FAB Q4/FY'21 Earnings Call Transcript*

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FAB speakers/participants

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Other participants

Shabbir Malik
EFG Hermes

Hootan Yazhari
Bank of America Merrill Lynch

Waleed Mohsin
Goldman Sachs

Naresh Bilandani
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Sofia El Boury: Thank you. Good afternoon, everyone. Thank you for joining us today to review FAB's financial performance for the full year of 2021. Our webcast today will be hosted by FAB's senior management team represented by James Burdett, our Group CFO, Pradeep Rana, our Group Chief Risk Officer, and Rajesh Deshpande, our Group Chief Credit Officer.

Due to an urgent matter, our Group CEO, Hana Al Rostamani, will not be able to join the call today.

Today's presentation and all our financial disclosures related to the full-year period were released this morning, and are currently available on the dedicated IR section of our website, as well as on the app. Without any further delays, I will pass it on to James for his presentation.

James Burdett: Thank you, Sofia. Good afternoon, everybody. Thank you for joining us today. And once again, apologies that Hana couldn't make it due to an unexpected and urgent thing that's come up.

I'll go through her slides as well as my slides, as usual, pretty quickly, just calling out the salient points, and then obviously we've got Q&A at the end of the session.

Starting off with Hana's first slide, slide four, I think it's fair to say the Group has had a fantastic result in 2021, with a profit of 12.5 billion, up 19% year-on-year. And we've seen significant momentum across all business lines, and in fact revenue was the main driver of the growth in profit, with revenue up 17% to 21.7 billion.

The momentum across all business lines continued, as I said, both in terms of loans and deposits, as evident from the fact that total assets now exceed AED 1 trillion. We did make a lot of progress against various strategic initiatives that'll come through as we go through the presentation, and reaffirming our commitment as an ESG champion.

We are committed to delivering superior shareholder returns, and jumping to slide five, you'll see that we've declared a dividend of seventy fils equivalent per share, of which 70% is cash and 30% is scrip dividends.

This results in cash fils per share of 49 and scrip dividend of 21 fils per share, and a lower cash payout because of, obviously, a significant ability to grow, because we're very optimistic about 2022 in terms of what we see coming through our pipeline and execution of our strategy.

And remember, our total shareholder returns of 2021 have been very superior, at 54% growth in 2021 alone. Jumping to the next slide, it has been a landmark year for FAB. We have continued to build strong foundations across the balance sheet and across the various businesses.

And you can see we've listed a few items. We've reaffirmed our position as the top-ranked regional bank across all MENA IB League tables. We're the number one custodian by value in the UAE. We've delivered superior shareholder returns, with a TSR of 54% for the year, as I've said before, and revenue growth of 17%. The fundamentals remain strong, return on tangible equity of 15%, liquidity ratio is strong with LCR at 134%, and the credit ratings have been reaffirmed.

Looking ahead, we are looking to drive growth across all businesses, and we're very optimistic about that going into 2022. We're looking to enhance agility and efficiency. We continue to invest in our infrastructure to drive automation of end-to-end processes, as well as superior data on our customers to drive revenue productivity.

Obviously, we remain focused on culture and talent, and we've hired a number of key positions into our executive committee and beyond, to help fulfill the strategy for 2022 and beyond. And obviously, we want to cover ESG as part of everything. We see that as a significant business opportunity.

On Hana's last slide, I'll just pass over to Pradeep Rana, our Group Chief Risk Officer, who is championing ESG for the bank. And so, over to you, Pradeep.

Pradeep Rana: Yes. Thanks, James. And good afternoon, everyone. I just want to briefly touch on ESG. With sustainable development at the heart of the UAE's economic development plan, FAB has a key role to play as a driver and supporter of the national agenda, and as an enabler to transition towards a climate-neutral economy.

To support this commitment, we have strengthened our ESG Governance Framework with clear responsibilities at the board and management level.

We have implemented an ESG Risk Management Framework, and we have set out a comprehensive groupwide ESG strategy, with clear targets to support this ongoing journey and to drive positive change for our clients and the community.

In addition to achieving net-zero carbon emissions by 2050, some of these key targets include our commitments to facilitate or finance over USD 75 billion worth of sustainable or social projects by 2030, and to increase female representation in senior management, to promote greater gender diversity across the organisation.

Obviously, I think we're very proud with respect to what we've delivered on ESG, but obviously this is going to be a long journey. On that, what I'd like to do is now, again, to hand over to James, so he can go through the financial performance review. Over to you, James.

James Burdett: Thank you, Pradeep.

So, on to my slides, starting with slide #9just looking at the key performance highlights. As I've already mentioned, profits, a record for us at over AED 12.5 billion, and represents growth of 19% over 2021.

In terms of the main drivers behind that growth, it's really driven by revenue growth, which was up 17% to AED 21.7 billion, with most of the growth driven by the Investment Banking Division, particularly Global Markets and our investment portfolio.

Also, one of the bullet points here, we're talking about our international franchise, and you can see more significantly our international profits are up by 88%. This was largely driven by Egypt, obviously with the support of the acquisition of Bank Audi Egypt (BAE).

As I already mentioned, the fundamentals were strong. The CET1 ratio finished at 13.4%, liquidity coverage and NSFR have all improved, and our non-performing loans, just over 4% with coverage at 98%.

The next slide just shows you how we performed against the guidance we put out to the market, and you can see we've met or exceeded all the targets. Obviously, the cost of risk when we came to the market last year, there was a great degree of uncertainty around COVID, etc. And so, the cost of risk has come in significantly better than we thought, as the economy's picked up and things have recovered.

The CET1 ratio is slightly below guidance, at 13.4%, but nevertheless, a strong result given the significant regulatory headwinds we took, to the tune of 190-odd basis points throughout the year.

Slide #11 walks you through the bridge, showing profit from 2020 to 2021. You can see, as expected, a reduction in net interest income. This is mainly, almost entirely, as a result of the Fed rate cut flowing through into 2021.

This was more than offset by non-funded income, which was up a whopping 59%, to AED 10 billion coming through, and we'll talk a little bit more about that in detail as we go through the presentation. This was offset by higher costs, as we continue to invest in the franchise, both in terms of people, investing in our infrastructure, as well as the addition of Bank Audi Egypt, which was an additional just under AED 350 million.

Impairment charges were largely flat, bringing the reported profit to AED 12.5 billion. Turning to the next slide, which deep dives into the balance sheet in more detail, here we have particularly pleasing news, with customer deposits up AED 74 billion or 14% year-on-year.

What's particularly pleasing about this result is that the majority of the growth was in CASA, which is up AED 65 billion year-on-year, or just under 30%.

And it was mainly the result of the new cash management mandates, and across the two businesses of IB and CCCB, we've received in excess of 750 mandates, and this is good for sticky liquidity, as you know, in a very profitable product.

In terms of deployment, we've deployed a significant amount of that into investment, which you can see in the chart on the middle left-hand side. It's up AED 38 billion or 25% year-on-year, and this has obviously supported the non-funded income growth for the business.

Loan growth is a little bit more moderate, at AED 24 billion, which is up 6% over last year, and it's mainly growth in corporate finance, the addition of Bank Audi Egypt, and trade finance.

Turning to slide #13, just looking at revenue across the businesses, you can see a significant driver of revenue growth was Investment Banking, and this was mainly as a result of investment gains, across the various businesses. But you can also see good momentum in the CCB space, as well as the consumer banking (CB) and the global private banking (GPB) space.

And despite negative revenue growth in those businesses, which was mainly the result of two things - one, the Fed rate cut coming through, and secondly, some of the regulatory headwinds, but, we are seeing very good momentum in those businesses.

And just to call out some statistics, in CCB, we've got loan growth of 9%, CASA growth of 27%, Consumer Banking loans and deposits up 5% and 6%, respectively. Card sales are up an incredible 50% yoy, and then in private banking, our assets under management are up 50% yoy.

And that momentum has built up slowly through 2021 and is going to hold us in good stead as we go into 2022.

You can see the significant negative revenue under Head Office - that was us conservatively taking a mark-to-market revaluation position on our property portfolio. But pleasing to see the momentum building up, going into 2022.

On slide #14, just looking at the net interest income, we've guided that we've finished the year around 150 basis points, which is where we've come in, and net interest income for the fourth quarter was AED 3 billion, down QoQ, mainly as a result of some higher IIS release in the third quarter.

NIM itself, full year to AED 11.658 billion, was down 5% year-on-year, which was really the Fed rate cuts offset by good growth across the various businesses. And the 150 basis points, was down 25 basis points in terms of NIM or net interest margin, mainly due to the Fed rate cuts. And the guidance we've put going forward into 2022 is every 25 basis points hike is just under AED 300 million of revenue accretion for us. So, we're well positioned for the Fed rate hikes.

Slide #15, non-funded income, I've already talked a little bit about that, up significantly year-on-year. What's really pleasing, as you can see, total NFI up 59% to AED 10 billion. Foreign exchange and investment income up a whopping 228% to AED 7.2 billion, and that's just mainly as a result of strong trading performance.

As I have said before, we deployed an additional AED 38 billion into investments, we've seen a rally across all investment classes, we've seen strong growth in global markets trading, global markets sales, and some of our assets have recorded very strong gains in 2021.

Fee growth was up 4% year-on-year, but you can see it's up 30% QoQ, and we have very good momentum going into the first quarter of 2022. And as I said, this represents activity across all business lines. And as I've said before, other income was down, mainly because of a conservative mark-to-market revaluation which is against our property portfolio.

The next slide, which deep dives into cost a little bit more, you can see cost growth up 9% year-on-year ex-BAE, staff costs up because we continue to invest in our various businesses, particularly in the IB space. We have depreciation coming through from historical investments in our end-to-end IT infrastructure, to improve the customer end-to-end journeys, as well as to improve revenue productivity and cost productivity.

With the Bank Audi Egypt addition, you can see total costs up 5% to AED 5.8 billion, cost income ratio at 26.4% for the full year. On the NPLs, you can see here we've shown NPLs on a reported basis. Sorry, rather the cost of risk on a reported basis, at AED 2.6 billion.

This remains broadly flat at AED 2.6 billion, with the cost of risk at 65 basis points. You can see here we've highlighted in the full-year 2020 graph, 90 basis points, which was the real cost of risk when when adjusted for the writeback in provisions driven by partial resolutions of a few large corporate accounts.

And as you know, last year we had significant recovery coming through, which offset that. So, a material reduction in the cost of risk, as you would expect, in-line with the improving environment. NPLs stable at 4%, with a coverage ratio of 98%.

In terms of capital generation on slide #18, as I said before, we absorbed just under 200 basis points in terms of regulatory headwinds, in terms of regulatory tightening around Basel III and so on.

Our ability to generate significant organic profits came through at just under 250 basis points, and total CET! ratio finished at 13.4%. With the cash dividend per share at 49 fils, the hit to CET1 ratio is 92 basis points, leaving us at 12.4% post-dividend. And clearly, strong capital generation offset the regulatory headwinds.

An improvement in return on risk weighted assets, that's mainly driven by the superior profit growth. On slide #19, just going into what we expect for 2022, we're very positive about the growth in 2022.

As I've said, we already see momentum building. We have a strong pipeline. We think that'll be supported by real GDP growth. We're expecting 3% to grow to just under 5% in 2022, obviously the tailwinds of a higher oil price coming through, currently over USD 80 a barrel.

And we're well positioned for the Fed rate hike. And as I said before, we demonstrated very strong growth in CASA over the past several years, and obviously well positioned for the rate hike, with every 25 basis points generating AED 300 million of incremental revenue.

In terms of guidance for 2020, we expect strong underlying performance, with loan growth being mid to high-single digits. We see a strong pipeline coming through. We think the tailwinds of GDP growth plus the Fed rate hikes and higher oil prices will drive net interest income and fee-generating businesses, and to some extent offset the market-related revenue, which was by any standards significant this year, and we think it'll normalise going into 2022.

We're looking to keep cost of risk at below 80 basis points. We think that's conservative, but there's still some uncertainty out there. And we'll keep the coverage ratio in excess of 90%, and the CET1 ratio we're looking to build up to 13.5%, as per usual.

The last slide, just to wrap up, and then we'll hand over to Q&A is, record revenue results, strong momentum going into the fourth quarter and into the early part of 2022. The foundations remain very strong.

We have a strong capital position to support future growth. As I said, we're expecting mid to high single-digit growth across the businesses. We have a clear strategic roadmap which will help us drive those efficiencies and help generate sustainable returns going forward. 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 star one on your telephone keypad now, or if you're listening to the call via web browser, please click on the flag icon to raise your question. The first question today comes from Shabbir Malik from EFG Hermes. Please go ahead.

Shabbir Malik: Hi. Thank you very much for this, for the presentation. I have a couple of questions. The first one is on capital, your decision to reduce the cash component of the dividend. You elaborated that it was driven by potential growth opportunities that you see, but was there any influence of potential regulatory changes that could have triggered this move? And I think a related question to this. From an economic perspective, how would this decision to pay a scrip dividend be different from, let's say, a bonus issue? That's my first question.

The second question is, your cost-of-risk guidance is actually quite broad. Do you see any possibilities of write backs in 2022, which could help us understand what you are seeing in terms of cost of risk?

And I guess another question would be, do you see the possibility of monetising your payment subsidiary this year? Thank you.

James Burdett: Shabbir, I didn't get the last question. Can you repeat that, please?

Shabbir Malik: My last question was, do you see the possibility of selling off your payment subsidiary, Magnati, this year?

James Burdett: Look, in terms of the capital position, the core equity tier-one preservation by paying out a lower cash dividend was simply because we have a strong strategy, and we see significant opportunity and pathway to growth. And obviously, that pathway to growth will deliver superior shareholder returns going into the future.

And we're looking at return on equity of 15% of our capital deployed, and we see such strong growth going into 2022, 2023 and so on and we're very optimistic about that. In terms of the cost of risk, we've just kept it conservative.

Yes, there's an opportunity for significant recovery to come through, but we're being conservative because we're still not out of the woods yet. We need to see how this Omicron COVID epidemic comes out eventually.

I know it's peaked, it feels like it's peaked, but we just don't know what's going to happen around the corner. So, it could be that the cost of risk comes in lower, but we're being conservative. Pradeep, do you want to add anything to that?

Pradeep Rana: No. As you said, we're not out of the woods yet, so we are taking a much more of a conservative stance, but yes, there is a chance that it may come below that. But we're just taking a very cautionary approach.

James Burdett: And in terms of the payment company, we've obviously separated Magnati, with a view to be more nimble for executing the strategic agenda of that payment company. It's going very well, we're expecting significant growth in volume in 2022, but obviously we don't comment on any sales until the news actually comes out.

And Shabbir, in terms of the scrip part of the dividend, yeah, , it's similar to a rights issuance. And ultimately, we feel that it's still a very good dividend yield for the public and the shareholders.

Shabbir Malik: If I may, should we expect this to be a regular policy, or is this, do you think, a one-off that we saw in 2021? What are your thoughts on that?

James Burdett: What I would say is, look, we've got a very sound strategy that envisages quite significant growth and delivers superior returns to our shareholders. It's very hard for me to predict how events will unfold over the next five years, but it depends on many factors.

So, if we see the growth continuing, we'll look to preserve dividends to achieve that growth, and I think professional shareholders will respect the fact that they see long-term sustainable growth in our shares.

Shabbir Malik: Thank you. I'll maybe ask one or two questions later on. I'll pass on the opportunity to someone else. Thank you.

Operator: Our next question comes from Waleed Mohsin from Goldman Sachs. Please go ahead.

Waleed Mohsin: Yes, good afternoon. Thank you very much for the presentation. A few questions from my side. I'll start with the credit loss ratio, picking up on where it was left. I wanted to get a sense of what you think is the right, normalised, cost of risk for a bank like FAB.

And the reason why I ask that, is that we've seen a fair bit of prudence and conservatism in terms of your guidance, so if you could let us know what you think would be normalised levels once the lingering effect of

COVID passes. And just linked with that, which sectors are you still worried about or are you cautious, which is leading you to put forward a guidance of around 80 basis points cost of risk? That would be my first question.

Secondly, on the capital and the dividend part, two questions on the dividend. Number one, in other markets where we've seen scrip dividends being paid, some or a number of banks or corporates have offered the option of scrip versus cash, so it's optional rather than the scrip part just being in scrip. So, I just wanted to get your thoughts around that, why not provide an option to the shareholders?

And then, in terms of capital, when we do the math and we look at, let's say, mid to high single-digit loan growth, your typical RWA density is below 100. There is a fair bit of collateralisation, etc. So, I would assume that there could be years where, at least in the near term, there could be years where your RWA growth is lower than your loan growth, and you're generating a mid-teens return on your tangible equity. So, I'm thinking whether it's because you want to keep some capital for potential inorganic growth. Any clarification on that would be very helpful.

And finally, wrapping up, maybe an update on your digital banking efforts, particularly the partnership with ADQ. If you can provide any updates on that, that would be very helpful. Thank you.

James Burdett: Okay, I'll take the last questions, and Pradeep, do you want to take the first one?

Pradeep Rana: Yes, I'll take the first one. Waleed, with respect to the normalised cost of risk, I would say we're talking about around 70 to 80 basis points. That's also the guidance that we've given. In terms of sectors which we're still wary about, obviously tourism, airlines, and obviously, the construction sector. I don't know, Rajesh, anything more to add on the sectors?

Rajesh Deshpande: Yes, thanks, Pradeep. I think you've mentioned it. It's more all the sectors which could be impacted by the pandemic, which we all believe is coming to some sort of an end. But each time we think that we are coming out of it, there is a new twist to the tale.

So, I think in addition to the sectors that you have highlighted, the other one which we would be a bit cautious is in terms of the hospitality and the hotels sector, which we have seen a good performance over the last quarter. And coming into the first quarter, I think things still look good, but depending on how the pandemic plays out, that's one of the sectors which we'll continue to keep on watching. Thank you.

James Burdett: Yes, your second question on the dividend, we're quite proud and excited about this initiative. We're the first bank in the market to do it. As you know, it's common practice overseas to issue cash and scrip dividends. We've worked pretty hard behind the scenes with the various regulators to get this off the ground, and at this juncture, we felt it was right to go out with a fixed 49 fils and keep it at 70/30 in terms of cash and scrip.

In terms of growth, you're right, some of the growth that we have in our pipeline is very efficient from a risk-weighted asset perspective, and that's why we've kept a pretty broad range in there, of mid to high single-digit growth. And in terms of M&A, as you know, they're opportunistic by nature, but we are on the lookout for something that will be a strategic fit for us. And at any point in time, we have a number of deals on our desk, and if something comes up and if it's the right fit for the organisation, clearly, we'll look to jump at it. Bank Audi Egypt is going very well for us, in terms of integration, and clearly, the Egypt profitability (ex-BAE) growing around 25% year-on-year is a fantastic result for the group. Your last question was to do with…?

Waleed Mohsin: The digital bank. ADQ.

James Burdett: Yes, that's right, the neobank that ADQ are launching with our 10% stake in it.

At this stage, they're still going through the regulatory approvals, and I think they expect to launch sometime this year.

Waleed Mohsin: Got it. Understood. Thank you much.

Operator: Our next question comes from Rahul Bajaj from Citi. Please go ahead.

Rahul Bajaj: Hi, this is Rahul from Citi. Thanks for taking my question. A quick one from my side. So, the first one is to do with the mid to high single-digit loan growth guidance that you've spoken about, James. The other players in the market who've reported so far are slightly more muted in their guidance so far for 2022. Most of them are talking about low to mid-single-digit loan growth for this year. I just want to understand what you are seeing in the market, which maybe others are not seeing or which sectors are you seeing these opportunities which give you the confidence that you could do high single-digit loan growth? That's my first question.

The second one is on the investment gain line. As you rightly mentioned, James, that some of the investment gains from 2021 would normalise as we head into 2022. Just from a modeling perspective, what is the level of that one-off element, or what is the level of that normalisation? How should we go about it? Because the range is quite huge if you look at the 2021 number. Is it fair to say that it revolves back to maybe pre-COVID, 2019 levels of non-interest income & investment gains, or somewhere in between? Any guidance there would be useful.

And my final question is on the cost line. Any thoughts? I see that you have not provided any formal guidance there, but any thoughts on how you see costs to progress from hereon, in terms of CIR or cost growth? That would be useful. Thank you.

James Burdett: Okay, so in terms of loan growth, yes, it'll be high single digits, just under double-digit growth, and what we're seeing is momentum across all the business lines, as our products and distribution improves. And, in particular, our historical or traditional client base of Public Sector Entities, Government, GREs, they all have significant pipelines across those names, and we think they'll start to be drawn down as we progress through 2022.

You'd have heard me say this before, but we are starting to see those drawdowns come through, so yes, we're very optimistic about achieving that level of growth and ahead of our competitors. And some of our competitors, it depends what market they're in, but if you're in the retail space, obviously it's growing at a slower pace than the investment banking or corporate banking space. So, it depends on the distribution mix of your balance sheet.

In terms of the investment gains, we continue to deploy balance sheet on the back of significant growth in liquidity. Our investment portfolio, as I showed in the presentation, up AED 38 billion, is a significant amount. And obviously, on the back of that, you would expect to generate significantly higher non-funded income. But there have been some asset classes that have repriced significantly and you could regard as one-offs, so we think there'll be some normalisation of that going into 2022.

That said, as I've just said in the first point, we are expecting quite strong balance sheet growth, we are expecting tailwinds from Fed rate hikes, and we are seeing a build-up of fee activity income come through across all the business lines. So, I think to some extent you'd expect revenues to be broadly aligned with balance sheet growth.

Rahul Bajaj: I had one last question on costs.

James Burdett: Yes, your last question on costs. The cost to income ratio is obviously dependent on what the revenue-generation capability of an entity is, going forward. So, we don't think it's a particularly appropriate measure. That's why we haven't listed it down this year. But we will continue to invest where we need to, and the investment we're looking at is mainly in two areas. One is in terms of talent and culture to drive the revenue and the strategy that we've agreed with the board, and secondly, our infrastructure.

So, we're looking to constantly reinvent ourselves in terms of our digital capability and our end-to-end customer journey. And as we deploy more money into that space, we will expect a return on that investment to be quite significant. So, we're really looking at it from a strategic perspective as opposed to just a crude cost to income ratio going forward.

Rahul Bajaj: Understood. Thank you.

Operator: Our next question comes from Alok Nawani from Ghobash Trading and Investment. Please go ahead.

Alok Nawani: Good afternoon, and thank you very much for the call. Most of my questions have been answered, but I will ask. The cash payout ratio, which stands at about 43% for this year, will that be a fair benchmark going forward, in your view?

James Burdett: As I said before, I think the dividend depends on many factors. We've said core equity tier one is one factor. We've said the ability to grow is another factor. It depends on what M&A opportunities we see going down the path. I think, this year it made sense for us. I don't think it makes sense to be paying out 70 or in excess of 70 fils every single year when you're looking to be a growth stock.

And the new strategy is calling for quite significant growth, and we generate superior returns on that growth. So, it's hard for me. I can't look into the future and tell you what the payout ratio will be going forward, but I think it's appropriate for this year because of the growth that we have in the strategy that we're looking to execute over the next two to three years.

Alok Nawani: That's fair. If I may just go back on one of the previous questions. Of the AED 10 billion non-funded income that you had in 2021, what portion would you identify as non-recurring by nature?

James Burdett: No, we're not providing guidance around that. What we're saying is there's an element of, I guess you would regard as one-off. We think it will normalise down a bit. But as I said before, we still expect revenue growth to be broadly in line with asset growth, which we've signaled as mid to high-single digits.

Alok Nawani: I appreciate it. Thank you very much.

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

Hootan Yazhari: Thank you so much. Looking back at the dividend again, you've obviously lowered your payout ratio given that you posted record results, but your DPS is down. You're conserving cash by engaging in the scrip dividend.

Now, if I look at that, if I run the model, it would be suggestive that your capacity to lend, or the firepower that this gives you, is probably a bit more, particularly given that in the past, you have been very much or you have enjoyed low risk-weighted assets, given your leverage with the government.

Is this to say that your risk profile is changing somewhat here? That you're now looking to lend to more private institutions at a higher margin? And what we should be reading is that you're conserving cash to lend at a higher margin than before, notwithstanding obviously any rate hikes? Or is it at a similar blend of government to private sector lending? I would love to get your thoughts on that, please.

James Burdett: Yes, that's a very good point, Hootan. I think the reality is, in the consumer and commercial banking space, we're looking to grow quite aggressively. And if you look at the IB space, we've got a market share of roughly 20%. If you look at the consumer banking space, it's roughly 20%.

We do see pathways to increase that market share, and as you know, in the consumer banking space our cross-sell is relatively low. So, as we improve our product and service levels, we're expecting that to grow quite significantly.

So, yes, the answer is we are looking to grow higher-margin risk across those business lines, and that's why the CEO decided to create separate business lines for Corporate and Commercial banking. Because in that space, we're relatively underpenetrated in terms of market share, and we're looking to grow there. And obviously, there's a higher cost of risk, but obviously the risk-adjusted returns, if you optimise risk appetite, is higher.

With all of that said, what we're seeing in our pipeline is stronger growth in the IB space, so I think you'll see good growth across all the business lines, and I think you'll see faster growth in the IB space. Whilst we are looking to try to change the asset mix, I think it'll stay relatively similar going into this year, just because of the significant pipeline we have in IB. I hope that all makes sense.

Hootan Yazhari: Yes, absolutely. But beyond 2022, then, I would take it that that pipeline on the IB side, while it might still be very significant, some of the measures that you're taking, initiatives that you're implementing on the retail side, will start to come through, and that will start to have an impact on your margin.

James Burdett: Yes, correct. And then don't forget Egypt, right? Which is now becoming a significant contributor to the group. It's now 5% of group profits. We're looking to expand that quite aggressively as well. And we grew revenues around 17% and profit after taxes around 25% last year (ex-BAE), and I think growth will be in excess of that going into 2022. And that's obviously also a high-margin, high-ROE business.

Hootan Yazhari: Understood. Thank you.

Operator: Our next question comes from Naresh Bilandani from JP Morgan. Please go ahead.

Naresh Bilandani: Hi James, Pradeep, Sofia. Thank you. It's Naresh from JP Morgan. Three questions, please. One is, if I could refer you to the slide number #14, I'm looking at the trends in the loan yields, and I just wanted to kindly check with you the reasons for decline in the performing yields in the fourth quarter, after a pickup that we've seen in the past two quarters.

I'm also looking at the loan book, and there's a small decline, about AED 2 billion odd or so in the retail loan book. Are these somehow connected? Because we saw results from ENBD also. I think they had a similar trend, and they alluded this to competition. So, keen to hear your thoughts on what was the reason behind this decline in the performing loan yields. That's one.

The second is, how should we think of the competitive risks in general amid a rising rate environment? Do you think that the practical trends that come within your NII, as a benefit from a rising rate environment, Is the economic environment conducive enough to accept those rising rates? Or should we keep sensitivities as theoretical, and the real impact could potentially be lower?

My third question may be slightly different compared to what I just posed, but you have two to three rate hikes that you are building into your expectations, and actually the market is markedly higher, somewhere between four to five rate hikes as of this morning. So, any upsides that potentially come from this higher interest rate environment, what would be your strategy, please? Will this be reinvesting into business or held as capital, or would you prefer to pay these out as dividends? Or will you take this opportunity to raise the provisioning buffer, to keep, let's say, cautious for future years?

And my fourth and final question is, any reasons that you could provide for the negative mark-to-market investment property revaluation that you have taken, which doesn't square with the trends that we've seen within the real estate pricing in the UAE environment currently? Thank you.

James Burdett: Okay, so the main reason for the slight downtick in performing loan yields was, simplistically in the third quarter, we've released more interest in suspense, relating to a particular name, so I wouldn't read too much into that.

In terms of your third question around rate hikes, yes, you're right, it depends on what happens. We've guided AED 300 million for every 25 basis points, but that's AED 300 million that's based on, if we do nothing. We also obviously have the ability to manage the balance sheet, and we're also positioned to benefit from rate hikes. And that's why over the past three years, we've been aggressively growing our CASA balances, which you can see are now at a record high.

In terms of your last question around property, yes, we took a material revaluation loss against our property portfolio. We're just looking to be very conservative going into 2022, and we took the revaluation hit against certain lands and buildings that we hold.

And as to your second question, I didn't quite pick it up. Was it to talk about the cost of risk, or was it talking about the risk of NII?

Naresh Bilandani: It was assuming two to three rate hikes. The reality is probably much more hawkish.

The extra profits that you generate beyond the budgeted expectations that you have for this year, what will be your strategy on that? Distribution, provisions, or hold that into capital for the business?

James Burdett: As you know, we don't disclose our dividend policy. We just want to be known as a high-yield player in terms of dividend. If we generate supernormal profits, it does give us the ability to pay it away, or it does give us the ability to, as you rightly point out, retain it for future growth. It's hard for me to predict what'll happen, but if there are significant rate hikes coming through, and we generate that additional profitability, it obviously gives us more flexibility around that dividend policy. And the only, kind of, hard backstop we've got is core equity tier one and maintaining our rating.

Naresh Bilandani: Yes. James, if I could please just go back to one of the questions that you kindly shared some thoughts on. I'm just keen to understand better on the competitive pressure amid the rising rate environment. Because if I take a look at the previous rate hike cycle, we did not see any of the UAE banks show any material expansion on the net interest margin between 2016 and 2019.

Now, I know that was a period where there was a lot of M&A going on. Do you think that in the current cycle, the environment from the competitive pressure is conducive enough to bear three or four rate hikes? How easy is it for you to pass these on into the corporate and retail loan books? Or do you think that the benefits of this could potentially be delayed beyond the current year, and more be realised into 2023 and 2024?

James Burdett: My view is there won't be as many rate hikes as some commentators are putting out, but even if there are, let's assume Goldman Sachs or whoever are right, you just have to think back to pre-COVID levels. When interest rates were at that level, the economies were still functioning okay, the cost of borrowing was still reasonable, call four rate hikes another 1%, I don't think it's going to make a material difference to our borrowers, to be brutally honest.

Once you start getting into significantly higher levels than that, I think it starts to become more problematic. I think from a risk perspective, the market can absorb three or four rate hikes, would be my sense.

Naresh Bilandani: Understood. All right, thank you.

Operator: Our next question comes from Yavuz Uzay from Millennium. Please go ahead.

Yavuz Uzay: Thank you very much for the presentation. A lot of my questions have been answered, but I want to ask two questions. One of them is, you said that you don't want to give a separate guidance for other income, other than net fee and commission income. But you said that you are aiming to deliver revenue growth that is NII plus fee income plus other non-interest income, growth of mid to high-single digits, broadly in line with balance sheet growth you said, right?

James Burdett: Yes, that's correct. So, there'll be a lot of moving parts obviously, but yes, big picture, asset growth mid to high-single digit, revenue growth follows with the tailwinds of the Fed rate hikes, essentially offsetting a reduction in trading revenues. That said, as I said before, we're still deploying significant balance sheet into our investment portfolio, and we expect a higher level going forward than, say, pre COVID.

Yavuz Uzay: Okay, and the other question I have is that, in this scenario of potentially delivering broadly revenue growth in line with asset growth, what interest rate hike scenario you're assuming?

James Burdett: We've put out to the market that our view is two to three rate hikes.

Yavuz Uzay: Two to three rate hikes during 2022 and that's it?

James Burdett: Correct.

Yavuz Uzay: Okay, thank you very much.

James Burdett: Thank you.

Operator: Our next question comes from Chander Kumar from Al Ramz Capital. Please go ahead.

Chander Kumar: Hi. Good afternoon. I just want to get your guidance regarding, so in 2022, going forward into 2022, from which main areas we are seeing the growth? As you said, that due to the high base effect of non-interest income, so there will be some normalisation in 2022 in treasury yields, right? And as you said that, the impact of the interest rates will be not that much material, and we are not seeing any significant growth in asset size. So, from which areas we see the growth in 2022 over 2021? Mainly from cost of risk or any core business? I just wanted to check. Thank you.

James Burdett: No, we're looking at in-line revenue growth across all our businesses, so that's Investment Banking, the Corporate and Commercial banking, the Consumer Banking, and the Private Banking. And we're looking to drive growth at those levels, across all of those business lines. And as I was at pains to point out during my presentation, we are seeing good volume growth across those businesses.

Just to reiterate, this year alone, Corporate and Commercial banking up 9% on loans, Consumer Banking up 5%, Private Banking AUMs up 50%. And so, we're seeing good momentum come through, both domestically and internationally, particularly Egypt. And it's going to be across all products and businesses we're looking to deliver that growth.

Chander Kumar: Okay, so you're mainly seeing the opportunity from international business, as it's now delivered 80% growth this year? So, you are saying again it means more opportunity in international business, right?

James Burdett: No, I'm saying there's opportunity in both domestically and internationally. So, yes, in Egypt we're looking for significant growth, like we achieved in 2021 over 2020. But in the UAE, we see GDP growing from 3% to 5%, and we will capture a large part of that business, with our traditional client base. So, we're looking to grow both domestically and internationally.

Chander Kumar: Okay, and one more question I have on the treasury portfolio. What is the weighted average yield of your fixed-income portfolio? Any idea? And what is the weighted average duration of that portfolio?

James Burdett: I don't have that data to hand, but I'll get someone to follow up and inform you better with the weighted average yield and duration, post the call.

Chander Kumar: Thank you.

Sofia El Boury: We'll take this offline, Chander.

Operator: I will now hand the floor back to Sofia for the closing remarks.

Sofia El Boury: Thank you. Thank you, everyone, for your time today. If you have any further questions, please feel free to reach out to us, as always, and thank you for your attention. Have a great day.