FAB Q3/9M'2019 Earnings Call Transcript*

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Co-host

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EFG Hermes

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Other participants

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Aybek Islamov
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Operator: Good day, and welcome to the First Abu Dhabi Bank Q3 2019 Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Shabbir Malik. Please go ahead.

Shabbir Malik: Thank you very much. Good evening, good afternoon, and good morning, everybody. On behalf of EFG Hermes, I would like to welcome you to First Abu Dhabi Bank's Third Quarter 2019 Results Call. My name is Shabbir Malik.

With us on the line is Sofia El Boury, Head of Investor Relations, and the senior management from the bank. Please note that this call is open to analysts and investors only. Any media personnel should disconnect immediately.

I will now hand over the call to Sofia to commence the call. Please go ahead, Sofia. Thank you.

Sofia El Boury: Thank you very much, Shabbir. Good afternoon, everyone, and thank you for joining us on a Thursday afternoon to review FAB's financial performance for the third quarter and first nine months of 2019. You should have received all our disclosures about an hour ago, and the full deck is currently available on the Investor Relations section of our corporate website, as well as on our app.

A replay for this call will be available within the next hour or so. The full details of the replay are also available on the invitation that you received. So, we're very pleased today to have with us our Group CFO, our Group Chief Credit Officer, our Group Chief Risk Officer, as well as our Group Head of Subsidiaries, Strategy and Transformation. And as usual, we'll be going through the presentation and then the senior management will be here to answer all your questions.

With this, I will pass it onto our Group CFO, James Burdett, for the presentation.

James Burdett: Okay. Thank you, Sofia, and good afternoon, good evening, everybody. Thank you, as Sofia said, for joining us on a late Thursday afternoon. What I'll do is, as per usual, go through the investor deck at a pretty rapid click, just pulling out the salient points, so we have more time for Q&A and proper dialogue at the end of my presentation.

So, for those of you that have access to the presentation, I'll start off with page 3, which is just the quick third quarter summary of the key performance highlights. And as you can see, NPAT was up 4% at about AED 9.4 billion, which was a solid set of results in the current environment, and particularly so, in line with the guidance that we've put out to the market.

You'll see as we go through the presentation that we've got good growth in a number of key areas that we focused on. Just to give you an example of some of those, loans up 7%, deposits up 5%, non-funds income up 10%. And in fact, if you look at it, good momentum in our personal banking business, which is up now for three consecutive quarters in a row in terms of revenue.

We've done all this with a strong balance sheet, and at the same time, enhancing our risk-adjusted returns. So, you can see throughout the presentation we are very much focused on stronger core equity tier-1, higher return on tangible equity and higher return on risk-weighted assets.

The balance sheet fundamentals remain strong. The NPL ratio just over 3% with good coverage ratio. And I think what's happening is we're showing that the benefits of having a diversified business and we're well-positioned to capitalise on the market in the current environment.

Turning to page 4, just to reiterate that. So, profit for the third quarter is up 3% over the prior comparative quarter at AED 3.1 billion. Nine-months NPAT AED 9.4 billion is up 4% year-on-year. And at the same time, we are generating greater returns and you can see the graph on the bottom of page 4 that the return on risk-weighted assets is now up from 2.26% as of December-end 2017 to 2.55% as of September-end 2019, which represents substantial improvement in our balance sheet optimisation.

And we are doing this, at the same time, maintaining a strong balance sheet in terms of liquidity and credit metrics.

Turning to page 4, which just looks at our guidance and actual performance versus guidance for the nine months, you can see broadly we're performing in line with guidance with revenue at mid-single digit, 4% loan growth year-on-year and 7% year-to-date, which is getting up to high-single digit. Cost to income ratio is a slight miss at 26.5% but it's more than offset by a lower cost of risk, which is at 49 basis points versus the guidance that we put out there of 55 - 65 basis points.

Net profit growth for the nine months is a mid-single digit 4%, but the return on tangible equity and core equity tier-1 ratio is well above the top end range of guidance.

Turning to page 6, as I've mentioned, we are showing very, very good growth. When you look at the Central Bank metrics showing about 3.1% year-to-date loan growth, our growth is very strong at about 7%, so we are increasing market share. A lot of that growth is in those areas that give us better return on tangible equity driven by public sector and government lending. So we are improving our risk-adjusted returns as we go through that.

But also, I mentioned earlier the benefits of a diversified business - we've got Global Markets growing at 28%, Global Transaction Banking at 12%, and in fact, CIB revenue overall is up 13% year-on-year, so very good growth.

And in Personal Banking, as I've mentioned before, we're now showing three quarters of sustainable incremental growth, which is good news, particularly on the back of the integration that happened over the last 18 months. At the same time, we continue to execute strategy. We aim quite a substantial amount of investment to be put into our digital capabilities and we are seeing an increasing amount of onboarded digitised customers through the digital channels, mobile engagement and so on.

Obviously, we're also investing in some of the core strategies that we put out to the market before like KSA and Egypt and that's performing in line with expectations; and we also have the transformation plans we were looking to give more efficiency, particularly in the back-end processing and eliminating manual processes along the way.

All of that's culminated in, I think, a good set of results in the market; particularly, if you look at the MENA/GCC syndicated loans, we're now the number one bookrunner. Cost efficiency ratio remains leading in terms of the industry. And our relationship and our position with the government and as banker to the government holds us in good state going into the environment as it stands at the moment.

Page 7, just looking at the balance sheet, as I said before, very strong momentum, up 7% year-on-year. CIB growth is at AED 25 billion – so, two times faster than the industry. And again, as I said earlier, efficient growth, because a lot of that growth about AED 20 billion of the AED 25 billion is to government/GREs, so that's very efficient in terms of the use of risk-weighted assets.

You can also see that we've got good growth in customer deposits, up AED 15 billion qoq, primarily driven by government liquidity flows, but we also see good strong growth in CASA, which is up AED 16 billion or 10% year-to-date to AED 176 billion, so that's a good result for us.

Overall, liquidity remains strong. The liquidity coverage ratio at 146% and advances to deposit ratio flat at just under 80%.

Drilling into some of the financials in a bit more detail, on page 8, just looking at the net interest income (NII) and the margin trends. You can see the net interest income is broadly stable versus last year with basically NIM compression and competitive pressures in both the CIB book and risk optimisation in the personal banking book, broadly being offset by the Fed rate hikes.

In terms of sequential NII, essentially, you've got business growth being offset by lower one-offs and a lower cost of funds as we redeployed some liquidity into that government exposure (lending) on the asset side.

NIM itself is down 22 basis points year-on-year. That's mainly as a result of competitive pressures on the corporate banking book, basically being offset by rate hikes on our CASA book. The key point to note though, I think, is the bottom of page 8, which is we've put out some guidance for every 25 basis points movement in interest rates, we're looking at about AED 250 million, AED 300 million headwind for each 25 basis point rate cut on the Fed, but obviously that's a very rough estimate based on a number of assumptions. And we believe we're well positioned to counter that with our business model.

On page 9, looking at non-interest income; it's a very good story here. So, NFI overall is up 10% year-on-year mainly on the back of strong FX and investment income. Fees are down year-on-year, but up sequentially. Year-on-year they're down mainly in trade because of the pricing and the balance sheet is dilutive, but sequentially we're up mostly on the back of loan fees and good growth in personal banking.

Looking at the FX and investment income, you can see it's up 41% year-to-date. That's significant. And three main areas: one, is the ECB placements for the excess liquidity management; the other is we're up considerably in our sales franchise in global markets and we're also up in trading income.

Sequentially, it's down in ECB short-term placement with the benefit reflected in the net interest income line. Other income is down a little bit because of the one-off gains we realised in the second quarter 2018. But overall, a good story and non-fund income generally up.

Looking at costs on page 10. Broadly speaking, we've got reduction in integration costs offset by increase in costs in other areas. Most of that increase relates to depreciation on the amortised assets from integration. But we're also investing, as we've alluded to earlier, in those areas of key strategic focus such as KSA, Saudi Arabia, Egypt, transformation, digital and so on.

So that's pushed the cost income ratio up, slightly up, over the range. But we do have further synergies to achieve over the next several months with some of our transformation initiatives.

Turning to page 11, not much to say here. I think cost of risk broadly flat year-on-year below guidance of the 55-65 basis points that we've talked about. And the NPL ratio and the coverage ratio are broadly stable at 3.09% and 109%, respectively.

On page 12, where we look at the core equity tier-1 ratio, you can see a pretty significant improvement post dividend of 14.2%. So, I guess, it shows the strong organic capital generation capability of the franchise. Also, you can see, we have optimised risk assets even further with year-to-date loan growth at 7% versus RWA growth at only 1%, which has clearly led to an improvement in the core equity tier-1 ratio but also an improvement in our return on risk-weighted assets and return on tangible equity.

So, wrapping up on page 13, I think we got strong results from our core business. As we said, profit up 4% year-on-year despite some of the headwinds, slower GDP growth and the Fed rate cuts that are coming through. The fundamentals remain strong. The liquidity metrics are strong. The core equity tier-1 is strong and the risk metrics well within guidance.

So, I think we're well positioned relative to our competitors and we're obviously doing all of that while enhancing our returns to our shareholders with the return on tangible equity and return on risk-weighted assets going up.

We are continuing to make progress against the strategic agenda. And I guess, finally, we do have market-leading franchise with close connectivity to the government, a conservative balance sheet and a diversified business. So, we're well-positioned for future growth despite some of the headwinds/ challenges that are out there in the market, mainly slower GDP growth, stress on the property market and further Fed rate cuts.

So, look, with that, I'll hand over for a bit of Q&A. Thank you.

Sofia El Boury: operator, can we move onto the Q&A, please?

Operator: Yes, thank you. So, if you'd like to ask a question, please signal by pressing *1 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. Once again, that's *1 on your telephone keypad. We'll pause for just a moment to allow everyone an opportunity to signal for questions. All right, so we'll now take our first question from Chiro Ghosh. Please go ahead.

Chiradeep Ghosh: Yeah, hi. Thanks for hosting the call and congratulations for the results. I have two very small questions. So, I just read yesterday that UAE Central Bank has asked banks to curtail their real estate exposure. So, if you can throw some light, how are you placed and how do you see your competition being placed because of that? That's one. And second is in continuation to the theme, which you were saying about the declining interest cycle and I also see that CASA is also slightly on the declining trend. What are your strategies to handle your NIMs and what would be your opinion about the NIMs going forward towards 2020?

Arif Shaikh: So, hi Chiro. This is Arif Shaikh here. I'll take the first part of the question and then James will pitch in with the second part. There is no specific guidance from the Central Bank on the real estate management in terms of whether we should lend or not. There are various discussions which are going on at this point of time in terms of the new potential regulation which is being planned. So as you know, the real estate regulation was – in terms of the union law linked to the deposit base of the banks, which is now moving to the risk-weighted asset, as a percentage of risk-weighted assets.

So that's the debate. There's a discussion paper which has been circulated, which banks, at this point of time, are studying, will go back to the banking federation. The banking federation will then be feed into the Central Bank and a potential new regulation will be issued.

As latest, day before yesterday, we were at the Central Bank and there is no specific guideline instruction from the Central Bank on real estate exposure whether we need to increase or decrease. So it is BAU (business as usual) at this point of time.

James Burdett: Yeah. And on your question regarding NIM, I think the –

Chiradeep Ghosh: Just a line for the previous – sorry, just before we go to the next one, just to remind us – so, the previous rule was 20% of the deposits or 30% of the deposits?

Arif Shaikh: Yes, that was a union law issued in 1980, which is not been revised for the return. It was 20% of the deposit base of the bank.

Chiradeep Ghosh: Okay. If you can go to the second question.

James Burdett: Yeah, I think your second question – yeah, your second question was two parts. One was CASA growth. So I think if you look at page 7, you'll see that we've had pretty significant CASA growth, up 10% year-on-year to AED 176 billion. You know, as well I do, it's a very profitable product, so obviously we are looking to continue to grow it.

The second part of your question I think was around NIM. NIM is a complex thing to talk about because we have so much surplus government liquidity plus we're growing in high quality assets, plus there's the overlay of the Feds whether it will cut and how many cuts it will do, plus we have balance sheet growth. So when all of that's thrown into the mix, it's very difficult for us to predict.

But I think the key message here is that we have a strong balance sheet and we're well positioned relative to our competitors to capitalise on that.

Chiradeep Ghosh: But you believe you can kind of manage this NIM at around current level? I mean, I know – I mean you cannot give a guidance but as much as you can foresee?

James Burdett: Yeah. Look, we're focusing on our relationship with the government and government-related entities at the moment. They are very, very high quality assets, so zero cost of risk, zero risk-weighted assets, which means the NIMs are actually quite low. At the same time, we're really pushing to grow our retail franchise, which is high NIM. At the same time, you've got a yield curve that's pricing in 70 basis points cut and the Fed rates between now and July next year. And a year ago, it was pricing in three rate hikes, so it's very, very difficult to give you any kind of guidance around NIM at the moment.

Chiradeep Ghosh: Understand, okay. That's it from my side. Thank you very much.

Operator: Thank you. So once again, if you'd like to ask a question, please signal by pressing *1. And if you'd like to remove yourself from the queue please press *2. We'll now take our next question from Amit Mamtani with Goldman Sachs. Please go ahead.

Deniz Gasimli: Hello, Good evening. This is Deniz Gasimli with Goldman Sachs. I just had a quick question on your margins please. So, this sequential decline, 8 basis point decline in margins, as you mentioned is partially driven by, or mainly driven by lower interest in suspense reversals. Could you give us some maybe indication of how much were this interest in suspense reversals or how much would the decline be resolved adjusting for these reversals? Thank you very much.

James Burdett: Yeah, I think – look, we're not going to quantify the interest in suspense amounts because we've never done that in the past. But the blip-up in the second quarter was partially due to interest in suspense. The blip-down this quarter is the absence of that interest in suspense but also significant growth in the balance sheet at the end of the quarter in high-quality assets. So I think the best thing you can do in terms of guidance is look at the dotted line, which is the year-to-date line, which smoothes out some of those anomalies because there's always one-offs in and out that impact that and I think it's best for you to look at the averages.

Deniz Gasimli: All right, thank you.

Operator: Once again, if you'd like to ask a question, it's *1 on your telephone keypad.

Shabbir Malik: Operator, if I may, as we wait for other questions – this is Shabbir Malik – if I may ask a couple of questions. One of them is more of short-term in nature. So, when you announced the 2Q results, you also made an announcement about removing your foreign ownership limit. I just wanted to hear if there are any updates? Since that announcement was made in 2Q, can you give us some details of what progress has been made, and if possible, a timeline on when this is going to be implemented? And then I can ask my second question which is more long-term in nature?

James Burdett: Yeah, there's been no change since we made that announcement on the FOL. We've made our position very clear to MSCI. They've made their position clear. We're just in a waiting game. We know as much as you.

Shabbir Malik: But in terms of the proposal of removing the FOL completely for – for not just FAB but the whole banking industry, where are we in terms of that? Has there has been any progress made on that front?

James Burdett: I think it's going to take some time to work its way through the system. I have no update on that as at this point in time.

Shabbir Malik: Okay, great. My other question is more long-term in nature. I think just a couple of things. You seem to be in a very good spot right now in terms of scale and profitability. But looking forward, where do you see the opportunities really for the bank – domestically, are you thinking about any new lines of businesses or expanding your existing businesses; maybe going into wealth management, asset management, cross-border money transfer, consumer banking, or even are you thinking about beyond UAE, outside the GCC, maybe even Africa. Egypt, I think you have already a presence there but if are you thinking about expanding geographically, be it organically or maybe through even acquisitions? I just want to hear your thinking – thought process behind that how are you thinking about the long-term?

James Burdett: Okay, that's an incredibly complex question. It's like the whole strategy of the bank. But look, to sum up, I think if you split it into two parts, one is the UAE and one is international. If you look at the UAE, I think, it's the story I've been consistently saying, as we get better people, product, distribution, we're looking to do more and more of the business that was traditionally held and held by the foreign banks like an HSBC for example.

And I think you can see that coming through that we're doing more business with the same customers than we do before. So that's reflective on the results, where GTB is up 12%, Global Markets is up 28%. So we are doing more than just a traditional intermediation of loans and deposits.

In the retail space, we absolutely want to dominate. We had a major disruption over the last two years where we've merged two banks onto one platform. Now we're enhancing our digital capability. We're in a unique position with the lowest cost of funds in the market. We should be able to go out there and really dominate the retail market and we are looking to do that particularly with our – the broader picture of our corporate relationships, and do employee banking and so on and so forth.

So we still see the UAE as very much a growth economy. Whilst the economy is slowing and there's volatility in the oil prices and so on and so forth, we still think we can grow market share. And if you look at the Central Bank stats, you'll see in the UAE we have grown market share. We have grown twice the market, which implies that we've improved market share.

Internationally, we set up two key markets, the KSA and Egypt. It's important to note that KSA is in its infancy. It will take a long time for that to germinate and deliver the returns that we eventually expect but there's a close relationship between the two countries. There's a huge GDP. There's a huge market out there and there'll be opportunities. The rest of the network franchise is more of a CIB franchise. We're not doing retail in any other area, except KSA and Egypt. And note that the CIB proposition will be to support flows to and from the UAE, and I think there's a credible business case there for us to be able to do that.

In terms of M&A or inorganic, we never say never. Obviously, if there's any opportunity, we would jump into them. I think in terms of opportunities, you know as well as I do, it's very difficult to get an M&A deal over the line. It's got to fit with strategy. It's got to financially make sense. It's got to fit with the various shareholders and the politics.

So we are always looking at some things but it's difficult to get it over the line. But we do support consolidation in the local market. We think it makes a lot of sense to the economy.

Shabbir Malik: And if I may, one more thing. I think you talked about good traction in terms of revenue growth in the consumer banking business. I think if I look at the loan growth specifically in the consumer bank, I think it was pretty flattish. Can you tell us a bit about the consumer growth story, not just for FAB but also the sector, what are the trends you're seeing? And if it hasn't been due to loan growth, what has been driving the revenue growth in the consumer banking business?

James Burdett: Yes. So I think the general big picture change for us is that we've gone through this integration and through that last 18 months, sales fell, and therefore revenue fell. At the same time, we had a double whammy because we were repositioning our books from a portion that was unsecured, be it unsecured retail or SME lending, both high risk assets into higher quality lower risk assets, which obviously had a revenue impact but we expect it to be a cost of risk benefit for us in the higher risk adjusted returns in the future.

So that's a big picture strategy. Now if you look at the growth here, it looks sort of anemic but for us, we're seeing a significant uptick in our sales over the last several months and that will eventually generate higher risk adjusted returns for us. But you do 100 deals in retail, it's equivalent to one deal in CIB. It's going to take time for those numbers to come through and there's a lag effect.

Shabbir Malik: Sure. Thanks. Operator, are there any other questions in the queue?

Operator: We do have few questions. So we'll take our next question from Naresh Bilandani. Please go ahead.

Naresh Bilandani: Thank you. Hi. It's Naresh Bilandani from JP Morgan. Thanks a lot for the call. Just two questions please and both mainly on asset quality. So first of all, could you please talk about the sustainability of the low cost of risk that you've been enjoying currently. What we hear from your peer banks in the system, mainly ENBD actually, is that they are getting more conservative on asset quality outlook for the real estate exposures but clearly it seems that you continue to beat the trend overall. Do you believe that this low cost of risk is sustainable going into the fourth quarter, especially given the fact that you are well below the guidance that you have set for the full year or say beyond into 2020, do you think these levels are sustainable or should we build some deterioration into our models? And if yes, where do you think this pressure could potentially come from. That's the first part of the question. The second part on a related note, can you please share some insight into the level of collateralisation and coverage that you have for the construction, real estate and the mortgage exposures? I'm specifically referring to the slide where you had towards the end in the appendices where you refer – where you show the breakdown of the loans. And if I have it right, you have roughly about 21% in real estate, 3% in construction and 5% in mortgages. So I know while you disclosed some of this information at the year end, some information in this regard on the provisioning or the collateralisation on this entire real estate exposure throwing all this into one bucket, that indicative number also would be extremely helpful? Thank you.

Shireesh Bhide: Okay, hi. This is Shireesh. Your first question was around the overall cost of risk and sustainability. I think the way we see it is obviously, there are headwinds. I think James in his presentation alluded to that in terms of when you look ahead, there's obviously an economy that has been slow and therefore there are headwinds in the economy. We recognise that. And our approach and orientation to loan growth has taken that into account and which is why if you look at our strategy of growth, it's largely playing to our own strength of being a banker to the government and focusing on government / GRE-related exposures.

Our policy on real estate, which you alluded to in that same question, has been consistent as we've explained in the past. We've always approached real estate and the sector on the basis of its underlying cash flows. We've looked at relationships holistically, and entered real estate transactions only on the basis of an overarching relationship, which is broader than just the RE deal on the table. And hence we've always benefited from direct and indirect cash flows that supported the debt in these types of transactions.

And if you look at our construction financing book as well, we've always benefited from sort of direct/indirect cash flows, which far exceeded the isolated debt component towards the consumption of the contracting finance bit itself. So overall, I think, that has given us the stability through these times and we continue with that approach. So we've been very selective in our approach and with all the guidelines that are already in place and the new guidelines coming out, it's only going to strengthen this sector and this line of questions that usually come. It's going to make this whole approach to this sector even stronger going forward. So we don't have any significant concerns on this front. And our guidance actually factors in our forward-looking view of how we continue to build our portfolio out whether domestically in the UAE as well as internationally.

Naresh Bilandani: So just to – if I build into what you said in numeric numbers, 49 bps is very much sustainable going forward into the fourth quarter of this year, so there's a fair chance that you could still remain below your guidance because if you say your guidance builds in the way you have, you think the asset mix could evolve into the medium term. I'd say you were probably at the start of the year thinking of a much more aggressive growth on the retail side but that did not materialise. And so there's a fair chance that you could actually stay below the guidance for the full year? And given the fact that you remain conservative on booking the real estate in the construction portfolios than trying to collateralise that with the cash receipts, you expect good trend or this trend to be sustainable in 2020. I'm sorry, I'm trying to put words in your mouth but I'm trying to look for some numbers here, how should I be thinking of the trend going forward.

Shireesh Bhide: Don't worry, I'm not going to take any of those words, Naresh. So just to reiterate what I said and to answer your question specifically, at this point, we are anyway in terms of cost of risk we're well below the guidance. So even if we see the headwinds and factor those in – again just to be clear, our approach and orientation or reorientation to a slowing market has not been to expand our risk appetite in any of the sectors that we've not chosen to do in the past. So we've never changed our direction on that. So it's not to say that with a slowdown in order to gain traction and to continue with the loan growth, we've diluted any of our risk acceptance criteria. We stay true to our approach to real estate as an example or for any other sectorial exposures we take for that matter. So that's one.

So we remain fairly confident. Having said that, we can't be in isolation or be isolated from market trends and overall sort of macro factors in the economy. And with that, we've already said that as we go into 2020, there is a possibility that we enter that zone of cost of risk guidance, though albeit at the lower end at all times. And there's still a lot of headroom left there since we're already below that guidance level. So nothing that we feel of any significance.

Naresh Bilandani: Okay, fair enough. Okay.

Operator: Okay. So we'll now take our next question from Aybek Islamov with HSBC. Please go ahead.

Aybek Islamov: Yes, thank you. Thank you for the call. I would just raise, I guess, three questions, if I may. The first one, I wanted to ask you about the Business As Usual (BAU) costs. So you always give them in the presentation slides. So the question is, there is quite a decent acceleration in them if one tracks them from Q1'19 from the first quarter and in Q3 as you show the increase 13% year-on-year. So as the integration process completes and all the synergies are sort of in the numbers, what sort of normalised cost growth do you expect to see for the bank? That's the first question.

Secondly, I wanted to ask you on your lending spreads. Given that you're increasingly focusing on public sector loans, does it mean that you guys see more pressure on your lending spreads as we go onto 2020-2021? And these public sector loans, I don't know how you price them, but let's say if it's benchmark plus spread, then can you hedge your downside risk when rates fall using interest rate swaps, right? That's my second question.

And I think the third one, I've noticed an increase in your stage 2 loan ratio in the year – in the third quarter. So I'm wondering what's behind the increase in the stage 2 loan ratio and the Stage 2 loans in Q3? And very easy fourth question, investment securities, there is a reasonable growth in investment securities. So would you expect in terms of your strategy of investment securities purchases, 2020-2021? It's a reasonable engine to grow assets for the bank and make earnings, so I was curious what you see here? Thank you.

James Burdett: Okay. I'll take one, two and four, and pass the third to – I think to my colleagues in risk. So the first one on the costs, you're asking for guidance on the costs next year, which we will not provide. What I would say to you is that we are investing in our strategic areas. We're very, very acutely aware that we're looking to maintain a leading cost income ratio. A lot of the investments we're putting money into, i.e., digital transformation are all designed to improve our efficiency and our effectiveness, particularly in the operations, i.e., we want to do end-to-end customer journeys while reducing human intervention and that's why we're focused on getting this done because we know there's a big reward at the end, you have to digitise, so we're investing upfront. And I can assure you that there's further synergies to be made next year.

On your question about lending spreads, I think what you need to do is look at the overall risk-adjusted returns of those assets. So in many cases they attract zero risk-weighted assets. They attract zero cost of risk and the spreads are being benchmarked based on external ratings or whatever the case maybe.

So for us it's very, very profitable lending and leads to an improvement in both the core equity tier-1 as well as the return on risk-weighted assets. So they're very profitable. I think your question was specifically around pricing. Pricing obviously is dependent on the risk profile of particular entity that we're lending to.

Your last question on investment securities. Yes, I agree, there's potential upside for us there to take on a little bit more risk and generate a little bit more return. And I think that's what you've seen come through in some of those numbers. So we've taken our very conservative fortress balanced sheet and deployed a little bit more into investment securities, which will obviously generate a pickup in revenue yield going forward.

And then in terms of the stage two?

Arif Shaikh: So on the stage 2 bit, just in terms of the IFRS 9 staging criteria, we follow the same process, which means there are accounts that move in and out from stage 1 to stage 2 and vice-versa. So in a sense, there's nothing really specific – it's not a specific concern that we have. Obviously, depending on the measure and the amount involved, you could have a couple of accounts that can be slightly bulky and cause some variations and variances. And that's all that happens.

They move in and out. And based on the staging criteria, which gets reviewed by multiple stakeholders, accounts move in and out. So other than that, I mean, we do not have any material specific concerns.

Aybek Islamov: Okay, thank you.

Arif Shaikh: Thanks.

Aybek Islamov: So if I may just add on stage 2, maybe you can comment are there any particular sectors or segments which are driving the increase? What drove the increase of stage 2 loans in the third quarter?

Shireesh Bhide: Without wanting to be very specific, overall, I think it's just contracting / construction as a sector, if I have to highlight one.

Aybek Islamov: Okay, thank you. That's all from me.

Operator: Thank you. So we'll now take our next question from Ankit Gupta with NCB Capital. Please go ahead.

Ankit Gupta: Yes, hi. Thank you for the call. Can you hear me?

James Burdett: Yes, you're coming through loud and clear. Thank you.

Ankit Gupta: Yes. I was just wondering on the circular addressing the fees cap on different banking products that's targeting mainly retail mortgages. Are you expecting any impact from these changes or are they coming through this year, if you can comment on that? Thank you.

James Burdett: Yeah. Well, it's basically immaterial for us. So, from your financial model perspective, ignore it.

Ankit Gupta: Thank you.

Operator: Thank you. And we'll now take our next question from Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani: Yes, hi. Sorry, my – the second question that I had asked previously was – I don't think so was answered. Can I please just check again some insight that you can share into the level of collateralisation and coverage that you have against the construction / real estate and mortgage exposures - even some indicated numbers that you may have on these values would be very helpful?

Shireesh Bhide: Naresh, we – as a general policy, we approach this sector with 70% loan to value as our policy, which is in line with the Central Bank guidelines of 143% collateralisation. So that's the opening norm.

Naresh Bilandani: And this is related to which portion you're talking about, please?

Shireesh Bhide: So it's sort of the exposure that we take.

Arif Shaikh: Any real estate exposure.

Shireesh Bhide: Any real estate, yeah.

Naresh Bilandani: Purchases on mortgages you mean? Any real estate exposure, 70% LTV, 143%

Shireesh Bhide: That's right, 143% cover.

Shireesh Bhide: That's the minimum. You could have tighter structures but at the very least we'd expect 143% cover.

Naresh Bilandani: Okay, sounds good. Thank you.

Operator: Thank you. So I will turn it back over to FAB management for any additional or closing remarks.

Sofia El Boury: I think if there are no further questions, I think we can end the call. Thank you very much Shabbir for hosting. And please if any of you have any additional questions, the IR team is at your service. So please feel free to contact us. Thank you very much for your time and have a good weekend.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.