FAB Q2/H1'21 Earnings Call Transcript*

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FAB speakers/participants

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

Today's presentation and all our financial disclosures related to the first-half period were released this morning before market and are currently available on our dedicated investor relation section of our corporate website as well as on the app. So, without any further delays, I will pass it on now to our Group CEO Hana Al Rostamani for her opening remarks.

Hana Al Rostamani: Thank you Sofia, and good afternoon and good morning to some of you and welcome to First Abu Dhabi Bank results call for the second quarter and first half of 2021. I'm delighted to join you again today to update you about the Bank's performance and the strategic progress we are making to pursue our growth and transformation journey.

And I'm excited about the opportunities that lie ahead for the Group across the markets we operate in and as environment continues to evolve. I just want to share with you some highlights and strategic thoughts on our achievements before I move into the Bank's performance. First, we're making very good progress against our strategic initiative to deliver growth across our core businesses, and we continue to lay firm foundations for our long-term success.

And we are confident that our competitive strengths, agility, and innovative spirit, position us well to continue to deliver superior and sustainable shareholder value.

Looking at the Bank's performance, we have delivered strong results, achieving double-digit growth in net profit, and revenue in the second quarter, which really reflects the successful execution of our strategy as economic conditions improve. Net profits for the first half increased by 11% year-on-year to AED 5.4 billion. While second quarter net profit grew 16% compared to the first quarter of this year and 19% compared to the second quarter of 2020.

From a balance sheet perspective, it remains robust, enabling us to support our clients in navigating the gradual economic recovery. And we continue to present resilient asset quality and solid liquidity and capital position comfortably above regulatory requirements. And we are building momentum in strategic areas while executing our agenda, which I'll talk through shortly.

First, let's look at the operating environment, and in the second quarter, we have witnessed notable pickup in leading indicators, with business and consumer confidence improving on the back of successful roll-out of the COVID vaccines and supportive government policies and stimulus programmes globally.

The UAE's world-leading vaccination programme, has supported momentum across key industries, as reflected by the latest PMI readings and by our credit card spends surpassing pre-pandemic levels.

We also see noticeable recovery in the regional capital market activity with increased volumes across the loan and debt capital markets, M&A deals and strong IPO pipeline, and strong performance in equity markets. While the backdrop has clearly improved compared to the first half of 2020 and the medium-term outlook is positive, the environment remains uncertain due to the evolving dynamics of the pandemic.

Looking closely at our businesses and how we have been building momentum in strategic areas, we have made good progress against our strategic priorities, and I'm going to take you through it now. Firstly, we've achieved solid growth in core businesses.

CIB registered double-digit growth in revenue driven by solid balance sheet growth, pipeline execution, and our strategic focus on enhancing and diversifying income streams, particularly through our investment banking franchise. And our client-centric strategy and leading role in several landmark deals across the region further cemented our position as top-ranked regional bank across all MENA investment banking league tables.

In the first half of 2021, FAB is the only bank ranked in the top ten across all categories in loans and DCM, M&A, and ECM. This leadership position is also demonstrated by the number of awards we have won as industry recognition such as "Middle East investment bank of the year" and the "best bank financing in the Middle East".

We've also sustained a healthy performance in personal banking with revenue up 4%, driven by strong acquisition momentum in the mortgages, cards, consumer spend surpassing pre-pandemic level, ongoing digitisation, and increased penetration in key markets, including Egypt. And although the environment remains uncertain, we believe these positive trends will continue in the second half of the year with economic growth and demand gaining momentum.

In terms of our international strategy and expansion in targeted markets, we made excellent progress, gained market share, increased penetration in targeted markets in our core region. Revenue from MENA grew significantly, led by Saudi Arabia and Egypt representing almost half of the revenue generated from our international operations, up from less than 40% in the first half of 2020.

Our international franchise remains one of our key competitive differentiators, and we will continue to develop our presence in our targeted markets in order to capture trade and investment flows and enhance connectivity to our clients and enhance Group returns.

Lastly, we continue to invest in our key enablers and accelerate on our digital transformation front and also on our sustainability agenda. In the first half, we continued to drive innovation and digital adoption. Our enhanced digital capability for our corporate and retail customers enabled us to enhance productivity, create new efficiencies, and improve on the customer experiences. And we can see that through improvement in our NPS score.

Just to give you a little bit of flavour in terms of the digital capability enhancement, 98% of all migratable transactions and services are now available on the mobile app, continuously looking at optimising our distribution channels and moving to more digital banking branches as our customer needs evolve and the digitisation journey continues through seamless experiences to our corporate clients. And we have launched several new services through our corporate mobile app. We also continue to grow and innovate in payments through our subsidiary Magnati and in our mobile wallet Payit, over 100% growth in users, and of course significant growth in remittance value.

As part of our long-term strategy, we remain committed to drive a strong sustainability agenda at FAB and embed ESG in our culture, strategy, and risk framework. In recognition of our achievements in this area, we were pleased to see FAB recognised as an ESG leader by MSCI and our ESG rating upgraded to AA.

Finally, although we remain cautious in light of the evolving dynamics of the pandemic, I'm excited about the opportunities that lie ahead for FAB. We are working to develop our three-year strategy, which will help us continue to capitalise on opportunities. We look forward to take you through it sometime toward the end of the year.

And before I hand over to James, I would like to conclude to the audience that we remain focused on strengthening our core business operations, building on specialisation, digitisation, and taking on market opportunity.

I'm really excited about the future as we evolve, transform, and renew. Thank you very much. I'll hand over to James.

James Burdett: Thank you, Hana. Good afternoon, good morning, everybody. Thank you for attending today. I know it's been a gruelling day for you with many results being released by different institutions, so as usual, we'll keep it short and succinct, and I'll go through my slides just calling out the salient points. And then, clearly, at the end of the session, we'll have plenty of time for Q&A with Hana and the rest of the management team.

Starting off with slide 10, clearly I'm very pleased to be presenting such a strong set of results to you. You can see, from the bridge on the top left-hand side of page 10, that we've grown profit by 16% QoQ, and this has been driven primarily by growth in operating income, which is up considerably over the first quarter 2021.

This is mainly non-interest income mainly in Global Markets within CIB business and partially offset by an uptick in operating costs and impairment charges partly related to the Bank Audi Egypt's inclusion in our results. So net-net, we finished the quarter at AED 2.878 billion, which is up 16% QoQ, bringing the full half-year profit to AED 5.34 billion, which is up 11% YoY. And the return on tangible equity clearly improved on the back of the revenue growth to 13.6%.

Turning to the next slide, slide 11, just a snapshot of how we are tracking versus our guidance. You can see, from this table very clearly, that we're on track to deliver or exceed against the guidance we put out there.

For loan growth, we're at 3% year to date, but we have a significant pipeline going into the second half, so we're confident of the mid-single digit growth. Cost-income ratio remains comfortably below 30%. In terms of the cost of risk, we're at 56 basis points. We put a cost of risk guidance of 100 basis points. We know this is conservative, and we see no reason to change it, given the recovery has only just started. Our coverage is 97%, so well above the 90% threshold, and our core equity Tier 1 went down QoQ mainly because of the regulatory headwinds, which you'll be well aware of. But we're on track to deliver the 13.5% pre-dividend, as we put out to the market.

The next couple of slides, we're looking to drill down into the business in more detail. Starting with slide 12, you can see the really incredible performance of our corporate investment banking, which was up 29% QoQ. And I think the key message I'll like to impart here is that we're staring across all business lines in CIB. And you can see from the bridge very clearly we got growth in corporate finance on the back of increased activity and leading some of the big deals that have incurred in the region over the past three or so months.

GTB is also up despite the rate cuts and the ongoing impact of that. They're up primarily as a result of growing cash mandate. I think we've done something like 280 cash mandates year to date but also growth in trade. You can see they're plus AED 44 million QoQ.

Global Markets was significantly up, nearly AED 900 million QoQ, and as we disclosed in our materials here, mainly as a result of additional and selective deployment into our different portfolios, where we saw very good opportunities and good revaluation gains in our investment book and our various portfolios.

Other operating revenue is down because we booked a sale and leaseback transaction in the first quarter and there was a moderate increase in operating costs leading to the AED 3.1 billion. And profit after tax for the first half is at AED 4.692 billion, which is 30% over last year. And you can see, from the boxes in the middle bottom part of slide 12, we're showing good growth QoQ in both loans and deposits.

Turning to the next slide, where we take a deep dive into personal banking, you can see we're also growing here. We're up 3% QoQ. We got loan growth at 3%, deposit growth at 11%, partly bolstered by the Bank Audi Egypt inclusion. But also we're starting to see significant pickup in activity to pre-crisis level. For example, in our mortgage book, assets under management and various other indicators are starting to grow in line with our Net Promoter Score improvement.

The next slide just shows you the sequential movement of our balance sheet, and the big message to call out here is you can see the reduction in cash and central bank balances, which is essentially being deployed into investments and loans and advances. This is reflected on the QoQ change in assets in the middle of the slide 14.

And you can see, with the investments, we deployed around AED 18 billion, of which AED 7 billion relates to Bank Audi Egypt. And we deployed nearly AED 21 billion into loans and advances, of which AED 7 billion is also attributable to the inclusion of Bank Audi Egypt.

And on the right-hand side, you can see the mix change has improved or moved slightly, rather, where loans and advances are now 42% of the balance sheet, investments going from 17% to 19%. And the quality of the book remains very strong with nearly 32% of the loans to government and GREs with a further 7% in trade, which, as you know, is short term and self-liquidating.

The liquidity coverage ratio dropped mainly because of the additional deployment, as we tried to utilise our liquidity more efficiently.

Turning to the next slide, slide 15, this just shows you the movement in core equity Tier 1. You can see change in RWA, a movement of -110 basis points offset by organic growth in profits of 57 basis points, leading to a core equity Tier 1 of 13% at June. Most of the change is as a result of two factors. One, organic growth. Two, the Basel III implementation that was released by the central bank, which you've experienced in other presentations this week. We put out guidance of 13.5%, and we're confident of getting to that figure by the end of the year because we have a number of risk asset optimisation initiatives under way.

Turning to the asset quality on page 16, the big-picture move here is first half provisions at AED 1,147 million, which is down around 36% over this time last year. Last year obviously impacted by the COVID overlay. This year obviously benefiting from an improvement in the economy and the macro environment. The cost of risk ticked up in the second quarter to 63 basis points. But if you look to the right-hand side, you can see the NPL ratio improved slightly to 3.9%, and our coverage ratio is now at 97%. So resilient asset quality and adequate provision level are the key messages there.

Turning to the next slide, slide 17, where we look at net-interest income, you can see the growth from first quarter 2021 to second quarter 2021 on the top left-hand table about, rather, which has grown by 5% QoQ. This is mainly as a result of the inclusion of Bank Audi Egypt into the result. And on the right-hand side, you can see, year to date, we're down 13% to just under AED 5.5 billion. And this mainly relates to the Fed rate cut impact flowing through versus the prior comparative period.

The net-interest margin at 1.5% is down around 40 basis points from this time last year, again mostly attributable to the Fed rate cut. And the guidance that we put out to the market that we continue to put out to the market is a NIM year-end figure of somewhere between 1.45% and 1.55%.

The next slide (slide 18) drills down into non-fund income or non-interest income. You can see it was AED 4.1 billion for the first half, which is up 35% YoY, clearly driven by the FX and investment income.

And as I stated before, most of that growth occurred in Global Markets in the investment portfolio, the private equity portfolio, so on, that we hold, plus selective deployment and a moderate increase in our investment portfolio to capture those gains where we saw a good opportunity. What's really pleasing is you can see growth in fees and commission, which are up 16% QoQ right across the board. Loan related, trade related, and others all up on the back of increased activity, both in personal banking and in our CIB businesses.

The next slide drills into the cost-income ratio, which you can see has ticked up slightly year-on-year to 28.3%. Costs are up roughly 10% QoQ. On the right-hand side, we've given you the breakdown of the cost growth. About AED 60 million of it was due to the Bank Audi Egypt integration, and another AED 60-odd million was BAU cost growth, as we continue to invest in the business to generate the future revenue productivity gain, as well as the cost efficiency gain.

The last couple of slides, just to reiterate guidance. Slide 20, we've chosen not to change guidance. The big-picture message is we know the cost of risk is very conservative, but we see no need to change it, given the economy is starting to recover. But we also don't know how this pandemic is going to unfold with the Delta variant and so on, so we remain conservative at 100 basis points.

And despite some of the recent setbacks from COVID, we are seeing a lot of positive market sentiment coming through. We got oil price shift or stimulus improvement in GDP, and we can see it coming through in all our activity levels.

So we're confident of the continued growth in our business, but we'll continue to maintain prudent positioning in capital adequacy ratio.

To wrap up on slide 21, and it's just repeating exactly what Hana said. We had a very strong set of results. Very pleasing to see that we are strategically executing against our strategic agenda. Most of the businesses are firing. You can see growth QoQ.

Our foundation is very robust in terms of credit metric, liquidity metric, and capital adequacy, and so we're confident that going forward, we will continue to deliver both superior and sustainable shareholder returns. With that, I will hand over to you for Q&A. Thank you very much.

Sofia El Boury: Operator, we can start with Q&A.

Operator: As a reminder, ladies and gentlemen, if you would like to ask any questions today, please press star followed by one on your telephone keypad now. And if you have joined us via the Web today, please click the request-to-speak flag icon. The first question we have from the phone line comes from Shabbir Malik from EFG Hermes. Shabbir, please go ahead. Your line is open.

Shabbir Malik: Hi, good afternoon. Thank you very much for this opportunity to ask questions. A couple of questions from my side. On the macro level, we've seen an improvement across the economy, and this has been reflected in bank results that have come out so far. What are the opportunities that you see for the Bank on the corporate banking side going forward? Is there any capex spending that you can highlight that the government plans to undertake, which is going to be supportive for the Bank's loan growth?

The second question is on your branch network. We've seen, especially after the pandemic, an increased focus on digital channels by clients. What do you think is the outlook for branch banking in the UAE and for the Bank, especially given this backdrop where people are increasingly using ATMs, their mobile phone, and the Internet for banking?

And finally what steps on the ESG side you've taken so far that have resulted in improving your ESG credential? What steps would you need to take additionally or would require more time to further boost your ESG credentials? Thank you.

James Burdett: Thank you, Shabbir. On the CIB business front, yes, we see plenty of opportunity. You can see, from the results, that we've grown across all our product segments. As I said to you before, as we get better people, product, and distribution, we can take more business off the global and foreign banks.

And you can see this coming through in our dealing room, GTB business, as well as our Group Corporate Finance business. We have investment strategies across all of those business lines. We're looking to invest in our cash platform. We're looking to invest in our Global Markets and so on and so forth. So I see there's a lot of opportunity, and we're very bullish.

And what helps push the story is that we got a very strong pipeline to the second half. And as we diversify away from just lending, I think we start to do more and more with the same customers to enhance the returns. And I think I'll hand over to Hana for the second question on branch and digital.

Hana Al Rostamani: Thank you, James. I agree. As markets evolve and we see a lot of pickup in the capital markets, this is where it gives us an opportunity to focus on the corporate client. From a branch network perspective, I think, through the pandemic, we've seen massive change in consumer behaviour and a shift toward more usage and more service transacting through the mobile banking services.

So that is continuing, and that's why we are focusing more on adding a lot of the services through our mobile banking application and enhancing the customer experiences for requests and basic transactions. And of course, on the branch network, the role of the branches evolves and changes, and this is what we are focusing on because, for basic services, clients will move on to digital and go through the mobile application.

And branches have a different role where it will evolve more toward complex requirements, maybe advisory, and other services that they will require from the Bank more through connection with the clients. And that's why we're looking at certain areas where there will be requirements on digital branches, and there are certain areas where we still see a strong footfall from clients coming to the branches and requiring the personal services on the branches.

So that's part of our strategy, and of course those branch network services will evolve, and we're looking at how we're going to change the direction in terms of the role of the branch network. And on ESG, I think I'll ask Pradeep, the CRO, to answer that.

Pradeep Rana: Hi, thank you for that. On the ESG part, I'll answer that in two ways in terms of what we've done but, I think, more importantly what we are going to do going forward. Obviously, in terms of what we have done, we have partnered with a number of our clients over the last 12, 18 months, especially on the issuance of green bond and a lot of their own green initiatives as well. We've also signed up to a number of principles. For example, the TCFD, which is the Task Force on Climate-related Financial Disclosures. So there's a lot of things that we have done.

But I think, more importantly, in terms of what we will be doing is that we are currently working on a three-year strategy on ESG and sustainability, which will really plan out in terms of what our strategy is going to be for ESG over the coming two to three years. It will also entail specific KPIs in terms of what we are going to measure, so that's on the strategy part.

What we're also looking at doing on the ESG part is putting this as part of our enterprise risk management framework, which will mean that going forward, when we do provide credit to our customers, when we do make investments, in the same way that we look at it from a credit perspective, we'll be looking at both these things from an ESG perspective as well.

So that's what our road map will be over the next two to three years, and we plan to come out with our strategy in the coming months.

Shabbir Malik: Thanks for that. A follow-up question, if I may, on the branch banking. Given that there's likely to be a big shift in how business is done, do you expect any tangible changes to your costs or the size of your branch network that we can expect to see in the short to medium term?

James Burdett: Shabbir, I think we're always looking to optimise our branch footprint, and as you know, we're investing significantly in the digital proposition for two reasons really. One, to enhance revenue productivity of the improving information but, two, to enhance cost efficiency. But I think there's always opportunities out there.

Shabbir Malik: Thank you very much.

Operator: Thank you. We now have the next question from Rahul Bajaj from Citi. Rahul, please go ahead. Your line is now open.

Rahul Bajaj: Hi, thanks for taking my question. This is Rahul Bajaj from Citi. I have two quick questions actually. The first is on Egypt, the Egypt strategy. Since second quarter was the first quarter post integration or post acquisition legal day 1, just want to understand what we are seeing in terms of mid to long term maybe areas of growth, synergies, and potential for the Egyptian business that you acquired. That's my first question.

The second question is around your payments business. Earlier this year, you separated out the payments as Magnati. Just want to understand what your thinking now around the future of that business. How do you want to position it going forward? Are you looking to divest out of that business at some point? What's the thinking, if any, across that? Thank you.

Hana Al Rostamani: On Egypt, I think we're still going through the integration, and we're moving, as per plan, to integrate Audi and FAB operation in Egypt. We see a lot of opportunities in the Egypt market from a corporate and consumer banking opportunity, which we are focusing on starting into these two areas.

At this point, it's too early to discuss specifically or give any details. We're still looking at the last plan in terms of how we will integrate and how we will move forward. We are in the preparation stage, so we'll come back to you on the strategy on Egypt as we move forward.

From a payment business and Magnati we've earlier shared, we see opportunities, as the payment businesses evolve. We've carved it out, as mentioned, because we see opportunities to grow in that field and a different way of investment in terms of the technology requirements and moving and building market share. We are continuing to build strength in that area and focusing on growth of the payment business, focusing on government, private sector, and exploring other markets. So that's the plan.

Rahul Bajaj: Thank you.

Operator: Thank you. The next question comes from Naresh Bilandani from JP Morgan. Naresh, please go ahead when you're ready.

Naresh Bilandani: Thank you. Hi, it's Naresh Bilandani from JP Morgan. Thank you for taking my question. Three questions from my side, please. One is the very strong gain that we're looking at in the investments and FX line. Can you please just reconfirm to what extent is this a result of Bank Audi Egypt, so could it potentially be seen as a one-off?

Or if none, please could you share some insight on what has really changed from your treasury strategy perspective that resulted in this gain? Or was it more opportunistic? And how should we think of this line going into the medium term, especially in context of the FX income line, which used to be very strong for you, depending on the forward pricing at least until the year 2020. That's the first question.

Second is we've seen a strong loan growth. I do understand that there's about a AED 7 billion or so impact from Bank Audi Egypt acquisition. We just finished a call with one of your peers where my read from the call was that the net demand from the corporates was probably still relatively slower compared to the retail book, and going to H2, I wouldn't expect it to be super strong. It's more of a wait-and-watch mode at this stage.

But if I adjust for Bank Audi Egypt, your numbers still look very strong on the corporate book, so I just want to understand how is it different at your franchise and also to what extent is this loan growth concentrated and how should we think of this line going into the second half of this year?

My third question and the final one, I promise, is on Bank Audi Egypt. My question was relayed by my previous counterpart asking the question. Please allow me to frame it this way. So FAB has been present in Egypt for a number of years. Now with Bank Audi Egypt having been integrated into the franchise, I'm just keen to understand what does that business bring on to the table for you to grow or develop your strategy going forward. I think these are the three questions. Thank you very much.

James Burdett: Thank you, Naresh. First of all, I'll take the first couple of questions, so in terms of the FX and investment income, a couple of things here. One, we saw good opportunity to deploy, so there's an opportunistic element there. Two, as you know, when Hana arrived as CEO, we increased the focus on the investment banking business by creating a separate business division to focus on enhancing returns. Three, the market improved considerably, and so across all our portfolios, we've seen these pretty strong gains.

As to a forward-looking view on that, with the increased focus, with the increased and, I guess, more aggressive deployment of liquidity, I think we can see a sustainable pickup in that line going forward. But obviously the second quarter was a standout quarter for us. In terms of loan growth, we said before that our traditional client base is the client base that drives GDP growth. We've said that time and time again that we expect GDP formation to be delivered by the GRE, the government, and so on.

And we think that will happen, and we got a strong pipeline that evidences that. And we think that will come through in the second half. The growth this quarter was mainly trade related and international related, so there's a Bank Audi Egypt element. There's also significant growth in our KSA operation coming through. So I think it's our unique international presence that's differentiating us versus our competitors because we are seeing growth in KSA, we are seeing growth in Egypt, and we are seeing growth in our core client base.

Your last question on Bank Audi Egypt, I guess what you're really asking is, do we expect good growth in Egypt? And the answer to that is yes. The strategy, firstly, will be unveiled at our Investor Day when we release our new strategy sometime later this year. But Egypt is a big market. It's growing rapidly. It has a huge GDP. It's relatively under-banked. We've essentially doubled our presence there. We got synergies to explore. We got a lot of know-how. We got connectivity with UAE, and all of that, I think, melts into a very strong picture for Egypt for us going forward.

Naresh Bilandani: James, thank you very much for the responses. Pardon me, I just have two follow-ups, please, on the points that you mention. Let's tackle loan growth first, so we've already seen roughly about, I'd say, just over 3% loan growth in the first half of the year, and that's including Bank Audi Egypt. Your guidance is still mid-single digit.

Would it be…? Should I see that there could potentially be some upside risk? Are you seeing that opportunity, that underlying trend developing, but given the way you position yourself, you're still trying to guide conservatively to market and maybe the underlying trends are stronger than what you have in your official guidance at this stage? That's on loan growth.

Sorry, to press further on Bank Audi Egypt, I'm just keen to understand. I'm sorry I haven't gone through a lot of detail on that network. What was Bank Audi Egypt strong in? I know the Lebanese banks exiting from their international businesses due to pressures at home. But what exactly does that network bring on to the table?

Is it strong on corporate banking? Is it strong on retail? Just trying to see how the loan book trends could develop going forward.

James Burdett: In terms of the loan growth, I think the main thing I'd say to you is that we got a very healthy CIB pipeline. Some of the growth in the second quarter was trade related, so they're short-term, self-liquidating. I think the mid-single digit figure we put out there is broadly right. If anything, there's a little bit of potential upside there. But I've said over several successive quarters that we're expecting this pipeline to draw down, and that drawdown really will only happen when recovery is fully under way. And then we'll be very optimistic.

In terms of Bank Audi Egypt itself, it was a very good deal for us. We got it at a very good price. It's high ROA business. It has a strong corporate and retail presence. It has a strong branch presence across the country and makes good returns. And so what we're trying to do is increase our footprint and our presence in Egypt to cater for those strategic things I mentioned in the previous discussion. Big GDP, close affinity of the country, growing at a rapid clip, with strong connectivity to the UAE, it makes sense for us to grow in that market.

Naresh Bilandani: James, thank you very much for your response. Thank you.

James Burdett: We can follow up with you separately on the financials.

Naresh Bilandani: Indeed, thank you very much for the offer.

Operator: We now have Waleed Mohsin from Goldman Sachs. Waleed, please go ahead when you're ready. Your line is open.

Waleed Mohsin: Thank you very much for the presentation. Three questions from my side. First, just a quick technical question. I want to see how the change in RWAs for FX-denominated GCC bonds and Basel III has changed your appetite for FX-denominated GCC bonds, especially given that you have around AED 20 billion of investment portfolio in GCC bonds. So just want to understand how that changes things. That's the first question.

Secondly, you talked about payments, but just very quickly on digital. If you could please provide a mark to market on the changing competitive landscape in the digital space in the UAE, and how do you think the entry of newcomers changes the competitive landscape for FAB? And finally, on the international business, I know there have been multiple questions on this.

I want to understand… It's obviously very pleasing to see that you going into growth markets, which will grow faster hopefully with the medium term versus UAE. But I want to get a sense of…. Let's say with medium to long term, where do you see your international exposure settling? It's now close to around 20% of revenue, etc., so just want to see where do you see the natural normalised levels of that. And just linked to that, one of the challenges that obviously FAB has faced is high levels of liquidity with very low levels of LDR. Your international expansion seems to have the same element if you look at Egypt as a market and especially Bank Audi Egypt with AED 7 billion of loans, AED 22 billion of deposits.

And while local banks are very happy to put this liquidity into local currency bonds, it's quite punitive from a Basel III perspective. Just want to see, if this becomes a deposit-generation franchise, how fungible is that liquidity both in dollars and local currency to be invested? Thank you.

Pradeep Rana: Thanks, Waleed. I'll take the first question with respect to the GCC bonds. I just want to make it very clear that there has been no change in our risk appetite. So all the investments that we have made, fit very well in our risk appetite, which has been approved by both the EXCO and the Board.

James Burdett: And just to follow up, Waleed, on your question around the economics of those deals, clearly every single deal has its own set of economics. And every single one is evaluated on its own benchmark, and we'll continue to do that. So if the price versus the RWA optimisation doesn't work out, we won't be entering into those deals. If it does, we will, and our Global Markets operation is first class, if it's being able to evaluate the economics, the trend, and invest accordingly.

On your third question, which was to do with international, I think the 20% is about right for now. As we said to the market, we're looking to have a strategy session on our Investor Day at some point later in the year. And at that point, I think it'll be appropriate for us to talk about what we intend to do internationally and how that will impact the balance sheet.

And then your last question on liquidity.. is all liquidity, good liquidity? We only raise liquidity below a certain cost of funds that's economical for us. Even if we're deploying into the Central Bank of Egypt or whatever, so on, we do it because it turns a profit for us. If we can start deploying liquidity more efficiently, then that's obviously what we'll do as a game plan.

Waleed Mohsin: Thank you.

Hana Al Rostamani: I'll answer you on the digital landscape. We see a lot of evolution and changes in market. Even from a regulator perspective, we see new players, new digital banks coming into the market, and even from the traditional banks, we see a lot of them investing into new digital players to be able to compete in the market. We see more activity on that front.

And as I mentioned, from a consumer perspective, consumer behaviours are changing and adapting more on the mobile and digital wallets and more activity in digital banking. And we see even more governments moving toward digitisation and enhancing customer experiences through digital applications.

So with this move and encouragement from a government perspective on all the payment side and the move from traditional banks as well as newcomers, we will see more and more investments in that field to be able to enhance customer experiences and we will see much more different ways in terms of payments and the landscape of payments.

For us, we've invested... As I mentioned, this is where we see an opportunity on the payment side, and that's why we've carved out our business Magnati, where we need to invest in that business and enhance and have a much bigger presence on payments. And at the same time, we ventured and we have collaborated with ADQ to come up with a digital bank.

And we have a strong digital agenda internally to enhance in terms of our mobile banking services to our clients. It is something that we are looking at what we can do internally, where we can invest, as well as where we can build partnerships with different providers to bring that better digital experience and better customer experience to clients, whether on the corporate side or the consumer side. Thank you.

Waleed Mohsin: Thank you very much. That's very helpful. Thank you.

Operator: Thank you. We now have the next question from Aybek Islamov from HSBC. Aybek, please go ahead. Your line is open.

Aybek Islamov: Thank you for the conference call and the Q&A, very interesting as always. I just want to ask you, the loan growth in the second quarter was quite impressive. You give a breakdown. Looks like the top three drivers were Financial institutions, Real estate ... I forgot what the third one is, but doesn't matter.

In terms of the net-interest income, when I look at your NII, it's not really increasing, and the margin improvement is very, very pedestrian. What are your comments on this? Do you expect this loan growth to be sustained? Do you think that loan growth is sustainable? And to what extent it will feed through the net-interest income?

James Burdett: I think the question around growth is always an interesting one because we're not growing just for the sake of growth. We want to grow for the sake of return. In terms of net-interest margin, the main impact is the Fed rate cut coming through versus the prior comparative period, and we previously disclosed, every 25 basis points, there's a AED 300 million tailwind.

So this is a significant impact in terms of the NIM as well as the NII. A lot of that loan growth that we talk about in the second quarter came through at the tail end of the second quarter, so sequentially we expect to see the NIM to improve. And the NII will come in over time, but it's not a bullish increase.

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

James Burdett: Thank you.

Operator: Thank you. We now have the last question on phone line from Kate Carpenter of Morgan Stanley. Kate, please go ahead. I'm going to open your line now.

Kate Carpenter: Hi, all. Thank you for taking my question. Just a quick one on the TESS scheme and payment deferral. Looking at slide 25, it looks like the construction sector is pretty much dominating the capitalisation that's still outstanding, and it actually seems to have increased over the last three quarters. Could you give some more colour around this? Will the improving real estate backdrop support any of this? Are there other drivers impacting the specific construction loans and clients that are maybe one-off or nuanced? Any additional clarity would be helpful. Thanks.

Rajesh Deshpande: Hi. Thank you for your question. I think, if you look at it, the overall environment is improving and the entire economic uplift which we see that is what has sustained recovery over here. If you look at the entire deferral that we have on both, that's TESS as well as non-TESS, it's about AED 5.9 billion. Out of this, TESS is about AED 3.5 billion, non-TESS is AED 2.4 billion, and majority of all our deferrals are under group 1, which is high-quality assets. Thank you.

Kate Carpenter: But on the construction segment in particular, is there…? What macro drivers need to come through for that specific segment to start to see repayment there? Is it possible to get any visibility on that? Thanks.

Rajesh Deshpande: Overall, on the construction sector, we're in line with the entire recovery that we see. We even see green shoots in the construction sector. Yes, it had been hit a bit more earlier, but as we go ahead, it seems to be doing much better right now. And the expectation is that as long as the positive trends that we see in the economy, as long as they continue, we continue to remain optimistic about this sector.

Kate Carpenter: Thank you.

Operator: Thank you. We have no further questions registered, so I'll hand it back to Sofia for closing remarks.

Sofia El Boury: Thank you, operator. Thank you, everyone, for joining us today. If you have any further questions, please don't hesitate to reach to me or to the IR team and have a good evening after a long day. Thank you.

James Burdett: Thank you.

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