we will write it back.

But we never go with a target of provisioning that this is the level of percentage that we should be at in terms of coverage ratio. It is a result of a number of factors which are recoverability factor, the collateral we hold, the realisability of the collateral, the timing of the realisability of the collateral, all of these get factored into the provisioning level. So I think, at this point in time, we're well provisioned and adequately provisioned. With that, I'll hand over to Kevin, if he wants to take the question on cost of funding?

Kevin Taylor: Thanks, Deepak. Just coming to cost of funding, I think we've done a really good job in terms of growing CASA accounts, savings accounts, operating balances. I think it really is a testament to the franchise itself. I would love to see that percentage increase even more.

I am cognisant that there is an FOMC meeting this week, and most likely we're going to see the start of the tapering and very possibly rate increases next year, so with that caveat I think that there's probably only minimal opportunity at this stage to see the cost of funds go down, because I think overall the rate environment has bottomed out.

I think we're continuing to make inroads in that, so I say minimal because I really do believe that we can do more on the CASA accounts which would move them down. But I'm also cognisant that the yield curve is steepening, particularly in the early part of the curve, one, two years, and we could see some reactions across the curve, predicated on what happens in the next week or two, even this week.

So we're really happy with what we've done, we think if we do hit a rate-rising environment, this is going to hold us in very, very good stead, but I wouldn't see too much improvement from this level.

Aybek Islamov: Thank you very much. Thank you.

Operator: Thank you very much. I'll now hand back over to you, Deepak, for closing remarks.

Deepak Khullar: Thank you very much, Lydia. Thank you, Naresh, and thank you to all the participants today for your questions. I hope we've been able to answer your questions. Should there be anything further you wish to discuss or get more clarity on, please feel free to write to me or to Denise, and we'll be happy to come back to you with responses. So thank you very much and have a great day ahead.