Naresh Bilandani: Good day, everyone. It’s Naresh Bilandani from JP Morgan Equity Research. First of all, a very happy Diwali to everyone who’s celebrating it. I’m pleased to welcome you all to the Third Quarter 2022 results call for Abu Dhabi Commercial Bank today, where we are joined by the senior management of the Bank, to present their Q3 performance and answer your questions. I will pass the call now to Denise, who heads the Investor Relations for ADCB, to introduce the management and commence the call. Thank you. Denise.

Denise Caouki: Thank you, Naresh. Good afternoon, ladies and gentlemen. I’d like to welcome you to ADCB’s Quarter Three results call. The Bank published its financial results yesterday, and I would kindly ask you to refer to our earnings presentation on the investor relations page of our website. Today I’m joined by Deepak Khullar, Group CFO; Paul Keating, Group Chief Risk Officer; Monica Malik, our Chief Economist. We’ll take you through the Bank’s financial performance, digital and ESG highlights 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 performed well in the third quarter and we are pleased with the Bank’s direction over the course of the year. In quarter three, we published a record net profit of AED 1.59 billion, up 25% year-on-year. We also delivered a record net profit of AED 4.65 billion for the nine-month period, an increase of 22% year-on-year. The Bank has continued on a strong growth trajectory. The disciplined implementation of our strategy is helping us navigate an increasingly challenging global environment, marked by inflationary pressures and rising interest rates. We extended AED 49 billion of new corporate credit during the first nine months of the year, while customer deposits grew by AED 37 million. This helped us strengthen our liquidity position, with the Bank’s loan-to-deposit ratio remaining at an all-time low of 83.1%. Across the group we are driving an accelerated programme of digitisation to ensure our customers receive the best service. And one of our key achievements this year has been the integration of a refreshed ESG framework into the Bank’s corporate strategy. In September ADCB took a major step by issuing its first-ever green bond, tapping strong investor demand to raise $500 million to support the financing of low-carbon projects.

Before getting into the details of our results, I’ll give you a quick snapshot of Q3 headline numbers on slide six. The Bank delivered a return on average tangible equity of 13.1% in the quarter, compared to 10.7% in Q3’21. It is encouraging to see solid financial performance, marked by broad-based growth in operating income of 21% year-on-year. Net interest income of AED 2.56 billion was up 17% year-on-year. We also delivered a record net profit of AED 4.65 billion for the nine-month period, an increase of 22% year-on-year. The Bank has continued on a strong growth trajectory. The disciplined implementation of our strategy is helping us navigate an increasingly challenging global environment, marked by inflationary pressures and rising interest rates. We extended AED 49 billion of new corporate credit during the first nine months of the year, while customer deposits grew by AED 37 million. This helped us strengthen our liquidity position, with the Bank’s loan-to-deposit ratio remaining at an all-time low of 83.1%. Across the group we are driving an accelerated programme of digitisation to ensure our customers receive the best service. And one of our key achievements this year has been the integration of a refreshed ESG framework into the Bank’s corporate strategy. In September ADCB took a major step by issuing its first-ever green bond, tapping strong investor demand to raise $500 million to support the financing of low-carbon projects.
charges recorded in the first quarter. Return on average tangible equity for the period was 13%, up from 11% in the same period last year.

Please turn to slide eight for a discussion of NIMs. We have seen a 12 basis point year-on-year improvement in NIM to 2.46% in the third quarter. This was supported by rising benchmark rates, higher interest in suspense reversals and fair value unwinds. There was a sequential decline in NIM, which was primarily on account of higher interest in suspense reversals recorded in Q2. On a nine-month basis, average interest earning assets were 11% higher at AED 399 billion. Year-to-date NIM was a stable 2.44%, amid a change in asset mix toward a lower risk credit portfolio and liquid assets. This has contributed to a lower cost of risk, and we are pleased to see a 19 basis point improvement in risk adjusted NIM to 1.88% for the period. In the context of a rising rate environment and increased time deposits, the Bank’s cost of funds rose to 1.87% in Q3, from 1.04% in Q2.

Please turn to slide nine. You will see that non-interest income continues to be a significant contributor to the Bank’s revenues, accounting for 27% of total operating income in Q3, compared to 25% in the previous year. In Q3, we recorded net fee income AED 499 million, up 14% year-on-year -- Our card business continues to perform well with gross card-related fees increasing 17%, while loan processing fees were up 25%. Net trading income in the third quarter increased 89% year-on-year to AED 281 million, on account of higher FX, derivative gains and net gains from trading securities. Turning to slide ten. As the Bank has highlighted in previous quarters, we have been investing significantly in the business, particularly in areas such as digital technology, regulatory compliance and people. This has ensured that ADCB remains a highly resilient organisation that is well positioned to capture growth opportunities and navigate challenges. With additional inflationary pressures, nine-month operating expenses increased 15% year-on-year to AED 3.59 billion. However, we remain focused on managing our cost base in a prudent and efficient manner, particularly in our procurement practices and digitisation. Q3 costs were contained at AED 1.24 billion, up 1% sequentially. The cost to income ratio stood at 35.4% in quarter three and 36.1% for the nine-month period.

Please turn to slide 12. The Bank continues to benefit from a strong balance sheet, with total assets of AED 486 billion as at the end of September, up 10% over the course of the year. We have continued to capitalise on a robust lending pipeline this year. As I mentioned at the beginning of the call, the Bank has extended AED 49 billion in new corporate credit this year, while corporate repayments total AED 45 billion. Please note that these numbers includes Wholesale and Private Banking. Net loans and advances to customers increased 3% sequentially and year-to-date, to AED 251 billion with increased lending to diverse economic sectors, such as energy, trading and manufacturing. This is in line with the recently released UAE Central Bank data of 3% increase in net loans across the banking sector as at August end. I would also like to highlight that we’re comfortable with ADCB’s exposure levels to real estate at 23% and GREs at 24%. Investment securities increased 12% year-to-date to AED 108 billion, with holdings of government bonds moving higher. 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, with ADCB’s strong franchise attracting significant customer deposits. Total customer deposits increased 14% over the course of the year and 3% sequentially, exceeding AED 300 billion for the first time as of September end. This is well ahead of the UAE banking sector deposits growth of 8.5% at the end of August. Much of our deposit growth has been driven by Wholesale and Private Banking customers. CASA deposits
have also continued to rise by 5%, or AED 7 billion, since the end of December to AED 160 billion, and CASA now accounts for 53% of total customer deposits. ADCB has maintained a robust liquidity position in 2022, resulting in a liquidity coverage ratio of 124.5% and a liquidity ratio of 33%. The Bank was also a net lender to the interbank market to the tune of AED 20 billion. On slide 14, you'll see details of our capital position. The Bank remains well-capitalised, with the capital adequacy ratio increasing to 15.44% from 15.22% at June-end. The CET1 ratio improved 23 basis points sequentially to 12.6% as of September end.

Turning to slide 15. Underpinned by lower impairment charges, there's a significant improvement of the nine-month cost of risk to 60 basis points from 79 basis points a year earlier. Meanwhile, Q3 cost of risk remains steady year-on-year at 73 basis points, ahead of our medium-term guidance of 80 basis points. The NPL ratio improved to 5.46% from 5.59% at June end, and including net purchase or originated credit-impaired assets, and then the NPL ratio was 6.48%. The Bank's provision coverage ratio was 87% and including collateral held, it was 140% at the end of September.

Turning to slide 16. You'll see that our major subsidiaries, Al Hilal Bank and ADCB Egypt, are progressing well in their strategies, driven by digital transformation. ADCB Egypt continued to deliver solid growth across its Consumer and Wholesale Banking businesses, with a 46% increase in the nine-month net profit to EGP 499 million. This is primarily driven by loan growth of 35% and digital transformation. The Bank's deposits also increased 60% over the course of the year to EGP 65 billion. Subscribers to ADCB Egypt's digital banking platforms were up 111% year-on-year in quarter three and active digital customers were 94% higher. Meanwhile, Al Hilal is making strong progress towards becoming a fully digital Islamic bank. To date, more than 157,000 new users have been registered to the Al Hilal super app since its launch in February. The new app builds on a strong track record of increasing digital engagement, with the active users of Al Hilal's digital platforms up 48% year-on-year in Q3 and registered digital subscribers increasing 55%. As a reminder, the app is carving out a unique market position by providing a wide range of financial and lifestyle products and services on a single platform, including a virtual marketplace and financial education features for children.

On slide 18 we'll look at digital highlights, a key part of our five-year corporate strategy. Subscriptions to ADCB's mobile banking app increased 8% sequentially and 29% year-on-year, to more than 1 million subscribers at September end and 85% of our retail customers are now registered to digital channels. We continue to see a high volume of new account openings on our onboarding app, with a record of more than 66,000 accounts opened digitally in quarter three, representing 75% of all new-to-bank retail customers. In Q3, 96% of retail transactions were conducted electronically and digital retail fund transfers were up 65% year-on-year. Transactions on the ProCash and ProTrade platforms accounted for 96% of all cash management transactions and 70% of the trade finance transactions, respectively. Meanwhile, the Bank has maintained its focus on introducing digital enhancements for Consumer and Wholesale Banking customers. There were 12 digital releases in the third quarter, bringing the total to 126 releases since the start of the digital transformation programme. I'll now hand back to Deepak.

Deepak Khullar: Thank you, Paul. Moving on to updates on our ESG strategy on slide 19. As previously communicated, ESG is now fully integrated into our corporate strategy and steered by best practice governance. This includes Board oversight, executive pay linked to ESG KPIs and a designated ESG team. In recognition of the significant progress the Bank has made on ESG over the last 18 months, ESG ratings agency Sustainalytics upgraded our ESG risk score at the end of September. ADCB is now the highest-ranked diversified bank in the GCC. We're also
among the top ten banks globally for our approach to managing the risk related to data privacy and security. Also in the third quarter, we adopted a new Green Bond Framework and the Bank issued its first-ever green bond to support financing of low carbon businesses and projects. The $500 million, five-year bond was 3.8 times oversubscribed, after attracting a range of local, regional and international investors. As a result of ADCB’s robust ESG approach, the bond was subsequently selected to feature in the Bloomberg MSCI Green Bond Index. As part of our ESG strategy, ADCB is introducing new products and in Q3 the Bank provided financing to a global commodities trader for the purchase of carbon credits. This adds to our growing sustainable finance offering, which already includes green bonds, renewable energy project finance and sustainability-linked loans. Meanwhile, ADCB was also ranked by Forbes as the top GCC bank and among the region’s top five companies in its World’s Best Employers survey of 2022. This was in recognition of the Bank’s ongoing efforts in diversity, social responsibility and talent development.

Turning to slide 22 and our operating environment. Central Banks around the world are hiking interest rates as they try to tame inflation, which is increasing the threat of a recession in the US and elsewhere. Despite these global challenges, Gulf economies have remained resilient, supported by oil prices that remain robust, albeit at slightly lower levels than earlier this year. We also expect the Qatar World Cup to have a similar effect to Expo in supporting Q4 economic activity. UAE banking sector fundamentals remain solid, with comfortable liquidity as deposit growth outpaces credit growth. I will wrap up with a summary on slide 23, where you will also find a reminder of our medium-term guidance. Overall, the Bank has continued to build momentum and has delivered another strong set of results. Across the group we are driving an accelerated digitisation programme to ensure our customers receive the best service. This is translating into growth in our customer base and higher engagement levels. Meanwhile, we have taken steps in the implementation of our ESG strategy, which has not only enhanced the Bank’s resilience, but also laid the foundations for future growth opportunities. Significant investment in our people and technology is supporting our robust operating and financial performance. This has ensured that ADCB is well positioned to navigate challenges and achieve sustainable growth, aligned with the UAE’s strategic ambitions. Thank you.

This concludes our presentation. Operator, you may now open the floor for questions.

Operator: Thank you. As a reminder, if you’d like to register a question, please press star followed by one on your telephone keypad. If you change your mind, please press star followed by two. And please ensure you’re unmuted when speaking. For those of you connecting online, you can type your question into the Q&A chat box. Our first question comes from Waleed Mohsin from Goldman Sachs. Waleed, the line is yours.

Waleed Mohsin: Good afternoon, thank you much. Two questions from my side, please. First on net interest margin. If you could talk about the net interest margin excluding the one-off in the second quarter. Just wanted to get a sense of if you remove that, how will the net interest margin trajectory transpire? If you could also talk about the outlook for net interest margin from here on, given increasingly high rates. That’s the first question.

Secondly, Deepak, you mentioned you’re comfortable with your real estate exposures. If you could talk about any emerging stresses at this moment, given the increase in the rate environment and borrowing cost. And then, there is a central bank regulation, which puts a cap around real estate exposures. How’s the Bank fairing against that, and if it’s only limited to commercial property or both commercial and residential is included? Thank you.

Deepak Khullar: Thank you, Waleed. I’ll take the question on NIM and then I’ll have Paul
answer the question on real estate exposure and the real estate cap by the UAE Central Bank. Waleed, to your question, quarter two did see elevated NIM because of a result of some interest and suspense reversals that we had. If we were to normalise for that, there’d be probably a slight improvement in quarter three over quarter two. We don’t break that out by each line item, but there would be a slight improvement over quarter two as a result of that. I think more importantly for us, what we’re focused on is the risk adjusted NIM, which you will find on slide eight. Which has shown an improvement of roughly 20 basis points in the nine-month period, from 1.69% to 1.88% over the nine-month period. This is something we’ve been talking about for the last three or four quarters, to say we’re rebalancing the book and we’ve moved away, significantly, from our real estate exposure, which was on slide 12. You would see, just a couple of years ago, our real estate exposure was 29% of the total loan book, which is down now to 23%. And our government and public sector has moved up from 21% to 24%. This rebalancing has meant that, yes, we have lost some top-line revenue as result of higher yielding real estate exposure, but we put on government and PSE, which is obviously higher credit, lower yielding, but a much lower cost of risk. Therefore, you see the risk adjusted NIM has improved. Going forward, outlook on NIMs, the two most recent rises in interest rates, one in July and one in September, the impact of that is likely to filter into the repricing in quarter four. So, we should see some improvement in NIMs going forward in quarter four and in first quarter of 23. With that, I’ll hand over to Paul to comment on the real estate exposure, any emerging stresses and the cap of the UAE Central Bank. Paul.

Paul Keating: Thanks, Deepak, and thanks, Waleed, for your questions. Just taking the Central Bank cap, that’s at 30% and it looks at real estate credit risk-related assets over a total credit risk-related assets. For ADCB, we’re certainly below that 30%. I don’t see pressure or stress on that 30% number, both as we stand today and also as we look forward in the next few months after December, but even into next year. In your second question, in terms of current stresses, if I break this down into two elements in terms of the retail book and the corporate wholesale book. In the retail side, when I look at metrics such as days past due or look at the vintage information in terms of bookings that we have achieved in 2022, 2021, versus back in 2017 and 2018, then those metrics are what I call healthy. And, basically, we’re at levels that we’re consistent with the pre-COVID environment. We’re not seeing any stress in terms of payment delays within the retail book and well positioned to cope with any pressure in terms of interest rate rises. In the Wholesale Corporate book equally, I think because of the current oil prices that has created a buffer within the UAE, so we’re not seeing specific sector stress in any of the industries at the moment. We may see some slowdown in 2023, as the UAE is part of that global environment and the lower demand, the lower trade finance volumes may start affecting us. But as we stand today, we’re not seeing any specific sector stress.

Waleed Mohsin: Got it, that’s very clear. Thank you so much.

Operator: Our next question comes from Rahul Bajaj of Citi. Rahul, the line is yours.

Rahul Bajaj: Thank you. This is Rahul Bajaj from Citi. Two quick ones from my side. The first one is around the Property Management Division, and there was something in the news a little while back that you’re planning to divest that business. Just wanted to understand what is the rationale there and what kind of impact, P&L or capital, we should think about, if and when this business gets divested? That’s my first question. The second one is on the corporate tax regime, which kicks in from early 2024. Just wanted to understand if there are any further update in terms of what’s to be the effective tax frame that you’re expecting for ADCB, starting 2024? I’ve heard two versions here. Some are saying 7% to 9%, some are saying 15%, where do you think the effective tax rate will settle for your Bank? Thank you.
Deepak Khullar: Thank you, Rahul. On the first piece, on the Property Management Division, yes, we did inform the market that we are in discussions to divest this business. It is not a core banking business for us and we think that if we divest that, we in fact would be positive to the P&L, if and when the deal is concluded. There’s nothing certain at this point in time, we’re still in discussions and obviously the buyers are looking at doing their due diligence. When things firm up a little bit more, if and when they do, then we will inform the market accordingly. But the idea is to focus on our core business, which is banking, and to move out of the property management business that we had acquired earlier on. In terms of the corporate tax, there are two elements to this. Yes, they start for the accounting period starting 1st July 2023, and for us it will be 2024. Entities that have a global revenue in excess €750 million will be taxed at the rate of 15%. Below that threshold, it depends on each individual country, government, finance ministry to decide if they wish to tax and at what rate. That rate for the UAE, they had announced earlier on the year, would be 9% for any business that generates over AED 400,000 in annual revenues. So, that 9% threshold is for those businesses. For a bank of our size and revenues, we expect it to be 15%. The details of the law have not yet been released, we hope that’ll come out fairly soon. That’s all I have on that.

Rahul Bajaj: Thank you, Deepak.

Deepak Khullar: Thank you

Operator: Our next question comes from Nida Iqbal Siddiqi of Morgan Stanley. Nida, please go ahead.

Nida Iqbal Siddiqi: Hi, thank you for the call. My first question is a follow-up on NIMs. Earlier this year, management guided to about AED 115 million NIM impact for only 25 bps increase in rate. I just wanted to check if that sensitivity has changed? Assuming rates peak by end of the year, early next year, when do you expect your NIMs to peak? And then, finally, just on the risk adjusted NIM, I see on slide eight that it’s actually been declining for the last two quarters, since the first quarter of this year. What’s driving this and when do you expect the risk adjusted NIMs to stabilise?

Deepak Khullar: Thank you. On the first one, the 115 million impact for every 25 basis points increase in interest rates, that still holds true in that range, but that is based on both assets and liability repricing by 25 basis points on the contractual maturity in a parallel rate shift, and that is on an annualised basis. So, 115 million for the year. As we know, in real life not everything moves in unison, all things do not remain equal, and not every rate hike you’re able to pass on to the consumers. So, there is still a high degree of competition in the marketplace and, similarly, with cost of funds. We try and minimise that impact as much as we can, but we’re also seeing increase in cost of funds. To answer your question, that interest rate sensitivity still holds true. In terms of risk adjusted NIMs, I think you’re comparing it to Q1 of 2022, which was much higher. Because if you see the cost of risk in Q1 2022 was also about 30 basis points because we had a huge amount of write-back coming through in quarter one of 22. If you look at it over the nine-month period, our risk adjusted NIM has improved. And even if you look at Q3’21 and Q4’21, the risk adjusted NIMs have been improving. It’s only when you compare it to Q1 of 22, because the cost of risk was extremely low, we saw that improved cost of risk for that quarter.

Nida Iqbal Siddiqi: Thank you, that’s very clear. Just following up on that part of my question, when would you expect your NIMs to peak, assuming rates peak by end of this year? And then I have a second question on the OpEx side of things. If you could shed some colour on the drivers of the OpEx increase? I see it’s being driven by personnel expenses, but to what extent is this purely inflation pressures versus investing in the growth of the business? How should we think about OpEx growth into next year, please? Thank you.
Deepak Khullar: Sure. We expect the impact of all the rate rises and repricing to start filtering through the book, both partly in Q3 and partly in Q4, and going into Q1 of 2023. So, we expect NIMs to move up as the full repricing takes effect in quarter four. I won’t say that would be the peak, but most of that repricing of the interest rates that happened in May, around 50 basis points, June, July and September of 75 basis points, reach the repricing impact. Like I said, even though it would be felt more in half-two of this year, more now in Q4 and Q1 of next year. In terms of OpEx, I think we’ve got our OpEx slide on slide ten of the deck. We’ve seen OpEx on the staff costs have moved up and there are two reasons for that. One is the inflationary pressures we’ve seen, the war for talent we’re seeing in the marketplace. And after a period of pretty benign markets in terms of compensation over the last two years, the Bank has had to make this adjustment to stay competitive in the marketplace. And this is split between both fixed pay increases, which happened in the first quarter of this year, and variable pay increases, as well. As the Bank’s performance improves, the accrual for variable pay also moves up. So, this is the combination of both fixed and variable pay accruals coming through on the staff cost. On the general and admin side as well, we would see that has moved up. And because we’ve seen inflationary pressures right across the board, in terms of expenses from everything from branch rental cost to insurance cost, etc. That’s flowing through in the general and admin cost. If you look at our cost base from Q2’22 to Q3’22, there’s only a 1% increase in that, so most of the increases in the cost base came in the first half of this year, especially around the staff cost. The third piece I would say is the investments that we’re making in digital and in compliance. There are a number of new regulations that are being implemented by the Central Bank. We’re investing in that, consumer protection regulation, etc. There’s a lot of work around that and in the increased staff cost and compliance, as well, which has been driving some of the staff cost as well. But perhaps, Paul, if there’s anything on this you wish to add?

Paul Keating: No, I think you reflected it well, Deepak. As per the pack, the increases came through earlier in the year, as opposed to this last quarter, in terms of that staffing component.

Nida Iqbal Siddiqi: Thank you.

Deepak Khullar: Hope that answers your question Nida?

Nida Iqbal Siddiqi: Yes, it’s very helpful. Thank you.

Operator: Our next question comes from Shabbir Malik of EFG Hermes. Shabbir, please go ahead.

Shabbir Malik: Hi. Thank you very much. I have a question regarding your deposit mix. Your CASA levels have held up quite well, despite rising rates. However, as rates continue to rise, how meaningful do you think the risk is for migration of these CASA to term deposits? And maybe if you can highlight what makes it different this time, relative to the last time, considering investment and cash management, etc.? That’s my first question. My second question is around I think it was a news report, which suggested that ADCB is looking to sell certain non-performing loans. I just wanted to understand, what is the vintage of these loans? Are these loans from the early 2010s or is it a more recent vintage? And what kind of provision levels would you have against these loans? Thank you.

Deepak Khullar: Thanks, Shabbir for the question. On the CASA side, we were pleased to see our CASA levels at 53% of our total deposit base. I think it would have been even higher, had our term deposits not grown as much, but we’ve also seen a decent growth coming through our term deposits. In terms of movement between CASA and term deposits, for the first 25, 50 or even 75 basis points’ movement, there’s a lot of inertia and we don’t expect to see that movement coming through. But when interest rates have gone up by roughly 300 basis points just in six months, we do expect some of that movement to happen. That is something
that we plan for and some of that you’ll see now. If we look at slide 13, our total time deposits were AED 112 billion in December 21, then they moved up to 133 and 142 billion. But at the same time, our CASA also increased in absolute terms from AED 153 billion to AED 160 billion. So, as a percentage the CASA may have come down, but in absolute terms, it’s still grown. Which in this kind of a rate environment, we’re pretty pleased with that outcome. Do we expect some movement to happen between CASA to deposit? Yes. That is to be expected in such an interest rate environment. On your second question around selling non-performing loans, yes, there is an article reported by Bloomberg earlier on. We have not made any comment to the market or to the press, but this is something we’re looking at. Nothing is certain yet, we don’t know what the quantum of these loans are going to be, what’s going to be in or out, we don’t even have an offer yet. But when we do, we certainly, obviously, will let the market know. Net-net what I can say, is that whatever we do will be positive to the income statement. These are fully provided loans. In terms of vintage, these are very old vintage, at least five years plus, and fully provided for or some written off. There may be the odd loan which may be slightly below 100%, 80%, 90%, but that doesn’t matter because, in the end, we expect whatever to be net positive to the income statement. So, I hope that gives you some colour on that.

Shabbir Malik: That’s very clear. Thank you.

Naresh Bilandani: Hi, Deepak, it’s Naresh here. While we’re waiting for other questions, if I can please pose some quick questions. One is just following up on Rahul’s question on the corporate tax. Could you kindly just share with us, I don’t know if there have been any early discussions on the treatment of impairment charges within the new tax regime, for banks? Also, what is the general practice globally within emerging market systems? Are provisions that are recorded on the income statement fully tax exempt? My understanding is that in some geographies, it’s the write-offs only that are exempted from tax and not the impairment charges. Any more thoughts that you can share, that would be very helpful. That’s one. Second is on regulation. Is there any update on the implementation of Basel IV in the UAE from the next year? If ADCB has done any early sensitivities on how Basel IV can potentially impact the capital position, that would be extremely helpful. My third question is on we’re seeing a very unique position in the UAE compared to the rest of GCC, where the banking system liquidity remains at a significant excess, especially given the way we are looking at the EIBOR and the LIBOR spread still being negative, as compared to some of the peer systems. Would you be able to illustrate on some reasons for this excess liquidity and how that should potentially affect your net interest margin and asset fee pricing, as we go into the next six to 12 months? Thank you.

Deepak Khullar: Thank you. I’ll take the question on corporate tax and then on Basel IV, I’ll hand over to Paul, and on the liquidity, Monica will give you some macroeconomic overview on that. But on the corporate tax, Naresh, nothing has been so far... the rules haven’t come out by the UAE Government or the Finance Ministry, so we’re still awaiting that. But in certain geographies, as you rightly pointed out, it’s not the provisions we take, but the write-offs that are tax deductible, and this differs from country to country. We will wait for the regulations to come out before we comment on that, so that’s one piece. Paul, do you want to comment on Basel IV regulations?

Paul Keating: Thanks, Deepak. The Central Bank has been more focused on Basel III, to be honest, rather than IV. There’s probably elements of IV that are work in progress, for example in the market risk area, FRTB, we have enabled our systems to calculate our market risk on FRTB, but the Central Bank won’t allow us to move to that methodology or approach at this stage. So, still very much in the to be implemented stage. Across the UAE banking market,
we’re still on the wider standardised approach, so that’s also affecting our market versus other, more developed jurisdictions, but nothing further.

**Deepak Khullar:** Thank you, Monica.

**Monica Malik:** Thank you, Deepak, thank you, Paul. I think on the liquidity side, there’s two factors I’d like to highlight. The first one is the size of the fiscal surplus. We see a larger fiscal surplus in the UAE than other parts of the GCC, or some other parts of the GCC. We are forecasting a fiscal surplus of over 10% of GDP. In response to that, we’re seeing a deleveraging by the government and, also, an increase in government deposits in the banking system. I think it’s also important to note that the UAE is in a more mature part of its development cycle, not only on the investment side, but the broader space. Countries like Saudi Arabia, their investment programmes, the mortgage demand is supporting double-digit credit growth, and this is a phase that we’ve passed through as well. I think those factors are a combination, but I think it’s very much oil liquidity is entering the banking system, apart from the measures, the facts that I had mentioned on Saudi Arabia. The government is also keeping the oil revenues, they’re more aside for future spending, future development. I think it’s very much focused on maintaining the liquidity and I do see project activity picking up next year, but the deleveraging of the government should support liquidity in the system.

**Operator:** Our next question comes from Alay Patel of Barings. Alay, please go ahead.

**Alay Patel:** Hi, Deepak and the team. Thanks for the call. Can you guys hear me okay?

**Deepak Khullar:** Yes, we can, thank you.

**Alay Patel:** Great, thanks a lot. I’ve just got three questions, please. Just going back to the earlier question from Nida on OpEx and the response. I think in the third quarter the staff expenditure was up 30% year-on-year, so it wasn’t first-half driven. I just wanted to know if there was an increase in headcount? I appreciate you have taken some staff on for the digital investment, whether that’s part of your permanent employee base or contractors, I’m not sure, but if you could just elaborate on that staff count number, please?

**Deepak Khullar:** Yes, you comparing Q3’21 to Q3’22, right?

**Alay Patel:** Yes, correct, 30% year-on-year.

**Deepak Khullar:** What I said earlier was that the increase in staff costs came in the first half of this year in terms of the pay rises, etc., so that was a first-half event and that’s obviously then flowing through quarter-on-quarter at similar levels in Q3. A part of this is fixed pay increases and a major part is also variable pay accruals in line with the improved profitability of the Bank. In terms of growth in staff cost, yes, people, we have seen increases, especially in the areas of compliance, data security, data privacy, some of those areas, and some in the digital side of things. And some increase in staff numbers, even on the retail side. But other than that, I think we’ve held flat in terms of most control functions and Wholesale Bank and even Treasury. Those are the key areas we’ve seen increase in staff numbers. Also, increased Emiratisation coming across the Bank, so we’ve seen increased number of growth in the Emirati segment.

**Alay Patel:** Okay, that’s great, thanks. The second question is within your non-interest income, net trading income has historically been around AED 550 million a year. I think you’re already at 650 for the first nine months, which is largely driven from gains from dealing with foreign currencies. Can you just explain the sustainability of this, how it arises, whether it’s from a strong dollar, etc.?
**Deepak Khullar:** Net trading income, as you’ll see on slide nine, a few key elements is higher FX, derivative gains and net gains from trading securities, which is sale of securities. We’ve seen some of that come through and that is obviously opportunistic and that’s why you see that line item being up 89% year-on-year. You can’t draw a trend line through that, it will be volatile, it depends on the market condition. We’re also seeing the increased demand for hedging from our corporate clients, so that helps as well. I don’t think I can give you a number for, let’s say, the next couple of quarters, but some of the trading gains may not happen to the same level very quarter, so this will be a volatile line item.

**Alay Patel:** Perfect. And just a final question, kind of a follow-up from what Naresh was asking on the tax rate and deductibility of cost of risk. If you were to take a base case scenario of 15% tax rate from 2024, then assuming there were no gains that were tax deductible or treated favourable elsewhere in the P&L, would it be fair to say that your effective tax rate should be higher, so it will be closer to 18% or something like that, if the cost of risk is not deducted?

**Deepak Khullar:** I think it’s a bit too early to say that based on these hypotheticals. I would probably just wait for a quarter once the rules come out from the UAE Finance Ministry, we’ll be in a better position to guide the market on where we see this coming through. So, let us absorb that when the rules come out, but based on hypotheticals, yes, you can simply apply those rates to the current profitability and you’re going to end up around that 15 to 18%.

**Alay Patel:** Okay, thanks a lot.

**Operator:** Our next question comes from Waruna Kumarage of SICO. Waruna, please go ahead.

**Waruna Kumarage:** Hi. Thank you very much. I have one question regarding the cost of funding. Looking at your maturity on the funding side of the balance sheet, is it fair to state that because of the maturity profile of your deposits, which I think you have of your deposits about 85% as of December 21, maturing within three months. Does it make the cost of funding leading in the rising interest rate environment? Is that a fair assumption?

**Deepak Khullar:** Is the question around the retail and corporate deposits or are we talking about wholesale funding overall?

**Waruna Kumarage:** No, I’m talking about overall deposit mix, in terms of maturity. Total deposits, I think 85% matures within three months as of end of last year. Is it fair to assume that plays a part in cost of funding leading in the rising interest rate environment?

**Deepak Khullar:** I think that’s not unusual, if you look at the UAE Central Bank’s statistics, I think over 90% of all deposits in the system mature within three to six months. But that’s contractual maturity and when they are sticky deposits they stay in the system and obviously they get repriced, as well, every three months. Our maturity profile is similar to what the UAE banking sector exhibits overall. Yes, we do expect some of that cost of funds increase to come through, as the repricing of the deposits happen. But that’s factored into our interest rate sensitivity that we mentioned earlier of every 25 basis points improvement would give us roughly AED 115 million of net interest income.

**Waruna Kumarage:** So, the benefit on the net interest margin will have a lagged effect, is that right to say? If you’re assuming that there will be further interest rate hikes along the way, during the year, the benefit of that will come later in 2023, rather than in early part of 23?

**Deepak Khullar:** The benefits will start flowing at the time of the repricing of the assets and liabilities, so it depends at which time you’re repricing your assets and liabilities. That is also assuming that you’re able to reprice every asset and every liability upwards by 25 basis points,
which is never the case. We always try to lead by repricing assets and lag by repricing liabilities to maximise that outcome.

**Waruna Kumarge:** Thanks, that's very clear. Thank you.

**Operator:** I'll hand back for any closing remarks.

**Naresh Bilandani:** Jordan, I see there's a bunch of questions still in the queue. Please do reach out to the ADCB management for any follow-up questions that you potentially have. Once again, thanks, everybody, for taking time out to join this call. And thanks a lot to the ADCB management, also, for speaking with the street today. Have a good day ahead, thank you.

**Deepak Khullar:** Thank you, all, for your time. Thank you.