Operator: Good day and welcome to Abu Dhabi Commercial Bank’s Second Quarter 2022 Analyst and Investor Call hosted by Goldman Sachs. 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. At this point, I would like to pass on the call to Denise Caouki, Head of Investor Relations.

Denise Caouki: Thank you, operator. Good afternoon, ladies and gentlemen. I'd like to welcome you to ADCB’s Quarter two results call. The Bank published its financial results earlier today and I would kindly ask you to refer to our earnings presentation on the Investor Relations page of our website. Today I'm joined on this call by Deepak Khullar, Group CFO, Paul Keating, Group Chief Risk Officer, Monica Malik our Chief Economist. We will take you through the Bank's financial performance before opening the floor for questions. I'll now hand over to Deepak to begin the presentation from slide five.

Deepak Khullar: Thank you Denise, and welcome everyone to our earnings call. ADCB have produced a solid financial performance and we are pleased with the Bank's direction. For the second quarter, we reported a 12% year on year increase in net profit to 1.58 billion Dirhams. This brought first half net profit to 3.06 billion Dirhams, up 21%, which represents our highest ever earnings for a six-month reporting period. These results were achieved in the context of improving economic fundamentals in the UAE, and rising benchmark rates. Broad based revenue growth in quarter two drove a 300 basis points sequential improvement in the Bank's cost to income ratio. Two key elements of our five-year strategy are to increase lending to targeted economic sectors and to accelerate digital transformation, and we are making good progress in both areas. The Bank extended 35 billion Dirhams of new credit during the first half of the year. Meanwhile, 65,000 new retail customers were on-boarded digitally in quarter two, a record for the quarter, bringing the total of digitally on-boarded retail customers to over 120,000 so, far this year. We also, continue to make good progress on sustainability.

Last month, we published the Bank’s inaugural ESG Report following the adoption of a new ESG strategy. Before providing a detailed explanation of our results, I'll give you a quick snapshot of headline numbers. On slide six, you will see income statement highlights for quarter two. The Bank delivered a return on average tangible equity of 14.2% in the quarter, and it is encouraging to see strong revenue growth across the business. Net interest income increased 20% sequentially and 11% year on year to 2.57 billion Dirhams. Meanwhile, non-interest income contributed 924 million Dirhams, which was a 17% increase quarter on quarter and a 10% increase on the previous year. With the Bank working hard to manage its cost base, operating profit increased 25% quarter on quarter and 8% year on year to 2.27 billion Dirhams. Highlights of the half year income statement are on slide seven. Net interest income came in at 4.72 billion Dirhams, up 6% on the previous year. Non-interest income was 4% higher at 1.71 billion Dirhams, primarily driven by higher card fees and trading income and operating profit increased 3% year on year to 4.09 billion Dirhams.
Please turn to slide eight for a discussion of NIMs. Net interest margin was 2.57% in quarter two, a 29 basis points sequential improvement due to a rise in benchmark rates, as well as higher interest in suspense reversals and fair value unwinds. As we have communicated previously, the Bank’s strategy to derisk the loan portfolio over the past 12 months meant that risk adjusted NIM in the first half of 2022 improved 19 basis points to 1.92% even as NIM was slightly lower. As you would expect in the current rising rate environment, cost of funds increased 33 basis points sequentially to 1.04% in quarter two. Please turn to slide nine. You will see that non-interest income continues to grow and diversify the Bank’s revenues, accounting for 27% of total operating income in the first half.

In quarter two, we recorded net fee income of 505 million Dirhams, up 1% year on year and 4% quarter on quarter. Our Cards business continues to perform very well, delivering a 34% increase in gross fees on the previous year. Trading income totalled, 259 million Dirhams an increase of 49% year on year and 121% sequentially driven by higher foreign exchange and derivative gains. Turning to slide 10, as I've discussed in previous calls, the Bank has been investing significantly in the business, particularly in areas such as digital technology, regulatory compliance and people. This has been important to support our continued growth. As a result, operating expenses trended higher in Q2, up 16% year on year and 10% sequentially. However, we achieved a 300 basis points sequential improvement in the cost to income ratio to 35.1%, driven by top line growth. In an increasingly inflationary environment, we remain disciplined in the management of costs, particularly in our procurement practices and through digitisation to enhance efficiencies. Please turn to slide 12, which provides a breakdown of our loan book. We have continued to capitalise on a robust lending pipeline this year, extending 35 billion Dirhams in new credit to targeted economic sectors, including energy trading and manufacturing, as well as to the retail customers. However, net loans declined 0.6% during the period, to 243 billion Dirhams as a result of corporate repayments totalling, 38 billion. Investment securities increased 13% year to date, with holdings of government bonds moving higher. The Bank was also, a net lender in the interbank market to the tune of 27 billion Dirhams. I will now hand over to Paul to discuss the funding mix, over to you, Paul.

Paul Keating: Thank you, Deepak. Please turn to slide 13. The Bank continues to benefit from a healthy funding mix, and deposits have increased significantly this year, reflecting the strength of the ADCB franchise. Total customer deposits increased 10% during the half to 292 billion Dirhams, primarily driven by growth in Wholesale and Private Banking deposits. CASA deposits have also continued to rise by 4% since December year end to 159 billion Dirhams. CASA now accounts for 54% of total customer deposits. The increase in deposits has enhanced the Bank’s liquidity position. The loan to deposit ratio is at historically low levels of 83.1% as of June end, and the LCR stood at 135.3%. On slide 14, you'll see details of our capital position. The Bank remains well-capitalised with capital adequacy ratio at 15.22% and the CET1 ratio at 12.37% as of the 30 June.

Turning to slide 15, the cost of risk for the first half of 2022 improved to 54 basis points from 82 basis points a year earlier. This is ahead of our medium term guidance of 80 basis points and impairment charges for the six-month period were 31% lower at 950 million Dirhams. In the second quarter, the cost of risk was 78 basis points and impairment charges were 3% lower year on year at 655 million Dirhams. This compared to 294 million Dirhams in quarter one. The NPL ratio improved to 5.59% from 5.71% at March end and including the net POCI assets, NPL ratio was 6.74%. Meanwhile, the provision coverage ratio increased to 89.8%
from 86.9% in the previous quarter. Including collateral held, the ratio was 147% as of 30 June, compared to 141% at the end of March.

Turning to slide 16, you'll see that our major subsidiaries, Al Hilal and ADCB Egypt, are progressing well in their strategies driven by digital transformation. ADCB Egypt continued to deliver solid growth across the Consumer and Wholesale Banking businesses, with first half net profit up 25% year on year to 404 million Egyptian Pounds. This represents a return on equity of 13.2%. Net loans were up 22% and deposits were up 39% year to date. Our Islamic banking subsidiary Al Hilal is seeing good traction in its new cloud based super app, which was launched in February. Over 77,000 users have registered on the app, which combines a virtual marketplace with a banking platform. The new app builds on a strong track record of increasing digital engagement with active users of Al Hilal's digital platforms up 29% year on year in Q2, the registered subscribers increasing 48%. From slide 18, you'll find detailed information on ADCB’s digital transformation programme, which underpins our five-year corporate strategy.

Our digital approach is organised into four pillars of activity. Firstly, technology to build a modern, cost effective, banking landscape. This includes modernising IT infrastructure, migrating to the cloud, consolidating applications and increasing automation. Secondly, digital and analytics; we are enhancing the customer experience as well as developing new digital products such as wealth value proposition, liquidity management and supply chain financial solutions. Meanwhile, our AI models are driving data analytics, which in turn supports personalisation and enhance service.

Importantly, we are also, investing in our people to equip them with the right skill set and technical capabilities and ensuring that they remain at the heart of everything we do for our customers. Finally, we are using digital tools to enhance our compliance controls and our cyber security capabilities. On slide 19, you'll see some digital highlights for quarter two. Our onboarding app achieved its best quarter yet with more than 65,000 new accounts open digitally, representing 79% of all new to bank retail customers in the period. Subscriptions to ADCB's internet and mobile banking platforms were up 19% year on year to more than a million. A record of 75,000 customers registered on the ADCB mobile banking app in the quarter, taking the total subscribers to over 950,000, which is up 26% from a year earlier. In quarter two 96% of all retail transactions were conducted electronically and digital fund transfers were up 62% year on year. Over 8,300 IPO applications, representing 1.2 billion Dirhams of subscriptions were received through ADCB’s digital platform. The Wholesale Banking Group introduced additional features on purpose to enhance security, flexibility and functionality. Upgrades included a new feature to help corporates control individual card usage, mitigating security and fraud costs. Transactions on the ProCash and ProTrade platforms, accounted for 96% of all cash management transactions and 71% of trade finance transactions respectively. I'll now hand over to Deepak.

Deepak Khullar: Thank you Paul. Moving on to updates on our ESG strategy on slides 21 and 22. ADCB is committed to supporting the transition to an inclusive net zero economy and we are making strong progress on ESG. The Bank has adopted a formal strategy built on four pillars; Climate, Customers and Communities, Employees and Governance. I would remind you that ESG is now fully integrated into corporate strategy and steered by best practice governance, including board oversight, executive pay linked to ESG KPIs and a designated ESG team. Climate, we have committed to deploying 35 billion Dirhams of green financing by 2030 and achieving net zero in our own operations and reducing finance emissions in
line with the UAE government’s net zero ambition. Details on this and other metrics are in our inaugural ESG Report, which was prepared in accordance with international reporting standards, GRI and SASB and with third party limited assurance from Deloitte.

Turning to slide 24 and our operating environment, the UAE’s economic recovery is expected to continue in the second half of this year, supported by both oil and non-oil sectors. Recovery in externally facing services is expected to continue due to strong pent up demand, while Qatar’s hosting of the FIFA World Cup should support transportation and hospitality sectors at year end. The energy sector is expected to support investment activity in Abu Dhabi, including into renewables, while recovery in the real estate market is providing a boost to investment activity in Dubai. However, it is worth noting that global growth risks are elevated and the stronger U.S. Dollar, higher interest rates and inflation will provide some headwinds to the non-oil sector in the UAE.

I will wrap up with a summary on slide 25, where you will also, find a reminder of our medium term guidance. These solid financial results reflect the successful implementation of our five year strategy as the Bank continues to invest in digital transformation to support the next phase of expansion. We are already seeing strong results in terms of digital onboarding and customer engagement on our Online and Mobile Banking platforms.

We are also, proud to have taken important steps to enhance resilience to the adoption of a new ESG strategy, which reinforces the Bank’s commitment to robust governance and rigorous risk management. ADCB is in a strong financial position, benefiting from a robust balance sheet and diversified income streams. The Bank is therefore well prepared to weather the challenging global economic environment and to grasp opportunity in a resilient UAE economy. 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, please press star one on your telephone keypad. That's star one to ask a question, we'll pause for a moment to assemble the queue.

Waleed Mohsin: While you wait for questions, maybe I can ask a couple of questions. So, one, Deepak you mentioned the impact of higher rates. What do you think would be the impact of higher rates in terms of, could this potentially slow down the economy, have an impact on cost of risk? Is that something which you're seeing early signs of and is this one of the reasons why the cost of risk has moved up potentially, due to prudence around that? So, that would be the first question. And then secondly, you’ve seen a pretty nice pickup in your deposits and your loan to deposit ratio is the lowest that we've seen in a while, so, maybe some thoughts around that. You were already quite liquid before this, but this has added to your liquidity on the balance sheet.

Deepak Khullar: Sure. Thank you, Waleed. So, yeah, and a rising interest rate environment and the way things are moving with several interest rate rises coming through in the first few months of this year and as recently as yesterday, means obviously higher borrowing costs for the borrowers and some of it may also, move into a higher cost of risk later on in the year. This is something we're cognizant of and the Bank has always been prudent in terms of provisioning. Quarter one cost of risk, as I mentioned, even last quarter was unusually low and we had highlighted that to the participants and that would not be repeated in quarter two.
I think the quarter two cost of risk is more representative of where we are and what we expect going forward, which is well still within our 80 basis points medium term target that we see. So, yes, the Bank has been prudent in taking some provisioning in quarter two and that brings this overall provisioning to our cost of risk to about 54 basis points for the first half of this year and about 78 basis points for the second quarter this year. Pick up in deposits. Yes, we saw some pretty decent pickup in deposits in quarter two, largely coming from corporates and some GREs and this is something that demonstrates the strong franchise of the Bank and as you rightly pointed out, Waleed, one of the lowest loans to deposit ratio that we have seen. We do have a healthy pipeline for lending and we hope that this will be deployed in quarter three and quarter four, as the lending pipeline sort of comes true.

Waleed Mohsin: Thank you much Deepak. That’s very helpful.

Deepak Khullar: Thank you.

Operator: Thank you. And we'll take our first audio question comes from Naresh Bilandani at J.P.Morgan. Please go ahead.

Naresh Bilandani: Yeah. Thank you very much. Hey, Deepak, Paul thanks a lot for your call. Just two quick questions, please, one and, apologies, I kind of joined the presentation slightly late, but NII is looking quite solid. The pickup of this extent is something that I’ve rarely ever seen in ADCB in the previous years. So, it's great to see the strength coming into the NII. It would be very helpful if you can please elaborate how much of this is sustainable i.e. led by the rate hikes. I know you have mentioned in the press release that there’s also, an element of fair value unwinds and other interest in suspense reversals coming through. If you can provide some colour so, that we can extrapolate this to some extent based on the rate hikes in the second half that would be super helpful. That’s one. Second is, also, a bit of sluggishness on the loan growth and I do realise that it's not right to look at this disclosure on a quarter by quarter basis, but just wondering, how should we see the opportunity going into the second half, just with regards to what are the segments that are likely to be the key drivers of the growth going forward from this point on? That’ll be great. Thank you.

Deepak Khullar: Thank you, Naresh. So, let me first pick up the loan growth question. Yes. I think loan growth is just 0.6% lower compared to December 21, but that doesn't sort of show that the franchise is weak, we have a solid franchise, 35 billion Dirhams of new credit extended in the first six months. We've also, had significant repayments come through. Over the last two days I think the UAE’s Central Bank indicators came out with the results until April. We haven’t seen May and June will obviously come a little later, but until April, gross credit expanded by only 1.3% year to date in the entire banking sector, domestic credit expanded by only 0.1% in the first four months of the year and similarly on the individual credit, or lending to individuals expanded by only 2.2%.

So, overall, we haven't seen much growth coming through. We saw a decline of 10.6% year to date in the government borrowings and that's kind of sort of driven down some of the growth. But the Bank does have a solid pipeline of lending and we are positive that we will see lending growth come in the latter half of this year or in half two and that's why some of the liquidity we have that will be deployed in that lending. So, we still maintain looking at a single digit loan growth for the full year. Picking up on your comment on net interest margins, yes, we did see a very decent pickup in NII or NIM for quarter two. Yes. Some of this was driven by interest in suspense reversals and fair value unwinds. I think the best way to look at it is that the half
one NIM is more representative of what we’re looking at thereabouts, rather than quarter two. So, that’s how I would position it.

Naresh Bilandani: Okay got it Deepak. One follow-up question on the loan growth, would you see a risk of a similar extent of maturities also, flowing through into the second half simply because oil prices have been strong? And naturally, I think with pretty much a negative EIBOR, LIBOR spread telling you that the system is quite solid on liquidity, which means you could potentially see some of those risks still coming through in the second half. Is that a fair way to think of it or, you probably know those schedules better. So, any colour you can offer there? That’d be great.

Deepak Khullar: So, the normal maturities obviously will be normal. I think what you’re looking more for is the unplanned repayments coming through. In the first four months what we’ve seen is the government sector declined by 10.6%, public sector GREs grew by 4.9%. I would say we probably see similar, maybe a little lower, but I’ll have Monica, who’s our Chief Economist here, comment on that. Monica, if you want to take that, please.

Monica Malik: Thank you, Deepak. I do think the indicators point to ample liquidity in the banking sector, but also, I think the higher oil prices are very positive for confidence. While we see most of the key projects being driven by GRE, I think there is more of a focus of GREs that, whatever profits they have go back to the central government and we have been seeing the trend of more reliance in the banking sector. So, from a macro perspective, I think we see investment and project activity picking up supported by improved confidence of the domestic economy and the higher oil price, the need to move on with key strategic plans, whether it be in power, whether it be in transportation, whether it be in the development of the hydrogen sector and we believe that this is really going to be central to the GRE credit demand growth.

Naresh Bilandani: Got it. Thank you very much. Thanks Deepak. Thanks, Monica. Thank you.

Deepak Khullar: Thank you.

Operator: Thank you. We will take our next question from Chiro Ghosh please go ahead.

Chiro Ghosh: Thanks for the call. I have two questions. The first one is, as you explained about the potential to further increase your loan book and the leverage, do we expect NIM to increase in the second half of the year as you move from more liquid assets towards lending? That’s my first part. Secondly, the cost to income ratio has come down quite well, but the operating expense level is still around that level. It has remained static. So, if you can throw some more light with digitisation going on, is there a potential for you to lower the cost or you’re aiming to increase the revenue to lower down customer coverage?

Deepak Khullar: Thank you Chiro. I think that first with the last question on the cost to income ratio, as I mentioned on the previous call for quarter one, our absolute expense base or cost base is likely to increase, which we’ve seen in the first half of this year, and that’s a result of inflationary pressures that we’re seeing. It’s also, a result of the investment that the Bank is making in the growth of the businesses, including the digital technology, regulatory compliance and people. So, we don’t expect to see a reduction in the absolute cost base. What we had to deliver on that in terms of the integration and the combination of the three
banks was delivered last year in terms of synergies, actually well ahead of our target on synergies.

So, the reduction in cost to income ratio is now likely to come from the increase in the top line and increase in revenues. So, that's where our focus is on and we continue to invest in the business. In terms of loan growth, yes, there would be a movement from some of the more liquid assets into lending growth in the second half of this year. That should improve our net interest margins and overall net interest income as well, and that is something we are conscious about and focused on. I would also, at this stage like to focus on our cost of funds, which is another area that the Bank is focused on. Even though with rising interest rates, we have seen that both our term deposits and CASA deposits in absolute terms in numbers have grown. The percentage of CASA deposit as a percentage of total liabilities has declined, because we saw a much larger increase in term deposits over this period, but in absolute terms, both CASA and term deposits have increased. So, we're seeing ample liquidity in the marketplace.

Chiro Ghosh: Thank you. Just one follow-up on the first part, just for my understanding, so, the bigger part of the digital spending which you do they're capitalised or bigger chunk happens on a quarterly basis or yearly basis?

Deepak Khullar: Now, most of the investment that we make in digital is capitalised and it flows through the depreciation piece. So, these are investments. These are not short term, three months or six months, but these are significant investments which are capitalised and then depreciated.


Deepak Khullar: Thank you.

Operator: Thank you. Next question is from Waruna Kumarage from Sico. Please go ahead.

Waruna Kumarage: Hi, Deepak. Thank you very much. I have three questions. First question is on the loan growth. Again, going back to the drivers, because I'm seeing the geographic breakdown of loans, I could see that there's a decline in UAE, but there's increase in ex-UAE. I want to understand what exactly is driving this especially in the ex-UAE space, the growth. That's my first question. Second question is on the treatment of NMC loan, I think which you have started this quarter, the reclassification of that, if you could elaborate on that and explain what could be the implications on that going forward. And my last question on the decline in POCI this quarter, there is a decline. Is it related to recoveries or is it like paying down of such facilities? So, if you could shed some light on that as well. Thank you very much.

Deepak Khullar: Sure. Thank you for the questions. Yeah. In terms of loan growth, you're right. We've seen some slight increase outside of the UAE. A lot of that has to do with our growth in Egypt. As you know, we didn't have a franchise overseas prior to the three-way merger and acquisition and post that, we have seen our Egyptian franchise grow quite nicely quarter on quarter, year on year and so, some of that is coming from the Egyptian franchise. In terms of NMC loan, it remains a loan, it's a debt instrument and the only difference is that it is now classified as a loan of fair value through profit and loss, as opposed to carry that amortised cost. So, for all other purposes, it remains a loan. It is included in our NPL ratio. It is included for purposes of calculation coverage ratio, etcetera. So, the only difference is that
how it is classified in the balance sheet, some loans are classified at amortised and some at fair value through P&L. That’s the only difference. And declining POCIs as a result of some recoveries and some other write-offs that we have seen over the course of the last six months.

Waruna Kumarage: Okay. Thank you. And the follow-up on the second question, so, will there be like a fair value assessment every quarter on this loan and you could take potentially, revaluation gain or losses?

Deepak Khullar: Yes. Whether it’s going to be every quarter or every six months, ideally we’ll have to see that, but yes, it has to be fair valued primarily at every reporting period, and that’ll go through the income statement line any gain or loss, it won’t come through the provisioning line. So, that’s the difference.

Waruna Kumarage: Got it. Thank you very much Deepak. Thanks a lot.

Deepak Khullar: Thank you.

Operator: Thank you. Our next question is from Shabbir Malik at EFG Hermes. Please go ahead.

Shabbir Malik: Hi. Thank you very much. My first question, you’ve discussed or you’ve highlighted the drivers of OpEx. I was wondering what kind of inflation levels are you seeing in your cost base for this year, which is driving? I think your OpEx is up about 11% in the first half. How much of this increase would you attribute to inflation? My other question is on non-funded income where we’ve seen a pretty good trend in the second quarter. Maybe if you can make some comments around fee income, which seems to have improved quarter on quarter and also, on other income trends. And finally, if you can maybe explain the reason for the dip in the CET1 ratio in the second quarter. That would be very useful. Thank you.

Deepak Khullar: Sure, thank you Shabbir. So, in terms of inflation, we’re seeing sort of across the board, whether it is staff inflation just to be competitive in the marketplace. So, we’ve seen increases in the staff costs, and that is one. There’s not so, much increase in the number of staff employed. So, most of the increases you see on the staff base, on the staff cost is as a result of pay increases to remain competitive in the marketplace. In terms of other cost base, which is general and admin expenses, again, it’s a mix of both investments going in there, plus inflation, and inflation is across the board in terms of rent inflation for premises that we rent, inflation in terms of insurance costs, medical insurance, annual maintenance contracts for technology equipment, so, we’ve seen all of that come through on that line. So, that’s where most of the cost increases are coming from.

Moving on to your second question on non-funded income, again I’m just trying to open the slide. It’s on slide nine of the deck that we have. So, yes we’ve seen quarter on quarter, fee and commission income is up 4%. Trading income by its very nature is volatile and opportunistic and we’ve obviously taken advantage of that and we’ve seen some good growth coming in there and so, I think the main increase we’re seeing is on the card base or the card income, which has moved up from 240 million to about 273 million, but this is the net fees. On a gross basis we saw quarter two card related fees move up 34% year on year and for the first half of this year, we saw it move up 27% year on year. So, we’re seeing some good traction over there. I think we expect this trend to continue in terms of non-interest income
for the second half of the year at similar levels of what we’ve seen in the first half. CET1 ratio; yes, we’ve seen a slight decline there and that’s coming as a result from both the impact of changes in fair value to OCI. This is the marked to market of our bond portfolio, so, it’s about a 60 basis points impact there, but again, these are marked to market unrealised losses and hopefully they should come back during the course of the year, some relating to tier one coupon repayments or payments and some in the increase in credit risk as a result of changes in RWA requirements from the UAE Central Bank. So, that’s where we are on the CET1.

Shabbir Malik: Thank you, Deepak.

Deepak Khullar: Thank you.

Operator: Our next question is from Chander Kumar in Al Ramz Capital.

Chander Kumar: Hi thank you for taking my questions. I just wanted to understand the fair value adjustment of AED 3.2 billion in ECL breakdown. Are these adjustments part of stage one, stage two, or stage three? And also, these adjustments are not reflected in the financial statement because they are not appearing anywhere in the – I didn’t find this 3.2 billion in the financial statement. So, these are only available in the presentation, but I couldn’t find them in the financial statements. So, can you please comment?

Deepak Khullar: Yeah. Sure. So, as a result of the M&A transaction, any fair value adjustments that we took on the loans and the existing ECL that existed on these loans get reclassified as fair value adjustments. So, that’s why we show them as a provision that we carry against these loans, which we classified either in stage two or mostly in stage two. So, they get reclassified as fair value adjustments and they don’t show up as an ECL, but I think it’s appropriate to show that as a as a buffer that we have against those loans. So, that’s why we consider them as an ECL, but as part of the accounting classification, when you do an M&A transaction, any existing ECL on the loan also, gets reclassified as fair value. So, you won’t see it on the face of the balance sheet or in any of the schedules.

Chander Kumar: Okay. So, while calculating the overall coverage ratio, so, should I include this fair value adjustment in overall coverage ratio?

Deepak Khullar: Yes, you should. And that’s how we compute that. Yeah.

Chander Kumar: And are these fair value adjustments, part of total NPL? The corresponding figure of these fair value adjustments, are these part of NPLs?

Deepak Khullar: Yes, they are. Yes.

Chander Kumar: So, in which stage, in Stage two or three or Stage one?

Deepak Khullar: So, mostly in Stage two and Stage three.

Chander Kumar: Stage two and three. Thank you so, much.

Operator: Next question is from Edmund Christo at Bloomberg.
**Edmund Christo:** Hello. Hi. This is Edmund Christo from Bloomberg International. Just to follow up on note nine, loan advances at fair value. Is this related to NMC exposure? The second one is on your risk appetite. I think it was clear that this year your risk appetite is increasing. When I look at your exposure to real estate and construction as a percentage of RWA, it has come down and you have a low exposure to service, hospitality and trades. So, there is opportunity there to grow into that sector, but then we are talking now about the impact of inflation. We are talking about rising borrowing costs and the impact on the private sector or the corporate segment. So, I just want to understand over the next 12 months, what is the strategy in terms of the risk appetite and sectors and where the growth will come from? The last one is on the mortgages and retail. What's your view on the growth going into the second half of this year? Thank you and maybe if I can add one, I still don't understand what is the size of the unwind or fair value on the NIM and what do you expect for the second half unwind, positive impact and what is the outlook for the NIM by the end of the year? Thank you.

**Deepak Khullar:** Okay. So, on the risk appetite question, I'll have Paul Keating, who's our CRO comment, but I'll come to that in a minute and Paul can take that up. Your first question was around the 3.1 billion in note nine. Yes. That relates to the NMC exposure, which is now treated as a fair value through P&L. And in terms of your question on the, unwinds, what do we expect to see? It is difficult to predict that, it depends on the performance of these loans, which we had taken a fair value on at the time of the acquisition. So, again, it depends on the performance. If the performance continues to be good, then obviously we will see an unwind come through, but if it doesn't, then obviously you won't see that. So, it’s very difficult to predict that, but I'll hand over to Paul. Paul if you want to take up the question on the risk appetite overall and mortgages as well.

**Paul Keating:** Sure. So, I might start on the mortgage and the retail book. A couple of comments there, firstly, we see the mortgage for our consumer base well positioned at the moment and when I say that, I'm looking from the lens of days past due, the vintage information where we look at trends on underwriting as we do say in 2022 versus 21 versus 2020. So, that sort of data leads us into a situation where we believe the mortgage book is as well placed from a concern perspective or an NPL perspective to cope with a rising rate environment that would go forward. Yes, I think there is still some activity in terms of purchases for the balance of this year, but as those rate rises come through later on this year and the house view is that we'll see another sort of 1% between September, November and December. That 23 may see a slower mortgage growth, but we'll wait and see, but otherwise, general consumer, we've had good growth in terms of the recent lending bookings in the month of May and June.

On the risk appetite, yes, we deliberately took the opportunity to reduce the real estate exposure earlier this year. The central bank has put a cap across the industry at 30% based on credit risk weighted assets. We are below that. We're sort mid 20s at the moment. We may see some slight movement in that up and down, but at the moment we've also, seen in terms of our lending assets, a change to an increase in GRE exposure and lesser growth through the corporate exposure. And that, to your point, is maybe just a reflection of what's happening in the industry in terms of some softening post-COVID still in the hospitality sector. I think we'll see some benefit, obviously from the soccer World Cup in Qatar, where we'll get some flow on tourism here, but again, I think as we go into 23, things may slow in that tourism sector as maybe more global recessions take place or the impacts of inflation and rising rates in other economies start to bite, but certainly I think the oil revenues that are coming through
in the economy are boosting projects and sort of growth in that sort of infrastructure side of things and so, that will certainly sustain during the balance of this year. As those inflationary pressures come into play later this year, we may see a softening in terms of demand for oil in 23 is probably our thinking at this stage.

**Edmund Christo:** Okay, very helpful. Just to follow up on 3.1bn on NMC exposure. This used to be around four, correct, 4 billion?

**Deepak Khullar:** Yeah, it used to be around there. Yeah.

**Edmund Christo:** Okay. And the corporate side, do you see competition because of the liquidity in the market, how competitive is it? I think after the merger, things have changed a lot on the books.

**Deepak Khullar:** Yeah, we do see a lot of competition, but Paul, if you want to comment on that and then perhaps I can add as well.

**Paul Keating:** Yeah I think it's always been a competitive landscape here and obviously because of the increased liquidity that is driving competition in terms of both loan pricing but also, deposit pricing as well as people see in interest rates going up that the fixed time deposits, certainly people are looking for greater returns there as we go forward.

**Deepak Khullar:** If I may just comment on the previous question on the NMC exposure, it was about just shy of USD 1 billion of which USD 767 million was ADCB, USD 147 million was UNB and USD 67 million was the exposure of AHB. So, combined was just shy of USD 1 billion and then we had an exposure to an Finablr as well. So, yeah combining for Finablr as well then that was around the 4 billion mark, just wanted to clarify that.

**Edmund Christo:** Yes very clear, thank you. I really appreciate it.

**Operator:** Thank you. Our next question is from Naresh Bilandani at J.P.Morgan.

**Naresh Bilandani:** Thank you very much. Just a quick follow up question, Deepak, the reason why the NMC loan has now been classified from held at amortised cost to held at fair value through P&L is because the structure of that loan is now in form of transferable debt instruments to the NMC hold-co SPV, is that a fair way to understand this?

**Deepak Khullar:** I think there's that piece as well plus the fact that the Bank has 37% voting rights in the entity. So, we do not have a controlling interest, but we do have influence, but we have limited influence in how we can manage that. So, as for the accounting rules, it would fall under a fair value instrument.

**Paul Keating:** And if I may add Deepak, it also, reflects the fact that the NMC in its own right has come out of the administration. So, that loan exposure reflects against the operating entity of NMC, out of administration.

**Naresh Bilandani:** Okay. All right, hypothetically, any further sort of like impairments that you may have to take just in case these will not go through the impairment charges line, as you mentioned, just to get reconfirmed that these will be potentially via the trading on investment income? Is that a fair way to understand this?
**Deepak Khullar:** Yeah, it will go through the income statement line rather than the provision line.

**Naresh Bilandani:** All right. Thank you.

**Waleed Mohsin:** Operator. Maybe the last question now, given that we’re running out of time.

**Operator:** Our last question comes from Valentina Stoykova at Barclays.

**Valentina Stoykova:** Hi, thanks a lot for the presentation. I have one question regarding your bond issuing plans. If you can just give us an update on your plans about the seniors and also, some, you have one tier 2 bond maturing in Q1 next year. So, I was just wondering whether we should expect it to be refinanced.

**Deepak Khullar:** In terms of refinancing? Yeah. So, I think we’ve shown our maturity schedule on slide 28 and of course, I think for 2022, I think we have mostly refinanced our annual requirement, but we will be looking to come to the market at some stage, but we haven’t determined that for the 2023 plans, but that will be later on during the course of the year.

**Speaker:** Thanks a lot.

**Waleed Mohsin:** Thank you much. Deepak, would you have any final comments?

**Deepak Khullar:** No, I think it’s been a good first half. We’ve seen some good momentum coming through, both on the interest income line, non-interest income line, cost to income ratio sequentially has come down and going forward, we expect to see the cost income ratio come down more as a result of income rather than cost. But overall, I think the Bank is on a good footing to seize opportunities in the UAE. Yes, first half growth has been slow and as for the rest of the banking sector, we expect the second half of the year we’ve got a healthy pipeline of deals and that we’ll see some growth coming through. That’s all I’d like to say, and I’d just like to thank all the participants for their questions and if there is anything further anybody wishes to delve into, please feel free to write to Denise Caouki, our Head of Investor Relations or to me directly or to Paul and we’re very happy to come back to you with the answers. Thank you.

**Waleed Mohsin:** Thank you. At this time, I would like to thank the ADCB management for their time and insights and to all the attendees for their participation. Thank you much. Keep well and have a good day.

**Deepak Khullar:** Thank you. Thank you all.

**Paul Keating:** Thank you very much.

**Operator:** That will conclude today’s conference call, thank you for your participation. Ladies and gentlemen, you may now disconnect.