FAB Q2/H1'2019 Earnings Call Transcript*

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Co-host

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Naresh Bilandani: Good day, everyone, and welcome to the second quarter 2019 results call for First Abu Dhabi Bank. I'm Naresh Bilandani, Head of MENA and Turkey Equity Research at JP Morgan and from FAB we have with us today James Burdett, Group CFO; Shireesh Bhide, Group Chief Credit Officer; Karim Karoui, Group Head of Subsidiaries, Strategy & Transformation; and Sofia El Boury, Head of IR. Can I please reiterate that this call is for analysts and investors only and media representatives should dial off. I will pass the call to Sofia now to commence this presentation. Sofia, all yours.

Sofia El Boury: Thank you, Naresh. Good afternoon, good morning and thank you for joining us today to review FAB's financial performance for the first half of 2019. A quick reminder that all our financial disclosures, including the IR deck we'll be going through today, are available on the Investor Relations section of our website as well as on the app. Replay details for this call are also available. I will now pass it on to James for the presentation.

James Burdett: Thank you, Sofia and good afternoon, everybody. Thank you very much for joining the call. As usual, I'll go through the investor presentation in a pretty rapid pace so we've got more time for Q&A at the end of the session.

So, starting on page 3 you can see profits for the quarter were AED 3.2 billion, which was about 5% over the prior comparative period, so a very good result, particularly in the current environment, which brings the total year to date profit for the first half to AED 6.3 billion, which is 4% over the prior comparative period.

And if you look at the right-hand side, I guess, more importantly, you can see at the same time we're generating greater returns and since 2017 you can see our return on risk-weighted assets up 31 basis points or some 14% since 2017. And I think the results this quarter reflected that fact, i.e. we are doing more with existing customers, retail banking has started to grow for the first time since the merger was announced. We're showing the benefits of a diversified business with strong growth in transaction banking, strong growth in global markets. And at the same time we've maintained a very strong balance sheet with our core equity tier 1 improving, liquidity metrics, both LCR and advances to deposits ratio improving and our coverage ratios as well as our NPLs also improving.

Turning to page 4 just to show the guidance we put up to the market and what we've achieved to date, I think you can see very clearly that bottom line numbers are well ahead of expectations, both profit growth, return on tangible equity and Basel III core equity tier 1 ratios. Revenue is a little bit behind mid-single digit but also cost of risk is a little bit down as well. And I'll talk more about guidance going forward as we go through the presentation.

Jumping to page 5, which I think is probably one of the more important slides, even though it's probably a little bit wordy, if I go through the three main points here, we are leveraging our competitive strengths. As I said, very good momentum in our CIB business, with revenue up 15% year-on-year. We do have a strong pipeline with our traditional client base, particularly public sector entity, government and GRE starting to come through.

The diversification of that business also continues at pace. So, global markets are up nearly 32% half-on-half but within that 32% we've got very, very strong growth in our global market sales, which were up over 50% half-on-half and trading income is also up 50%-odd.

Transaction banking continues to grow. CASA, trade, all up double-digit growth, which is great. As I said earlier, personal banking clearly suffered from the effects of the merger and then the integration. We integrated at the end of last year. There were some teething problems which we've now worked our way through and in this quarter we've seen retail banking grow, as I said, for the first time since the merger, which is a great result.

In terms of progress post integration, we are making good progress on our transformation journey. The digital investment continues at pace. We're seeing more and more people migrate to digital channels. We're seeing more and more customers sewn onto the digital channels. We are focusing on the top five or six customer journeys this year where we are looking to improve both, basically, the customer experience but also ultimately we are looking to drive revenue productivity as well as cost efficiency play and we are making good progress on that.

I talked a little bit about the balance sheet but the capital generation is very strong for us. Core equity tier 1 now at 13.6% for the half year which is a great result. And in terms of synergies, we're managing that well and you see overall costs are only up 1% year-on-year with investment in digital and KSA and so on broadly being offset by synergies that we generated.

We put out to the market AED 1.5 billion of synergies. We're now at 90% of that figure, so just over AED 1.3 billion year to date. And I think some of our risk appetite tightening is starting to work as well, with higher risk-adjusted returns coming through in our personal banking business.

Turning to page 6, just looking at the balance sheet growth, you can see loans and advances were up AED 13 billion year to date. That's very strong growth. You can see a lot of that is in CIB and you can see within CIB the sectors are government, public sector entity, as we guided before and as you would expect. We also have a pretty healthy pipeline going into the second half, which we are quite comfortable with.

Looking at customer deposits, you can see there was a dip in March from the end of the year, which was mainly on outflow of government deposits, which you can see have come back in, in the second quarter. So, total customer deposits of AED 462 billion are up 7% year-on-year. And I think what's most important, and what we are really excited about, is that we are starting to see significant growth in CASA which obviously is one of our most profitable products, growing from AED 147 billion to AED 173 billion as at the end of June.

As you can see, on the back of that the liquidity metrics are looking very strong, with the coverage ratio well in excess of the regulatory minimum at 137% and our loan/deposit ratio around the 80% mark.

Turning on to page 7, just looking at net interest income and the margin trends, first thing to point out, and this is the same story we sort of repeated over the last several quarters, net interest income is broadly flat year-on-year at AED 6.4 billion and the dynamics of that remain the same.

So, we've got CIB margin compression that's sort of a headwind. In terms of personal banking, because we have tightened risk appetite for higher risk-adjusted returns, all offset by rate hikes going through year-on-year. Just looking at the q-on-q trends, you can see quarterly net interest income is up over the first quarter. That mainly reflects volume growth and a little bit of interest in suspense as we disclosed in the MDA.

Turning to NIM itself, on the top right-hand side of page 7 you can see the net interest margin of 2.21 is down about 24 basis points over the prior comparative period. That is mainly as a result of the deployment of surplus funds into the ECB where we make a profit on the FX and investment income line through the swap markets. And I guess, looking at the whole 24 basis point reduction, about half of that is a result of the ECB trade, and the other half is a result of the CIB NIM compression as well as the risk appetite tightening that we have in personal banking.

Just looking at the bottom right-hand side, you see that the cost of customer deposits has fallen. That's primarily a result of the change in mix, so giving better balances through our CASA network which obviously improved the mix and lowered the cost of deposit. Another good result.

Turning to page 8, Non-interest income, you can see total non-funded income is up 12% over the prior comparative period, mainly driven by foreign exchange and investment income. Fees and commissions you can see are down year-on-year and that's mainly the result of personal banking group, where, as I said before, we tightened risk appetite throughout the merger and integration period. But, interestingly, that started to pick up and we are showing growth q-on-q in that particular line.

The main reason for the reduction q-on-q, though, in fees and commission is mainly the syndicated loan market in our CIB business and it'll be no surprise to you that syndicated volumes are down considerably in the MENA market over the last two quarters. I think it's by some 40%-odd and that's obviously reflected in the CIB fee and commission income q-on-q.

The foreign exchange and investment income up 52% year-on-year. This is a particularly good result. Most of the driver of that growth is from global market sales, so flow on the back of our customer business. And, as I said before, we are doing more with our customers as we try and improve cross-sell ratios and focus on our key clients. There's also a gain in trading income and the global markets business and there's also the uptick in the ECB trades I just mentioned.

Turning to page 9, just looking at cost efficiency, overall cost only up 1% year-on-year and you can see basically a reduction in integration costs being partly offset by amortisation, which mainly relates to the amortisation of the integration assets plus continuing investment in KSA, digital and so on, as we've guided before. So, overall cost/income ratio around the 26% mark and within guidance.

Turning to page 10, we talked about the healthy cost of risk before. We guided 55 to 65 basis points conservatively. We're managing it at the moment around 50 basis point cost of risk and you can see there's been a little bit of movement in the non-performing loans on the bottom right-hand side of page 10 with NPLs moving from AED 12.1 billion to AED 11.6 billion, which just reflects normal market movement in terms of settlements and managing our NPL book. That's led to an improvement in the coverage ratio which is now up to 111%.

Moving on to page 11 and just looking at the core equity tier 1 ratio, you can see we finished the year at 14% pre-dividend and then drop to 12.4% post dividends. Obviously significant organic capital generation coming through to build the ratio up to 13.6% as at the half year. And I think what's important here is we are as a management team putting increasing focus on our return on risk-weighted assets. So, managing the balance sheet, I think you can see that coming through in the numbers there whilst assets are growing 4%, risk-weighted assets are only up 1% and that's driven an improvement on the return on changeable equities to 17.2%, which has obviously led to better organic capital generation, which is great.

On page 12, we have decided to maintain guidance despite some of the headwinds that we've seen coming. So, there's no question that the markets have turned quite considerably. If you go back to the start of the year, I think we were expecting at least one, maybe two, rate hikes. We're now talking about maybe one, maybe two rate cuts. Obviously, every 25 basis points has a reasonable impact on the Bank's profitability and we've disclosed that in our annual accounts, around AED 250 million for every 25 basis points.
So, we're quite confident of hitting our bottom line targets, i.e. return on tangible equity and net profit growth at mid-single digit but we may come in a bit lower on revenue and may come in a bit lower on our cost of risk guidance. So, overall we're comfortable with that and I think what's shining through is the benefits of the group diversified business as well as improvements starting to happen in our personal banking group, as we've spoken about before. So, no change at this point in our guidance.

And then page 13 just to wrap up, I think page 13 says it all. We've got a record performance of the first half '19. We are considering to maintain a very strong balance sheet. We're starting to grow in areas that matter. You can see some of the high ROE, low capital intensive products are growing very satisfactorily, particularly global markets, transaction banking. Retail banking is starting to turn around on the back of the integration now being done and improving our turnaround time and our customer experience.

So, a strong franchise has delivered a diversified revenue and, at the same time, the balance sheet remains very strong with most of the metrics – core equity tier 1, liquidity and so on – improving. So, quite a good result for the half year but we remain cautious in terms of our guidance because the outlook is very volatile, both in terms of oil prices, Fed rate cuts which obviously have an impact on the balance sheet and the banking industry overall.
So, look, with that I'll wrap up. As Sofia mentioned, we have Shireesh and Karim here, so over to you, Naresh, for any questions.

Naresh Bilandani: Thank you. Jordan, I think we can open the line for questions now, please.

Operator: Of course. Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star two and when preparing to ask your question, please ensure your phone is unmuted locally. Our first question comes from Chiro Ghosh of SICO. Chiro, your line is open.

Chiro Ghosh: So, my first question is on the categorisation of the loan book. So, I want to get a sense, say, for example, if a public sector entity is operating primarily in the real estate sector, do you classify it in the real estate sector or public sector? How do you decide that? Because I have a see that this quarter I see some kind of loan book shift from the real estate sector to the public sector, so I want to get a sense on that. And second is on the competition. How much competition are you seeing or how sustainable is the asset yield?

James Burdett: Okay, thank you for your question. To answer your first point, yes, there was a reclassification from real estate to government. That just represents a change in the guarantee documentation and reclassification accordingly. Your second question was around competition. I think competition remains very strong. There's a competitive tightening. The loan market has diverged from the bond market. People are out there offering potentially crazy rates for the risks that they're putting on their books and, as I said, we as a Bank are very focused on improving our return on risk assets so we're not throwing money out the door at cheap rates just to fuel revenue growth. I hope that answers your question.

Chiro Ghosh: Yes, that's all from my side. Thank you very much.

Operator: Our next question comes from Deniz Gasimli from Goldman Sachs. Deniz, your line is open.

Deniz Gasimli: Hi, good afternoon, it's Deniz Gasimli from Goldman Sachs. Thank you for the presentation and the call. I have two questions from my side. One on cost of risk, I mean, so far you're trending better than guidance, at around 50 basis points, 49 basis points. We want to understand do you have a view in a lower rate environment, given the expectation of Fed rate cuts, where would you see normalised cost of risk if rates comes down or is still the same or would you expect maybe a varied cost of risk due to a lower rate?

And my second question would be on net interest income. I mean, this quarter there was an increase in net interest income and according to the presentation it's partly due to interest in suspense reversals. I just want to understand if you can tell us the amount of the interest in suspense reversal or maybe what was the increase sequentially or year-on-year. Thank you very much.

James Burdett: Yes, I think, look, your first question on the cost of risk, yes, we have managed a cost of risk below guidance we put out to the market. We continue to manage risk in a commercial way. I guess in terms of retail banking, we did tighten risk appetite over the last three years and that's starting to pay positive dividends because we are seeing an

uptick in the risk adjusted returns of that business, if you look at it over the last two to three years.
I think in terms of NPL formation, we are starting to see NPL formation drop off because of that policy that we've taken. So, we're quite comfortable with the cost of risk at or about the levels we put out to the market in terms of guidance. We'll probably come in a bit lower than guidance.

To the second part of your first question, if the Fed lowers and it encourages more lending and people go to the market, I don't believe that this should change fundamentally our overall cost of risk scope. I think the normalised cost of risk at the moment, based on our portfolio, 55 to 65 is about right.

Your second question was on net interest income around interest in suspense. Actually, it wasn't a very material part of the q-on-q movement. Most of the NII growth was driven by balance sheet growth, better deployment of assets, lower cost of deposits and so on. And all we were doing was normalising accounts that we had suspended interest in the first quarter and we released them in the second quarter on the back of working through those credits.

Deniz Gasimli: Understood. Thank you very much.

Operator: Our next question comes from Rahul Bajaj of Citigroup. Rahul, your line is open.

Rahul Bajaj: Yes, hi, two questions for me, please. The first one is on FOL. So, there was this news yesterday about the FAB Board recommending an FOL increase or something around that. Could you please elaborate on that, please, and if you have a view on when... I mean, what's the view of the regulator or the government towards your proposal?

The second one is on margins again, please. So, on the loan yield, I do see a significant pick-up in the second quarter. What part of that pick-up is like normal course of business and is there any one-offs there in terms of the pick-up? Do you think the 5.04% yield is like a normalised rate? Thank you.

James Burdett: I'll take the second question and then pass to Karim to talk about the FOL. So, in terms of the uptick in NIM q-on-q, a very small part of it was the interest in suspense we've spoken of. The other part was essentially mix change. We're growing our retail book a little bit faster than we were in the previous quarters.

I think in terms of a normalised yield/curve, if you like, it is very difficult for us to predict because we don't know what's going to happen in the market and clearly the Fed cut at the end of this month is going to be significant change in that yield across the whole market. So, difficult for me to give you a normalised view at this point in time because the market is so volatile. And I'll put you on to Karim for the FOL.

Karim Karoui: Yes. Hi, Rahul. Thank you for the question. So, at this stage, frankly, we don't have much to add over and above what was disclosed in the MDA on Wednesday. So, basically the Board met. They had the discussion at the macro level which they thought is something which could help the economy in the UAE. It so happened that it came through the mouth of FAB. So, that was the discussion. It's a proposal which was made.

On the reactions from the regulator, basically we have been asked by SCA to put additional disclosure to confirm to the market that we are abiding by the rules. This will come, you will see, on Sunday. So, basically at this stage we will see. So, basically the discussion happened. In full transparency it was put to the market and it's up to the regulators to take it further.

And then as and when we have new news, we will keep you informed. But, definitely, when the discussion happens at the regulators level and then to change the laws, etc you will be informed as and when we have the information. Thank you.

Rahul Bajaj: Thanks, Karim. Just one quick follow-up. The proposal that you have sent to the regulator, is it only pertaining to FAB or is it a general proposal that you have made about the market, that all companies...?

Karim Karoui: It was clearly mentioned it was for FAB and then for the other institutions in the country because the Board thought at the higher level, so basically thinking about what's best for the Bank in terms of FDIs, in terms of the growth of the economy in general.

Rahul Bajaj: Sure, thank you.

Karim Karoui: You're welcome.

Operator: As a reminder, ladies and gentlemen, to ask a question, please press star one. Our next question comes from Shabbir Malik of EFG Hermes. Shabbir, your line is open.

Shabbir Malik: Thank you very much. A couple of questions from my side. First of all, maybe if you could provide some colour on what's been driving the Bank's loan growth. If you can provide some colour in terms of which sector they're driving it. I think UAE Central Bank data shows that it's mainly been led by the government sector. What has been the key driver behind your growth?
Second of all, again, coming to the point of interest rate changes and its impact on your NIMs and your credit quality, if rates are cut by 25 basis points by the end of this month, how do you see that impacting your yield and cost of funds and initially do you think it's going to be positive or negative for the Bank's margins, assuming all other things remain the same? And could it mean that any negative impact on NIMs could potentially be offset by a lower cost of funds or cost of risk or lower provisioning? Do you see that happening?
And my final question again on the point of foreign ownership limit change. Can you perhaps shed some light on what things need to be done for this to become applicable for FAB and for the rest of the market? That will be very helpful. So, thank you.

James Burdett: Hi, Shabbir. In terms of your first question, as we guided over the last several quarters, we do see an increase in pipeline with our traditional client base, which is government, public sector, GRE. I think, big picture, if you think of oil prices recovering, fiscal deficits turning into fiscal surplus, that's started to flow through, as you would expect, in

increased spending and in some instances means that our customers are going to the loan market and we're now seeing a pick-up in that sort of activity. Also, on the back of the stimulus package, we expect to see a further pick-up. So, the pipeline's looking healthy and a lot of that growth is public sector and government, as we've guided in the past.
In terms of the rates, what we've officially disclosed as of the end of last year is that every 25 basis points cut is around AED 250 million hit for us. I think if you look at banks in general, the main impact this has on their profitability is to do with the pool of free funds that they have. So, depending on the Bank and the mix of CASA it has as a proportion of its total liabilities, that gives you a very high level of indication of what the impact is on profitability. So, those banks with a lot more CASA will be hit a lot harder than, say, those with a lot less CASA. So, from our perspective, in a rising interest rate environment we're making more money off our CASAs. If it cuts, we'll lose them. But, yes, there's pluses and minuses across the board because the yield curve changes. We also dynamically manage risk. We have a number of fixed rate hedges on, so on and so forth. So, we do manage it. And your last question...

Karim Karoui: Yes, Shabbir, on the second question, I may not be the best person to answer this but if this proposal was made by the Board it would take further interest from the regulator, definitely there is a commercial law where it stipulates that 49% is the cap, which has to be removed. There is the FDI law number 19 of 2018. That law also talks about the foreign investment and then it removes the cap of 100% and it gives a list of sectors not to be impacted. That is also one which would need to be changed if a discussion is to happen at the regulator level.
The third one is the union law for the banking sector which stipulates that the banks have a cap of 40%. To the best of my knowledge, these are the three laws which would need to be discussed at the country level if a follow-up is given to the proposal made by FAB Board of Directors. Thank you.

Shabbir Malik: Thanks for that. Can I add one more question, going back to the point on loan growth? I think a couple of weeks ago there was a press report, I think in the National, about an SME financing programme by the Abu Dhabi Government which was, I think, backed by... which was some sort of a guarantee provided for SMEs. Can you provide some colour on that and do you think that is going to be meaningful for FAB?

James Burdett: Yes, I think the... If you look at the press that came out on this, there's a figure bandied about, around the AED 9 billion mark. I think, from our perspective, it's quite an exciting initiative. The Government's looking to encourage through fiscal stimulus that particular sector, which is good for the economy. It shows our very tight and close relationship with the Government, that we've got the exclusive arrangement with that.
And, again, that's another positive tailwind for us because, as you know, it's a 75% government guarantee. In terms of the specific details, I don't really have those off the top of my head but clearly all proposals will be going through due credit process and the mechanism that has been put in place with the Government to achieve that. So, I think from my perspective, or your perspectives, it's a positive for our business growth.

Shabbir Malik: Thank you.

Operator: Our next question comes from Yugesh Suneja of ADCB Securities. Yugesh, your line is open.

Yugesh Suneja: Thank you for the call. My question pertains to foreign ownership limit cap. I want one further clarification on this. Is part of the decision driven by the consultation or discussion you may have with MSCI and can implementation of this decision have any repercussions to meet MSCI's conditions which were earlier cited as key constraints to increase the weight? Or it is a completely independent decision without any feedback received from the MSCI?

Karim Karoui: Yes, as you rightly said, it's very independent. I mean, the Board, when they discussed and proposed, it was more at the country level, so there's no direct or indirect link to MSCI or FTSE or any indices at this stage.

Yugesh Suneja: Okay. And before I close my questions, also last time we know there were certain conditions which were put out by the MSCI and they mentioned the reason for not increasing the weight. And you also mentioned that you will probably consult to the MSCI to get more clarity. Has there been any further discussion on the subject with MSCI and is this still ongoing or the matter has been closed?

Karim Karoui: Yes, at this stage we corresponded with MSCI. The correspondence is still going on and they told us that we gave our argument and then they said, if there is anything to be announced, you will hear it like anyone else, at the same time. So, at this stage we cannot confirm anything. We leave it to MSCI.

Yugesh Suneja: Sure, that's very helpful. Thank you very much.

Operator: As a final reminder, ladies and gentlemen, if you'd like to register a question, please press star one on your telephone keypad. Our next question comes from Noaman Khalid of CI Capital. Noaman, your line is open.

Noaman Khalid: Hello. Thank you very much for your time. I have a follow-up question on the FOL. Last May like there was some discrepancy between MSCI saying that there is a strategic stake owned by parts of the Royal Family but at the same time you said that your official free float is at 66%. Can you give some clarity on how could this stake be a part of strategic stake but at the same time it's also freely floated?

Sofia El Boury: Hi, Khalid, this is Sofia. Just on this specific topic, we are very clear we've put out a disclosure to the market on 16 May clarifying our stance and we have been very clear about our ownership structure and whats deemed to be considered free float or not. So, without providing further details on this and, like Karim explained earlier, we are in touch with MSCI. We believe that their stance on FAB is simply not accurate. We've made it very clear. And given the very price-sensitive nature of these events and the fact that index providers do not provide selective disclosures to companies or to investors, we cannot provide any guidance on this subject and we're going to await MSCI's index decisions in the future about the status of FAB.

Noaman Khalid: Okay, thank you very much. Thank you.

Operator: Our last question comes from Aybek Islamov of HSBC. Aybek, your line is open.

Aybek Islamov: Yes, thank you. Thank you for the call. I just had a couple of questions here. Firstly, how do you feel about the increasing contribution of profit from investments and FX income to your total revenue. I mean, that's now 20% of revenue. It's much higher than a year ago in the first quarter. So, that's in my view something which is... we call it non-core income. So, how do you feel about that one? Also, you mentioned fees that are kind of low at the moment because of personal banking which suffered through the integration process. So, do you have a comment on this one in the first place?
And, secondly, looking at your core tier one ratio, a certain part of it, the improvement in the core tier one ratio is driven by the reduction in risk-weighted assets. Right? And, well, I guess if that continues to happen, how does it affect your pay-out decisions? Yes, that will be my last question. Yes, that's all. Thank you.

James Burdett: Okay, to your first question, really, FX and investment income, we see this as a very positive story. A significant chunk of it is global market sales on the back of real customer flows as we increase… we've got one of the biggest dealing rooms in the region and we're just simply doing more with our existing customers and it's the business, if you think about it, that used to go to the foreign banks. So, we're doing more and more in that space, which is good news. In terms of our investment portfolio, we have, what, a hundred and something billion of high quality listed assets. We put that to good use. We put a very small portion out into slightly higher yield assets. Just as part of good management. So, we're getting sustainable income streams on that.
And in terms of this whole ECB trade, you know as well as I do it's all to do with the market dynamics, the FX swap market, pools of liquidity and so on. And we're a significant player in that space. We've got huge pools of liquidity, we're an AA-rated Bank, we have no trouble attracting US dollar liquidity which we can deploy. So, from our perspective it is sustainable and we're quite positive about it.
Your last question was to do with the core equity tier 1 ratio. I think that's all, again, about dynamic management of our balance sheet. So, we're going into higher risk-adjusted returns, we're focusing on our core clients, which is public sector entity/government. In many cases that's favourably risk-weighted. So, obviously it provides a pick-up in terms of return on risk-weighted assets. We're really looking to push retail growth because obviously it's a very high ROE business but we're looking to do it in a safe way.

As I've mentioned on calls before, we don't do any unsecured lending anymore. That used to be a big part of the business, if you go back 3 or 4 years, and that's why you see retail banking NIM compression over the last 2 or 3 years. But we're excited by the fact that we've got q-on-q growth and we expect that to continue in the future. So, our core equity tier 1 is robust. We certainly don't want to carry too much because it's inefficient for shareholders but we also want to maintain our rating. So, we think we've got it in the sweet spot and, as we guided before, the dividend pay-out depends on a number of factors around core equity tier 1, the profit, the expectation of shareholders and so on. But we are known to be a high yield player and we want to continue in that space.

Aybek Islamov: Okay, thank you.

Naresh Bilandani: Thank you. And, James, hi, it's Naresh. Sorry, can I just have two quick follow-up questions, please? Firstly, regarding the cost of risk. If you had to take a callout at, say, 12/18 months down the line and just think of where would you sit versus your current year's guidance of 55 to 65 basis points for 2019, I think we have some legacy names popping back up on the radar for restructuring, Al Jaber, for example, being one. Are such loans already under stage 2 from legacy issues perspective or do you think there's some risk that these could lead to a fresh part of provisioning risk in some form? So, that's the first question, some medium-term view on cost of risk and the new loans that are being restructured, how much of those are a risk to the provisions?
And second is again in the lines of what Aybek just asked. The reduction in risk-weighted assets, if you think of this from a density perspective, this is looking significantly low compared to what you had in the previous periods. So, that's, I think, roughly about 64% of assets. If you again had to think of this as a ratio through the cycle from a modelling perspective, where would you see? Do you think this is the best you can get or do you think there's scope for further improvement from here? Thank you.

James Burdett: Okay, I'll take the second question first because it's the easiest one to answer. Clearly the more we can do in low risk-weighted assets, stuff that generates positive returns, the better it is. If you are an investor or a shareholder because the higher return on tangible equity is good for dividends and good for organic capital generation.
I mean, I think, big picture, if I looked at the mix for the balance sheet, I would expect government and public sector entity to grow faster than just plain corporate, and particularly corporate related to international and so on that's usually lower yield. So, I think we can probably do better but clearly it depends on market variables, what's happening, volatility, rate cuts and so on. But clearly we are gunning for higher return on risk-weighted assets because that's our purpose in life, right, to generate superior shareholder returns.
In terms of cost of risk, for the NPLs that we've got, a significant concentration of those NPLs are in a handful of names that are well-known and publicised that we're working through in line with some of the comments you've seen in the press and we've had some good progress and we expect continued good progress. And I'll hand you over to Shireesh, our Chief Credit Officer, who can perhaps enlighten you more.

Shireesh Bhide: Naresh, while obviously I won't comment on any specific names, the phasing process obviously is a dynamic one and one that allows us to continuously manage some of the names that come in and go out as part of the process.
So, as long as our balance sheet continues to be healthy, the balance sheet growth, in line with our very strong target market definitions, as we've already explained earlier in terms of how we approach the market, given our assessment of the economic conditions and the scenarios, I think this is well-contained. I mean, some of these names will pop in and pop out

but as a fraction of the overall risk-weighted assets of the loan book, it will be well-contained. So, we don't expect any material surprises on that front.

Naresh Bilandani: Okay. So, these names like Al Jaber, Limitless that have popped up again on Bloomberg, these should not in your view lead to any sort of like extra risks on the provisions or cost of risk guidance. Is that right?

Shireesh Bhide: So, once again, without commenting on the names, all of this is managed as part of our robust risk management process of the portfolio and the phasing process accordingly gets managed. So, we won't comment on these names and, like I said, it's a dynamic process. Mathematically it always... there's a plus and a minus and it adds up and we work to contain everything within the band that we want to operate in.

James Burdett: Yes, and I think just to hammer home the point, we're comfortable with the guidance we've put out to the market. So, that all-encompassing guidance includes everything you see in the press and our entire balance sheet.

Naresh Bilandani: Understood, okay. Jordan, do we have any more questions on the line?

Operator: We have one final question from Shabbir Malik of EFG Hermes. Shabbir, your line is open.

Shabbir Malik: Guys, actually, all of my questions have been answered. No more from me, thank you.

James Burdett: Thank you, Shabbir, that was an easy one.

Naresh Bilandani: Well, if you have no further questions, then let's just end it here. Thank you very much to the entire FAB team for speaking with us today and thanks to all the participants for joining in. Have a good day. Ciao.