Q1 2022
EARNINGS CALL TRANSCRIPT

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Naresh Bilandani: Thank you. Hi, everyone. It’s Naresh Bilandani from J.P Morgan. I welcome you all to the first quarter 2022 results call for Abu Dhabi Commercial Bank. I will pass you on to Denise to introduce the senior management presenting at the call today, and commence the presentation, which we expect to last for about 50 minutes. Thank you.

Denise Caouki: Thank you, Naresh. Good afternoon, ladies and gentlemen, welcome to our call on ADCB’s first quarter results, which were announced yesterday. Kindly refer to our earnings presentation, which is available on our website. I’d like to introduce the members of ADCB’s senior management on today’s call. Deepak Khullar, Group CFO. Kevin Taylor, Group Treasurer. Paul Keating, Group Chief-Risk Officer. And Monica Malik, our Chief Economist. We’ll be giving you an overview of the Bank’s financial performance before opening the floor for questions. I’ll now hand over the Deepak to begin the presentation from slide five.

Deepak Khullar: Thank you, Denise. And welcome to our call today. ADCB had a solid start to 2022. We are pleased to report first quarter net profit 1.48 billion dirhams, equivalent to a return on average tangible equity of 12.6%. The 32% year-on-year increase in net profit was driven by a steady operating performance, with significant improvement in cost of risk to historically low levels, as the UAE economy continued to recover. We are making strong progress in the implementation of our five year strategy and have extended 13 billion dirhams of new credit in Q1, building further momentum in Wholesale lending activity, and de-risking the loan book further. Digital transformation continues at a good pace with strong customer engagement. A key milestone in the quarter was the launch of a new super app by Al Hilal, which represents a major step in its digital focused growth strategy. While digital continues to be a key focus for the ADCB group, we have also made significant progress on sustainability. The Board has approved a new framework for ESG, which is now fully integrated as a key pillar of our corporate strategy.

Another important development was the successful conclusion of NMC’s restructuring process, resulting in a positive outcome for ADCB. On the following slides, we provide details on key income statement metrics. Turn to slide seven for a discussion on net interest margin. That interest income of 2.15 billion dirhams was 1% higher year-on-year. We recorded an 8% increase in average interest earning assets, which was partially offset by reduced yield as the Bank adjusted its loan portfolio towards lower risk assets. This was also reflected in a lower cost of risk, and an improvement in risk adjusted NIM by 36 basis points year-on-year, to 1.99% in Q1 2022. The 5% sequential decrease in net interest income was mainly due to lower interest and suspense reversals. Meanwhile, cost of funds was up four basis points sequentially to 71 basis points on account of higher benchmark rates.

On slide eight, you will find information on non-interest income. We are pleased to see a healthy trend in revenue diversification continuing into Q1, with non-interest income comprising 27% of total operating income. Net fees and commission income was up 10% year-on-year, 487 million dirhams. A particular highlight was a 19% increase in trade finance commission, while loan processing fees were also 12% higher, credit card related fees were up 9%. Trading income decreased 4% year-on-year on account of reduced FX income, and lower gains from trading securities partially offset by higher derivative of income.

Turning to slide nine. The Bank has been investing across the business to support our new phase of growth to reinforce our competitive position. This includes increased spending in many areas, including digital technology, compliance, and employee compensation. As a result, operating expenses were 5% higher the prior year, but were 1% lower sequentially at 1.12 billion dirhams.
The cost to income ratio was at 38.1% in Q1. We expect some improvement in our cost to income ratio in the coming quarters, despite the inflationary global environment, as the Bank is well placed to benefit from rising interest rates. On slide 11, you will see how our loan book has evolved over the course of the quarter. Wholesale banking business is leveraging its extensive network, resulting in an active lending pipeline. During the first quarter, the Bank extended 13 billion dirhams of new credit, while also receiving 12 billion dirhams in corporate repayments. As a result, we recorded sequential net loan growth of 1%. Meanwhile, rebalancing of the loan portfolio has resulted in lower exposure to real estate, at 23% of gross loans, versus 24% as at the end of December 2021. Loans to government and public sector entities were at 26%. I will now hand over to Kevin, to discuss the funding mix.

Kevin Taylor: Thank you, Deepak. Please turn to slide 11. ADCB benefits from a healthy funding mix. As at March end, customer deposits were up 10% year-on-year and accounted to 67% of total liabilities. To optimise cost of funds, we have maintained strong base of CASA deposits, which comprised 58% of total customer deposits. Average CASA balances in Q1, were up 16 billion dirham from a year earlier at 150 billion dirham. Total customer deposits declined slightly sequentially, due to a small number of corporate CASA accounts. However, Consumer Banking deposits increased 4% quarter on quarter. The Bank maintains a strong liquidity profile with LCR of 126%, a liquidity ratio of 31%, and a loan to deposit ratio of almost 94%. On slide 13, you’ll see details of the Bank’s capital position. Our capital ratios comfortably meet regulatory requirements, with the capital adequacy ratio of 16.02% and CET 1 ratio of 13.03% at March end. I will now hand over to Paul.

Paul Keating: Thank you, Kevin. Please turn to slides 14 and 15 for updates on the asset quality. Impairment charges were 294 million dirhams in quarter one, down 68% a year earlier, and 56% lower sequentially, reflecting the improvement in the UAE macroeconomic fundamentals. Our cost of risk was at historical lows of 30 basis points. This compares to 84 basis points a year ago, and 2.34% in quarter 1, 2020, when we recorded a significant impairment charge on NMC and Finablr. We’re pleased to report that after two years of intensive work to address the NMC issue, when ADCB had taken a lead to rescue and restructure the NMC group, we have reached a positive outcome in quarter one. The debt restructuring process was completed, and NMCs operations in the UAE and Oman exited from administration on the 25th of March. At this point, ADCB received 37.5% of transferable exit instruments, in a 2.25 billion dirham facility, issued by the holding company for MMCs core operations. Holders of these instruments will ultimately be repaid following the monetization of the business, and will therefore benefit from any further value creation at NMC. Turning now to the other asset quality metrics. The Bank’s NPL ratio was 5.71% at the end of March, compared to 5.41% in December. The sequential increase in stage three loans was mainly due to a few corporate accounts, including POCI, the NPL ratio was 7.1%. We’re comfortable with our provisioning levels, with the Bank’s provision coverage ratio standing at 86.9% at the end of March, and 141% when including collateral held. I’ll now hand back to Deepak.

Deepak Khullar: Thank you, Paul. Moving on to updates on strategy and ESG on slides 17 to 19. As discussed at the beginning of this call, we have received board approval for a new framework for ESG, which is now fully incorporated into our corporate strategy. In recent months, we have undertaken extensive engagement with key stakeholder groups, to review material topics for prioritization. Based on this materiality assessment, the Bank developed a new sustainability strategy in line with industry best practise and GRI reporting standards. We have broken down our ESG approach into four areas: climate, customers and communities, employees and governance. We have established a dedicated sustainability team, which reports to myself to drive strategy implementation, harness business opportunities, and shape corporate culture. Notably the Bank has also linked executive remuneration to sustainability KPIs. In the last year, we have received upgrades on our ESG scores from both MSCI and Sustainalytics.
Turning to slide 20. You will see that our major subsidiaries, Al Hilal and ADCB Egypt are also progressing well in their strategies. ADCB Egypt reported Q1 net profit of 190 million Egyptian pounds, based on IFRS, up 12% year on year represents an ROE of 12.5%. This growth was driven by a 15% increase in customer numbers a year earlier, and an increase in both loans and deposits. This has been underpinned by a digital transformation programme, which resulted in a 17% year-on-year increase in the number of active users on the Bank’s digital platforms. Meanwhile, in February, Al Hilal rebranded and launched its super app, which combines a wide range of financial and lifestyle products and services on a single platform. The app has received positive customer feedback, and has attracted over four 40,000 users to its online marketplace and over 8,500 banking customers to date. I’ll now hand over to Kevin.

Kevin Taylor: Thanks Deepak. On slide 21, you will find an update on ADCB’s digital transformation programme. During the first quarter, the Bank launched a further 10 digital enhancements, bringing the total since inception of the programme to more than 100. We now have over 1 million subscribers to our digital platforms. Furthermore, the highly successful Hayyak onboarding app registered approximately 57,000 new customers in Q1, marking a quarterly record. This represents 77% of all new-to-bank customers in the period. We continue to enhance the pro-cash and pro-trade platforms with 97% of cash management transactions, and 80% of trade finance transactions conducted digitally.

Turning to slide 23. The macroeconomic environment in the UAE is improving rapidly, although some sectors are still below pre-pandemic levels of activity. The recovery is being experienced in both the oil and non-oil sectors of the economy. Strong oil prices and rising production are supporting business confidence and investment, particularly in the Emirate of Abu Dhabi. Credit demand is largely driven by GREs, which are expected to drive new investments and aligned with government diversification and growth strategies. With global restrictions easing and the FIFA World Cup hosted by Qatar at the end of the year, we expect a further rebound in the transportation and hospitality sectors. I’ll now hand back to Deepak.

Deepak Khullar: Thanks, Kevin. I will wrap up with a summary on slide 24, where you will also find a reminder of our medium-term guidance. ADCB produced a solid performance in the first quarter, marked by continued credit growth and a rebalancing of our asset mix, in line with our five-year strategy. We have achieved a significant improvement in cost of risk as the UAE economy continued to recover. Furthermore, we are pleased with the conclusion of NMC’s restructuring process, which provides ADCB with a valuable economic interest in the healthcare group. The Bank has been investing in future growth, reinforcing our market position. However, we remain cognizant of the increasingly global inflationary environment, and therefore continue to be committed to disciplined cost management and further measures to enhance efficiencies. We feel that ADCB has a robust strategy to achieve growth, and build further resilience. We are maintaining a particular focus on harnessing digital technology, and effectively managing ESG risks and opportunities. Thank you. This concludes our presentation. Operator, you may now open the floor for questions.

Operator: Thank you. If you would like to ask a question today, please press star followed by the number one on your telephone keypads. If you have joined online, please click the request to speak flag icon. If you choose to withdraw your question, please press star followed by the number two. When preparing to ask your question, please ensure your phone is unmuted locally. And our first question today comes from Waleed Mohsin of Goldman Sachs. Waleed, please go ahead. Your line is open.

Waleed Mohsin: Yes. Thank you much. Good afternoon and thank you for the presentation. A couple of questions for my side. First, your net interest margin. If you could kindly talk about any competitive pressures that you’re seeing, both on the loan yield side and on the cost of funding, given the global macro. And then your outlook on net interest margin, based on your rate outlook.
It would be helpful to get your rate outlook as well, and how that feeds into your NIM expectation. So that’s the first question. Secondly, on credit quality, curious to hear which sectors drove the increase in NPL ratio, albeit marginal, but there was an increase. So if you tell us which sectors drove the increase and which sectors also drove the recoveries as well, because you had a very low cost to risk, net recoveries. And finally, as you de-risk your loan book, and it’s viable in terms your risk adjusted NIM progress there. Do you think that the normalised cost of risk that you guide for, 80 basis points is too conservative, and based on this de-risking it could be a lower normalised number going forward? Thank you.

Deepak Khullar: Thank you, Waleed. Let me pick up your second question first, which is rate outlook. So in terms of rate outlook, we are expecting anywhere between six to seven rate hikes this year. But as you know, that the entire impact of those rate increases are not going to be felt on the book for the entire year. The Bank is positively positioned for increase interest rate rises every 25 basis points improvement in interest rates, it means roughly about a 100, 125 million dirhams in net interest income. That’s on an annualized basis. And that’s viewing both assets and liability repricing as they’re due. And as we all know in real life, not all things remain equal. And that comes to your question on competitive pressures. So yes, there will be competitive pressures coming in as these interest rate rises come in. And clients will be looking for some accommodation or adjustments.

It doesn’t mean that the entire interest rate rises could be passed on to clients. A lot of it will be, but obviously competitive pressures will exist. On cost of funds. So far, as you can see, we’ve held onto CASA deposits. As we know, CASA deposits by the very nature are volatile and move. But we managed to maintain those balances. And in our view, I think the first couple of rate rises may not be as sensitive to the CASA balances, but then with increasing interest rate rises, we will see the cost of funds also go up, which is natural. But in terms of net interest margin, which is the next question, yes, we do expect net interest margin to improve slightly as the year goes on. The entire effect or impact of the rate rises will not be felt in 2022, but more so in 2023.

And now coming to your last question in terms of de-risking the book. Yes, for the last couple of years with COVID et cetera, the Bank did take a slight conservative position because of the uncertainty surrounding COVID and its recovery and its impact on various industries. So we took that approach. What that has meant is, and as we guided last year as well, we will see some compression in our margins, because as we lend to more government and GRe’s, higher credit entities, you will see a lower margin. But we also guided that expect to see lower cost of risk, and which is now coming through. Which now to your next question, is 80 basis points too conservative going forward? So yes, we’ve recorded 30 basis points this quarter, which is our lowest ever I think in recent history of memory that I can recollect.

We’ve seen this kind of broad based. Even on the retail credit side, we are seeing the cost of risk come down significantly. Because as we move to higher quality credits, even on the retail side, and more secured lending on the retail side, seeing that come through. So we expect that to continue going into the next three quarters as well. And as the economy continues to improve, we hope that will be the case. And hopefully, next quarter we probably give some slightly revised guidance on the cost of risk. This point, I’d just like to invite colleague Paul Keating, the Group Chief Risk Officer as well to comment on cost of risk. If Paul, you wish to add something.

Paul Keating: Thanks, Deepak. I think, Waleed, your other component of this question was around sort of industry direction in terms of the reductions or increases. So some of the reductions came through from the airline sector, and some was trade related in terms of some of the commodity players reduced their exposure. And then we saw some increases in the infrastructure area, and government related counterparties. But I think to Deepak’s comments, yes, the cost of risk, I would agree with his motion that we’re seeing benefits and improvements in the retail side. And the corporate sector, I think will continue to benefit from the lower real estate exposure. But that will continue in line with just under the guidance of this.
Deepak Khullar: I’d like to add one more thing there, if you don’t mind. Is because we sort of gave up some income on the top line and gained much more on the cost of risk side, which is a conscious strategy of the bank. What that means is that the cost income ratios also gone up, which mostly the market will see. But that’s a conscious decision. As we see interest rates rises coming through, we expect the top line to also grow and hopefully to keep the cost line steady and see some improvement coming through in the following quarters on the ratio.

Waleed Mohsin: Thank you very much, Deepak. Thank you, Paul. Very helpful.

Operator: Thank you, Waleed. And our next question comes from Rahul Bajaj of Citi. Rahul, please go ahead. Your line is open.

Rahul Bajaj: Hi, gentlemen. This is Rahul Bajaj from Citi. Thanks for the call and taking my questions. I have three quick questions, actually. The first one linked to the previous answer, actually. You mentioned about retail loan de-risking and how that is helping the cost of risk. I just wanted to understand last couple of years, especially since the start of COVID, there’s been a strong sort of underlying trend, growth trend in the retail sector, people going for mortgages, people going for auto loans. Have you seen that trend subside now that interest rates begin to go up, and now you are more focused on de-risking? Because I also see your retail loan book has kind of on a net basis, compressed Q on Q. So just wanted to understand what trends are you seeing in terms of retail loan demand there. So that’s my first question.

The second one is on the TESS modification, the deferral programme. To my understanding, the programme ended end of December. Is there any loan outstanding now, which is under TESS or similar sort of deferral, which we should be aware of? What is the size of that loan book, which is still under deferral? So that’s the second question. And the third and final question on ESG. You mentioned that ESG has been integrated into the corporate strategy. To what extent has ESG been integrated into the underwriting decision? So to what extent your loan decisions are based on ESG? Just wanted some clarity. Thank you.

Deepak Khullar: Okay. So I’ll probably have my colleague Paul to pick up the questions on the TESS, and perhaps on the underwriting decisions on ESG. But let me just start with the retail loan growth etc. that we are seeing. So yes, we are seeing, or have been seeing a lot of demand for both mortgages and auto loans. And actually now we are seeing broad based demand for even consumer, personal loans on the retail side. So we expect to see that growth coming through in the coming quarters. And so that’s one piece that we are seeing growth coming through the retail side. So, Paul, do you want to pick up on the TESS and the underwriting on ESG?

Paul Keating: Sure. Thanks, Deepak. So on the TESS, yes you’re correct. The programme by the Central Bank in terms of the deferrals concluded at end of last year, and the bank also adopted its normal approach to staging as part of the year end last year. So there was previously requirement to sort of group any referrals to group one and group two. That’s been moved away to our normal staging rules, and the normal rules in terms of staging where you’ve got a significant increase of credit risk that are now applied. So anything that was under a deferral, has now either been corrected in terms of the payments from the customer, or gone on to a formal restructuring. There’s nothing that is sort of in limbo, in terms of either wholesale customers or retail customers.

Within the ESG side of things. Yes, as part of our underwriting and our assessments for a credit approval, ESG metrics, particularly the environmental piece is looked at. And we understand our footprint of our customers in terms of that environmental impact. We don’t have a large project of finance exposure, which aids to some degree in terms of that environmental or social impact, but it is part of our credit criteria to assess the ESG footprint of our customers and what they’re doing, and any call outs from any reporting agencies as part of our consideration.

Operator: Thank you, Rahul. Our next question comes from Shabbir Malik of EFG Hermes. Shabbir, please go ahead. Your line is open.

Shabbir Malik: Thank you. A couple of questions from my side. If I look at your cost trend, you’ve been looking at almost 5% year-on-year growth for the past two quarters. Could we see this as the new normal for the Bank? Or at least for this year expect this 5% kind of cost growth? My second question is question that was asked, I think by Rahul, about retail. If I look at your retail trend, it seems pretty sluggish, especially if I compare it to some of the other banks that have reported. Maybe I don’t have my numbers correct. But is that something that, were there any repayments there which affected the growth in the retail sector, or was there deliberate strategy as part of the de-risking process that you’ve talked about? If you can comment on that would be very useful. And final question on margins. If I look at the first quarter margins, there was a bit of a dip there relative to the fourth quarter, is this mainly due to the change in loan mix? And can we assume this as a starting point for our NIM forecast going forward? Thank you.

Deepak Khullar: Thank you, Shabbir. So yes, on the cost trend, as we said earlier, that we will continue to invest in the business and the investment is going across all sectors, which is digital, compliance, et cetera. And we are seeing increased pressures on compensation in terms of key skillsets, which the Bank is also seeing some inflation over there. So yes, we expect to see some cost growth. But we expect the revenue side to also compensate for that cost growth in the coming quarters as interest rates rises kick in. On retail, yeah, you’re not incorrect in saying that our growth is probably slightly lower than some of our competitors. And we expect to see that improving in the coming quarters. We’ve seen some good growth come in quarter one, but more likely at the end of the quarter. So that should, when you look on average balances in coming quarters, if the same trend continues, we expect growth to come through on the retail side as well. Margins have dipped. Yes, you’re right. And that was because of the conscious strategy of the last 18 to 24 months. But as the market now is improving, as the economy is improving, and as our risk appetite is also changing, we would expect to see some of their margins move up as well going into the rest of the quarters for this year. Paul, please feel free to add anything or if you disagree with what I’ve said.

Paul Keating: Nothing further, Deepak. I agree.

Deepak Khullar: Thanks.

Operator: Thank you, Shabbir. And our next question comes from Alay Patel, of Barings. Alay, please go ahead. Your line is open.

Alay Patel: Yes. Hi, guys. Thanks for the call. Apologies, I just got distracted. So I didn’t fully get the answer on NIMs, which is my first question. The NIM compression in the first quarter, what’s the reason again, is that de-risking the portfolio?

Deepak Khullar: Yes. As we sort of move to higher proportion of our corporate book into government and public sector enterprises, obviously the margins on those are lower than what we had in the corporate segment in terms of real estate, et cetera. So that exposure has come down fairly significantly. And I’m just trying to pull out the slide where we see government and public sector enterprises went up significantly. I think it’s on slide 11. And our retail exposure has dropped to 23%. And just a couple of years ago, this was about 29% or even slightly higher. So that is one piece. Again, on the retail side, we move to higher quality retail lending. Let’s take the case of credit cards for example. The more you move to the higher quality lending, you will see less revolvers. These are individuals who typically repay their entire credit balance at the end of every billing cycle. So you don’t see those credit balances build up.
As you go slightly lower on that cycle, on that scale, you see larger revolvers. So that’s another piece. So yes, you lose out on both the growth and the margins, which we gain on the cost of risk. But now, as we’re more confident with where the market is and the market is improving, obviously we are moving back into seeing the retail book grow in the next three quarters. Hope that answers.

**Alay Patel:** Okay. Thanks. Yeah. In the past, you had given a sensitivity, I don’t know if it still holds true given the structure of the balance sheet of the Bank today. That I think it was every 25 bps increase in rates resulted in 116 million dirhams in net interest income, which calculates to around 13 bps for every 100 basis point movement in rates. Does that still hold true if you’re moving the portfolio mix towards public sector GREs, where you’ve got generally stickier, lower yields, which can’t really increase or don’t increase as much with EIBOR.

**Deepak Khullar:** Yes. So if you look at our notes to financial statements as at end of December 2021, given that interest rates sensitivity analysis, it’s probably around from memory 125 million for every 25 basis points move. But the caveat here is that this is an annualized increase, and it is based on the hypothetical assumption that both assets and reprice will reprice at the same levels at the same time. As we all know in practical life, this doesn’t happen. So obviously it is the management’s job to manage the cost of funds lower, and improve the yields. There will be competitive pressures, as I answered earlier, both on the yield side as interest rates go up. But that interest rates sensitivity still holds. Kevin, would you like to add anything further?

**Kevin Taylor:** Yeah. I think what you’re saying is correct. We model out behavior as much as we can, but behaviour can change in an unexpected way. But right now, 50 basis points increase should lead to around 200 million over a 12-month period and improvement in net interest margin by about 200 million dirham would be our estimate.

**Alay Patel:** Okay. Thank you.

**Kevin Taylor:** Just on the point on the GRE loans. The sensitivity for the loans comes off the benchmark. So as long as virtually all the loans in a wholesale bank, which covers the GREs, are priced off EIBOR or LIBOR. So the sensitivity is to the benchmark. So once that loan is there, then it’s pricing off that to the entire period of the contractual period of the loan. So the sensitivities are the same.

**Alay Patel:** And that’s with like, what? Three to six month lag?

**Kevin Taylor:** No. Typically the loans or the vast majority are resetting every three months. And this is what you model outright. You’ve got deposits that change overnight one week, one month, three months, six months, 12 months, whatever. But most of your wholesale loans are the benchmark is resetting every three months. Some are six months, few are one month, but most of three months. So that’s one of the reasons why you do the modelling. And that’s why you also look at it over a 12-month period.

**Alay Patel:** Yeah. Okay. Then the next question which is on the NMC facility. I just want to understand how to think about this, because I’m not sure I fully understand it. So you’ve got a 30% share of exit instruments in a $2.25 billion facility, which is $850 million or 3.1 billion dirhams. I have an old number for how much you’re provided for NMC. So please update me on the new number of 1.5 billion dirhams, which at the time, was 40% covered. So I’m just trying to determine what PnL release, if any, would occur once these instruments are sort of repaid to the holders.

**Deepak Khullar:** Okay, let me start with that, and perhaps Paul can also comment. The NMC exposure, you’re right, we’ve got 37.5 percent of the facility in the $2.25 billion instrument. And this appears in our loan book. It already is in the loan book. We’ve not added anything further to the provisioning. We don’t think that’s required. We think it’s appropriate. In terms of any writebacks on the NMC exposure.
I think it is premature as of today. We’d just like to see it perform for a few quarters, at least till the end of the year before we take that decision. We feel confident, we feel positive about the overall facility. There is the secondary market in these instruments and as of now trading roughly around par or slightly above. So if there is any writeback, it’ll be more probably a later on event in the year or early next year. Paul, if you’d like to add anything.

Paul Keating: I think coming out of administration was also just concerned, but there is an underlying enterprise value there in terms of the business model. And so that also to Deepak’s point that sustainability of that the evidence before sort of looking for to replace those extra exits.

Alay Patel: Great. Thanks. Just final question was linked to ESG that you mentioned earlier. Do you have any comments on the Financial Action Task Force, putting the UAE on the grey list as a extra compliance KYC costs or regulatory direction from the central bank? How much importance or impact does ADCB have from this?

Deepak Khullar: Paul, do you want to take that?

Paul Keating: Sure. I think the central bank across the industry had already been working on a number of initiatives before the formal greater things. So in that context, it’s not a lot of new requirements that are being taped on the industry, more a general less in terms of the approach to KYC and AMLs we get business. The report there could be an increase initially off the grey list with maybe a more request for information from their correspondence banks, but early indications are that there hasn’t been any change there. And we haven’t seen the change in terms of the country to foreign direct investment flows at this point in time. So a lot of work has been done by the Central Bank on the bank industries. They fixed up life insurance companies, to exchange houses, the real estate industry. And so some of those industries outside the banking industry probably got a greater need to step up under their requirements and obligations, versus the banking industry that have always been working on the improvement over the last 12 to 18 months.

Alay Patel: Okay. Thanks a lot.

Operator: Thank you. And I’ll just hand over to Naresh to ask this question. Thank you.

Naresh Bilandani: Yeah. Thanks. Hi, Deepak. It’s Naresh again. Just one question from my side, please. Just continuing from the question that Alay asked. So on the loan book, the 38% share that you had in the NMC exit instruments, can I please just reconfirm the understanding that these start to reflect as loans in the first quarter itself? I’m just trying to just clean up my loan growth estimates and just trying to avoid any one-off impact if these would have in the future. So is my understanding correct on that line? And also, from this point on, it would be very helpful if you can please just share some thoughts on how we should think of the lending outlook. Especially given the fact that you’ve had like a significant influx of expats from Russia, Ukraine, and other European countries. Has your near-term loan-growth outlook changed in any material manner? Thank you.

Deepak Khullar: Okay. So thanks, Naresh. Let me take your first question. The exposure to NMC has been a loan all through. So two years ago it was a loan, it remains a loan. All that has changed is the counterparty. So it’s moved from one NMC group, now to an NMC Holdco facility. So that’s all that has happened. So there’s been no addition, deletion, just the counterparty has changed. Hope that clarifies that question.

Naresh Bilandani: Yeah, it does.

Deepak Khullar: Okay. And in terms of loan growth outlook, we still maintain mid-single digit growth. We do have an active pipeline of lending. And as the economy picks up, we expect that to come through in
the rest of the year to our target of mid-single digit growth. Yes, we’ve been seeing some repayments come through. But as you can also see that the underlying momentum in the business in terms of new credit being extended is very encouraging. So first quarter, we extended 13 billion dirhams of new credit. So based on the pipeline we see and where we see the economy sort of improving now, we still maintain the next single digit.

Naresh Bilandani: Sounds good.

Operator: Thank you. And we now have our final question on the phone line from Chander Kumar of Arqaam Capital. Chander, please go ahead. Your line is open.

Chander Kumar: Hello? Hi.

Deepak Khullar: Hello.

Chander Kumar: My question is regarding the loan book guidance of mid-single digit. So is this because of your lower credit demand in the market, or is this because of your conservative approach in this strategy going forward? Because other peer banks are like expecting mid to high single digit of growth. So any thoughts on this?

Deepak Khullar: Actually, and at this stage, I’ll also ask my colleague, Monica Malik, who’s the Chief Economist to comment. But before I hand over the mic to her. This is a fact of what growth we’re seeing overall in the UAE economy in terms of loan growth. So I think if we record a mid-single digit growth, that could be, I think it might be beating the overall banking sector overall. And Monica, please remind me as to what the growth has been until December. And those are the figures that we have from the UAE Central Bank until December of 2021. Could you comment on that?

Monica Malik: Yes, Deepak. We had year-on-year credit growth of 0.8% and it had just turned positive in December after being negative since March. What you saw is the government de-leveraging obviously reflecting the stronger oil price and non-oil government revenue as the economy picked up. But you had very solid GRE gross credit of growing double digits by 11.6%, and mostly coming from Abu Dhabi banks. And the other strong driver of credit growth was for the retail segment in the private sector. But you still saw private businesses seeing a contraction in borrowing requirements.

Deepak Khullar: Yeah. So against, that backdrop, if we record reasonable growth, I think it’s not being behind the overall banking sector. That’s what we are aiming for.

Operator: Thank you. We currently have no further questions. So I hand the call back over to Naresh for any closing remarks.

Naresh Bilandani: Okay. Well, if we have no further questions, thank you to all the participants for joining us on this call today, and thanks a lot to the ADCB management for their time. Wish you all are good day ahead. Thank you.

Deepak Khullar: Thank you all for your time and participation. Appreciate it.

Kevin Taylor: Thank you everyone.

Denise Caouki: Thank you all.

Operator: Thank you.

Paul Keating: Thank you.

Monica Malik: Thank you.