

ABU DHABI COMMERCIAL BANK PJSC

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# Fourth quarter and full year 2023 Earnings call transcript

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# Abu Dhabi Commercial Bank

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**Operator:** Good day, and welcome to the ADCB Fourth Quarter FY 2023 Investor Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Waleed Mohsin. Please go ahead, sir.

**Waleed Mohsin:** Thank you very much. Good day everyone, and welcome to Abu Dhabi Commercial Bank's full year 2023 analyst investor call hosted by Goldman Sachs. The call is being recorded and is intended for analysts and investors only, and any media personnel on the call should disconnect immediately.

So without any further delays, I will pass on the call to Harsh Vardhan, Head of Investor Relations at Abu Dhabi Commercial Bank. Harsh, over to you.

**Harsh Vardhan:** Thank you, Waleed. Good afternoon, ladies and gentlemen. I would like to welcome you to the ADCB fourth quarter and full year 2023 earnings call. We will be referring to our financial results presentation, which can be found on the Investor Relations page of the ADCB website.

I'm joined today by Deepak Khullar, our Group CFO; Robbert Muller, our Group Treasurer; Paul Keating, our Group Chief Risk Officer; and Monica Malik, our Chief Economist. We will be taking you through key financial and operational highlights before opening the floor for questions.

I will now hand over to Deepak to begin the presentation from slide five.

**Deepak Khullar:** Thank you, Harsh, and good afternoon, everyone. Welcome everyone to this call. ADCB continued to successfully execute its strategy in 2023, delivering strong earnings growth through expansion of our core businesses, powered by digitisation, sustainability, prudent risk management, and best practice compliance.

I'd like to firstly put this into context. Over the last three years, the Bank has been transformed. Our balance sheet has expanded rapidly, with net loans increasing 24% since 2021 to cross the AED 300 billion milestone, while deposits have increased 37%. We've made strong productivity gains, with the cost to income ratio improving 240 basis points over the three-year period, while net profit has grown at a compounded annual rate of 25%.

In the last year, the Bank accelerated this growth trajectory amid robust economic fundamentals in the UAE. ADCB set a new record for net profit, which increased 28% to AED 8.21 billion in 2023. Earnings momentum built over the course of the year to reach AED 2.45 billion in quarter four, an increase of 38% year-on-year. On a normalised basis, excluding the gains from sale of ADCP, net profit for quarter four was up 10% year-on-year.

This was driven loan growth of 17% over the full year. The retail business performed very well across mortgages, personal and auto loans. In addition, the cards business had its best year ever. The Corporate and Investment Banking Group (CIBG) extended AED 74 billion in new corporate credit to diverse economic sectors. CIBG has also built up the DCM team to complement its leading position in regional ECM. You will also have seen that we will be opening a branch in Saudi Arabia this year to serve corporate clients, having obtained the approval of the Saudi Council of Ministers.

Customer deposits increased 17% in 2023, with the Bank continuing to attract CASA deposit inflows despite the higher interest rate environment.

While achieving strong top line growth, we have maintained disciplined cost management. The cost to income ratio improved 180 basis points year-on-year to 32.3% in 2023, while cost of risk also remained in line with guidance at 79 basis points.

Sustainability remains a key focus, and we took the significant step of joining the UN-convened Net Zero Banking Alliance (NZBA) in November last year, while tripling our sustainable finance commitment to AED 125 million by 2030. Our progress on ESG is reflected in industry-leading ratings, with Sustainalytics recently upgrading ADCB to 'low risk'.

In recognition of the Bank's strong financial performance, the Board has recommended a cash dividend of 56 fils per share, totalling AED 4.099 billion, which represents 50% of net profit.

On slide six and seven, you will see headline numbers for the fourth quarter and the full year. Looking at the fourth quarter, ADCB achieved a return on average tangible equity of 18.1% compared to 15.1% a year earlier. Operating income grew 6% to AED 4.66 billion, while operating profit was up 2% at AED 3.17 billion. Please note that we also recorded a one-off net gain of AED 490 million in the fourth quarter on the sale of an 80% stake in our non-core property management subsidiary, Abu Dhabi Commercial Properties (ADCP). On a normalised basis, the ROATE for quarter four, excluding the sale of ADCP was 14.5%.

For the full year operating income was up 18% to AED 16.87 billion, while operating profit was AED 11.41 billion, up 21%. Full year return on average tangible equity was 15.1%, up from 13.3% last year. On a normalised basis, this was 14.1%.

Turning to slide eight. The Bank's full year net interest margin (NIM) of 2.83% improved by 32 basis points year-on-year, driven by higher interest rates and volumes, and quarter four NIM increased 21 basis points year-on-year and 6 basis points sequentially to 2.93%. Risk adjusted NIM for the full year was up 25 basis points year-on-year to 2.06%.

Cost of funds was 217 basis points higher year-on-year at 3.85% for 2023. This compared favourably to increases of 290 basis points in three-month average EIBOR and 304 basis points in three-month average LIBOR/SOFR over the same period, reflecting effective management of the Bank's funding mix. Asset yield continued a steady upward trend improving 241 basis points year-on-year to 6.46% and increased 24 basis points sequentially in quarter four.

Turning to slide nine. The Bank continues to benefit from diversified income streams, with non-interest income up 8% for the full year. Full year 2023 net fees and commission income increased 16% year-on-year to AED 2.44 billion, with gross card-related fees up 24%. The cards business had its best year ever, and ADCB was the number one issuer of credit cards in the fourth quarter with a 21% market share in the UAE. The Bank welcomed approximately 220,000 credit card customers, 82% higher than the previous year, driven by digital onboarding and new partnerships, including with food delivery company Talabat, that resonated with customers.

Net trading income rose 74% to AED 1.59 billion, mainly on account of higher net gains from financial assets of fair value through P&L (FVTPL), as well as higher gains on derivatives and foreign exchange.

Turning to slide 10. The Bank continues to invest in the growth of the business, while enhancing productivity and maintaining cost discipline. Full year cost to income ratio improved 180 basis points to 32.3%, and the ratio stood at 32% in quarter four, in line with our medium-term guidance. Including the net gain on the sale of ADCP, cost to income ratio was 31.4% for the full year 2023 and 28.9% for quarter four 2023.

Onto slides 11 and 12. Our balance sheet remains strong with total assets increasing by 14% to AED 567 billion at the end of December. The Bank maintains a healthy liquidity position with a liquidity coverage ratio (LCR) of 158.1%, a liquidity ratio of 32.6%, and a loans to deposit ratio of 83.2%.

We are seeing strong loan growth across our retail and corporate businesses. Net loans increased 17% year-on-year to reach AED 302 billion, well ahead of our medium-term loan guidance of 10% to 12%. As mentioned earlier, the Bank extended AED 74 billion in new corporate credit in 2023 to diverse economic sectors, including GREs, trading, transport, manufacturing and financial institutions. The Bank received AED 37 billion in repayments during the period.

While achieving growth, we have continued to de-risk the loan portfolio. Exposure to the real estate sector decreased to 17% from 22% at the end of 2022, while lending to GREs increased to 25% from 23%. Loans outside the UAE comprised 19% of the portfolio as at December-end, mainly driven by growth in lending to corporates in the energy and trading sectors, as well as financial institutions.

On the retail front, cards, mortgages, personal and auto loans, all achieved strong growth rates of customer acquisition as can be seen from the bottom right table on slide 12.

I will now hand over to Robbert.

**Robbert Muller:** Thank you, Deepak. And let me take you to slide 13. And on slide 13 you will see that our investment securities totalled AED 128 billion at the end of 2023, and that's up 15% year-on-year, which is in line with balance sheet growth.

Bonds accounted for 99% of the total portfolio, of which 68% was held at amortised cost, with the balance of 32% accounted for at fair value through other comprehensive income and marked-to-market on a daily basis.

Turning to slide 14. ADCB continues to benefit from a well-diversified funding mix, which has delivered healthy cost of funds amid a rising interest rate environment. Leveraging a strong franchise, the Bank attracted AED 54 billion in total customer deposits in FY23, a 17% increase during the year. Despite the elevated rates and a highly competitive landscape, it is worth noting that the Bank still attracted AED 14 billion of CASA deposits during the year. Total CASA deposits were AED 167 billion, representing 46% of total deposits and remain well balanced across the various business lines.

On slide 15, you will see how our capital position has continued to strengthen over the year. The Bank remains well-capitalised with a CET1 ratio of 12.86% and a capital adequacy ratio of 16.22%, up from 15.77% at the end of 2022. Our tier 1 capital was supported by the successful \$750 million AT1 bond issuance in November 2023, which received strong demand from a diverse group of global investors.

I will now hand it over to Paul.

**Paul Keating:** Thank you, Robbert. And turning to slide 16 to discuss asset quality. Full year cost of risk was 79 basis points, in line with our medium-term guidance of 80 basis points. Quarter four cost of risk was 102 basis points, compared to 121 a year earlier and 73 basis points in quarter three. The sequential increase was due to provisioning for a few corporate accounts.

Our NPL ratio has improved significantly to 3.73%, its lowest level since 2020, from 5.25% at the end of 2022. Including purchased or originated credit-impaired assets or POI, the NPL ratio was 4.20%.

The provision coverage ratio was 102.5% compared with 93% a year earlier, and including collateral held, the ratio was 168% compared with 144% a year earlier.

Now we turn to slide 17 for updates on Al Hilal Bank. Al Hilal's super app has continued to make a strong progress since its launch in early 2022. In Q4, over 64,000 new users joined the platform bringing the total to over 650,000. An average of 24,600 daily transactions were conducted on the app in Q4, with an average engagement time of 20 minutes per device. This positive activity is a reflection on increased engagement, with digital active users up 109% year-on-year.

Through the app, Al Hilal Bank is also extending its reach beyond its core Abu Dhabi market. And Abu Dhabi residents now account for 43% of banking customers, while Dubai and the Northern Emirates represent 32% and 25%, respectively.

Moving on to ADCB Egypt and slide 18. ADCB Egypt delivered a strong financial performance despite the considerable macroeconomic challenges facing the country. In 2023, the net profit increased 126% to EGP 1.8 billion with the return on equity of 23.8%. In Q4, the net profit was 108% higher year-on-year at EGP 625 million and a return on equity of 30.2%.

Net loans increased 21% year-on-year to EGP 36 billion, while total deposits increased 15% to EGP 86 billion. The Bank continued to accelerate its digital transformation with the launch of its first fully digital branch in 2023. And during the course of the year, subscribers to digital banking platforms increased 51% with digital transactions up 420%. Strong progress was also achieved on the Bank's ESG agenda, with the launch of Sustainable Call Accounts for corporate customers.

Turning to slide 20 for updates on our digital progress. ADCB continues to invest significantly in digital innovation, which is a driving growth while enhancing customer experience and engagement. ADCB Group's UAE operations, including Al Hilal Bank, opened a record of 633,000 customers during 2023 with 83% onboarded digitally.

In a standout achievement, over one million customers have now joined ADCB through the "Hayyak" on-boarding app since its launch in the 2019. Digital engagement has increased substantially with 120,000 new subscribers to our mobile banking app in quarter four. 89% of customers are now registered on internet and mobile banking.

Retail consumer transactions have more than doubled over the last three years in line with the bank's growth and in 2023, digital retail customer transactions represented 97% of the total. Transactions on the ProCash and ProTrade corporate banking digital platforms accounted for 97% of all cash management transactions and 65% of trade finance transactions, respectively.

I'll now hand back to Deepak.

**Deepak Khullar:** Thank you, Paul. On to slide 21. Building on strong progress on ESG, the Bank has adopted an enhanced climate strategy to drive emission reductions across its financing, operations and supply chain.

In November 2023, ADCB joined the UN-convened industry led Net Zero Banking Alliance, committing to align its lending and investment portfolios with the goals of the Paris Agreement. To support customers in their transition, we more than tripled our sustainable finance target to AED 125 billion by 2030, and set a shorter-term target of AED 50 billion by 2025. This has been complemented by product offerings, including a Sustainable Call Account for corporates and a MasterCard Carbon Calculator to allow companies to measure the emissions impact of their spending. For retail customers, the Bank is providing preferential loans for electric vehicles and green mortgages.

In January 2024, ADCB received a significant upgrade in its ESG rating from Sustainalytics to 'low risk' with a score of 12.5. This is the highest ranking for any bank in the MENA region and in the top 6% of all companies covered globally.

On slide 23, looking at broader economic conditions in the UAE, you will see a number of indicators that show a positive outlook. PMI data is in expansionary territory underpinned by solid domestic demand. Meanwhile, the oil prices are at a comfortable level for the UAE and we forecast an expansionary fiscal stance. We also see the investment momentum building up.

While external risks remain overall, overall the UAE economy is characterised by robust fundamentals supported by a high level of infrastructure and a favourable business environment.

I will now wrap up with a summary on slide 24, where you will also find a guidance for 2024. ADCB has delivered a strong increase in earnings, driven by credit expansion in a high interest rate environment and growth across diverse income streams. We are experiencing positive momentum across our businesses, which are operating at an elevated scale.

Our digital platforms continue to be instrumental in customer acquisition and achieving growth in market share. We have made strong progress on ESG with a focus on enhancing our climate strategy. Furthermore, we see considerable opportunity in the coming years as the UAE invests in renewable and clean energy to support its net zero ambition.

Having successfully delivered against our full year 2023 guidance, on this slide, we have provided our outlook for 2024. We expect loan growth in the 8% to 10% range this year, and to achieve a return on tangible equity of 14% to 15%, net interest margin of approximately 2.6% and we expect cost of risk to come below 80 basis points with CET1 ratio above 12%.

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

**Waleed Mohsin:** While we wait for questions, perhaps I can ask a couple of questions, as we wait for questions to poll. Deepak, one question I would have is on your NIM guidance, which if you look at your guidance at 2.6% seems it's quite conservative. It shows a 33 basis points drop versus your exit NIM for the fourth quarter.

And then second one on your cost of risk. If you could talk about which sectors led to that provisioning during the fourth quarter, that would be very helpful. And then after that we can open up for questions.

**Deepak Khullar:** Thank you, Waleed. And yes, I see where you're coming from on NIM guidance. Yes, we are conservative on the NIM guidance. We are waiting to see how the first quarter pans out. And as of now, we expect the first quarter to be fairly flattish. But depends on the number of rate cuts that are likely to happen in the second half or from the second quarter onwards. And that is something that is undecided today. And as we complete the first quarter, we will update this guidance depending on where we see coming out in the first quarter. But yes, at this point in time, it does look conservative.

Cost of risk, about 79 basis points for the full year. We took some provisioning - additional provisioning in quarter four. And a large part of that came from a few corporate accounts. These are legacy accounts and not accounts that have been booked in the last few years. But some of the large legacy accounts where we've added provisioning. But perhaps Paul, if you want to comment a little bit more on the sectors and opportunities.

**Paul Keating:** Yeah, I don't think there's any particular sector concentration, but historically, if you look back quarter four last year as well, we'd always target year end. I guess there's a sizing up in terms of just reflecting on the performance of different customers, different sectors and assessment of recoveries, etc., that happens as part of the year end. So I don't see anything unusual in terms of that large number.

**Waleed Mohsin:** Thank you, Paul. Jenny, you can open up for questions, please.

**Operator:** Okay. Very well. Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. And our first question is going to come from Rahul Bajaj. Please go ahead.

**Rahul Bajaj:** Hi, Deepak. Thank you for taking my question. Rahul Bajaj from Citi. Three questions, if I may please quickly. First one is a follow up of the NIM question you've answered previously. Just wanted to understand 23 basis points Y-on-Y decline in margins that you're guiding, what kind of background rate expectations have you baked in to get through that kind of guidance? Kind of gets to my second part of this question, which is, what is your latest NIM sensitivity? If you could please disclose that. So that is my first question.

The second one is on dividend. I see in 2023, you provided a dividend payout guidance, but no such guidance has been provided for 2024. Just wanted to understand why is that changed? And does - I mean, is this with regards to any change in the firm's sort of capital return strategy or inorganic strategy? How should we think about no dividend payout guidance for 2024?

And my third and final question would be on NPL sort of balances. There's been a sharp decline in 4Q specifically. Just wanted to understand what's going on here? And where NMC is currently in the process. Any update on NMC? Thank you.

**Deepak Khullar:** Okay, I'll start with the last question first, and on NIM guidance. I'll also ask Robbert to comment on the sensitivity, etc., when we come to that. But let me start with NPL balances first.

Yes, we've seen a sharp decline in NPLs. And that's also as a result of a number of fully provided for accounts that have been written off and very little inflow coming into new NPL formation as well. So that's a very positive outcome for us. And so, I think NPL balances will probably continue to remain at similar levels. Cost of risk as we've guided for next year to be below 80 basis points. And we expect that to be below that level. And that should help the overall profitability of the Bank as well.

On dividends we've been quite clear on that. We've been paying 50% dividend. We haven't put out a medium-term guidance as yet. We just put out a 2024 guidance. And a lot of that depends on the loan growth that we see coming through in 2024. And we will be providing guidance later on after Q1 results. And I think we are probably one of the only banks here that provides that dividend guidance. But we will update that after quarter one '24.

On NIMs, probably?

**Robbert Muller:** Yeah, maybe a few remarks from my side. Thank you, Deepak. If you look at our notes of financials, then you will see that our earnings at risk slightly increased. So if rates go down 25 basis points, the impact will be minus AED 188 million for a full year period. This increase is slightly technical in nature because we transferred or transitioned from LIBOR to SOFR. In the past, of course, we had loans running on six-month LIBOR basis, and of course if that rates were to change, that will have an impact on those loans. But now everything is based on SOFR. And we have more liabilities - sorry, more assets on SOFR. Some of our liabilities are fixed in nature because we have more that are non-rate sensitive, for instance, CASA.

I think we also have to take the floor effect into account for certain current accounts. We are not paying interest or very low rate, so if rates were to drop, there's limited room for us to lower those rates as well. I think it's also important to highlight that it's very important, of course for banks to publish these numbers. But we need to realise that this is being calculated on a 25 basis points parallel shift, and on other assumptions, all things being equal.

So the point I'm trying to make is that the published number will be correct from a directional point of view. However, the absolute number should be evaluated with some caution. I think it's also important for us to know that if you look at our number, it's in line with what other banks are publishing as a percentage of our NII. So it's not higher for us than it is for other banks in the region or in the country.

I think one of the issues that banks have in general with managing interest rate risk in the banking book is that at this point in time, the yield curve is inverse and the market is pricing is approximately 150 basis point in rate cuts. Well, if you look at the policy makers, they're only expecting 75 basis points.

So if you are now executing a number of hedges that you will effectively pay an insurance premium because SOFR that you will pay on those swaps will be higher than - that you'll receive on those swaps. So again, now I think our rates position benefited our results in 2023. We have profited from that I think going forward, based on our ongoing analysis of the interest rate curve, we will continue see - to progressively position the balance sheet to a more accommodating central bank environment.

And our house view is still that the Fed will lower rate with 75 basis points over the course of 2024.

**Rahul Bajaj:** Correct. Very helpful. So just a quick clarification on NMC. What's the latest status on NMC?

**Deepak Khullar:** So NMC is operating well and they went into restructuring, I think, in March of 2022. And the idea is for them to come to market but that's likely going to hear sometime this year as to what the future plans are. We don't see any reason to take any further provisioning on that. We've got it evaluated by a third-party as well at the end of 2023. So our valuation stands. And obviously, we want to see that come to a close sometime this year or next year whenever that happens. So we expect to hear from NMC sometime during the course of the year.

**Rahul Bajaj:** Understood. Thank you. Thanks so much.

**Operator:** And our next question is going to come from Naresh Bilandani from JP Morgan. Please go ahead.

**Naresh Bilandani:** Yes, thank you. Hi, everyone. It's Naresh Bilandani from JP Morgan. Just two questions please. One is on the international segment, Deepak. If you can please just discuss on which geographies and counterparties is your strong international growth that we've seen this year being directed to? I'm guessing from the disclosures roughly about a third is to KSA. Is that a fair estimate? If yes, then where exactly is the rest of the international exposure?

Also, if you can please clarify if the ultimate counterparty risk on these loans is sitting outside UAE or this segment includes credit extended to a booking centre, but the ultimate credit risk sits inside the UAE. So if you can please clarify that, and especially where this is being directed to, on what geographies and counterparties, that would be very helpful. So that's the first question.

My second question is - and I'm trying to square your ROTE guidance for '24, and some investors I spoke to also had kind of similar questions. So you are indicating roughly about, say, 20-25 bps decline in your net interest margin. And I'm inclined to think that you are hitting your peak alpha on fee income and efficiencies, if I take a look at the Q4 run rate. Plus, you'll be paying high taxes this year. So could you please tell us how you will be able to achieve this relatively flat ROTE? When I take a midpoint of the 14% to 15% guidance, let's say 14.5%, and you've delivered close roughly about 15% in 2023, it effectively feels like you're not taking any hit from a lower net interest margin or higher taxes. So any insight you can share this, that would be extremely helpful. Thank you.

**Deepak Khullar:** Okay. Thank you, Naresh. I didn't quite get your question on the ultimate counterparty. You did, okay, sorry. So let Paul go first on that, and then I'll take the other questions.

**Paul Keating:** Thanks, Deepak. And Naresh, to your question, so from a geography perspective, yes, KSA did - our exposure to KSA in terms of counterparties did increase by low double digits. So we did see some growth there. It is for major counterparties in the Kingdom, government related entities, international multinationals, we don't operate in the mid-corporate or SME sector there. And we'll - obviously if you have a look at some of the league tables, you'll see we've been active in syndication activity as well.

On the international piece. So, yeah, well, when we say international, the counterparty is effectively outside UAE. So yes, the loans may be booked here, but the ultimate source of repayment is from a cross-border context. So again, if you look at that KSA example, they form part of the 19%, but the ultimate repayment source comes out of the Kingdom itself, is how we record or think about counterparty risk from that side or the flow of the source of repayments.

**Naresh Bilandani:** Okay. And 5 of the 15 billion, is it fair to say that's from KSA this year? I'm keen to understand where is the risk coming from if I have my number right?

**Paul Keating:** Sure. And to the earlier comments, we've also increased our exposure to banks. So trade finance activity obviously picks up those, that component, wider GCC features as well in terms of building on our themes that was mentioned in the past around the corridor banking components.

**Deepak Khullar:** Okay. Let me take the second question around NIMs, etc. And as I mentioned in the first question that came from Waleed, yes, on NIM guidance on the - we have been conservative and we hope obviously to do better than that. But as the year pans out, after quarter one, we'll see how we pan out on the NIMs. Also, the growth that we have seen in the fourth quarter, which is about 7% growth, the full impact of that for the full year in terms of gross interest income yet to be felt through.

And in terms of cost of risk, we definitely - we expect to come below 80 basis points. That's baked into our forecast as well. But that's at this point in time. And so that will also yield a higher profitability for the bank overall.

So if you look into all of that, we still feel that should be able to return a ROTE of about 14-odd-percent or slightly higher.

**Naresh Bilandani:** Deepak, what is the effective tax rate that you are billing into your assumptions. If you can please offer some guidance on that, that would be very helpful.

**Deepak Khullar:** Yeah, from now we've assumed about 9%, and obviously that will also as the year progresses, we - and the rules come out a little bit more clearer on a number of items. But we've built in about 9%.

**Naresh Bilandani:** So Deepak, I should take 9% on, say, what part of the pre-tax profit, which would be your UAE operation, because that should come in addition to the tax that you're already paying right now.

**Deepak Khullar:** That is true. But I think there will be probably for the overseas tax that we have outside will probably come a little lower because we've had a little bit extra tax liability this year, and that will come down next year. But for UAE operations for 2024, I think we should assume around 9%.

**Naresh Bilandani:** Okay. Deepak, I have some more questions, but I'll put myself back in the queue just to allow everybody else to ask a question. Alright. Thank you.

**Deepak Khullar:** Try to go through in more detail, Naresh, with you either in this call or after that as well.

**Naresh Bilandani:** Sounds good. Thank you.

**Operator:** And our next call is going to come from Jon Peace from UBS. Please go ahead.

**Jon Peace:** Yeah, thank you. So my first question, please, is on the loan growth guidance of 8% to 10%, I mean, that's decently ahead of your peer group and indeed consensus. Could you just give a little bit more colour on how that might break out by line across corporate, retail, international, etc.?

And then, my second question would just be on the cost of risk. You said less than 80 basis points rather than around 80 basis points. And I think you made a comment earlier about NPL formation being very low. So could it be considerably below 80 basis points if that NPL formation doesn't indeed stay quite low? Thank you.

**Deepak Khullar:** Thank you, Jon. Yeah, loan growth, we're expecting 8% to 10% because we do see a very healthy pipeline of deals. And so that is something we expect to come through the course of the year. And around your question as to the breakdown of that. I think it'll follow a similar pattern to what the loan book is today, which is 75% corporate, 25% retail. So that kind of loan growth is going to come from both those sectors.

Retail is doing extremely well. As you've seen on the slides, we indicated earlier in the high teens growth, but that's only 25% of the book. So in terms of how the book is going to grow, is in the same proportion, 75-odd-percent corporate, 25% retail, and spread across various sectors.

International growth, roughly similar to what we've seen today proportionally. We don't expect that to grow very significantly, but in proportion will be similar.

On NPL formation, I'd probably hand over to Paul. Paul, if you want to comment on that?

**Paul Keating:** Sure. Thanks, Deepak. So ending 2023, if I look at our composition in terms of Stage 2 and Stage 3 loans we are lower than our peak at during COVID in 2022, and actually are lower than 2019 profile. So I think we're well-positioned in terms of going forward from NPLs in terms of just sort of the way the book is positioned at the moment.

And to your comment on cost of risk, I think, again, if you look on slide 16 and look back over 2023, it's bounced around that sort of low to mid-70s, and the guidance is less than 80 basis points. So I think I would conclude there in terms of expectations.

**Jon Peace:** Got it. Thank you.

**Operator:** Our next question is going to come from Shabbir Malik. Please go ahead. He's with EFG Hermes.

**Shabbir Malik:** Hi. Thank you. A question on your investment book. I think you mentioned that 32% of your investments are parked as AFS - or available for sale - or other comprehensive income. With potential rate cuts coming in this year, is there scope for potential investment gains, or are you open to realising investment gains, if they occur?

And secondly, in terms of your - you talked about credit card business being very strong in 2023. Would it be possible to give a sense of what are your target markets? Are you looking at the affluent segment, mass market? Are we talking more about revolvers or transactors? Just to kind of get a sense of the credit risk of this portfolio?

And finally - and I think in the - there's been talks about lending - for green financing lending in the UAE, and I think the target that was mentioned was about AED 1 trillion by 2030. If you put that in context of the sector now, that's about 33% more than what the current outstanding loans is. So I just want to get a sense of how - is that the kind of growth that we should expect for the sector as a whole in addition to the growth in conventional financing? Or is that an aspiration and aspirational target for 2030? Thanks.

**Deepak Khullar:** Okay, so let me take the last one first in terms of green financing. So the AED 1 trillion target that the banking sector has put out is not just for green loans but it includes a number of items, which is supporting investments and also bond issuances, etc. And it is not a point in time, but it is a cumulative target over 10 years. So it is not an outstanding at the end of a particular year, but I'll come back to that in a minute.

Investment book, probably again, Robbert, if you want to comment?

**Robbert Muller:** Yeah, for sure. So in the past, indeed, we did sell some bonds out of our available for sale portfolio. Again it needs to be seen how especially the rates environment continues to develop. Of course it's not only depending on what the Fed is doing, but also what the belly of the curve is doing, as the majority of our bonds will sit into the - at the two to five-year range as it is a hedge against our liabilities.

But let's see how it develops. But indeed it is available for sale portfolio. So indeed we could sell some of these portfolios if they were in the money. You could also think it from a roll-down perspective as sometimes we buy five-year bonds, we have for three years in our portfolio. The credit spread normally is also upward sloping, so you may see a credit spread gains fully hedged. So there are a variety of options available for us to make some gains out of the available portfolio.

**Deepak Khullar:** And I think you had another question on credit cards.

**Shabbir Malik:** Yes.

**Deepak Khullar:** So yes, we think a target market is across both mass-market, excellency customers, both UAE nationals, expats across the board - and in terms of revolvers versus transactors, we still see a lot of transactors. The revolvers are - I don't have the percentage of the top of my head at the moment, but I think we do get a decent amount of fees from transactors coming through as well.

So in terms of marketing, it's across all segments in the market, and we've seen good growth over there.

**Paul Keating:** And I think to your early comment, the Talabat partnerships also contributes to increased growth. And so we will look for further partners as well in terms of credit cards, etc.

**Shabbir Malik:** Alright, good. Thank you very much.

**Operator:** Our next question is going to come from Aybek Islamov from HSBC. Please go ahead.

**Aybek Islamov:** Yeah, thank you for the conference call. It's Aybek Islamov from HSBC. Just wanted to clarify a bit on your loan growth, right? So the effective numbers in, particularly in Q4, and you gave the colour on the nature of that growth. Do you expect this growth to be quite predictable and stable throughout 2024? Or do you see some quarters be become a bit more stronger than the other quarters? How do you see the distribution of the growth, if you can comment on that? That's first question.

And then secondly, on your cost base obviously quite a strong increase cost in line with the revenues in the last three years, but let's say revenue growth slows down more than you expected. How much flexibility do you have on your cost side to compensate for a slow down if it happens?

And I think lastly on your couple corporate accounts that you mentioned where you increase the vision. What's the intention with those corporate accounts? Do we expect them to be written off at some point? Yeah, that's it. Thank you.

**Deepak Khullar:** Okay. On the corporate write-off of the accounts, we follow process whereby when an account is fully provisioned for and where there is no further chance of recovery, then we write it off. This is for the corporate portfolio, and there is no timeline defined for it. It could be 24 months, it could be 72 months. It depends.

And there's no point carrying both sides of that on the loan side and the provision side. But when there is no further probability of recovery, we write that off. And that'll depend on each corporate account. For retail, that follows a very formulaic approach – 90 days past due, 180 days past due and it's done at a portfolio level. And they're regularly written off depending on the type of product secured versus unsecured.

Loan growth, depends. On the retail side, I think it'll follow a fairly stable pattern across quarters because the momentum is small ticket, but large numbers, and you should see the retail growth come throughout the year. Similarly, with corporate, fair amount of that percentage should be in every quarter, but then you could have some lumpy drawdowns as well or few large customers doing a drawdown in one particular quarter versus another quarter. But over the course of the year, around the 8% to 10% mark.

**Paul Keating:** And just to supplement Deepak's comments on the write-offs, even though we write-off an account, that does not mean we stop trying to collect on it. So those activities in terms of recoveries still proceed on different accounts. But to his point, we take a view on judgment on recoverability of a certain time and write it off, if need be.

**Deepak Khullar:** In terms of the cost, a large proportion of the cost increase that we've seen this year is coming from sales related costs, both in terms of either sales related incentives, commissions of people, some feet on the street as well that are driving that. So if we see that slowing down, we can definitely control that cost base as well. So there is a large amount of that variable direct cost that we can control.

**Aybek Islamov:** Thank you.

**Operator:** Our next question is going to come from Olga Veselova from Bank of America.

**Olga Veselova:** Thank you, and good day. My first question is about your willingness to expand business in Saudi. So you got this approval in January. In the long term, how much Saudi loans could be as a percentage of your loan book, let's say, in the next three, five 5 years? What's the aspiration? And also, what can you do using Saudi licence, which you cannot do from the Abu Dhabi balance sheet? So that's my first question.

My second question is on loan growth. You had impressive results in 2023, really very strong numbers. And I'm wondering what helped you to beat the market grow so much? Let's say mortgages you grew by 26% year-over-year. So was this pricing special offers? Did you focus on any special object or leveraging relations with Abu Dhabi? So what was your end goal to beat the market on loan growth so much in different segments?

And my third question is what's your sensitivity of P&L and CET1 ratio to Egyptian pound? Thank you.

**Deepak Khullar:** So on the Saudi piece, I think we got a license or approval in January of this year. We will build out that franchise in Saudi during the course of this year. It is primarily a corporate bank. We are not intending at this stage to do any retail lending, etc. And this gives us a presence on the ground more - much more closer to our client base in Saudi. So I think it is still early days, and as we build out this franchise, we will provide you more colour around that once we build that out.

On the second question. I think we can - primarily corporate lending, we can do that from the UAE as well, which we are currently doing, but it gives us a much stronger franchise to be present on the ground and to be closer to our client base to be able to do that. So it is a branch license that we have received and we expect to build that out during the course of this year.

**Olga Veselova:** And on Egypt?

**Deepak Khullar:** On Egypt, your question was around sensitivity to Egyptian pound for what?

**Olga Veselova:** For CET1 ratio or P&L, if you have any?

**Deepak Khullar:** Yeah, I think on the - right now, if there was a downgrade further, it will impact our CET1 in terms of risk-weighted assets going from 100% to 150%. And just on the RWA, about, what, 30 odd basis points? Yeah.

**Paul Keating:** But if it's devaluation pressure than obviously our capital invested in terms of equity for our operations in Egypt also will get marked down. But that's not material in terms of the size of the balance sheet.

**Robbert Muller:** No, we managed some equity position via the NDF market, although that market has become also a very expensive research. But we continue to manage that position.

**Harsh Vardhan:** Thank you all. Jenny, we might just go into final remarks in the interest of time. But the IR team will be available if there's any follow up questions, so you can reach out to either Ali or myself. So Deepak?

**Deepak Khullar:** No, I'd just like to thank everybody for their participation on this call. And I'm sure there may be further questions that people may have and have not had the opportunity to ask or require further clarifications on our results. And please do send those queries into Harsh at our IR desk and we'll collect the answers for you and come back to you.

So with that, I'd probably thank everybody for this call today. Thank you very much. Waleed, anything from your end before we call this to a close?

**Waleed Mohsin:** No. Thank you very much, Deepak. Thank you very much to you and the team for hosting this call. And thank you very much for everyone for the participation. All the best. Thank you.

**Deepak Khullar:** Thank you.

**Robbert Muller:** Thank you.

**Operator:** And this will conclude today's call. Thank you for your participation. You may now disconnect.

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**Investor Relations**  
Harsh Vardhan  
Email: [ir@adcb.com](mailto:ir@adcb.com)

**Corporate Communications**  
Majdi Abd El Muhdi  
Email: [majdi.a@adcb.com](mailto:majdi.a@adcb.com)

**Abu Dhabi Commercial Bank**  
Sheikh Zayed Bin Sultan Street  
PO Box: 939, Abu Dhabi  
[adcb.com](http://adcb.com)

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