FAB Q4/FY'20 Earnings Call Transcript*

Co-hosted by Citi
Wednesday, 27 January 2021
4:00 pm UAE Time

Co-host
Rahul Bajaj
Citi

FAB speakers/participants

James Burdett
Group Chief Financial Officer

Sofia El Boury
Head of Investor Relations

Pradeep Rana
Group Chief Risk Officer

Shirish Bhide
Group Chief Credit Officer

Other participants

Amit Mamtani
Goldman Sachs

Naresh Bilandani
JP Morgan

Chiro Ghosh
SICO Bahrain

Shabbir Malik
EFG Hermes

Waruna Kumarage
SICO Bahrain

Rahul Bajaj
Citi

Noaman Khalid
Arqaam Capital

Hootan Yazhari
Bank of America Merrill Lynch

Aybek Islamov
HSBC

*Edited

Operator: Good day and welcome to the First Abu Dhabi Bank Q420 and FY20 results call. Today's conference is being recorded. At this time, I would like to turn the conference over to Rahul Bajaj. Please go ahead.

Rahul Bajaj: Thank you. Thank you operator. Good evening. Good afternoon. Good morning, everybody. On behalf of Citibank, Citi Research, I would like to welcome you all to the First Abu Dhabi Bank Full Year 2020 Results Call. This is Rahul Bajaj from Citi. With us on the line, today, we have James Burdett, Group Chief Financial Officer, Pradeep Rana, Group Chief Risk Officer, Shirish Bhide, Group Chief Credit Officer and Sofia El Boury, Head of Investor Relations. At this time, I'll pass on the call to Sofia. Sofia, over to you.

Sofia El Boury: Thank you Rahul. Good afternoon, everyone. Thank you for joining us today to review FAB's financial performance for 2020. Before we get started, a quick reminder that today's presentation and all of our financial disclosures are currently available on the dedicated IR section of our corporate website, as well as on the app. And as usual, our senior management team is here to answer your questions at the end of the call. With that said, I'll pass it on to James.

James Burdett: Thank you, Sofia. Good afternoon, everybody. Thank you once again for joining us at our presentation for the full year 2020 result. As per usual, I'll go through the slide deck at a fairly fast clip, just highlighting the main points. And then at the end of the presentation, we have time for Q&A. And as Sofia has already mentioned, we have Pradeep and Shirish here as well.

So first of all, if we look at slide three of the presentation, the heading says it all, resilience, strength and transformation. On the resilience part, our performance was very strong against the backdrop of those extraordinary circumstances, COVID and the like. You can see the Q4 profit was up 28% or AED 700 million QoQ, mainly on the back of higher revenue and lower cost of risk. And we'll go into more details on that as we go through the presentation. That brought full year profits to AED 10.55 billion, down 16% YoY. The main variance to the full YoY as you know, and similar to the Q3 results was the Fed rate cuts and a higher cost of risk. That said, the strength remains key and an integral part of our 'AA' rating. And we do have a robust foundation. Liquidity strengthened which reflects quality, we saw significant improvement in CASA and a diversification of our liability portfolio. Asset quality remained within guidance, ticked up a bit obviously, over 2019 as you would expect, below 4% NPL as we said to the market, and a very healthy coverage ratio at 95%. CET1 ratio remains strong at 14.9% and has enabled us to reward our shareholders at 74 fils, mainly on the back of significant organic capital generation.

In terms of transformation, you'll see as we go through the slide deck, we have made significant inroads into our digital strategy as well as accelerating progress against key strategic initiatives. And we'll talk about that a bit later. But we entered 2021 in a position of strength, with a good strategy and a clear roadmap for us to outperform the market. Turning on to next slide four, where we show you our performance against guidance. You can see that we've outperformed against most of the metrics there. The Cost of Risk, the Cost Income Ratio, the Coverage Ratio, the Core Equity Tier 1 Ratio.

The only one we missed was the loan growth. We've said we continue to have a very strong portfolio with our traditional client base, the GREs, the public sector and the government. Those drawdowns were just slower than predicted. But as I say the pipeline is healthy and have resulted in only a 2% YTD growth. I should point out here, though, that we have been very tactical in our asset portfolio. We have run down some AED 10 billion of suboptimal assets, mainly FI trade related, in order to manage the risk weighted assets and the return on risk weighted assets accordingly.

Turning to next slide, which is just the bridge between full year 2019 to full year 2020. As you would expect, the NPAT at AED 10.55 billion was down 16%. And you can see from the bridge, operating income down just under AED 1.7 billion, mainly on the back of the Fed rate cuts which impacted us YoY to the tune of AED 2 billion. You can see that was offset by cost management. We took action right at the outset in March to cut costs. And you can see operating costs were 8% or AED 439 million better than the prior comparative period.

On the provisioning, provisions are up 42% over the prior comparative period, as you would expect. One thing to point out here is that our gross provisioning was AED 3.7 billion. And we've had tremendous success in working out some of our non-performing loans. So the net provisioning was AED 2.6 billion. And you can see some of that tailwind coming through mainly in the Q3 but also in the Q4 this year. Jumping to the next slide, just to give you a quick snapshot of the robust foundation that we've got, obviously, the 'AA' rating was reaffirmed by all rating agencies at the end of 2020.

The Capital Adequacy Ratio is very strong at 18.1%, liquidity improved to 143% in terms of the Liquidity Coverage Ratio. What was pleasing about the liquidity growth was that it was a reduction in government, offset by a significant growth in corporate, public sector and GREs. As we diversify our liability base, we added some 800 cash mandates, which was a great result. Nonperforming loans ticked up, as you would expect, but below 4%, as you would expect, with the high quality portfolio that we've got. And obviously, our coverage ratio is strong at 95%, based on our conservative provisioning policy.

On the CIB performance on slide seven, as I was saying, it's a very strong result against the backdrop of the environment. And you can see there, obviously, the GTB revenue was down mainly on the back of the margins on CASA accounts and the Fed rate cuts. And that was offset by growth across all the other product lines. So Corporate Finance was up 9% on strong deal generation, Global Markets was up considerably on the back of accrual and market trading, as well as global market sales.

And then we had a number of one offs, which you're well aware of, we did some property deals and it was in the Q2 and the Q4. That plus a small reduction in costs generated a 3% YOY growth in operating profit, which was a great result. Looking at the bottom of slide seven, you can see the deposit outflow. That was as expected, if you recall, the government did some issuances in September, that money came into our balance sheet, spiked our deposit growth, which was placed with the Fed and the ECB. And as we said, at the time, we were expecting that to flow out and it did, but underlying growth was still quite strong QoQ. Personal banking, a resilient performance on slide eight, clearly impacted in terms of net interest income by the Fed rate cuts and a little bit of non-interest income reduction, but overall quite strong growth activity across the board. And we've seen that pick up every quarter from Q2 into Q3 and Q4. And in fact, we finished the year with pretty strong activity growth, mortgages up 27%, CASA up 17%, personal loans up 14%. And all of this was really on the back of double digit growth in our net promoter score, which is great.

So, that plus lower costs on the back of our digital propositions, resulted in only an 8% decline in operating profit, which I think was a good result, given the backdrop.

Turning to slide nine, which just shows you the full view of the balance sheet. The main thing to call out is the reduction in deposits QoQ, down 10%. Again, that spike that happened in the Q3 was expected to outflow in Q4, and it did. If you remove those one off moves, deposits were up 11% YoY. And as I said before, we've experienced a flight to quality on the backdrop of the current economic environment. And we've seen a 28% growth in our CASA balances on the bank of some 800 plus mandates. On the loan side, only up 2% YoY, mainly to core clients, but offset by about a AED 10 billion rundown in some of those sub optimal assets. And as I said before, Liquidity Coverage Ratio remained strong.

Slide 10 you've seen before. The metrics have only got a little bit stronger. So we're now at 42% loans with some 36% government and government related exposures with another 6% short term trade loans. The key movement on the bottom of slide 10 is, our TESS facility is down AED 4 billion to AED 3.5 billion versus an allocation of AED 8 billion, which represents a reduction and some repayments.

On slide 11, looking at the Cost of Risk, our asset quality remains strong. You can see the Coverage Ratio at 95% with NPLs below 4% as we guided to the market. The Q4 Cost of Risk was only 37 basis points, down QoQ. We had about three NPLs, where we managed to restructure and generate some ECL release. So, the gross provisions were AED 619 million. And again in the Q3, you know that we had a POCI asset which was resolved and the revaluation was passed through to the P&L in Q3. So, the net result of all of that is that the Cost of Risk was 63 basis points or AED 2.6 billion. If you add back the good work we did on some of those NPL recoveries, the real Cost of Risk was 90 basis points at AED 3.7 billion.

Turning to the next slide on capital. Similar story here, significant organic capital generation offset by a little bit of growth and risk weighted assets led to the core equity tier 1 being at 14.9% and again enabled us to pay a dividend per share of 74 fils, which was flat to last year and resulted in a dividend payout of AED 8.08 billion. Return on risk weighted assets at 2.13% strengthened a little bit and in the Q4, mainly on the back of some of those one off, a couple of property gains as well as the lower cost of risk.

Turning to slide 13, Net Interest Income down 4% or AED 500 million YoY, mainly due to the Fed rate cuts, offset by growth and some Global Markets positioning. The NIM itself you can see is at 1.75% on a YTD basis, which was down 36 basis points YoY, 33 basis points of that resulted from the Fed rate cuts. And you can see the impact on full year 2020 versus 2019 in the box, in the middle of the top of page 13. The impact for us was some AED 2 billion as a result of those fed rate cuts. But overall margin on the Q4 flat lining, as we said, and as we guided in the Q3 and we expect it to remain after about these levels going into 2021.

On the Non Interest Income, overall Non Interest Income is down 15% YoY as you would expect, on the back of lower activity, as a result of what's happened in the market. Specifically, drilling down into fee income that currently finished the year at AED 2.9 billion, only down 8% YoY, on the back of lower transactions and lower volumes, as a result of COVID. FX and Investment Income down significantly 47% YoY mainly due to lower liquidity arbitrage. And as you know, the offsetting benefit of that resides in Net Interest Income. Other income up quite considerably, mainly on the back of those one offs. So we had property related gains, AED 946 million including a negative property revaluation on the remaining portfolio of just under negative AED 250 million. And we also had the gain on the sale of the FGB legacy license to ADQ of AED 200 million.

Turning to the next slide on costs, you know the story well. We finished the year 8% down YoY. Cost income ratio remained very healthy at just under 26%. Costs overall down 8% or AED 438 million, was mainly as a result of staff costs as we took action, but you can see there's still an uptick in depreciation as we continue to invest in the business.

So turning to slide 16, we thought we'd just refresh the market with our strategy. The strategy is very clear, as to create sustainable value for our shareholders, which we've done this year.

Our mission is to be the strongest, most profitable bank in the market with deep and trusted relationships. We have key enablers of digitizing, being simple, being scalable and having the right talent. But at the same time, we obviously want to maintain our 'AA' rating and the strength of our balance sheet.

And the next slide just shows you some of the progress we've made against some of our strategic priorities. So the first one was to be customer obsessed, and we've delivered double digit Net Promoter Score. And we're the most improved in the market in terms of service delivery. And as I said before, we started off behind our competitors because of the integration. I think we've now caught up quite considerably and that's evidenced in our Net Promoter Scores that the market has given us.

In terms of product, we're the only bank that's in the top five across all Middle Eastern league tables in our CIB space. We've deepened wallet share with our CIB customers. As I said before, we've got double digit growth in Global Market, GTB and Corporate

Finance, all the double digit CAGR goes over the last several years. And I think that that shows that we're leading the market in terms of product offerings.

Smart expansion, we've readjusted our international strategy, as you know, and as I said in the past, to be more of a CIB network provider. We also very successfully completed the Egypt acquisition and as you know, we got that at a very good price. It's ROE accretive, even before the leverage and even before the synergies, so that was a good deal for us and will obviously help our expansion into Egypt. We also have a 10% stake in ADQ's Neo Bank or digital bank, which we think is a good investment for us. And we continue to leverage our digital enablement.

And the next slide, we'll talk a little bit more about our digital capability. We have deepened relationships, we are a high dividend payer and we've executed against some of our strategic priorities.

The next slide just to drill down on digital, we've significantly invested and accelerated our proposition: 86% of our transactions are now digital; we have a 100% growth in our digital users, obviously, with the COVID tailwind, supporting that; we've launched 12 new digital branches, which are teller-less; we've released a significant number of RPAs to automate various processes and we continue to innovate in the payments space, we've released the corporate mobile app, we've invested and participated in the UAE Trade Connect. All at the same time, we continue to invest in our cloud proposition, open banking and building out our technology team.

So looking forward to 2021, slide 19, we have reason to be cautiously optimistic. We have the vaccine tailwind. We certainly have seen recently a pickup in oil prices. We think that'll be sustained into 2021. We're expecting on the back of market guidance, negative GDP to turn into positive GDP. We expect to catch a large share of that. So that coupled with the government stimulus, our execution of our very sound strategy, we think we can pick up reasonable growth in the market.

So, in terms of guidance, on slide 20, we're looking at mid-single digit for loan growth, we're looking to keep the cost-income ratio below 30%, we're being very conservative on our Cost of Risk, just below a 100 basis points and we're looking to maintain the strength of our balance sheet with our coverage ratio above 90%. And our core equity tier 1 remains at before dividends above 13.5%. So with that, just to wrap up. As I said, 2020 was a great performance. We've delivered superior results for our shareholders yet again, with a strong dividend payout.

We still have a strong foundation with most of the balance sheet metrics remaining strong, particularly the core equity tier 1 and liquidity ratios and the credit metrics. We have a good strategy. We have a strategy that's significantly differentiated from our competitors, which puts us in a good place to outperform our peers as we go into 2021 and get the tailwind hopefully and then pick up, notwithstanding the fact that there's obviously a lot of uncertainty out there. So that concludes my presentation. It was very quick. It only took 20 minutes. So over to you please for Q&A. Thank you.

Operator: Thank you. And if you wish to ask a question, please signal by pressing star one. Again, that is star one to enter the queue for questions. We will now take our first question from Amit Mamtani of Goldman Sachs. Please go ahead.

Amit Mamtani: Hello, good afternoon. Thank you for the presentation. I have three questions. Firstly, gross Cost of Risk for 4Q20 was under 70 bps and your full year, Cost of Risk was 90 bps. However, your guidance is for Cost or Risk of less than 100 bps in 2021. Given the 4Q Cost of Risk trends and the reopening of the UAE economy, doesn't that suggest, does that not suggest improving Cost of Risk trends for 2021? And if not, could you have taken further subjective overlays during the Q4, especially given that you had material recoveries?

Secondly, on your, can you please, I know you just gave some helpful information about your digital strategy at FAB, but could you please give some more information about the establishment of the New Bank with ADQ and the carve out of the payments business? Also given the new CEO, will there be a change in the strategy going forward? And finally, property related gains continue to come in this quarter. And can you just elaborate on what's driving this? And do you expect any further gains going forward? Thank you.

James Burdett: Okay. I'll take questions two, three and four and then pass you over to Pradeep for the first question on the Cost of Risk. So in terms of the digital bank, there's a long way to go there. They've only just established the license, they're still building out their strategy. I'm not sure it'll even be operational until later, or even potentially next year. So, not a lot to report there, except that we've got a 10% stake in a new bank that's backed by the Abu Dhabi government. And it's quite exciting. So it's a good investment for us. And as you know, we had that license sitting as an intangible asset on our books at zero. So selling into them for a 10% stake for AED 200 million, made a lot of sense.

In terms of the strategy, yes, I would expect the new CEO to have a look at our strategy, to take guidance from the board. And we will look to come back to the market at some point with her thinking. I don't expect to see a radical change, but clearly she'll want to put her own stamp on the way FAB brand is going forward.

In terms of the property, we said before, we're looking to divest our property, back in the FGB days, it was a significant portion of the revenue. We had sale and leaseback in some of these buildings. And on the back of the COVID, we are looking to exit properties that we own or lease, as we pursue a more progressive working from home policy, where we expect, essentially less people to be working in an office. And we get more efficient, as some of the global banks have done. The remaining property portfolio is a strong portfolio, we took a small revaluation hit in the Q4. We'll look to gradually dispose off that as and when the market permits us to do so.

On the Cost of Risk, what I would say before passing over to Pradeep, is that we're looking to be very conservative. I think 100 basis points is a conservative number. And it's right to be conservative, because we've got a spike in COVID cases happening globally. We don't understand the vaccine rollout, there's still potential volatility in the market. So it's prudent for us to act accordingly.

Pradeep Rana: Yeah. I'll add more onto obviously the 63 basis points included the reversals and as we said, excluding the reversals, the Cost of Risk comes around 90 basis points, which was in line with the guidance that we've given in Q2 and Q3 as well. Heading for 2021, we are cautiously optimistic, as James has said and expect Cost of Risk to remain below 100 basis points. And obviously, that all depends on how things pan out, especially on COVID. It's also difficult to get guidance on restrictions as well. If there are going to be more restrictions going ahead, so obviously, that's the reason why we are being conservative.

Amit Mamtani: Thank you.

Operator: We'll now take our next question from Naresh Bilandani of JP Morgan, please go ahead.

Naresh Bilandani: Yes, Hi. Good afternoon. It's Naresh from JP Morgan. Thanks a lot for the presentation. I just had two questions. One you partially answered. My question was mainly on, if you could share some insights on, where exactly are we in the asset quality cycle? We just heard from Emirates NBD and their view was, given their coverage ratio, hopefully, their Cost of Risk should be, somewhere in the range of around levels, which are slightly lower as compared to 2020. And maybe slightly higher as compared to what we had in 2019, if I heard them right. But would much appreciate, if you could kindly throw some further color on how should we see the Cost of Risk trending, especially once the overall deferral period for the loan portfolios ends probably in the summer this year? Just keen to get some more insight there. That's the first question.

Second is on the Dividend Payout Ratio. Now in this of all years, we had a significant increase overall in the dividend payout, at 77% if I calculated right. How should we think of going forward from here? Clearly, you have managed to display a very strong control on the overall credit risk management. So your RWAs haven't grown as much as the balance sheet has widened. So assuming we continue to see similar control on risk management going into 2021, should we pencil in an equally elevated dividend payout ratio? If you could throw some further color on that, that would be super helpful. Thanks.

Shirish Bhide: Hi, Naresh. This is Shirish. I'll take the first question and then I'll hand off after that. Look, the Cost of Risk bit has already been addressed by James and Pradeep earlier. We've taken a conservative view, because there are still some unknowns out there in the market, we still don't know how COVID continues to play its role. The vaccination and its efficacy is still unproven, in large parts of the world, we still don't know how that's going to conclude and end. So overall, when you look at it, of course, we believe the situation is better than the middle of 2020, let's just say. And there are some green shoots.

But at this stage, with the whole year ahead of us, it's best to stay at a position that we earlier mentioned. Having said that, to answer the second part of the first question, which is, the possibility of the TESS relief ending, middle of the year. My own view would be, once again to draw your attention to the portfolio we have. The kind of target market names that we have in our books and the fact that a large number of these clients who benefited from the TESS program, really did this as a response to the pandemic, to manage their own cash flows.

And this is not necessarily a reflection of the backing and the promoters' support and the deep pockets that some of these promoters continue to have. So in a sense, our own target market, CIB's overall target market and the quality of the clients we have in our portfolio, with the strategy we deployed all through 2020, which is to be cautious on the lending front, keeps us in very good stead.

Pradeep Rana: Yes. If I can just add our cash coverage ratio is at 95%, which is adequate. And when we put in the collateral as well, that brings it up to 130%. Also when we look forward, when we do look at the MEVs, we've talked about green shoots. When we look at oil prices, when we look at equity prices and also the housing price index, these are looking positive. But putting all that together, we are still adding a bit of conservatism to our outlook.

James Burdett: Hi Naresh, it's James back again. On your question on dividend. The answer is same as the answer we've given before. We want to be a high yield player, we want to generate sustainable dividends for our shareholders. We want to be best in class and the most profitable and strongest bank in the UAE. And what we said is really the backstop is our 'AA' rating. And the main hurdle for that is the Core Equity Tier 1 Ratio at 13.5%. So as long as we believe we have significant ability to generate organic capital and we're ahead of that Core Equity Tier 1 Ratio, we'll continue to be a high dividend player.

Naresh Bilandani: All right, thank you very much. Appreciate it.

Operator: We'll now take our next question from Chiro Ghosh of Sico, please go ahead.

Chiro Ghosh: Hi, I'm Chiro Ghosh from Sico, Bahrain. I've a very quick question about the Net Interest Margin. So looking at it, it appears that the margin has stabilized and yields are slowly picking up. If you can give us some more color on, how we should pencil it or what should be our forecast for FY21. And just one quick one, I don't know whether I missed it or not, so the real estate book which you have, is it fair valued?

James Burdett: Yes, good question. So NIM, as I said before, we think it's going to stabilize, after about these levels going into next year. We don't see negative interest rates coming in the US market. Obviously every 25 basis point cut impacts our P&L by AED 200 - 250 odd million. But we just don't see that happening now. We've got a little bit of positioning we can do as the long end of the curve starts to increase, we can take a little bit more hedging risk there to mitigate some of the margin compression.

In the lending space and on the deposit space, the competitive pressures seem to have tailed off. So here we're comfortable at this 150-160 basis point, in interest margin going forward. Your second question was on the property portfolio and yes it is fair valued.

Chiro Ghosh: Okay, that's it from my side. Thank you.

Operator: We'll take our next question from Shabbir Malik of EFG-Hermes. Please go ahead.

Shabbir Malik: Hi, thank you very much for this presentation. I just wanted to ask two questions. One is about margins. So the interest rate outlook is, we're talking about low interest rates for a protracted period of time. But what about credit spreads? Do you see scope for credit spreads to widen, which could potentially help your margins going into 2021?

And my second question is, given the challenges in terms of revenue growth, slow economic and fiscal economic growth, do you see more accelerated pace of consolidation in the market this year? Yes, that's it, basically. Thank you.

James Burdett: Yes, so NIM, I don't think I have much more to say. It's going to be at or about these levels, with a little bit of plus and minus in the market, depending on what the yield curve does and what the credit spreads do. But I don't think we are going to see big movements in credit spreads, either way up or down, would be my gut feel going into this year. What I would say, though, is that we're focusing as a business on cross sell. And so when you look at the CIB business, the very stringent reviews on minimum return thresholds, we're obviously looking to cross sell GTB, Global Market, Global Corporate Finance products into our traditional customer base. And essentially take that business off of the foreign banks.

In terms of revenue or balance sheet growth, I'm a little bit more optimistic, I suppose. You are going to see a swing from negative GDP to positive GDP. We all know GDP formation is government and government related. We see that in our pipeline. And I've been saying this for several quarters now. But we still see it in our pipeline. And eventually, it'll come through when the recovery starts to happen. And people ie businesses, governments, are happy to commit capital expenditures for various strategic projects and start growing again. But the whole thing revolves around the recovery of the world. And if you take an optimistic view, you will see, balance sheet expansion and therefore revenue growth come through. Does that answer your question?

Shabbir Malik: But if you look at the UAE in general and some banks have taken a more radical approach towards their cost of risk. It suggests to me that there still is probably, certain obstacles in terms of growth. So with that kind of background, do you see scope for further consolidation? Do you think there is? Or do you think there is enough levers within the bank to generate growth?

James Burdett: Yes. Apologies, Shabbir. I forgot about your consolidation question. So look, there's several factors at play here. So one, we've proved with the merger of NBAD and FGB, that there can be significant economic value creation for shareholders. And that does support further consolidation in the market. Clearly, there's politics at play. Clearly, any merger and acquisition goes through a pretty stringent due diligence process. And for all the deals, M&A deals that we look at, most of them don't eventuate for all sorts of reasons.

One; it's got to be in line with strategy. Two; it's got to be accretive. Three; we've got to get shareholder approval for it. But eventually you will see consolidation in the market. If you look at Saudi, if you look at Kuwait, if you look at some of the other markets, there's no question that it was 19 local banks and whatever it is, 50 foreign banks in the UAE, we're an over banked market and therefore fragmented. And therefore consolidation makes sense.

And eventually, the economics will win out over the politics and all the other hurdles that we've got. So I do see it happening. But is it this year or in five years from now, I couldn't tell you.

Shabbir Malik: Thank you. Thank you very much.

Operator: Our next question comes from Waruna Kumarage, Sico Bank. Please go ahead.

Waruna Kumarage: Hi, thank you, gentlemen. Can you hear me?

James Burdett: Yes.

Waruna Kumarage: Yes, okay. I have a few questions. The first one is on the TESS funding and now that the deferrals have come down, I want to understand whether given that the deferrals have been extended in mid last year, do you expect to draw down more money from the Central Bank going forward?

Shirish Bhide: Hi, this is Shirish. At this stage, given what we've seen in our existing portfolio in terms of the deferrals that we provided, we're seeing this come down through repayments and run offs. So we don't necessarily anticipate a large drawdown again, on the available facility.

Waruna Kumarage: Okay. All right. And in terms of the, sorry, I have a couple more actually. In terms of the deferrals, if I refer to your audited financials, in the corporate space, in group two, there are loans which are under deferrals around AED 4.8 billion, whereas your impairment allowance, you have taken is only AED 700 million odd. So I want to understand whether, what consideration has been given in the ECL allowances in the group two loans are or/and are you comfortable in this, at these levels?

Shirish Bhide: Sorry, can you just repeat the core question please, what exactly are you looking for? Sorry, I missed that. There's a bit of echo in the system.

Waruna Kumarage: Sorry. So the question is actually on the deferred loans in the Wholesale Banking, under Group 2 category, which is around, about AED 5 billion. But the amount of ECL allowances that you have provided is much smaller that, like around AED 700 million. So, I want to understand whether you are comfortable in this level of provisions, ECL allowances?

Shirish Bhide: Yes. So the short answer is yes. Because the application of the model is consistent, no matter, which category we've placed these loans under. So it takes into account collateral and et cetera. And obviously, we remain satisfied with what we have there as a number. It's the same consistent application of the model.

Waruna Kumarage: Okay. And my last question is on the balance sheet. As far as repo and reverse repo activity is concerned, in Q4, you can really see an increase. I want to understand what is driving these trends?

James Burdett: Yes. That's just on the back of client activity growth, mostly in global markets and mostly relates to positioning.

Waruna Kumarage: Okay, thank you. Thanks a lot.

Operator: Our next question is a follow up question from Naresh Bilandani JP Morgan. Please go ahead.

Naresh Bilandani: Yes, thank you very much. And my apologies. I forgot to ask in the previous set of questions. If you could please throw some light on the transaction that you are undertaking in Egypt. If you can provide some further color on, what potential addition that provides to the bottom line and to the balance sheet? And how should we think of the timing for this transaction? That would be super helpful.

James Burdett: Yes. It's a good question. The cost, you'll be able to derive from the fact that we've disclosed that's a 50 basis point hit for equity tier 1. In terms of the deal, I can say that we got it at a very good price. And that we expect to integrate and synergize the operation. We'll come out with more color in the Q1 result because, under the terms of the agreement that we've struck with Bank Audi, they don't want us to disclose this. But what I would say to you is, we think it's a good deal. We expect to gain reasonable synergies out of it. We got it at a good price, it’s revenue and ROE accretive.

Naresh Bilandani: All right, thank you James. Thanks a lot.

Rahul Bajaj: Hi. This is Rahul here from Citi. Maybe I can come in and ask a question while we wait for more questions. So I have two actually. On the Cost to Income Ratio, I see the guidance now is less than 30% for 2021. This sounds slightly on the higher side, assuming we ended the year close to 26%, actually, for 2020. So just wanted to understand what's driving slightly more conservatism on the Cost to Income, guidance of less than 30%? That's my first question.

And the second question on the MSCI free float decision. So there was a release, I recall last week about ownership within FAB and that was linked to the MSCI decision. Do we have any further information about timelines or anything about, how long will MSCI take to reconsider this or anything further on that? Thank you.

James Burdett: Okay. On the Cost Income Ratio, clearly, we're just being conservative, obviously, we'll strive to have the best Cost Income Ratio that we can. A couple of points to note, one is that we are continuing investment in the business, particularly our digital and IT landscape. So we do expect to pick up an amortization growth into 2021. Secondly, if you look at 2020, we did have some one offs and property deals and so on, which obviously bolstered the Cost Income Ratio. But 30% is a conservative figure, we should come in well below that. But it's right to put that out to the market, given the uncertainties and so on.

In terms of the MSCI, yes, we've made the disclosure in line with the requirements of the MSCI. But as you know, they're an independent body, we have no influence over them. Clearly at some point, they're going to make a decision whether our MSCI weighting should increase or not, but then it's up to them to decide.

Rahul Bajaj: Right. Thank you.

Operator: So, we'll take our next question from Noaman Khalid of Arqaam Capital. Please go ahead.

Noaman Khalid: Yes, thank you. I have an actual follow up question on the recent question on MSCI. So, can you just confirm that the current free float announced on your recent disclosure, the 44%, that doesn't include any more royal family stakes? And my second question that back in 2017, 2018, we used to hear that the total royal family stake was around 32% and now dropped to almost 15% in the latest disclosure. Can you clarify whether, it could be that source of royal family stakes are owned by a very small individual investors that do not count as strategic or not? Thank you.

James Burdett: Yes. Look, your question, obviously the disclosure statement that we put out is valid and correct. That's why we put it out. And in terms of movements in ownership stake between various shareholders, clearly that's something that we don't comment on.

Noaman Khalid: Okay, thank you.

Operator: Our next question comes from Hootan Yazhari of Bank of America. Please go ahead.

Hootan Yazhari: Thank you so much. I had a question, which was pretty much a follow up on, what we were just discussing about costs. We were looking at a sub 30% Cost to Income Ratio, obviously a big spread versus what you achieved this year. What I'm trying to understand is, how flexible are you looking to be on the cost this year, i.e, there's a lot of uncertainty both to the upside and the downside, some of which might require you to deploy costs and a very quick opportunity to take advantage of any opportunities which come up in the market. So I just wanted to see how you think about that, with regards to cost flexibility?

The next question I had was regarding your ECL model. Obviously, we saw a resetting of ECL models as we saw economic conditions worsening. What I wanted to understand is, where do you see your ECL model currently? Do you think that what we're seeing in the economy is outperforming your expectations that you're running through your ECL model, is running in line with your expectations, or where we are today is actually a lot worse than what you're forecasting? Just trying to gauge, where you are on the ECL side? Thank you.

James Burdett: Okay. On your question of cost, look, it's First Gulf Bank's legacy to have a very competitive Cost Income Ratio. It's management's business as usual job, to manage costs properly. We look at all opportunities, every single investment we make is to generate incremental revenue or to automate or eliminate, FTE cost. So, and there's a lot of scope to do so. So we're continuing to invest in our digital proposition. We're continuing to automate and eliminate roles through more digital productivity. We're also looking at off shoring, potentially.

So, we have a number of levers for us to pull to continue to manage our costs. On the flip side, we also want to invest because we know we need to invest in our digital proposition and our current desire to be customer obsessed, and so on. So 30% is conservative, clearly we'll manage the cost as appropriate. If we need to take a hard run at cost to capitalize on an opportunity that generates incremental returns to the shareholders, then we will do so, unquestionably. For the ECL model, I'll hand over to Pradeep.

Pradeep Rana: Yes. Hi, thanks for that question. I'll answer that in three ways. First of all, is that we are very comfortable with the ECL estimates, across stage one, stage two and stage three. We do review it on a continuous basis and make adjustments when necessary. The MEVs are based from the information that we get from Moody's. And they are applied consistently. So in that sense, my simple answer is that, yes, we are comfortable with our ECL models.

Hootan Yazhari: Thank you.

Operator: And we'll take our next question from Aybek Islamov of HSBC, please go ahead.

Aybek Islamov: Yes, thank you very much for the conference call. I want to ask you a couple of questions about the asset quality. But firstly, your disclosures on these deferred installments, and loans in the TESS, when I compared to these two numbers, the instalment deferral was falling quicker than the ones under. Right. So the ratio of installments deferred over loans under TESS and declined quite a bit in Q4. But how would you interpret this movement in these two things?

That's the first question. And second question, during the conference call you mentioned that your Gross Cost of Risk was something around 90 or 95 basis points. And your Net Cost of Risk came at around 60 basis points to 67 basis points. So recoveries are quite significant. Yes, it was quite significant. So what do you expect for recoveries in 2021?

James Burdett: Yeah, look, your question is, you're really trying to seek correlations between the various models, but it doesn't work like that. We've got to take into account collateral, we've got to take into account, the position of the customer, the cash flow and these various things. And so I don't think there's a clear answer to your question. Basically, we're comfortable with our ECL risk, across the various stages. The guidance into 2021 is reasonably conservative. We still have upside from potential NPL workouts that we're working on. And that sums it up.

Shirish Bhide: And I'll just add to that. And again, just to take you back to the foundations of the program itself. The TESS program was intended for clients who directly were impacted by the pandemic. And at the point that they enter the program were not impaired in any way or delinquent in a way. So in a sense, the program was designed to essentially temporarily help clients manage their cash flows, as a response to hardships caused by the pandemic.

So, by that same token, as the pandemic ends or we start coming out of the pandemic, these clients and their cash flows will start returning back to the pre pandemic levels and therefore, they come out of the program in an orderly manner. So again, I just wanted to give you that flavor and also just reiterate the fact that every client that goes into the program, goes in, in a bespoke manner, with its own profile, in terms of collateral, industry segments, et cetera, et cetera. And therefore, it's a reflection of all of that, on a collated basis.

Sofia El Boury: Operator, if there are no further questions, we can close the call. Obviously, we are here to take any further questions from the analysts or investors. So please, if you have any further questions, just reach out to us directly. And thank you for joining us today.

Rahul Bajaj: Thank you.

James Burdett: Thank you.

Operator: Thank you. That now completes the call. Thank you for your participation. You may now disconnect.

- END -