بنك أبوظبي الأول
First Abu Dhabi Bank

FAB Q1'21 Earnings Call Transcript*

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Co-host

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Goldman Sachs

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*Edited

Operator: Good day and welcome to the FAB Q1 2021 Earnings Call and Webcast. This conference is being recorded. This call is for analysts and investors only. The call is not for media and all media are instructed to disconnect now.

At this time, I would like to turn the conference to Waleed Mohsin, please go ahead.

Waleed Mohsin: Thank you very much, good day everyone and Ramadan Kareem. It's my pleasure to welcome you to FAB's Q1 earnings call and webcast co-hosted by Goldman Sachs. On today's call, we're extremely pleased to be joined by Hana Al Rostamani, the Group's CEO and James Burdett, Group's CFO.

So, without any further delays, I will pass on the call to Sofia El Boury, Head of Investor Relations.

Sofia El Boury: Thank you. Thank you very much, Waleed. Good afternoon, everyone. Thank you for joining us today to review FAB's financial performance for the first quarter of 2021. This webcast is hosted by FAB's senior management team represented by Hana Al Rostamani, Group CEO; James Burdett, Group CFO; Pradeep Rana, Group Chief Risk Officer; Shirish Bhide, our Group Head of Corporate and Commercial Banking; and Rajesh Deshpande, Group Chief Credit Officer.

Before we get started, a quick reminder that today's presentation and all our financial disclosures for Q1'21 are currently available on the dedicated investor relations section of our corporate website, as well as on the FAB IR app.

After the presentation, our senior management team will be answering all your questions. With that said, I'll pass it on to our group CEO, Hana Al Rostamani for opening remarks.

Hana Al Rostamani: Thank you Sofia and good afternoon everybody and welcome to First Abu Dhabi Bank's result call for the first quarter of 2021. I'm pleased to be speaking with you today for the first time as FAB's Group CEO and I'm excited to be leading a great team, at a great bank with a promising future and opportunities ahead. I'll take you through a summary of the first quarter performance.

We have a strong bank with unique competitive strengths that has demonstrated resilience over the last 12 months, committed to supporting our customers and communities in the markets we operate in, while achieving superior returns. And I believe that we are in a very strong position to pursue our growth and transformation journey, unlocking new opportunities for our clients, and delivering superior and sustainable shareholder value. We have a strong regional presence, a strong balance sheet and great talent to support our growth story in the future.

Looking at Q1 results, we achieved a resilient performance. Group net profit in the first quarter of 2021 was at AED 2.5 billion, up 3% year-on-year; Group revenue of AED 4.4 billion; and return on tangible equity at 12.8%. Looking at our operating environment in the first quarter, the increased cases of COVID in the new year softened the pace of recovery and our CIB pipeline is materialising slower than expected which has impacted business momentum.

But a wide range of indicators support our positive medium-term outlook, with the UAE leading globally in terms of the vaccine rollout. 9 million doses of COVID vaccine have been administered to date. The pickup in the oil prices provides strong business confidence and is improving. The resumption of key activities is taking place and there are signs of stabilisation in the real estate market.

We expect this to translate into a pickup in activity in the second half of the year if these trends are sustained; and the UAE actions continue to be decisive in response to the pandemic and the support of the economy's recovery through a range of initiatives and reforms. The UAE Central Bank Targeted Economic Support Scheme, which includes the Zero Cost Funding scheme, is one of these many supportive actions, and this now has been extended until mid-2022.

Despite the challenges of the quarter, we maintained a robust foundation with strong liquidity and funding ratios with solid capital position and resilient asset quality. And we're confident we are in a strong position, as the UAE economy turns and grows. Against this backdrop, there are certain strategic priorities we've been focusing on and I'm pleased to report that management has continued to deliver against these strategic priorities.

For the first quarter, we successfully completed the carve out of our payments business, Magnati. This strategic milestone is designed to unlock value for our shareholders through the establishment of an agile independent business, focusing on technology, data and customer relationships, and of course shape the future and the regional payments industry.

The second strategic priority is getting closer to finalising our acquisition of Bank Audi Egypt. This marks our first international acquisition. We've been present in Egypt since 1975. And, of course, Egypt is rapidly growing. The trade links are also growing between the UAE and Egypt. There is high expected GDP growth for the region, and of course, Egypt is a strategically important market for us. We've appointed the senior leadership team and the integration process is expected to be completed by 2022.

We also continue to make good progress against our sustainability agenda, with environmental, social and governance factors set to become more deeply embedded across the organisation. We are on track to finalise our ESG roadmap in the course of this year, and we continue to lead the market for green financing. We are the leading green bond issuer regionally and globally with our total green bonds outstanding now crossing the USD 1 billion mark.

While we continue to optimise our property portfolio, our focus on enhancing group risk adjusted returns translated to the further rundown of our non-strategic assets. And we continue to focus on digitisation and investing in digital technology to make our business much simpler and more efficient in order for us to better meet our customers' evolving needs. We continue to improve on self-service capabilities, automate key services, driving innovations in the payment space and offering pioneering solutions to the CIB businesses. At the same time we continue to build a world-class technology foundation, moving forward on our cloud technology strategy among these other initiatives.

As we move forward, we're firmly laying the foundation of our long-term success. We have thoroughly reviewed the full customer value chain of products and services across all businesses and we have re-aligned in order to build on our service model and product proposition to drive greater specialisation and competitive advantage. In corporate and commercial banking, we will offer better products and services to large corporates, SMEs, building strong momentum and servicing a larger client base. In investment banking, we will be looking at the large corporates and all government related entities, and really bringing in specialisation in terms of products while acting as their strategic advisor.

On the consumer banking side, we will be looking at the full range of products and services and will continue to deliver digital capabilities while building a strong market share. And then of course, on the private banking side, we want to offer our clients a comprehensive suite of global wealth solutions and provide them access to different markets through our hubs in the UAE, Geneva, Singapore, Paris, London and Riyadh.

As the business and service delivery models go hand-in-hand, we are also looking at streamlining technology, data analytics and AI operation and administration. That is to ensure that there is a seamless delivery of our offering, with better organisational agility, and a distinct and superior customer experience for our clients.

Focusing on customer segmentation on the client, and what do we deliver for our clients and making sure that we are aligned internally in terms of the operations and technology to really position us and give us a competitive advantage when we deliver to our clients. We are confident these changes will help (us) firmly establish FAB at the forefront in the market and enhance our competitive advantage, unlock opportunities and help us continue to deliver superior and sustainable shareholder returns.

In summary, I'm excited about the opportunities that lie ahead for all of us, and I'm confident that we are all well positioned to strengthen our competitive advantage and achieve our ambitions. Thank you very much. And I'll hand over to James for the financial performance review.

James Burdett: Thank you, Hana. Good afternoon, everybody. Ramadan Kareem. Thank you to Waleed and Goldman Sachs for hosting today. As per usual, I'll go through the slide deck pretty quickly and then we've got time for Q&A at the end of the session with most of the executive committee present to answer your questions. So, starting off with the slide eight of the investor deck.

As Hana has already mentioned, I think the performance was very resilient against the slowly improving economy. The first quarter profit, you can see that was just under AED 2.5 billion, which was up 3% year-on-year. The top part of page eight just shows you the bridge between Q1 2020 and Q1 2021. And clearly the biggest impact for us was the reduction in operating revenue mainly as a result of the Fed rate cuts, which as we know, happened in April last year, so weren't reflected in Q1 2020 results. That was just over AED 400 million for us in terms of negative revenue headwinds. And it was offset by growth, mainly in CIB and mainly in global markets, which was up 32% year-on-year.

We also had some one-offs through property gains, as we continue to optimise the property portfolio. Operating costs improved 3% year-on-year. Clearly, we took action post-COVID in response to the revenue headwinds; you can see that coming through Q1 – sorry, prior comparative period. But most importantly, you can see lower net impairment charges, which were AED 268 million or 36% lower than the first quarter last year, which was mainly due to the COVID overlay we took over the first quarter last year of AED 185 million.

Just looking at the chart at the bottom right hand side of page eight, clearly you can see a reduction in Q1‘21 profits over the fourth quarter. The fourth quarter, as you know, we had a number of one-offs, notably the sale of the legacy FGB licence to ADQ, but also some interest in suspense reversal that didn't occur in the first quarter, and also a couple of property deals.

Drilling into the performance of CIB on page nine, this was a very good result for us. Operating profit was up 19% year-on-year. You can see the bridge shows the up very clearly. GCF revenue was up, we had strong fee generation, so growing 3% over prior comparative period. GTB revenue down considerably. You can see they're down AED 259 million, again, mainly due to the Fed rate cuts and our GTB business on CASA. That said, it's important to note that CASA for us is at a record high of AED 250 billion for the first time and up 53% year-on-year in the GTB business. Most notably, 180 new cash mandates were won in the first quarter, which was significant.

Global markets, as you would expect, up considerably, 32% year-on-year driven by trading performance and benefiting from our positions against market volatility. And then other revenue is just the property gains that we talked about earlier. Clearly, lower impairments flowed through into the CIB business versus first quarter last year because of the overlay and you can see net profit was up 21%. Loan reduction, you can see there in the first quarter over the fourth quarter was mainly due to a small run off in some of our GRE and public sector entity positions. On a year-on-year basis, we are down a little bit but that's mainly due to the technical actions we took to reduce the low yielding trading FI portfolio by about AED 10 billion year-on-year.

Turning to slide ten on personal banking. Personal banking profits were impacted by COVID, clearly down 16% year-on-year. Net interest income was down mainly on the back of the Fed rate cuts. The non-interest income was down considerably as we get less fee activity coming through on the back of a subdued market. That said, our activity levels are improving. You can see the loans and deposits are roughly flat year-on-year. In fact, deposits are up 9% year-on-year.

Just to give you some activity levels and show that these are improving, sales volumes in our personal loans are up 5% over prior comparative period, mortgages up 2%, cards up 15%. It's just we're not getting the fee-related revenue on the back of those acquisitions, but as the economy begins to recover, we are expecting this pipeline and this growth to start feeding through into the revenue line. And as Hana has already mentioned, there's a number of strategic initiatives that we delivered in this space, most notably carving out Magnati, the new payments company.

Turning to page 11, which just gives you the full view of the balance sheet. You can see most notably, deposits are up considerably QoQ. As I mentioned before, most of that growth is in the corporate bank. Most of it relating to CASA, 180 new mandates, which is a record high. And as you know, as and when the Fed rates begin to climb that will be a significant tailwind for us.

In terms of loans, as already mentioned, down 1% YoY and 2% QoQ. YoY, again was mainly the rundown of our tactical portfolio that was mainly FI trade related with low yields, that was a technical move on our behalf. But QoQ, we have some GRE run off. That said, we think the pipeline still remains very healthy, particularly in the GRE and public sector entity and government space.

And we do believe we can hit the mid-to-high single digit balance sheet or loan growth that we've put out to the market. Liquidity remains strong. The liquidity coverage ratio is at 140%. And in terms of term funding, we've already issued AED 3.3 billion over targeted AED 4 billion of longer-term debt across a range of different issuances - all at very economic spreads for us.

Turning to slide 12, on asset quality. Cost of risk was significantly lower in Q1‘21 due to the COVID-overlay that happened in the Q1’20. You can see the cost of risk at 51 basis points significantly below guidance of 100 basis points, but we are maintaining that guidance, to be conservative, given the uncertainties that lie ahead. Looking at the right-hand side of slide 12, you can see the NPLs are flat at just over AED 15 billion and the NPL ratio stable at 4% with coverage improving to 96%.

On slide 13, our capital adequacy has improved considerably over the first quarter last year. We’ve gone to 13.7% versus 12.1% in the prior period. As you know, the prior period was materially impacted by the AFS losses we sustained on our investment portfolios, as credit spreads blew out in response to COVID. That's substantial and entirely comeback as of date. And so that's the main driver of the improvement to 13.7%. I'd also point out 49 basis points of organic profit generation coming through.

And as we said before, we are trying to improve return on equity, we are focused on deploying our balance sheet efficiently. And you can see the bottom part of slide 13, our return on risk-weighted assets is stable at just under 2% - 1.99% - down a little bit over the full year because of some of the one-offs that came through but nevertheless a good result in the circumstances.

Slide 14 drills into a little bit more detail on net interest income. And you can see net interest income of just under AED 2.7 billion is down 13% year-on-year, almost entirely due to the Fed rate cuts. In terms of net interest income QoQ, the main difference between Q4'20 and Q1'21, was interest in suspense releases in the fourth quarter. NIM is at 1.47%, is down 44 basis points YoY, almost entirely due to the Fed rate cuts and QoQ, it is down 14 basis points or 18 basis points rather due to interest in suspense reversals not recurring in the Q1'21. The full year estimate for margin is between 1.5% to 1.6%.

Turning to non-interest income on slide 15. Total non-interest income of AED 1.7 billion is up 14% YoY. Fee & commissions, however, was down 21% YoY, mainly in personal banking - partially or mostly related to credit cards as we see less activity and the markets are yet to recover. In terms of FX and investment income, we're focusing mainly on the back of client flow and trading activity in global markets. Other income in the first quarter represents the property deal we talked about earlier.

On slide 16, costs improved 3% YoY. But they're up about 4% QoQ, mainly relating to depreciation uptick. And as we said, we continue to invest in our digital proposition and customer journeys, which will yield productivity and revenue gains in the future. Also, the costs in the first quarter were up slightly because of the integration costs relating to our acquisition of Bank Audi in Egypt, which, as you know, we'll complete sometime in the second quarter in terms of consolidating into our accounts, and which represents significant upside for us.

So, to wrap up, the last two slides with guidance. We're maintaining our guidance. Most notably, cost of risk was below 100 basis points but we acknowledge that's conservative and we may revisit it at the half year. The provision coverage, we're committed to keeping above 90 basis points and the CET1 most importantly at 13.5%. The cost-to-income ratio, we're confident at keeping below 30% and we are committed to mid-single digit or mid-to-high single digit loan growth. On the back of what we think will be a slowly recovering economy, we expect GDP to go from negative to positive this year, that's supported by higher oil prices. We can see our pipeline remains very healthy. And we have the M&A piece coming through in Egypt and that's just under a billion of sustainable revenue for us that will come through in the future years.

So, to wrap up, a solid quarter. We expect the recovery to flow through into our balance sheet in the ensuing quarters. We have a sound strategy with a track record of execution and are confident we can grow our risk-adjusted returns to support a healthy dividend for our shareholders. And as Hana mentioned earlier, we are in the process of putting together a three-year strategic plan, which we will follow up with a capital markets day or an Investor Day at some point further in the year once we've concluded that process.

So, with that, I'll hand over to you for Q&A. Thank you.

Operator: Thank you. If you would like to ask a question, please press *1 on your telephone keypad. Please ensure the mute function on your phone is switched off to allow your signal to reach our equipment. If you find your question has been answered, you may remove yourself from the queue by pressing *2. But again, please press *1 to ask a question. We will take the first question from Rahul Bajaj from Citi. Please go ahead.

Rahul Bajaj: Hi. Thank you. Thanks for taking my question. This is Rahul Bajaj from Citigroup. I have three quick questions actually, if I may, please. The first one, you mentioned about the second half 2021 pipeline and it appeared very strong. I just want to understand what gives you that confidence that you think that the second half pipeline will fructify the way you are probably expecting? And closer to that and in the second quarter right now should we expect the same GRE rundown which we had in the first quarter to continue and then kind of an uplift in the second half? So trying to get the shape of the recovery with the next few quarters is my first question.

The second one is on the capital slide. You mentioned about the capital impact of the Egypt acquisition and the new BASEL III requirements. So I just wanted to understand what these individually are and what kind of capital hit or benefits we should get into our numbers going forward? And related to this, on Egypt, I think you mentioned second quarter consolidation, if I'm not mistaken. So, I just wanted to understand the timing there and basically, how should we consolidate Egypt and when should we start consolidating Egypt into a model?

And my final question is on Magnati. On the whole spin-off exercise, which took place earlier this month, what is the medium- to long-term implications when you say unlocking shareholder value? What is your thinking around the future course of Magnati? Are you planning to go the Emirates NBD way and maybe list the entity at some stage or are you looking for international investors? What is your thinking about Magnati over the next three to five years? Thank you.

James Burdett: Thank you, Rahul, for your very, very detailed questions. So yes, we think the pipeline will start dripping through in the second quarter. We're seeing a number of pipeline deals have been approved, yet to be drawn down. But we expect the main pick-up to happen in the second half as we've guided. I think, from your perspective, a big picture, we expect to finish the year between mid-to-high single digit loan growth and we're confident of achieving that.

To your question on capital, we've got a huge investment portfolio in our global markets and treasury space. When the spreads blew out on the back of the COVID pandemic, we lost, I think, it was about 180 basis points or somewhere within that vicinity and that steadily came back, as credit spreads tightened throughout the year. And that's the main reason for the change in the CET1 improving over the first quarter.

Your question on Egypt, yes, we expect to conclude the deal in the second quarter and start consolidating. The capital impact for that will be around 45 basis points. The approximate profitability of that deal is around AED 300 million pre-synergies. But obviously, it's going to take us some time to integrate Egypt into the full system that the bank has.

In terms of Magnati, yes, it's exciting for us. The payment space is hot. As you know, there’s a lot of investment going into that. We believe that spinning it off will help us be more agile, be more nimble, and make progress in the digital space that we need to invest in. And eventually, it may lead to strategic investors and really pushing the agenda of the payment space for us. So, we're quite excited by that.

Rahul Bajaj: Thanks James. Quick follow up on the first answer, James, if I may, please. When you say mid-to-high single digit sort of volume growth, does that include Egypt acquisition or excluding that?

James Burdett: It includes the acquisition as well. And just on your question around the CET1 around the regulatory impacts? Yes, there are some regulatory headwinds potentially on the horizon, but I think from our perspective, the timing and the magnitude of that is still unclear, as the banks are still discussing this with the Central Bank. And clearly the Central Bank is still in the mode of not tightening, but also helping the economy prosper, as evidenced by the fact that the TESS was extended.

Rahul Bajaj: Got it. Thank you. Thanks so much.

Operator: The next question comes from Kate Carpenter from Morgan Stanley.

Kate Carpenter: Hi, thank you for taking the question. Just a quick follow up question on the Bank Audi acquisition, you mentioned there could be some incremental integration costs going forward. Just wondering, if you could provide a bit more colour around that over the next few quarters. And then on the optimisation of FAB's property portfolios, how should we think about that going forwardr? Is there scope for further property sale gains or is it on a more ad hoc basis? Thank you.

James Burdett: Yes, so thank you for that question. On Bank Audi, yes, we expect the integration costs to start running up. We're estimating at this stage, approximately AED 100 million of OpEx to integrate the two banks. There will obviously be some CapEx that will be amortised over whatever life we choose, depending on the system that we roll out. But you know, it's a good deal for us and we've already seen it on a standalone basis that it's ROE accretive. We've also said that's before synergies and obviously we expect to have synergies as well.

Sorry, I missed your second question.

Kate Carpenter: Just on the property portfolio optimisation initiatives, is there a further scope for potential property sale gains in the future? And how should we think about those sales going forward? Is it more on a strategic adhoc basis or is it something readable that we should be incorporating into our numbers?

James Burdett: Yeah, we're committed to continuing to optimise our property portfolio and our investment portfolio, we're looking to continue to sell down and essentially reduce those balances and focus on the business of banking. In terms of our own occupancy - yes, there's been a paradigm shift in the way people operate.

We are looking at the working from home policy and where that will end up will dictate our own rental costs, because obviously, there's some synergies to be made there and we're working through hot desking and various other things as a result of that. So, net-net, yes, you can expect some further gains on the property side as we execute deals. And you can probably expect further reductions in rental costs, as we start to formalise our working from home policy and structuring our business around that.

Kate Carpenter: Thank you.

Operator: The next question comes from Naresh Bilandani from JP Morgan.

Naresh Bilandani: Hi, everyone. It's Naresh from JPMorgan. Thanks for the presentation. I just have one question, please. Can you please just confirm if there were any material credit transactions that affected your first quarter impairment charge? Put bluntly, I'm just keen to know if the Abu Dhabi Airports guarantee invocation and the underlying exposure that you have to Arabtec - that guarantee caused any movements that may not be repeated in the second quarter? And if impairment charges could drop further, as we move on from here to the future quarters? Or maybe I'm just being too bullish here, but if you can throw some light on that, that'd be super helpful. Thank you.

Shirish Bhide: Hi Naresh, this is Shirish. So, I think your first question was, was there any significant impairment in quarter one that came to the numbers? The answer is no, there wasn't any. Obviously, we won't comment on any specifics around the airport news article that was in the public domain. But suffice to say that we've done our own analysis of the situation and remain confident of having covered our own position, looking at the various scenarios and the way they're likely to play out. So, we see no risk, from a FAB point of view, that comes out of that transaction. That's probably all I can say at this stage. And for the remainder of 2021, we don't see any material impact on the impairment front from any significant credit at this stage. Thanks.

Naresh Bilandani: Thank you.

Operator: We will now take the next question from Aybek Islamov. Please go ahead.

Aybek Islamov: Yes, thank you. So, I wanted to ask you a question about your strategy in Egypt. So, what are your plans there? Do you want to recapitalise Bank Audi once you complete the acquisition? If the strategy is about gaining market share, if you can elaborate on that - that would be very useful.

Secondly, we know that First Abu Dhabi Bank is known for fairly volatile deposits. You may have unexpected inflows and outflows during the quarters, but also it looks like this deposit volatility impacts your NII, which was the case in the first quarter of this year, given that you place all these deposits with big bulk of them in cash, with the central banks. Is there a way you can manage the deposit volatility, so your net interest income line would become more stable and predictable? One would have expected that the impact of low interest rates should have already passed, in my opinion. So, if you can comment on this, that would be very useful. And I think that's pretty much it in terms of questions. Thank you.

James Burdett: Thank you. So, in terms of Egypt, we believe it's a big market. It's got a substantial nominal GDP. It's growing. It's relatively under-banked. We've had a presence there for a number of years. Bringing these two banks together and successfully integrating them, essentially doubled our scale. We have, we believe, significant synergies, and massive ability to grow in that space because of the close affinity between the two countries. And asmentioned, the trade flows between the two countries and the FDI flows. So yes, we're very optimistic about Egypt - as a major market, it makes sense that we're diversifying away just from the UAE, and Egypt is a great return market, so we're looking to go there.

In terms of your question around deposits, the deposits come in and because they are government deposits, and therefore subject to volatility, we only need to hybridise a relatively small portion of that for longer-term liquidity, which means the short-term balances get placed with the Fed or the ECB. But what it simply means is when the deposits come in or go out, all that happens is the balances with the ECB or the Fed go up or down. And in terms of NIM, it doesn't make much difference except for the mathematical calculation because the balance sheet footings go up or down. So, these deposits, we make a spread on. There’s no capital associated with them and there's essentially no liquidity costs. So, they're good for us, good business for us and we make a small return on it.

In terms of your question, you thought the Fed rate cuts will have passed. Well, all we're doing is comparing first quarter 2021 where there were no Fed rate cuts against Q1'20, where obviously there were rate cuts. So that's the reason we quoted that in our discussion, sharing the net profit bridge. But QoQ, as I've said, was mainly related to interest in suspense, a significant interest in suspense reversals, which was really a one-off that wasn't repeated in the first quarter of this year. But as you know, there's always interest in suspense releases, and they happen haphazardly, depending on our success in terms of restructuring and working out NPLs with clients and we do expect more to come later this year but we don't provide guidance on that.

Aybek Islamov: Thank you. Just one follow-up question. You mentioned earlier that you expect loan growth to improve for the rest of 2021. Do you think that improvement will lead to better net interest income? Shall we expect a sequential growth in NII as well as your loan growth improves in 2021?

James Burdett: Yes, so the net interest margin we've guided is 1.5% to roughly 1.6% and that includes everything and what we're anticipating for the full year. But in terms of net interest income itself, yes, it'll grow as we grow the balance sheet. And we're expecting the balance sheet to grow in subsequent quarters based on what we anticipate will be a recovery, but also the recovery in the market. And yes, the fee income will flow through on the back of that.

Aybek Islamov: Thank you. That's all for me.

Operator: We will now take the next question from Harsjhit Oza from International Securities.

Harsjhit Oza: Hello, everyone, thanks for the presentation. I have three remaining question as some of my questions are already answered. Firstly, can you provide more colour on the property related gains? And also, what is the approximate size of your non-strategic assets that you are looking to enhance your risk adjusted returns?

Second question is, do you see any competition – have you seen or do you expect any competition from digital banks impacting the personal banking segment? And finally, are you looking at any M&A opportunities in the home market? These are my questions.

James Burdett: You weren't that clear, but I think your first question was around property and non-strategic assets, the balances from NIM, and I'll get Sofia to check this, with about AED 8 billion in terms of property. And yes, we're slowly unwinding those positions. In terms of competition from digital banks, the reality is that there's been a lot of announcements but there's not lot of action on the ground. So really, it hasn't impacted our business today, the main driver is the reduction in the income in the personal bank and really just the lack of activity. And we've picked that activity to start picking up, for example, in credit cards as people start to travel and spend again.

And in terms of M&A, we're always looking at deals. But as you know, getting a deal across the line is tough, it has got to be in line with strategy, it has got to be ROE accretive, and it's a very difficult thing to achieve. So, we're looking and we're open to ideas but there's nothing concrete at this point.

Harsjhit Oza: Okay. Thanks. And you mentioned that you will be revising the cost of risk towards the Second quarter.

James Burdett: Yeah, I think it's premature to change the guidance in the first quarter. We still have a lot to work through. There’s still a bit of uncertainty in the market. We know we're being conservative. We will potentially look to revise guidance in the next results announcement, depending on how we see things picking up or whatever the case may be. I think it's right to be conservative. And historically, we've only changed guidance in the middle of the year anyway.

Harjhit Oza: Okay, thank you.

Operator: We will now take the next question from Amit Mamtani from Goldman Sachs.

Amit Mamtani: Hi, good afternoon. Thank you for the call. You mentioned you plan to move into the 1.5% to 1.6% range for margins for the full year. Does this include the Egypt consolidation, which is a higher NIM business? Secondly, can you please discuss the drivers behind the AED 683 million FX loss in OCI? And finally, my last question is, can you please provide some colour behind the increase in TESS utilisation and payment deferrals? Thank you.

James Burdett: Yeah, the calculation does include the Egypt acquisition, but the Egypt acquisition doesn't really move the needle. Your second question, I think was on foreign exchange swaps and the movement through OCI?

Amit Mamtani: Yes.

James Burdett: Yeah, that's just part of the normal course of business where global markets team, usually on the back of client flow, but also some proprietary positioning for movements in foreign exchange rates and the relative interest rate. So, it's nothing. I wouldn't call it out specifically. And then your last question, I'll pass it over to Shirish.

Shirish Bhide: So, the answer on the TESS front, the question that you asked - again, if you look at our TESS balances, they've been coming off steadily, based on a general trend of improvement in the economy. We've not seen any significant requests. What you've really seen is just the business as usual activity where the TESS scheme now permits you to even extend new facilities towards working capital support or other forms of support, financial support, to companies that are coming out of the COVID-related stress.

So, since that can also be captured under the TESS program, we see instances where companies have now put together their revised business plans in line with revised projections and facilities that go towards supporting these kind of working capital needs are captured in this – under this subsidy, as well, so it's just that. There's nothing notable that changed on that front.

Amit Mamtani: Thank you. That's clear. Thanks.

Operator: We will now take the next question from Hootan Yazhari from Bank of America.

Hootan Yazhari: Hi, there all. Quite a lot was made of the digitisation strategy for the bank going forward. Obviously, a key area of focus for a lot of banks at the moment. And you also were mentioning about the forthcoming strategy outlook. What I want to see ahead of that is what are you thinking regarding your cost position? Obviously, you alluded to potential drops in rental costs, we saw some pullback in staff costs and the like there. But looking forward with this digital spend ahead, are we going to be able to see the same sort of cost-to-income ratio going forward or are you going to start to see some pressures there, particularly, as you mentioned there is some integration costs, etc, coming through from the Egyptian business?

The next question I had was regarding asset quality, obviously, with the extension of the TESS program and you addressed some of this from the previous answer – but, what I'm trying to understand is, are you now feeling that there's scope for further recoveries, which could in turn keep your net cost of risk down going forward from here or does the extension of the TESS program have very little impact on your view on recoveries? Thank you.

James Burdett: Yes, thank you. So yes, we are investing heavily in digital and we're doing it for two or three real reasons. One is, there's a cost efficiency play as you automate end-to-end processes and take humans out of the equation, and therefore costs. There's also a revenue productivity play, because you get superior information about the customer and the sales people tell me that the revenue productivity jumps considerably when you've got that superior information. And then lastly, it automates end-to-end processes, therefore provides a much more seamless and less error prone process from a customer perspective, so you get the Net Promoter Score improvements.

On your question around costs, so yes, so those saves will eventually feed into the profit and loss of the bank. We're also in the process of setting up an off-shoring hub in India, where we do see a considerable arbitrage on some of those operations. Yes, there are some rental savings we're looking at. On top of all that, we're constantly evaluating where our resources are in terms of costs to make sure we're putting headcount in the right places.

In terms of guidance, we said below 30% this year, but clearly, strategically, we'll be targeting a much better range than that. For your question on asset quality, I will again pass it to Shirish.

Shirish Bhide: So, I think the way I'll answer that is if you look it up – I think the FAB resilient risk profile has already, I think, been demonstrated adequately. We've been discussing this quarter-on- quarter. And you can see from the TESS utilisation and subsequent repayment and the various credit risk metrics, I think are constant positioning that our FAB's portfolio risk profile remains extremely resilient and targets the right sectors. And that's coming through pretty clearly.

So, as green shoots appear on the economy and based on what Hana said earlier and James said through his presentation as well, as long as the economy continues to recover, we only see improved prospects and therefore a very stable cost of risk scenario. And like James said earlier, we will come to that in quarter two, based on what we see at that point in time. Thank you.

Hootan Yazhari: Thank you. What I guess I was trying to understand, James, on the cost side was, where are you in your digitisation journey? Are you at the beginning of the big wave of expenditure or you're halfway through or the majority of the big costs are now behind you. Just very keen to understand where we are in that. Obviously, that has implications on the amount of capital you're putting on the balance sheet and your costs on depreciating assets and whatever else, but just very keen to understand where you are in that journey. And if you can even quantify what your expectation of spend on digitisation in some years will be very helpful.

James Burdett: I think banks need to have a continuous spend around the digital space, because things are evolving so quickly. If you think back historically, and I just say this to provide some historical context for you, we merged the two banks back at the end of 2018. We spent most of 2019 fixing the teething issues that came from the integration, and there was still a lot of post integration work that we had to do. We really only started embarking on our digital journey in 2019 because all resources previously were going into integration.

And so yes, we do have a big budget on this. And it's an evolving journey, and we're nowhere near being done. But we make sure that the steam that we're putting into it is significantly highly accretive, so we expect to gain significant benefit. As to where we are in the digital journey, I couldn't even begin to guess where we are. Is it halfway? It is hard to say because they're constantly adjusting, and at the same time, the goalposts are moving. So, we constantly re-evaluate and the journey continues.

Hootan Yazhari: Thank you.

Operator: Since there are no further questions, I will hand over to Sofia for closing remarks.

Sofia El Boury: Thank you, operator. Thank you, Waleed. Thank you, everyone. Thank you for participating in this call. If you have any further questions, please don't hesitate to send them directly to me or to the IR team. And thank you, everyone, stay safe and speak soon.

Operator: Thank you. That concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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